

MONEY FACTS

SUBCOMMITTEE ON DOMESTIC FINANCE
COMMITTEE ON BANKING AND CURRENCY
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The text of this Congressional document is reproduced in whole but without index. It must be remembered that it was published in 1964 and facts have changed due to changes in laws. Particularly, both gold and silver have been de-monetized and currencies have changed accordingly; and, especially, statistical references are out of date. It incorporates economic dogmas of that era. In some places the doublespeak has an "Alice in Wonderland" quality. What it does do is leave no doubt about who runs the U. S. economy, and how money is created.

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LETTER OF TRANSMITTAL

September 21, 1964.

To members of the Subcommittee on Domestic Finance:

Transmitted herewith for the use of the Subcommittee on Domestic Finance of the Banking and Currency Committee, and other members of the committee and the Congress, as well as the general public, is a series of questions and answers on the basic workings of our monetary system. It is a supplement to "A Primer on Money" and is designed to highlight in question and answer form the basic points brought out in the "Primer." It has also been indexed so as to facilitate its use.

It is hoped that "Money Facts" will prove useful to students and all others interested in further study of and improvement in our monetary system and that it will stimulate serious thought, research and discussion of the critical issues involved.

Wright Patman, *Chairman.*

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169 Questions and Answers on Money—A Supplement to *A Primer on Money.*

CHAPTER I

PREFACE

1. Who has the right to create money in the United States?

Under the Constitution, it is the right and duty of Congress to create money. It is left entirely to Congress.

2. To whom has the Congress delegated this money-creating right?

To the banking system, that is, to the Federal Reserve System and to the commercial banks of the country.

3. Why is the money-creating power important?

Because, by creating money, banks provide the exchange media which the economy needs to prosper and grow. Since the growth and proper functioning of the U. S. economy require increasing amounts of money over the years, those who control the amount of money exercise great power over business activity, the incomes people earn, and our economic strength.

4. Why was the banking system given the right to create money?

The reasons are mainly historical. Still the banks do perform a service in creating money. For once the money and credit is created someone must decide whom to give the money and for what purposes. This the banks do. And bank earnings are the return for wise and proper placing of the money supply.

5. What is the Federal Reserve System?

The Federal Reserve System is the "central bank" of the country, composed of 12 regional Reserve banks, and the Federal Reserve Board in Washington and controls the ability of our commercial banks to create money and credit. The Federal Reserve also controls the level of interest rates.

6. Does Congress supervise Federal Reserve policymaking?

No. In practice, the Federal Reserve is "independent" in its policymaking. The Federal Reserve neither requires nor seeks the approval of any branch of Government for its policies. The System itself decides what ends its policies are aimed at and then takes whatever action it sees fit to reach those ends.

7. What problems are raised by an "independent" Federal Reserve?

There are two major problems. One is the problem of political responsibility for the country's economic policies. The other is the problem of final control over the Government's actions in the economic sphere.

8. What is the problem of political responsibility?

Since the Federal Reserve is independent it is not accountable to anyone for the economic policies it chooses to pursue. But this runs counter to normally accepted democratic principles. The President and Congress are responsible to the people on election day for their past economic decisions. But the Federal Reserve is responsible neither to the people directly nor indirectly through people's elected representatives. Yet the Federal Reserve exercises great power in controlling the money-creating activities of the commercial banks.

9. Why is final control of economic policy a problem?

Because with an "independent" Federal Reserve, Congress and the President can be moving in one

direction while the Federal Reserve is moving in the other. The result is sometimes no policy at all. At other times, it leads to the Federal Reserve neutralizing the President's economic policies. This very possibility caused President Johnson to request the Federal Reserve in his 1964 Annual Economic Report to Congress not to nullify his efforts to reduce unemployment and raise incomes. Should the President have to ask any Government agency to go along with his policy as approved by Congress? Obviously not.

10. Who really directs Federal Reserve operations?

Day-to-day operations in each of the 12 regional Federal Reserve banks are supervised by nine directors—six of them selected directly by privately owned commercial banks.

The most important monetary decisions for the system as a whole are made by the Open Market Committee, which is composed of 12 members.

11. Do private bank interests influence Federal Reserve policy?

Yes. Of the 12 members of the Open Market Committee—the Committee which actually controls credit policy—5 are presidents of regional banks. These presidents are elected by the individual regional banks' nine-man board of directors with its preponderance of private commercial bank representatives. Further, all 12 of the regional bank presidents participate in the Open Market Committee's discussions, though only 5 can vote. The "discussion" Open Market Committee, then, has 19 members—12 regional bank presidents and the 7 members of the Federal Reserve Board.

12. Does it matter what amount of money is supplied the economy?

Yes, indeed. The money supply helps determine the general level of interest rates paid for the use of money, employment, prices, and economic growth. Many economists believe the money supply is the most important determinant of these variables.

13. Who determines the money supply?

The Federal Open Market Committee of the Federal Reserve System.

14. Why are interest charges important?

For many reasons. First, interest plays a large part in the cost of living. All business firms borrow to conduct their operations—some more than others. These include firms at every stage of production. So interest is a charge which is added on at each link of the production chain. This is a cost which must eventually be paid by the consumer. If it is not paid by consumers, output cannot be sustained.

Thus, interest rates also are a determining factor of the level of business activity. Additionally, interest

rates influence production because interest rates influence the amount business spends for investment in plant and equipment—the third largest amount of spending for the country's annual output. (Interest has this effect because a part of the country's annual investment is financed by borrowing.)

15. Do interest rate changes and tight money have other effects?

Yes. Consider what happens when the Government is restricting money and credit. Firms find loans difficult to obtain and investment tumbles. Small business is especially hard hit because the larger firms tend to have their credit needs catered to first. Further, when investment falls, firms which produce machinery or build factories find their orders slumping and lay off workers while cutting their own orders for goods. The economy pays for high interest in income not earned and in output not produced.

16. What is the "efficiency cost" of high interest?

When investment is cut by high interest two things happen. (1) Business does not take as much advantage of the new, more efficient tools to produce goods as it might. (2) Industry slows down the rate of expansion of the total output capacity of the country's factories. The result of these twin effects is that tomorrow's workers work with less efficient machinery and fewer machines than they might. Having fewer and less efficient tools, tomorrow's workers, of course, produce less than they could. In other words, the rate of growth of output slackens when high interest prevails.

17. What has been the trend of interest rates from 1952 to 1964?

Interest rates in the United States increased in steps between 1952 to 1964; and each major step upward was followed by a recession.

18. What reasons have been given by the Federal officials responsible for the uptrend?

The reasons have differed as the years passed. In the early years, the official reason given was that "too many dollars were chasing too few goods," causing inflation. In recent years, the deficit in our balance of payments was cited. High interest rates, it was argued, were necessary to keep American capital at home. At all times, there has been constant talk of "fighting inflation" real or imagined.

19. Can anything be done to stop the trend toward ever-higher interest rates?

Yes. The period from late 1939 to 1951 was as violent and catastrophic as any in the entire history of the United States. At the beginning of this period, millions were still unemployed from the Great Depression. A short time later, we were shooting away \$250 million every day on the battlefield. Then the war ended and we reconverted to a peacetime economy with tremendous pent-up purchasing power and inflation. Then came the Korean conflict. Yet, during this entire period of economic stress and turmoil the interest rate on long term Government bonds never exceeded 2½%. And these bonds never sold below par. This proves that the Fed can restrain higher interest rates, when and if it wants to. The Fed has the ability to

set the interest rate at 2½% and keep it there.

20. How effective is high interest as an "inflation fighter"?

Well, if killing the patient is considered an "effective" treatment for an illness, then high interest is an effective anti-inflation tool.

Of course, plunging the country into a deep depression will cut labor's wage demands and will cause some business firms to make price concessions. But the cost of this is economic stagnation. And even then prices overall will probably not fall and they may even rise. That is, in the modern economy, just lowering the demand for goods and labor somewhat will not necessarily stop a price push. The country learned this bitter lesson in 1958.

21. Does this mean there is no way to restrain inflation?

No. Although the modern economy has a built-in tendency toward inflation—not just in the United States but everywhere in the Western world—and no one has yet found the perfect answer, it is clear that moderation by big business and big labor in their prices and wage policies can go a long way toward keeping prices stable. This country has experienced a 3-year upturn from 1961-64 with remarkable price stability as moderate wage-price policies were followed. This is proof that frequent recessions are unnecessary to stop inflation.

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CHAPTER II

WHAT IS MONEY?

22. What is money?

Money is anything that people will accept in exchange for goods or services, in the belief that they may, in turn, exchange it, now or later, for other goods or services. Any number of different materials—including paper I O U's—may serve as money. How money functions, and what money represents are its important aspects and not simply what it is made of.

Today, the American people use coins, currency (paper money) and bank deposits (checkbook money) as money.

23. What did Americans use for money in earlier times?

In the beginning, they used wampum more than anything else. Surprising as it may seem, a bunch of clamshells strung like beads were valuable as money in settler days. But the Indians used wampum as money, and when the settlers wanted to trade with the Indians—as they frequently did—wampum had to be used. So the settlers themselves began to use wampum as money.

24. Did the colonists use coins at all?

Yes. Since the colonists traded with Europe as well as the Indians, they used coins, too. Naturally, there was a rate of exchange between wampum and coins since both were used. In 1641, the New Amsterdam Council fixed the rate of exchange between wampum and Dutch money. As time passed the colonies started minting their own coins and the general use of wampum died out.

25. What was tobacco money?

When coin money became short—and this happened—the colonies devised all sorts of money. One—prevalent in Virginia, Maryland, and North Carolina—was the use of tobacco warehouse receipts as money. These receipts were originally issued to tobacco growers when they placed their crop in storage awaiting sale. The owner simply made these receipts transferrable much as endorsing a check today. Of course, as tobacco prices fluctuated, making it an imperfect medium to hold as savings or by which to designate long-term debt. This illustrates the difficulty of making any commodity—tobacco or gold—the basis of money.

26. What is legal tender?

Legal tender is any form of money which the U. S. Government declares good for payment of taxes and both public and private debts.

27. What is the most important form of money in the United States today?

"Checkbook money," that is, demand deposits in commercial banks. They account for 80 percent of all the money circulating in the country.

28. Who issues money?

Since the Revolutionary War, the U. S. Government has minted coins and printed paper money, currency. Other goods, including tobacco receipts, have circulated as "money" although they were not legal tender

But, in the 19th century, the Government delegated its right to print legal tender money first to State banks, then to national banks.

29. Today, who issues coins?

Only the U. S. Treasury has the right to mint pennies, nickels, dimes, quarters, half dollars, and silver dollars. Then they are issued through the Federal Reserve banks. The pennies are made of copper; the rest of alloys. Since 1934, the Treasury has minted no gold coins.

30. What is currency?

Currency is paper money, or folding money. Americans use several forms of currency: National Bank Notes, Federal Reserve Notes, Silver Certificates, Treasury Notes of 1890, U. S. Notes, and Federal Reserve bank notes. About 94 percent of the currency in circulation today consists of Federal Reserve Notes, issued by the Federal Reserve banks.

31. Have private institutions ever issued money?

Yes. In the 19th century, currency was issued by private "State" banks. Any private company that could obtain a charter to conduct a bank could issue notes. "State bank notes" disappeared when the National Bank Act was passed in 1863.

32. Why was the National Bank Act passed?

The Government wanted a reliable money with uniform value issued by reliable institutions in every section of the country, to finance the growing production and trade. National banks only lost the privilege of issuing bank notes in 1913, when the Federal Reserve System was established.

33. Do private banks issue money today?

Yes. Although banks no longer have the right to issue bank notes, they can create money in the form of bank deposits when they lend money to businesses, or buy securities. (The next chapter will explain how banks create money.) The important thing to remember is that when banks lend money they don't necessarily take it from anyone else to lend. Thus they "create" it.

34. What backs U. S. currency?

Federal Reserve Notes are backed by the credit of the U. S. Government. American citizens, holding Federal Reserve Notes, cannot demand anything for them except (a) that they be exchanged for other Federal Reserve Notes, or (b) that they be accepted in payment for taxes and all debts, public and private. But, since certain foreign banks may exchange dollars for gold, gold does, in the last analysis, back U. S. dollars. Presently there is a 25-percent gold "backing" for Federal Reserve Notes.

35. Has the United States gone off the gold standard?

Yes, except in its international transactions.

36. Does this change the basis of our money?

In reality, no. The action, which congress took in 1934, merely formalized what had been true all along, which is this: since the 19th century, checkbook money, now 80 percent of our money supply, has replaced notes as the most important form of money. And checkbook money is created on the basis of all kinds of valuable assets. When a bank makes a loan to a business firm, secured by inventories of machinery, or to a farmer, secured by farm assets, it has, in effect, created a dollar "backed" by inventories, machinery, or farm goods.

37. So, what kind of dollar do we have?

We have a "managed paper currency"—managed because an agency of the Federal Government, the Federal Reserve System, consciously determines and controls the maximum amount of money which can be created by bank lending.

38. To whom does the Constitution give the power over money?

The Congress. The Constitution provides "the Congress shall have power to coin money, regulate the value thereof." The Supreme Court has interpreted this clause, again and again over a period of 150 years, to mean that "whatever power there is over the currency is vested in the Congress."

39. Why must money be managed?

"Money does not manage itself" is a famous saying of British bankers. It is a saying which Chairman Martin, of the Federal Reserve Board, likes to quote and it sums up the matter quite well.

Since the real purpose of money is to make it easier for a nation to produce real goods and services, easier to divide the income from the production, and easier to save and invest for the future, the money system should be designed and controlled in ways which serve these purposes best. For example, it is very important to have the right amount of money available at all times. Too little money and too much money are both bad.

40. Why is the right amount of money so important?

The right amount of money is as important to the economic system as the right number of tickets is to the financial success of a theatrical performance. The theater has only a certain number of seats and distributing too many tickets will cause a scramble for seats when the patrons arrive. Selling too few tickets will leave empty seats. The same holds for money. When the Federal Reserve does not allow enough money to be created, there will be, in effect, empty seats in our economy. The economy's growth

will be stunted by monetary deficiency—high interest rates with accompanying unemployment and underutilization of plant capacity. Real wealth which might have been created is not created. On the other hand, an economy can suffer from too much money relative to its needs. An overabundance of money, by spurring demand, pressures the economy to produce beyond its capacity. When this occurs, inflation erupts.

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CHAPTER III

HOW IS MONEY CREATED?

41. What is the fractional reserve method of banking?

The fractional reserve method of banking originated with the goldsmiths—the predecessors of our present bankers. It is the method of banking in use today. Briefly, it is a system whereby bankers maintain as reserves only a fraction of the amount needed to meet all the claims against them. (The vast bulk of the claims against the banks are the deposits you and I hold. These are obligations which the bank must pay upon our demand.) The goldsmiths struck upon this method by noticing that the people who deposited gold with them for safekeeping only claimed a small portion of this gold at any one time. Therefore, the goldsmiths realized that they could lend out a good portion of the gold left with them. They then made loans, which in fact were not of gold but warehouse receipts for gold. These receipts circulated as money. Notice, the gold—actually the certificates of ownership—being loaned by the goldsmith was not his to lend. He did not own it. In other words, the goldsmith wrote receipts to people who were not depositing gold, i.e., to borrowers. so receipts for more gold than the goldsmith actually had in his vaults were circulating. The goldsmith had only a fraction of the amount of gold needed to meet the claims against him. This is the fractional reserve system. When the banks of the United States kept their reserves in gold, their reserves amounted to only a small fraction of the amount of money they had issued, all of which was guaranteed to be redeemable in gold.

42. What are the advantages of the fractional reserve system?

Fractional reserves provide banks with a source of funds which they may invest in sound economic projects, and thus encourage business activity and economic growth.

43. What is the major weakness of the fractional reserve system?

Since no bank can meet all the claims on it at any one time, fractional reserve banking leaves individual banks vulnerable to runs. This is why a system of central bank reserves—with facilities to lend and transfer reserves in time of need—is necessary.

44. What are reserves in modern American banking?

Reserves in modern American banks are deposits—demand deposits—held by commercial banks at the Federal Reserve.

45. Where did commercial banks obtain their reserves?

By and large the bulk of commercial bank reserves were created by the Federal Reserve and credited to the account of the various commercial banks which are Federal Reserve "member" banks. The Federal Reserve creates these reserves just as a bank creates checkbook money. By various devices, either loans or other means, the Federal Reserve credits a bank with bankers deposits—"reserves."

46. Who determines how much checkbook money a bank can create?

The Federal Reserve System sets reserve requirements; that is, the ratio of reserves to deposits that the individual member banks must maintain. This in turn determines how many loans a bank can make, and how many securities it can buy.

47. Where does the Federal Reserve get the money with which to create bank reserves?

It doesn't "get" the money; it creates it. When the Federal Reserve writes a check, it is creating money. This can result in an increase in bank reserves—a demand deposit—or in cash; if the customer prefers cash, he can demand Federal Reserve notes, and the Federal Reserve will have the Treasury Department print them. The Federal Reserve is a total moneymaking machine. It can issue money or checks. And it never has a problem of making its checks good because it can obtain the \$5 and \$10 bills necessary to cover its checks simply by asking the Treasury Department's Bureau of Engraving to print them.

48. Who gave the Federal Reserve the power to create the money necessary to cover its checks?

The Congress. Because this power to create money is given by the Constitution to Congress, only the Congress can delegate this power. And this it has done in creating the Federal Reserve System—an agency of Congress authorized to create money.

49. How does the Federal Reserve change the money supply?

First, by increasing or decreasing the amount of bank reserves which the member banks of the Federal Reserve System have to their credit on the books of the Federal Reserve banks. Second, by regulations which tell the member banks the maximum amount of bank deposits they may create per dollar of reserves.

50. What is the formula that determines the maximum amount of money available to business and consumers?

Expressed mathematically this is a simple formula $A \times B = C$ where: A = Amount of bank reserves; B = Number of dollar deposits member banks may create per dollar of bank reserves; and C = Total bank deposits.

51. Can the Federal Reserve authorities change the money supply formula?

Yes. They can change either or both parts of the formula at any time, and they frequently do change one or both parts. There are certain limits set by the Federal Reserve Act to the changes the authorities can make. But these limits are extremely wide.

52. Does it make any difference which part of the formula the authorities change when they wish to increase the money supply?

Yes. Although the effect on the money supply of changing either part of the formula may be the same, the total economic effects differ depending on which part of the formula is changed. For example, when the Federal Reserve lowers reserve requirements, all of the new money is created by the commercial banks through their lending and investing activity. This obviates the necessity of transferring Government securities from private to public hands. On the other hand, when the Federal Reserve increases reserves by, say, purchasing U. S. Government securities, the interest income on these securities goes to the Federal Reserve System. Since the Federal Reserve turns over to the U. S. Treasury most of its earnings, the net effect of increasing the money supply by increasing reserves is to favor the private banking system. So, when the Federal Reserve officials decide to increase the money supply, whether they favor the U. S. Treasury or the private banks does make a difference—in the amount of taxes you, I, and all other taxpayers must pay.

53. As bank reserves rise do private banks "deposit" their reserves with the Federal Reserve?

Collectively, private banks do not deposit a penny of their own funds, or their depositors' funds with Federal Reserve banks. Reserves are transferred from bank to bank, but nothing the banks can do will increase the total amount of reserves in the system. Practically, only the Federal Reserve System itself can do this or to permit it to occur from a gold inflow. Increasing or decreasing reserves is a conscious act of the managers of the Federal Reserve.

54. How does the Federal Reserve create and destroy bank reserves?

By four methods: (1) by open market operations; (2) by gold purchases for the U. S. Treasury; (3) by loans to commercial banks; and (4) by purchases of eligible paper from member banks.

55. What are open market operations?

They are the Federal Reserve's purchases or sale of U. S. Government securities in what is called the "open market"—in order to expand or contract bank reserves and hence the supply of money and credit available. The Federal Reserve Bank of New York conducts these transactions as agent for the entire system.

56. What is the "open market"?

It is composed of about 20 private dealers of U. S. Government securities with whom the Federal Reserve Bank of New York trades. Several of these dealers are big New York and Chicago banks.

57. How much in bank reserves has been created by the Federal Reserve?

The answer was given in early 1960 by Chairman Martin of the Federal Reserve Board. Between the end of 1917 and the end of 1959, the Federal Reserve System had created gross additions to bank reserves amounting to a total of \$46 billion. Over the years, the banks had drawn down their bank accounts by \$28 billion by taking out currency (which was printed to meet their requests), leaving them with a net reserve balance of \$18.5 billion.

58. How does the Federal Reserve create bank reserves by open market operations?

The step-by-step details are as follows: Let us assume that the Federal Reserve Bank of New York, acting as agent for the whole System, buys a \$1,000 Government bond in the "open market." It gives the bond dealer a check for \$1,000 drawn on the Federal Reserve Bank of New York. The dealer will, of course, deposit this check in his checking account, say, with the Chase Manhattan Bank. The Chase Manhattan credits the dealer's account with \$1,000 and then sends the check to the Federal Reserve Bank of New York for payment. The Federal Reserve Bank of New York makes payment to the Chase Manhattan by crediting its reserve account with \$1,000.

59. For whom does the Federal Reserve purchase or sell gold?

For the U. S. Treasury.

60. Where does the gold come from?

The gold is either newly mined or else comes from foreign central banks.

61. Why does the Treasury buy gold?

To add to the Nation's monetary gold stock and assure us enough gold to meet any claims from foreigners who hold dollars.

62. Do banks have an automatic right to borrow from the Federal Reserve?

No. Member banks of the Federal Reserve System are eligible to borrow. But being eligible and obtaining a loan are two different things.

63. How are Federal Reserve loans to banks secured?

The law permits a Federal Reserve bank to accept a variety of good collateral to secure its loans. In practice, however, banks borrowing from the Federal Reserve System almost always put up U. S. Government securities as collateral.

64. Do banks of the Federal Reserve System pay for their reserves?

No. Bank reserves cannot be paid for by private banks. They can be shifted from bank to bank after they are created. But to all intents only the Federal Reserve System itself can create or extinguish reserves. Indeed, when the Federal Reserve creates bank reserves this permits the banks to increase their loans and augment their profits.

65. How do currency and coin enter the money supply?

The proportion of currency and coin in circulation to the total money supply is pretty much automatic. It normally amounts to about 20 percent of the money supply, with bank deposits accounting for the other 80 percent.

66. Who determines how much currency and coin is issued?

Given the total money supply depends on the behavior of individuals and business firms. The amount of currency and coin in circulation depends on how convenient individuals and business firms find currency and coin rather than bank deposits in carrying on trade. As indicated, normally currency and coin make up 20 percent of the money supply.

67. Who determines how much checkbook money shall be created?

A committee made up of the members of the Board of Governors of the Federal Reserve System and the Presidents of the 12 Federal Reserve banks make this decision. The Open Market Committee—as it is called—decides only what the maximum amount of money may be; it cannot determine the maximum amount which will actually be created. Money is actually created when private banks make loans or investments. In terms of the formula, the Open Market Committee determines "A" and "B." "C" represents the maximum value the money supply can reach.

68. Can Federal Reserve officials help the U. S. Treasury and U. S. taxpayers without increasing

the money supply?

Yes. They can create more reserves by buying more Government securities in the open market and by raising reserve requirements for the member banks. This means that, for any given supply of money, the Federal Reserve would own more Government securities and the private banks would hold correspondingly less. This would not entail any change of the money supply. In terms of the formula, "A" would be raised, "B" would be lowered, and they would just offset each other so that "C" would remain the same.

69. If the Government can issue bonds, why can't it issue money and save the interest?

A few clear-headed and firm individuals, such as Abraham Lincoln, have insisted that the Government should.

The late Thomas A. Edison stated the matter this way:

If our nation can issue a dollar bond it can issue a dollar bill. The element that makes the bond good makes the bill good also * * *.

It is absurd to say that our country can issue \$30 million in bonds and not \$30 million in currency. Both are promises to pay: but one promise fattens the usurer and the other helps the people.

However, it has long been one of the political facts of life that private banks must be allowed to create the lion's share of the money, even if not all of the money. Thus there is little opposition to the Government's printing bonds and then permitting the banks to create the money with which to buy those bonds; but proposals that the Government itself create the money instead of the bonds have always set off tremendous political upheavals. For example, Abraham Lincoln set off a political furor when he insisted upon having the Government issue \$346 million in money (the so-called "greenbacks") instead of issuing interest-bearing bonds and paying interest on the money.

70. If the Government issued more money instead of Government bonds, isn't there a danger that the Government would issue too much money and cause inflation.

No. It is no more or no less inflationary for the private banks to create \$1 billion of new money than it is for the Government to create \$1 billion of new money. Furthermore, as an agency of the Government, the Federal Reserve System, decides in any case the total amount of money to be created.

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CHAPTER IV

WHY WAS THE FEDERAL RESERVE ACT PASSED?

71. What is a central bank?

A central bank has two essential functions. One is to serve as a bankers' bank, i.e., a bank which gives credit to the commercial banks and also holds their official reserves. The other is to adjust the money supply through the power to create reserves or to regulate the commercial banking system's ability to manufacture money. A bank which performs these and other related functions is called a "central bank." The Federal Reserve is a central bank.

72. How does the Federal Reserve System differ from other central banks?

First, it is a system of 12 separate regional banks. Second, membership in the System is not compulsory for private commercial banks, except for national banks.

73. Was the Federal Reserve the first central bank in the United States?

No. Both the First and Second Banks of the United States were chartered to combine central and commercial banking. After 1836, however, when Andrew Jackson refused to extend the Second Bank's charter, the United States was without a central bank.

74. In what ways did American banking experience during the period lead to passage of the Federal Reserve Act?

During the 19th century, the fractional reserve system, operating without central bank supervision led to money panics, bank crises, and depressions. Furthermore, the monetary system proved unable to provide the money necessary for the country's growing volume of industry and trade on a rational basis. National banks could create deposit money and notes, but were limited by their gold reserves. This meant that the total money supply was unresponsive to the needs of trade. Moreover, since it was customary for country banks to keep their reserves in New York, there were nationwide shortages of money periodically, as at harvesttime. And at all times, the New York banks used the pyramided funds in the stock market in New York.

As a result, between the end of the Civil War and passage of the Federal Reserve Act, the country suffered from four major money panics: 1873, 1884, 1893, and 1907.

75. In what specific ways did the panic of 1907 lead to central banking in America?

Public indignation at the banking manipulations which led to the panic stirred Congress to authorize a National Monetary Commission, headed by former Senator Nelson Aldrich. The results of the commission's study were published in 20 volumes, and in 1912, a bill was introduced in Congress

embodying reforms, of which the most important was the proposed establishment of a central bank with powers to regulate banking.

76. Was the Aldrich Commission alone in suggesting a central bank?

No. The House of Representatives had begun the famous "Pujo Committee" hearings which gave the public a picture of the "money trust," a network of holding companies and other interlocking relationships which gave a small group of Wall Street tycoons control, not only of all the big banks of New York City, but of most of the financial power of the whole country.

77. What were the main purposes of the Federal Reserve Act?

First, it was intended to mobilize reserves—to strengthen the fractional reserve system—and thus increase public confidence in the banking system. Second, it was designed to provide an "elastic currency" responsive to the needs of local business and trade. Third, it was to provide central bank supervision, to insure sound banking practices, and to safeguard against insolvency and loss of depositors' money. Fourth, it was to provide a system by which the banks could clear checks promptly and uniformly throughout the Nation.

78. Was the Federal Reserve System established as a private or public agency?

The Federal Reserve was established as a public agency. But private banks were given control of the 12 regional Federal Reserve banks; that is, they were given the privilege of electing six directors of each bank, and these directors—a 2/3 majority—in turn, selected the presidents and other chief officers of the bank.

79. Did the powers given to the Federal Reserve include discretionary control over the quantity of money?

No. It was expected that increases and decreases in the money supply would be "automatic." Private banks would continue to increase—and extinguish—money by making loans to business in their locality, under safeguards prescribed by the law. The "automatic" feature was that the regional Federal Reserve banks were now available to increase reserves for member banks when and as these needed more lending power to finance the short-term needs of farmers and businessmen in bringing their goods to market.

80. What other powers were given to the Federal Reserve?

The Federal Reserve was given the right to discount "eligible paper" for member banks, that is lend money to the banks on the basis of the commercial paper arising from loan transactions with their customers. The minimum amount of reserves which member banks were required to keep on deposit with the Federal Reserve, however, was prescribed by law.

81. Were any powers given the Federal Reserve Board in Washington?

Yes. The most important was the right to review and determine the discount rate—the interest rate charged by the regional banks when they loaned the commercial banks money on eligible paper. Other powers included formulating new rules to safeguard the banks against dangerous practices.

82. Who must join the Federal Reserve System?

State-chartered banks are not compelled to become members of the System. All National banks, however, must join as a matter of law. Membership in the System requires meeting certain minimum standards prescribed by the Board of Governors of the Federal Reserve.

83. In what ways was the Federal Reserve System an improvement upon the preceding monetary system?

1. It permitted mobilizing reserves where they were needed in times of difficulty and eliminated the pyramiding of reserves in New York.
2. The Federal Reserve, although a central bank, was also in part decentralized, operating in 12 regions throughout the country.
3. The Federal Reserve Act provided virtually uniform regulation for all the banks of the Nation. (Although almost half of the banks of the Nation are not members, banks accounting for 85 percent of all commercial bank deposits are members.)
4. The Federal Reserve System was designed to provide an adequate money supply—one which expanded and contracted with the needs of trade.

84. How is the Federal Reserve System organized?

The Federal Reserve System is composed of the Board of Governors, the 12 Federal Reserve banks. Approximately, 6,100 private commercial banks are members of the System. The most important policy-making group is the Open Market Committee.

85. How many members of the Board of Governors are there?

There are seven members of the Board of Governors. They are appointed by the President for terms of 14 years, with one term expiring each 2 years.

86. Where are the 12 Federal Reserve banks located?

In Boston, New York, Philadelphia, Richmond, Atlanta, Cleveland, Chicago, St. Louis, Dallas, Kansas City, Minneapolis, and San Francisco.

87. Who are the members of the Federal Open Market Committee?

The Federal Open Market Committee consists of 12 members—7 members of the Board of Governors plus 5 of the 12 presidents of the Federal Reserve banks. These are the voting members. But all of the regional bank presidents participate in policy discussion of the Committee. In that sense it is a 19 member Committee.

88. What are some of the routine operations of the Federal Reserve System?

Check clearing, furnishing currency, acting as fiscal agent for the U. S. Government (by issuing all notes and bonds of the Federal Government).

89. What are some of the regulatory operations of the Federal Reserve?

First, it regulates the number of banks in the System by fixing requirements for membership. Then it examines the books of State member banks to see that these banks meet the requirements for operations laid down by the Board of Governors. (National banks are periodically examined by the Comptroller of the Currency in the Treasury Department).

90. What are the important policy operations of the Federal Reserve System?

The Federal Reserve has the power to determine the money supply and thus strongly influence the level of economic activity and the general level of interest rates. It controls the money supply through its control over the, within limits, percentage in reserves member banks are required to hold behind their deposit liabilities and by controlling the amount of reserves actually available to member banks. The most important tool for controlling the amount of member bank reserves is in the hands of the Federal Open Market Committee.

91. What are the sources of revenue of the Federal Reserve?

By far the largest is interest on its holdings of U. S. Government securities. This accounts for almost 99 percent of Federal Reserve income.

92. How much of the Federal Reserve earnings must be returned to the Treasury?

No law or regulation specifies how much of the Federal Reserve's earnings must be returned to the Treasury, but in practice the Federal Reserve spends all of the income it cares to spend, pays dividends to member banks on their "stock" and sets aside a large amount as "surplus." The remainder is then returned to the Treasury. It usually returns an amount several times the amount of its expenses.

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CHAPTER V

WHO DETERMINES THE MONEY SUPPLY?

93. Who appoints members of the Federal Open Market Committee?

Seven of the nineteen members of the "discussion" Committee are appointed by the President of the United States and confirmed by the Senate of the United States. Their term is 14 years. The other 12 participants at Open Market Committee meetings are elected through votes of private commercial bankers; specifically, they are the presidents of the 12 Federal Reserve banks, elected to their posts indirectly by bankers from banks which are members of the Federal Reserve System.

94. What are the most important Open Market Committee powers?

The Open Market Committee has the power to determine the Nation's supply of money and credit, and therefore, the general level of interest rates, among other things.

95. How does the Federal Reserve influence interest rates?

By open market operations, and by setting the required reserves of member banks, the Federal Reserve determines the amount available for lending. This together with the demand for loanable funds is the heart of the market for money that sets interest rates. In addition, by open market operations, the Federal Reserve can effect the level of interest rates on Government bonds. And finally, the Federal Reserve influences expectations about interest rates.

96. Why is the Federal Open Market Committee one of the most powerful groups of men in our country?

Because in many ways their power is equal to that of the President in deciding how the world's greatest economic mechanism will operate. By regulating the supply of money, the Committee can control the general level of interest rates. This in turn is one of the major determinants of the level of business activity in the country. The Committee, then, has the power to offset any action taken by anyone to stimulate or restrain the economy. This indeed is power.

97. Are current open market operations what the founders of the Federal Reserve System intended?

No. It was expected that in monetizing "eligible" short term commercial paper, the Federal Reserve would provide sufficient liquidity to sound banks in periods of need (or restrain excessive credit expansion). While the Federal Reserve was expected to exert supervisory powers, it was expected that the money supply and interest rates, would be fully responsive to business conditions. Thus the discount rate, rather than open market operations was regarded as the Federal Reserve's most important tool.

98. Why was the discount rate regarded as an important regulatory tool?

Because under the original Federal Reserve arrangement, no specific limits were placed on the amount of money the system could create. After all, if the banks had eligible paper to rediscount, then the regional bank would automatically create reserves. This raised the possibility of infinite money creation provided the banks' lending rates and the system's charges were in a fixed favorable relation. But if the system could control the discount rate, it could discourage rediscounting or borrowing from it simply by raising its discount rate high enough. At a high enough rate, the commercial banks would find no businessmen willing to borrow. Thus the supply of eligible paper available to the commercial banks would dry up and, in turn, the commercial banks would be unable to acquire more reserves by discounting. The automatic system then had a regulator; namely, the discount rate.

99. Is eligible paper discounted much today?

Very rarely.

100. Why have open market operations replaced discounting as the most important means of regulating the money supply?

Basically, because the Federal Reserve found open market operations a more sensitive tool to control the money supply. And through the years the Federal Reserve has decided that its responsibilities were not consistent with the authorization of an automatic money supply.

101. Precisely what does the Federal Open Market Committee do?

It determines the amount of government securities the Federal Reserve will buy and sell, in order to influence the level of bank reserves. In essence, the Committee determines U. S. monetary policy.

102. What functions have been left to the regional banks?

Now that discounting eligible paper is rarely used, the regional Federal Reserve banks clear checks and gather statistics and other economic data.

103. Have the intentions of the founders of the Federal Reserve System been altered by the turn to open market operations?

Yes, when the System was originally founded a struggle was waged over who would control the Federal Reserve—public or private interest. The solution was a compromise. But what (in 1913) was the master switch governing the money supply—the discount rate—was left in the hands of a totally public body—the Federal Reserve Board in Washington. This was a deliberate act. President Wilson rejected the notion of diluting the public nature of the Board when he said, "Which one of you gentlemen would have me select the presidents of railroads to be on the Interstate Commerce Commission to fix passenger rates and freight rates?"

But when Congress in 1933 and 1935 authorized the Open Market Committee, which in effect succeeded to the policymaking role of the Board, it gave private interest a firm foothold in determining monetary policy—the money supply and the general level of interest rates. Five of the twelve voting members of the Open Market Committee are regional bank presidents. These men hold their offices through the votes of bank directors, two-thirds of whom are elected by private bankers. The other seven bank presidents, of course, participate in the discussions of the Open Market Committee. The upshot is that men whose views must meet the test of the private bank-selected directors help determine the Government's monetary policy. A purely public group has given way to a mixed body with questionable qualifications to represent the public interest.

104. Who should be members of the Committee?

All members of the Committee should be public servants. There is absolutely no reason why they should not be. Private influences—especially private bank influences—have no place in setting the Nation's monetary policies.

105. What is the Open Market Account?

It is the unit of the Federal Reserve Bank of New York that carries out sales of bonds and bills for the Treasury. The manager of this account acts as agent for the Treasury, the Federal Open Market Committee and several foreign banks.

106. How does the open market work?

The actual operations are as follows: the Treasury determines each week how much money it will need during the week following and notifies the manager of the Open Market Account. All interested parties, including the 20 dealers are notified and bids are made on Monday. On the following Tuesday, the Treasury announces to whom the securities have been sold.

107. How much business does the Open Market do?

The annual volume of dealings in Government securities in New York amounts to over \$400 billion. Of this the Open Market Committee of the Federal Reserve accounts for roughly \$20 billion.

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CHAPTER VI

WHO OWNS THE FEDERAL RESERVE BANKS?

108. Why do some people believe that the private banks "own" the Federal Reserve System?

Because the original act required that member banks invest a sum equal to 6 percent of their capital in the stock of their regional Federal Reserve bank.

109. Was this required to disseminate Federal Reserve ownership?

No. This "stock" requirement was actually a safeguard against misuse of the Government credit that was being delegated to the banks. Because private banks, and the regional Federal Reserve banks they controlled, might pass on loans that were doubtful, the probity of Federal Reserve notes (and Treasury balances kept on deposit at the Federal Reserve banks) might be endangered. Forcing member banks to "invest" some of their capital in the Federal Reserve was a guarantee against loose practices.

110. What exactly is the "stock" owned by the banks?

It is not "stock" in the normal, corporate-investment sense of the word; it carries no proprietary interest; it cannot be sold or pledged; it represents no claim on Federal Reserve assets, and carries no voting rights. It is not ownership stock at all.

111. Could the Federal Reserve operate without this "stock"?

Yes. Today, it serves no worthwhile purpose whatever. Eliminating the stock would change nothing in the basic structure and functions of the Federal Reserve. The Federal Reserve does not need the money. It can write its own check whenever it needs money.

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CHAPTER VII

WHY WAS THE FEDERAL DEPOSIT INSURANCE ACT PASSED?

112. What problems emerged in the banking system in the twenties?

The transformation of the banking system into a credit mill fueling the wildly inflating stock market—via call loans to brokers—revealed fundamental weaknesses when the stock market collapsed. Together with mistaken Federal Reserve actions the collapse of the market weakened many banks to the point of bankruptcy. After the bank holiday, several emergency legislative efforts were made to improve the banking system and to protect the banking public.

113. What changes were made by the Banking Act of 1933?

This act prohibited interest on demand deposits, in order to prevent unsound competition for demand deposits, and also as compensation to the banks for having to pay the fee for insuring deposits. In addition, the Federal Reserve Board was given power to change reserve requirements, subject to approval by the President. Also, in turn, investment bankers were prohibited from accepting public deposits.

The most important part of the Banking Act of 1933, however, was the establishment of a temporary deposit insurance plan which went into effect on January 1, 1934. This was made permanent by the Banking Act of 1935 which established the Federal Deposit Insurance Corporation.

114. What is the Federal Deposit Insurance Corporation?

A Government-sponsored corporation to provide insurance for depositors of funds in banks against the loss of such funds, up to \$10,000.

115. What is an insured bank?

A bank is insured when it complies with FDIC rules and becomes an insured member of the organization. In selecting members, the FDIC considers the adequacy of the bank's capital structure, its earnings prospects, and the general character of its management. At the end of 1962, 13,455 banks were members, while only a few hundred small banks had not joined.

116. What is an insured deposit?

When a bank becomes a member of the FDIC each individual deposit in the bank is insured up to \$10,000.

117. What happens if an insured bank fails?

Depositors receive the full amount of their deposits, up to the maximum of \$10,000 per deposit, usually within 10 days to 2 weeks. If the FDIC desires it may set up a new bank in the community.

118. How many insured banks have failed since 1933?

Four hundred and forty-seven (as of December 31, 1963).

119. Where does the FDIC get its money?

From assessments on insured banks, and interest on U. S. Government securities it holds.

120. Where did the FDIC get money to start operations?

The Treasury purchased \$150 million of stock in the FDIC, and the Federal Reserve, on instructions of Congress bought \$139 million of stock. This stock was repaid by the FDIC in 1947 at 2 percent interest.

121. How much do the insured banks pay the FDIC?

Insured banks pay annually a gross assessment of one-twelfth of 1 percent of their total deposits.

122. Is the FDIC subsidized by the Federal Government?

Yes. Although it paid back the original \$289 million of stock, several subsidies remain. The fact that the FDIC gets half its total income from Government securities itself represents a sizable subsidy.

123. What direct commitment does the Treasury have to the FDIC?

The 1947 amendments to the Federal Deposit Insurance Corporation Act provide that the FDIC can borrow up to \$3 billion from the U. S. Treasury at its discretion. The law directs the Secretary of the Treasury to put up this \$3 billion any time the FDIC wants it.

124. Does FDIC regulate and control insured banks?

Yes. Under the provision of the act which allows the FDIC to see to it that banks do not engage in "unsafe and unsound practices in conducting business" and which allows it to lay down basic requirements for membership, the FDIC has come to regulate the banks rather completely. The FDIC can prevent banks from making investments its examiners deem undesirable. And, FDIC conservatism is making it more difficult for small businessmen and farmers to get the financial assistance they need.

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CHAPTER VIII

HOW THE FEDERAL RESERVE PROVIDES PUBLIC FUNDS TO THE PRIVATE BANKS

125. Do private banks enjoy a special relationship with the Federal Government?

Yes, a very special relationship. The business of banks is to lend money. The profit comes from the difference between the cost of creating money and the price they charge borrowers for that money. Now the cost of creating money is negligible. Congress has delegated the power to create money to the banking system without a charge. The banks do not pay a license fee or a payment charge for their reserves. Thus the raw materials the banks use cost them nothing. Also the Government subsidizes the private banks in other ways. The banks receive free services from the Federal Reserve. Check-clearing is one example. Further, the Federal Government provides private banks with protection from competition and hazards of failure. New national banks are not chartered unless the Federal officer in charge of such matters thinks the new bank will succeed and will not "weaken" substantially any already existing bank. Then again, the FDIC has set rigid standards for a bank to receive insurance. No new bank whether National or State chartered can very well succeed unless it obtains insurance. A basis for this insurance is that the new bank will not face, or cause, "undue" competition.

126. Why is the Government interested in subsidizing the private commercial banks?

Because it furthers the public interest, up to a point. Our economy cannot function without a sound banking system and a well run, reliable money supply. The Government's concern for the banking system is actually a concern for a flourishing economy. Bank profits are necessary for a good banking system. So the Government makes provisions through its regulations that bank profits are protected.

127. In recent years has the Federal Reserve exhibited an undue regard for bank profits and an offhand regard for the public interest?

Yes. In recent years the Federal Reserve has, regrettably, followed a policy which has given away billions to the private banks. It has done this by increasing the money supply largely through lowering bank reserve requirements. The Federal Reserve could have provided part of the increase in the money supply itself by purchasing Government securities. But it did not choose to do so.

128. Is there an example of the Federal Reserve's letting the private banks create all the money needed to increase the money supply?

Yes. In the early part of 1958, the Federal Reserve lowered reserve requirements in order to let private banks increase the money supply by a maximum of \$10 billion. The purpose of reducing reserve requirements was to make more funds available for loans to business. The banks, instead, used the new "excess" reserves to acquire \$10 billion of interest-bearing U. S. Government securities. This is an example of a "give-away"—where the Federal Reserve should have purchased Government securities instead of letting private banks do it—to the advantage of their profits and to the disadvantage of the

taxpayers.

129. What was the bond giveaway bill?

This was a bill sponsored by the American Bankers' Association, introduced in Congress in 1959. Its purpose was to transfer \$16.8 billion of Government securities from the Federal Reserve to private bankers. The goal was to reduce "enormous" Federal Reserve holdings of Government securities—and transfer them, and their interest income, to private firms. The mechanism was to permit banks to count vault cash as reserves, and use the "excess" reserves thereby created to buy bonds from the Federal Reserve. The bill was passed into law only after the House stated its firm opposition to the giveaway sections of the bill, and expressed the hope that the new "excess" reserves would be used to expand business.

130. Is there any reason to give private bankers more bonds?

Since they already receive almost \$2 billion in interest from the Government, and have profited steadily from reserve requirement parings, it would be wrong. Bonds should be transferred to the Federal Reserve from the private banks, not the reverse.

131. Do private banks perform a service in buying Government bonds?

No, because they create money—an obligation of Government— simply to buy bonds guaranteed by the Government. There is no risk involved, as there is in loans to businessmen and consumers. The banks' traditional functions are to lend to private borrowers and assume the risks of creditors. Their reward for buying bonds with money they create is the "subsidized" profits they enjoy.

132. What is the "burden" of U. S. Government bonds, held by the private banking system?

The burden is the heavy bond interest payments, borne by the taxpayers, that go to private bankers when the same amount of money could be created by an agency of Government. Then the taxpayers [sic] would not bear this tremendous cost on Government bonds purchased with reserves given to the private bankers.

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CHAPTER IX

WHAT IS MONETARY POLICY?

133. What is monetary policy?

Monetary policy deals with the operating instructions of the managers of our money factory. Monetary policy is what fits money into the structure of the economy. In specific terms it consists of the decisions the money managers make about the quantity of money, the price of money, and the availability of money. These are the quantities the money managers can manipulate precisely. Of course, the goal of a particular monetary policy at any one time is to steer the economy in the direction desired by the monetary authorities. In the broadest sense, monetary policy can be thought of as manipulation of the money supply in the pursuit of broad economic goals.

134. What types of broad monetary policy are there?

There are two. One is called "passive" and the other "active" monetary policy.

135. What is "passive" monetary policy?

A passive monetary policy is one which does not provide for any day-to-day or year-to-year decisions by money managers to influence the volume or kinds of economic activity. The money supply is not regulated to achieve a specific economic target. This does not mean that interest rates do not move up or down. They do. But these moves of the interest rate do not result from any deliberate action by the monetary authorities.

136. What rules guide the money supply in the passive case?

Broadly speaking, they are automatic, akin to the rules a thermostat follows in controlling a room's temperature. For example, the system can be told to increase the money supply by, say, 3 percent a year. Or, more complicated rules can be devised.

137. What is "active" monetary policy?

Active monetary policy is the decision of the Government to give its monetary agencies the power and responsibility to influence the economy, through deliberate and constant adjustments of the monetary mechanism. With active monetary policy, the prevailing level of the money supply and of interest rates at any time, results from a conscious choice by the central bank.

138. What kind of monetary policy has the United States followed in recent years?

An "active" policy.

139. What subtypes of active monetary policy are there?

There are two. One is "tight money policy"—a policy which restricts the money supply in order to decrease its availability and raise the general level of interest rates. The other is "easy money policy," the opposite of a tight money policy.

140. What kind of action has been characteristic of Federal Reserve activity?

Generally speaking a "tight money policy."

141. Is a tight monetary policy a delicate instrument?

No. And this is the cause of much of the controversy about monetary policy. The effects of monetary policy are extremely widespread. For example, a tight money policy works by slowing down the whole economy. Sometimes this is what the Federal Reserve wishes to do. At other times, it is clear that the Federal Reserve is interested only in restricting some particular activity—as was the case with the consumer buying upsurge of 1955 when consumers were devouring autos and other durables. In order to restrict consumer buying of durable goods, the Federal Reserve tightened money. But there are times when the Federal Reserve is not interested in restricting consumer buying and, nevertheless, tightens money for other purposes. An example is the period from late 1961-1962. The Federal Reserve tightened money during this period in response to the balance-of-payments deficit. It had no wish to restrict consumer buying. On the contrary, there was widespread concern about sluggish demand and unemployment. But if tight money restricted demand in 1955, it follows that it should have been expected to restrict demand in 1961, and it did. Such is the shotgun effect of tight money that any attempt to use it as a precision tool must fail.

142. Must the money supply grow over the long haul?

Economists unanimously agree that the stock of money will have to grow—probably at about the same rate as the economy—if economic growth is not to be stunted. Failure to provide adequate money will spawn an era marked by deep recessions, abortive recoveries, low investment, high interest rates, and chronic unemployment. This long-pull need for adequate growth in the money stock is the first commandment for monetary policy—active or passive.

143. What does the Federal Reserve mean when it says, "It can't push on the string"?

The Federal Reserve is drawing attention to the fact that while tight money—pulling on the string—can always slow down the economy, easy money cannot always spur the economy. Their argument is that in a depression businessmen become so pessimistic that they are unwilling to borrow for investment despite rock bottom interest rates. At the same time, banks, in a depression, are very choosy about lending. With many businesses on the verge of bankruptcy, good credit risks are hard to find. So, though the Federal Reserve provides the banks with vast amounts of reserves, the banks, they claim, find it very difficult to place the money with prospective business investors.

144. What kind of monetary policy did the founders of the Federal Reserve think they were encouraging?

Passive. When the Federal Reserve was founded there was no thought, either in or out of Congress, that the country's monetary policy would be anything but passive. The Federal Reserve System was established to provide automatic increases in the money supply in proportion to the need of trade and commerce. At least that was the theory.

145. What happened to the original concept?

By 1920 Federal Reserve officials were taking at least occasional steps to reduce the supply of money in order to slow down general economic expansion and to effect a reduction in prices which these officials thought desirable. This was but a first step toward an active monetary policy. After the collapse of 1929-1933, the final turn in active monetary policy came. The Banking Act of 1935 gave final form to the Open Market Committee. With this act the Federal Reserve claimed that Congress had placed responsibility for national monetary and credit policies in the Federal Reserve System. In truth, the 1935 act makes no mention of "monetary policy," "monetary powers" or "monetary controls." Nor is there any provision suggesting changes in the original monetary policy beyond the Federal Reserve Act of 1913.

146. What were the lessons of World War II about economic policy?

The main lesson was that our country need never again suffer from a prolonged depression like that of the 1930's. During the war we had full employment and the economy produced gigantic quantities of goods. If we could maintain full employment in wartime why not in peacetime? Only now our economy can produce goods to eliminate poverty, ignorance, and disease rather than goods for the destructive processes of war. The second lesson that the Great Depression resulted from the failure of Government to recognize and assume its responsible role in the economy. This included the monetary aspect of Government policy.

147. What did the 1946 Employment Act say about monetary policy?

The act says it would be the policy of the Federal Government "to coordinate and utilize all its plans, functions, and resources" to promote "maximum employment, production, and purchasing power." And this was to be done "in a manner calculated to foster and promote free competitive enterprise." There was no question in anybody's mind, at the time the act was passed, but that monetary policy would be coordinated with other policies of the Government in the pursuit of full employment. And so they were, until shortly before the famous Treasury-Federal Reserve "accord" of March 4, 1951.

148. What was the famous Treasury-Federal Reserve "accord" of March 4, 1951?

It was the culmination of a longrun conflict between administration policy and the Federal Reserve which ended in the Federal Reserve becoming "generally independent" of the policies of the rest of the

U. S. Government. From that time on the Federal Reserve undertook to go "its own way" in deciding national monetary policy.

149. What was the result of Federal Reserve "independence"?

In practical terms the result was to commence a long decade of progressively tighter money. Given its freedom, the Federal Reserve has instinctively chosen to tighten money at every conceivable opportunity. The fact that tight money is a shotgun weapon to be used only for broad economic effects did not deter the newly independent Federal Reserve from trying to aim at specific targets.

150. What is the "bills only" policy?

"Bills only" refers to Federal Reserve Open Market Committee trading in the open market confined to very short-term Government securities, preferably 91-day Treasury bills. This was a move to affect bank reserves, and hence overall credit and the money supply, only through short-term interest rates. Long-term interest rates would be affected, but only indirectly and after a time lag. This, in effect, created a *so-called* free market in long-term Government securities. The Federal Reserve ceased supporting long-term U. S. Treasury bonds, except in cases where the market became "disorderly" or "threatened" to become disorderly.

151. When was the "bills only" policy abandoned?

Only in February of 1961, after repeated urgings from Congress and the newly elected President Kennedy.

152. In what way can the demise of "bills only" be taken as the end of an era?

It signaled the end of giving priority to controlling inflation and the balance of payments by tight monetary policy. President Kennedy and President Johnson chose other techniques of economic control—such as the tax cut, the accelerated depreciation schedule, operation "twist" the "interest equalization tax" to discourage oversea flows of funds.

153. What is the basic reason the Federal Reserve has continually tightened money?

Fear of inflation. The Federal Reserve has been haunted by the fear of inflation for years. There is very little evidence to justify this fear. The economy has paid heavily to ease the inflation nightmares of the independent monetary authorities. Using tight monetary policy, presumably to stop inflation, while the economy was actually stagnating, is positive proof that something is basically wrong with the theory and practices of Federal Reserve monetary policy. It indicates the Federal Reserve policy has arrived at the point where it is willing to make the economy pay a calamitous price for a dubious safeguard. If inflation indeed threatens, then one fact is clear: monetary policy is an unsatisfactory weapon with which to fight it under conditions of 1958-1963.

154. Has tight money raised the national debt?

Yes. It can be shown that if the interest rates of the early 1940's had prevailed throughout the postwar period, the total national debt would be \$40 billion less than it is now. This is just one of the terrific costs of tight money, and also proves that raising interest rates is not a simple solution to more serious economic problems. Interest will just not work in a simple fashion.

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CHAPTER X

WHAT IMPROVEMENTS ARE NEEDED IN THE MONEY SYSTEM?

155. Isn't the suggestion of improving the money system both imprudent and a call for needless tinkering with the economy?

Not at all. The monetary system of today—improved as it is has been over the past 200 or so years—is still man made. There is no reason to conclude that the system is perfect. The process of improving the money system is not complete any more than is the process of improving our national life generally.

Further, in every period of our history, people, especially bankers, have resisted any change in our money system with the cry, "leave well enough alone." Then some disaster would strike and the monetary system would be changed in panic and haste. The system always looks solid, or, at least, adequate until the moment it becomes inadequate. The fact that the system is now functioning more or less satisfactorily is no reason to shun inspection. Economic health and progress is the result of continual care and attention.

156. What is the main problem of the Federal Reserve System today?

In a word, Federal Reserve independence. Congress and the people are faced with the issue: How can we bring money management under genuine public control in order to coordinate monetary with other public policies? The original intent of the Federal Reserve Act was to insure such control; that intent is still valid. Our Government must squarely face the challenge of recapturing the tiller of its money system.

156. In practical terms, what is meant by Federal Reserve "independence"?

There are two sides to independence—one is economic, the other political. On the economic side, independence means that the Federal Reserve formulates and executes economic policy, using its

monetary controls, without any necessary reference or coordination with the policies being followed by the other branches of Government. This, of course, invites clashes between the Federal Reserve and other parts of the Government. Clashes have occurred, with sad results for all. On the political side, independence means that the Federal Reserve is not accountable to anyone for its actions. As the situation now stands, there is no mechanism by which the Federal Reserve can be made to change a policy it has chosen to follow. The members of the Federal Reserve do not come up for election as do Members of Congress or the President. Though an arm of Congress, the Federal Reserve is not responsible to it. The Federal Reserve does not present an annual report to Congress nor does Congress review the system's actions as a normal part of its business. The congressional power of the purse—the historic source of the legislature's power—does not apply to the Federal Reserve, which provides its own revenue. The System is not even subject to audit control of the General Accounting Office. Finally, the President, though he may select one or two of the members of the Federal Reserve Board, appoints them for 14-year terms. In the normal course of events, these men cannot be removed from office and because of their long tenures they do not reflect any single President's ideas.

158. How does the Federal Reserve justify its independence?

The argument the Federal Reserve offers runs as follows: The money side of economic policymaking is somehow unique. First: It affects everyone. Second, It involves "unpopular action"—following a tight money policy to prevent inflation. Many people only take a short run view of their welfare. These people may influence Congress or the President to favor inflationary views. There is great danger, they claim, that if the Federal Reserve were responsible to the President or Congress, the System would find it difficult to act against inflation. Therefore, the people must deed their control over their money to a group of men who would act like trustees and take the long-term view of the people's welfare. They would do for the people what the people or their representatives would not do in their own best interest—control inflation.

159. Would inflation result if the Federal Reserve were made responsible to the President or Congress, or made subject to an annual audit by the General Accounting Office?

Not at all. The notion that the American people and their elected officials are inflation-minded runs contrary to political realities. Inflation hurts not the wealthy but the low- and middle-income families who live on fixed incomes, the old with their modest pensions, all those who have set savings aside for their old age or their children's education. These people make up a considerable part of our population. There is not a practicing politician today who does not know that inflationary policies lose more votes than they gain. Also, the evidence of the postwar period shows that our political leaders have been sensitive to the problem of inflation. Both Presidents Kennedy and Johnson and their staffs have worked long and hard to maintain price stability. Are these the "politicians" who would take a short-sighted view of the country's need?

160. How can inflation be handled, if it threatens, without harming the economy?

This is a very deep economic issue, and economists themselves do not have all the answers. But what we do know is that monetary policy alone will not normally contain inflation except by doing considerable damage to full employment and maximum economic growth. What may conceivably work to achieve price stability and adequate economic performance is enlightened restraint on the part of business and labor in their wage-price policies. The job of promoting such restraint naturally falls to the President with all his power to cajole and persuade. Therefore, for all its jealously guarded independence, the Federal Reserve must ultimately rely on the active cooperation of the political leadership of the country for a sane approach to price stability. Thus the "politicians" the Federal Reserve wants to be free of are the very ones the Federal Reserve must depend on to make the System's policy successful.

161. Are the effects of money policy so unique that the monetary policymakers need to be free from all accountability?

No. It is hard to see what is so mysterious about monetary policy. Everyone is affected by tax and expenditure and by foreign policy. In both areas, the Government frequently must take "unpopular action." Raising taxes is not popular. Sending men to fight in Korea is unpopular. No one suggests that we should have an independent "defense policy board" or an independent "tax policy board." Why then an independent money policy board?

162. Should the President be permitted to pursue his economic program, if Congress approves?

Yes. The President is elected by the people. During his campaign for election the President normally advocates some economic policy. The economic issues weigh heavily in the campaign. Why then should the President find himself faced with an independent Federal Reserve Board which may not agree or may even try to nullify the policies he wishes to pursue? The President should be able to fashion a total package of economic policies, including monetary ones, as he sees fit. The money authorities should have the right and duty to counsel and advise. But they should not have the power, as they do when they are independent, to nullify the intended effects of the President's programs.

163. Is Federal Reserve independence inefficient?

Absolutely. We now have two centers of economic policymaking. One is the President and Congress; the other is the Federal Reserve Board. Both these policymaking centers control powerful economic tools. Each can turn the economy in any direction it wishes. Yet, neither has control. As things stand now, economic policymaking is run like a dual control car, driven by two drivers, one of whom insists on his independent right to use his own brakes and accelerator as he and he alone sees fit. It is pure luck if the motor is not constantly stalling. We have not always been lucky. This is no way to run economic policymaking. Both the speed and direction signals controlling the economy should come from one, and only one, source which must be the President and Congress in our democracy.

164. Is the "trustee" notion of monetary policymaking alien to American democracy?

Of course. The claim that the people do not know what is good for them, and therefore a small group of men should be given the power to make decisions and then to take action without being held accountable to the people is 100 percent undemocratic. The essence of democracy is that the people decide for themselves through their elected officials, what is good or bad for them. Further, to give monetary control to a group like the Federal Reserve is to hand over enormous power unfettered by responsibility to anyone. In a democracy, especially the American form, the holders of power, almost without exception, are responsible to the people, through elected officials in the use of this power. The Federal Reserve's ideas that they should be considered trustees rather than stewards runs counter to anything that Americans have believed about power and responsibility since the founding of the Republic.

165. Who favors Federal Reserve independence?

The private banks who control the System, together with some allies—notably, Wall Street newspapers and other members of the financial community.

166. Has the Federal Reserve's record since the accord demonstrated superiority in the management of our monetary system?

On the contrary, the Federal Reserve's persistent fear of a bogeyman "inflation" had led it to slow our economy's growth and cause periodic recessions, and moreover to maintain "tight money" even during periods of recession and economic slowdown.

167. What other reforms are needed in the Federal Reserve System in addition to the introduction of responsibility?

1. The reorganization of the membership of the Federal Reserve Board, toward greater responsibility.
2. Abolition of the Open Market Committee.
3. Coordination of monetary with other economic policy
4. Financial accountability, via audits.
5. Congressional checks, through the normal appropriations processes.
6. A reappraisal of the "tight money" policies.
7. A lessening of private bank influence in the Federal Reserve System.

168. What reforms should be applied to the Federal Deposit Insurance Corporation?

The FDIC should be prohibited from substituting its own standards of management for those of private bankers. By confining itself to the insurance function, it would not be providing a monopoly profit position for existing banks and discouraging constructive loans to farmers and small businessmen.

169. Are reforms needed in the Treasury?

Yes. The system of selling U. S. Government securities through a small group of preferred dealers should

be abolished. There is no reason to guarantee government bond dealers vast profits. In addition, the Treasury's practice of leaving deposits of public funds with private banks at no interest should be stopped.

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GOOD NEWS!

The debt-money mind virus called a meme is curable with a reality check.

**YOU ARE NOT POWERLESS OR HELPLESS
YOU CAN HELP FIX THE ECONOMY!**

Almost all our perceived problems stem from one really

BIG PROBLEM,

A BAD MONEY SYSTEM!

Is a parent in the home with their children at all times a good idea? It can be done.

Is well maintained and expanded infrastructure a good idea? It can be done.

Is a strong national defense a good idea? It can be done.

Space exploration? The end of poverty?

Health care? Education? Guaranteed retirement? All can be done.

Can it all be done and balance the federal budget, too? Yes, it can.

Why is it not being done? It is not being done because of the

BAD MONEY SYSTEM!

That's right. Our money is issued as debt by the private banking cartel mislabeled the Federal Reserve. Article I, Sec. 8, clause 5, of the Constitution empowers

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Congress to coin money. There has never been a legitimate reason for the government to borrow money when it has the power to create it. The government has no legitimate reason to tax for revenue when it has the power to create money. Taxes should be levied for the purpose of regulating and stabilizing the economy.

QUOTE OF THE MONTH

The problem is that males are demonic at unconscious and irrational levels. The motivation of a male chimpanzee who challenges another's rank is not that he foresees more matings or better food or a longer life. Those rewards explain why sexual selection has favored the desire for power, but the immediate reason he vies for status is simpler, deeper, and less subject to the vagaries of context. It is simply to dominate his peers. Unconscious of the evolutionary rationale that placed this prideful goal in his temperament, he devises strategies to achieve it that can be complex, original, and maybe conscious. In the same way the motivation of male chimpanzees on a border patrol is not to gain land or win females. The temperamental goal is to intimidate the opposition, to beat them to a pulp, to erode their ability to challenge. Winning has become an end in itself.

It looks the same with men.—Richard Wrangham and Dale Peterson in *Demonic Males: Apes and the Origins of Human Violence*.

REFERENCES

INFORMATION LINKS

- ✚ [Alternative Money Systems](#)
- ✚ [Bank Freedom](#)
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- ✚ [Economic Reform Australia](#)
- ✚ [Federal Reserve Board](#)
[Purpose and Function](#) 8th ed., pdf format.
- ✚ [American Monetary Institute](#)
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FREE SPEECH

What you can do.

1. First learn the facts so that you will not be confused by ideological flim-flam and political lies.
2. Inform everyone you can by personal contact, letters to editors, etc.
3. Put an information site on the net.
4. Network with others.
5. This is a political problem so you must get involved. It is not enough to vote. You must get involved at a political party policy level. Go to precinct meetings. Get a job as a party functionary. Challenge candidates.
6. Stick with it! It is possible to have peace, freedom, abundance, and leisure with no national debt.

Muriel E. Mobley, President
Humane World Community, Inc.
P. O. Box 788
Onalaska, WA 98570
May 16, 2001

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To accept an idea or premise without proof, in spite of contrary evidence, and after repeated failure of the idea or premise to coincide with reality.

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How the exponential demand for money is decoupled from real production.

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QUOTES

All the perplexities, confusion and distress in America arise, not from defects in their Constitution or Confederation, not from want of honor or virtue, so much as from the downright ignorance of the nature of coin, credit and circulation. *John Adams.*

What was true then, remains true today concerning ignorance of money. Honor and virtue may be in question, today, particularly so, in view of the Presidency during the last two decades.

The bank hath benefit of interest on all moneys which it creates out of nothing. *William Paterson, founder of the Bank of England, c1694.*

The William Paterson quote is the essential "trick" of banking. However much it is denied by some establishment economists, journalists, politicians, and other propaganda hucksters, this "trick" remains true of modern banking.

The process by which banks create money is so simple that the mind is repelled. *John Kenneth Galbraith.*

Changes in the quantity of money may originate with actions of the Federal Reserve System (the central bank), depository institutions (principally commercial banks), or the public. The major control, however, rests with the central bank. *Modern Money Mechanics, published by FRB Chicago, pg. 3.*

The process of money creation takes place primarily in banks. *Modern Money Mechanics, published by FRB Chicago, pg. 3.*

Of course, they [[banks](#)] do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts. *Modern Money Mechanics, published by FRB Chicago, pg. 6.*

The banks do create money. They have been doing it for a long time, but they didn't quite realise it, and they did not admit it. Very few did. You will find it in all sorts of documents, financial textbooks, etc. But in the intervening years, and we must all be perfectly frank about these things, there has been a development of thought, until today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create credit. *H. W. White, Chairman of the Associated Banks of New Zealand, to the New Zealand Monetary Commission, 1955.*

Susan George correctly emphasises in her review of my book, *The Cancer Stage of Capitalism* (Pluto Press, 1999), "The cancer stage of capitalism is not a metaphor. It is a rigorous description of where we are." The current financial stripping of economies and environments across the world exhibits, in fact, all the hallmark characteristics of a carcinogenic invasion. As on the cellular level, an uncontrolled rogue sequence of reproduction invades and self-multiplies across social borders with no committed function to life-hosts. As on the cellular level, the cancer advances by not being recognized by surrounding life communities. —John McMurtry, Professor of philosophy at the University of Guelph, in *Economic Reform*, Vol. 11, Number 3, March 1999

For our economic textbooks to have been accurate, they would need to be printed in blood. The blood of indigenous peoples destroyed so their land could be taken, bought, and sold. The blood of salmon, beaver, and buffalo commodified and killed for the money they have come to represent. The blood of all of us whose lives are diminished in the act of commodifying others. The blood of slaves and wage slaves who spend their lives toiling so their owners may have the leisure that is the birthright of every living being. The blood of the land itself, poisoned by "externalities," those cumbersome details too dark or difficult or inconvenient to take their place in the economic equations that guide so much of our lives. The blood of everyone who is silenced by economic theory. In the same vein as our science and religion, the most obvious function of our economics is the erection of a sociopolitical framework on which to base a system of exploitation.

Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist.—Kenneth Boulding, economist.

Permit me to issue and control the money of a nation and I care not who makes its laws. *Mayer Amschel Rothschild*

Whoever controls the volume of money in any country is absolute master of all industry and commerce. *President James Garfield.*

The real menace of our republic is the invisible government, which, like a giant octopus, sprawls its slimy length over our city, state and nation. At the head is a small group of banking houses generally referred to as international bankers. This little coterie of powerful international bankers virtually runs our government for their own selfish ends. *New York Mayor John F. Hylan, c1922.*

I believe that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a money aristocracy that has set the government at defiance. The issuing power should be taken from the banks, and restored to the people. *Thomas Jefferson.*

If the American people ever allow private banks to control the issue of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers conquered. *Thomas Jefferson.*

Banking was conceived in iniquity and born in sin. Bankers own the earth; take it away from them but leave them with the power to create credit; and, with a flick of a pen, they will create enough money to buy it back again. Take this power away from them and all great fortunes like mine will disappear, and they ought to disappear, for then this world would be a happier and better world to live in. But if you want to be slaves of bankers and pay the cost of your own slavery, then let the bankers control money and control credit. *Sir Josiah Stamp, Director, Bank of England, c1940.*

But if a long train of abuses, prevarications, and artifices, all tending the same way, make the design visible to the people, and they cannot but feel what they lie under, and see whither they are going, it is not to be wondered that they should then rouse themselves, and endeavour to put the rule into such hands which may secure to them the ends for which government was at first erected, and without which, ancient names and specious forms are so far from being better, that they are much worse than the state of Nature or pure anarchy; the inconveniencies being all as great and as near, but the remedy farther off and more difficult. *John Locke, CONCERNING CIVIL GOVERNMENT, Chap. XIX. Of the Dissolution of Government, #225.*

Slavery is likely to be abolished by the war power, and chattel slavery abolished. This, I and my European friends are in favor of, for slavery is but the owning of labor, and carries with it the care of the laborers, while the European plan, led on by England, is that capital shall control labor by controlling wages. . . . The great debt that capitalists will see to it is made out of the war must be used to control the value of money. To accomplish this, the Government bonds must be used as a banking basis. . . . We are now waiting for the Secretary of the Treasury of the United States to make this recommendation. It will not do to allow greenbacks, as they are called, to circulate as money any length of time, as we cannot control that, but we can control the bonds and through them the bank issues. *"Hazard Circular" circulated to U. S. banks during the campaign for the National Bank Acts during the Civil War.*

If this mischievous financial policy [[U. S. Notes or greenbacks issued by the government without interest](#)] which has had its origin in the North American Republic during the late war [[Civil War](#)] should become endured down to a fixture, then that Government will furnish its own money without cost. It will pay off its debts and be without debts. It will have all the money necessary to carry on its commerce. It will become properous beyond precedent in the history of the world. The brains and wealth of all countries will go to North America. That government must be destroyed or it will destroy every monarchy on the globe. *"London Times" editorial.*

The movement of the global economy is "regulated" by "a worldwide process of debt collection" which constricts the institutions of the national state and contributes to destroying employment and economic activity. from *The Globalization of Poverty* by Michel Chossudovsky.

If we are the new American slaves, then who is our master? The New Master, like some monster escaped from the laboratories of a noble experiment called the American dream, is the sum total of an amoral coupling between government and business. It looms as a monolith hybrid that is neither government nor business and is composed of individual strands of power that include the president, Congress, the courts—a multitude of governing bureaus and agencies, and an immense cluster of multinational corporations, some as wealthy as great nations. from *Give Me Liberty!* by Gerry Spence.

Our current economy is a predatory system far worse than any seen in nature. Where else but among human predators do individuals try to hoard much more than they can ever use? The human predator, I argue, is unlike all others. Instead of being simply the fulfillment of its own nature, the human predator is to a large degree the product of a system—an artificial environment shaped by beliefs and rules and customs—that allows the predatory tendency to run rampant.—Roger Terry in *Economic Insanity*.

There are no greater human and civil rights violations than the withholding of economic and financial livelihoods of peoples. There is no greater "**terrorism**" than financial manipulation of the peoples' livelihoods for political and financial gain. The educators, the ministers, the rabbis, the political leaders, and the peoples' elected representatives, including in the United States, emerge as the unwitting "**terrorists**"—who in silence, some perhaps for financial and political gain, condone Capitalism's (Bankerism's) recondite harvesting of the fruits of the productive society's labors. Peter Cook, Monetary Science Publishing, in *Reserves, Deposits and Central Banks*.

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July 17, 1861.

CHAP. V. — *An Act to authorize a National Loan and for other Purposes.*

Secretary of the Treasury may borrow within twelve months not over \$250,000,000.

Coupon or registered bonds or treasury notes may be issued therefor.

Bonds when redeemable.

Treasury notes; denomination; interest; when payable.

Certain treasury notes may be issued in exchange for coin, &c.
1861, ch. 46, §§ 1, 5.
Post, p. 313.

Proviso.
Post, pp. 345, 370.
Proviso.

Post, p. 313.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury be, and he is hereby, authorized to borrow on the credit of the United States, within twelve months from the passage of this act, a sum not exceeding two hundred and fifty millions of dollars, or so much thereof as he may deem necessary for the public service, for which he is authorized to issue coupon bonds, or registered bonds, or treasury notes, in such proportions of each as he may deem advisable; the bonds to bear interest not exceeding seven per centum per annum, payable semi-annually, irredeemable for twenty years, and after that period redeemable at the pleasure of the United States; and the treasury notes to be of any denomination fixed by the Secretary of the Treasury, not less than fifty dollars, and to be payable three years after date, with interest at the rate of seven and three tenths per centum per annum, payable semi-annually. And the Secretary of the Treasury may also issue in exchange for coin, and as part of the above loan, or may pay for salaries or other dues from the United States, **treasury notes of a less denomination than fifty dollars, not bearing interest**, but payable on demand by the Assistant Treasurers of the United States at Philadelphia, New York, or Boston, or treasury notes bearing interest at the rate of three and sixty-five hundredths per centum, payable in one year from date, and exchangeable at any time for treasury notes for fifty dollars, and upwards, issuable under the authority of this act, and bearing interest as specified above: *Provided*, That no exchange of such notes in any less amount than one hundred dollars shall be made at any one time: *And provided further*, That no treasury notes shall be issued of a less denomination than ten dollars, and that the whole amount of treasury notes, not bearing interest, issued under the authority of this act, shall not exceed **fifty millions of dollars**.*

SEC. 2. *And be it further enacted,* That the treasury notes, and bonds issued under the provisions of this act shall be signed by the First or Second Comptroller, or the Register of the Treasury, and countersigned by such other officer or officers of the Treasury as the Secretary of the Treasury may designate; and all such obligations, of the denomination of fifty dollars and upwards, shall be issued under the seal of the Treasury Department. The registered bonds shall be transferable on the books of the Treasury on the delivery of the certificate, and the coupon bonds and treasury notes shall be transferable by delivery. The interest coupons may be signed by such person or persons, or executed in such manner, as may be designated by the Secretary of the Treasury, who shall fix the compensation for the same.

SEC. 3. *And be it further enacted,* That the Secretary of the Treasury shall cause books to be opened for subscription to the treasury notes for fifty dollars and upwards at such places as he may designate in the United States and under such rules and regulations as he may prescribe, to be superintended by the Assistant Treasurers of the United States at their respective localities, and at other places, by such depositaries, postmasters, and other persons as he may designate, notice thereof being given in at least two daily papers of this city, and in one or more public newspapers published in the several places where subscription books may be opened; and subscriptions for such notes may be received from all persons who may desire to subscribe, any law to the contrary notwithstanding; and if a larger amount shall be subscribed in the aggregate than is required at one time, the Secretary of the Treasury is authorized to receive the same, should he deem it advantageous to the public interest; and if not, he shall accept the amount required by giving the preference to the smaller subscriptions; and the Secretary of the Treasury shall fix the compensations of the public officers or others designated for receiving said subscriptions: *Provided,* That for performing this or any other duty in connection with this act, no compensation for services rendered shall be allowed or paid to any public officer whose salary is established by law; and the Secretary of the Treasury may also make such other rules and regulations as he may deem expedient touching the instalment to be paid on any subscription at the time of subscribing, and further payments by instalments or otherwise, and penalties for non-payment of any instalment, and also concerning the receipt, deposit, and safe-keeping of money received from such subscriptions, until the same can be placed in the possession of the official depositaries of the Treasury, any law or laws to the contrary notwithstanding. And the Secretary of the Treasury is also authorized, if he shall deem it expedient, before opening books of subscription as above provided, to exchange for coin or pay for public dues or for treasury notes of the issue of twenty-third of December, eighteen hundred and fifty-seven, and falling due on the thirtieth of June, eighteen hundred and sixty-one, or for treasury notes issued and taken in exchange for such notes, any amount of said treasury notes for fifty dollars or upwards not exceeding one hundred millions of dollars.

Notes and bonds,
how signed, &c.

How transferable.

Books to be opened
for subscription for
treasury notes for
\$50 and over, &c..

Who may subscribe.

If larger amount is
subscribed, &c.

Pay of those
receiving
subscriptions.
Proviso.

Payment of
subscription.

Treasury notes of
\$50 and upwards
may be exchanged
for coin, &c.

Proposals for loan to be published.

Most favorable offers to be accepted, but at not less than par.

Portion of loan may be negotiated in foreign country.

Proceedings in each case.

Treasury notes under \$50, may be re-issued prior to Dec. 31, 1862.

Proviso.

Treasury notes may be issued in exchange for coin, &c.

SEC. 4. *And be it further enacted,* That, before awarding any portion of the loan in bonds authorized by this act, the Secretary of the Treasury, if he deem it advisable to issue proposals for the same in the United States, shall give not less than fifteen days' public notice in two or more of the public newspapers in the city of Washington, and in such other places of the United States as he may deem advisable, designating the amount of such loan, the place and the time up to which sealed proposals will be received for the same, the periods for the payment, and the amount of each instalment in which it is to be paid, and the penalty for the non-payment of any such instalments, and when and where such proposals shall be opened in the presence of such persons as may choose to attend; and the Secretary of the Treasury is authorized to accept the most favorable proposals offered by responsible bidders: *Provided,* That no offer shall be accepted at less than par.

SEC. 5. *And be it further enacted,* That the Secretary of the Treasury may, if he deem it advisable, negotiate any portion of said loan, not exceeding one hundred millions of dollars, in any foreign country and payable at any designated place either in the United States or in Europe, and may issue registered or coupon bonds for the amount thus negotiated agreeably to the provisions of this act, bearing interest payable semi-annually, either in the United States or at any designated place in Europe; and he is further authorized to appoint such agent or agents as he may deem necessary for negotiating such loan under his instructions, and for paying the interest on the same, and to fix the compensation of such agent or agents, and shall prescribe to them all the rules, regulations, and modes under which such loan shall be negotiated, and shall have power to fix the rate of exchange at which the principal shall be received from the contractors for the loan, and the exchange for the payment of the principal and interest in Europe shall be at the same rate.

SEC. 6. *And be it further enacted,* That whenever any treasury notes of a denomination less than fifty dollars, authorized to be issued by this act, shall have been redeemed, the Secretary of the Treasury may re-issue the same, or may cancel them and issue new notes to an equal amount: *Provided,* That the aggregate amount of bonds and treasury notes issued under the foregoing provisions of this act shall never exceed the full amount authorized by the first section of this act; and the power to issue, or re-issue such notes shall cease and determine after the thirty-first of December eighteen hundred and sixty-two.

SEC. 7. *And be it further enacted,* That the Secretary of the Treasury is hereby authorized, whenever he shall deem it expedient, to issue in exchange for coin, or in payment for public dues, treasury notes of any of the denominations hereinbefore specified, bearing interest not exceeding six per centum per annum, and payable at any time not exceeding twelve months from date, provided that the amount of notes so issued, or paid, shall at no time exceed twenty millions of dollars.

Secretary of
Treasury to report to
Congress.

SEC. 8. *And be it further enacted,* That the Secretary of the Treasury shall report to Congress, immediately after the commencement of the next session, the amount he has borrowed under the provisions of this act, of whom, and on what terms, with an abstract of all the proposals, designating those that have been accepted and those that have been rejected, and the amount of bonds or treasury notes that have been issued for the same.

Faith of the United
States pledged.

SEC. 9. *And be it further enacted,* That the faith of the United States is hereby solemnly pledged for the payment of the interest and redemption of the principal of the loan authorized by this act.

Certain provisions of
act of 1857, ch. 1,
revived.
Vol. xi. p. 257.

SEC. 10. *And be it further enacted,* That all the provisions of the act entitled "An act to authorize the issue of treasury notes," approved the twenty-third day of December, eighteen hundred and fifty-seven, so far as the same can or may be applied to the provisions of this act, and not inconsistent therewith, are hereby revived or re-enacted.

Appropriation for
expenses under this
act.

SEC. 11. *And be it further enacted,* That, to defray all the expenses that may attend the execution of this act, the sum of two hundred thousand dollars, or so much thereof as may be necessary, be, and the same is hereby, appropriated, to be paid out of any money in the Treasury not otherwise appropriated.

APPROVED, July 17, 1861.

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August 5, 1861.

CHAP. XLVI. — *An Act supplementary to an Act entitled "An Act to authorize a National Loan, and for other Purposes."*

1861, ch.5.
Ante, p. 259.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled, That the Secretary of the Treasury is hereby authorized to issue bonds of the United States, bearing interest at six per centum per annum, and payable at the pleasure of the United States after twenty years from date; and if any holder of Treasury notes, bearing interest at the rate of seven and three-tenths per centum, which may be issued under the authority of the act to authorize a national loan and for other purposes, approved July seventeenth, eighteen hundred and sixty-one, shall desire to exchange the same for said bonds, the Secretary of the Treasury may, at any time before or at the maturity of said Treasury notes, issue to said holder, in payment thereof, an amount of said bonds equal to the amount which, at the time of such payment or exchange, may be due on said Treasury notes; but no such bonds shall be issued for a less sum than five hundred dollars, nor shall the whole amount of such

Six per cent. bonds
may be issued,
redeemable in
twenty years, and
exchangeable for
certain Treasury
notes.

Denomination and amount of bonds. bonds exceed the whole amount of Treasury notes bearing seven and three-tenths per centum interest, issued under said act; and any part of the Treasury notes payable on demand, authorized by said act, may be made payable by the Assistant Treasurer at Saint Louis, or by the depository at Cincinnati.

Where Treasury notes may be made payable.

Treasury notes, how executed. **SEC. 2. *And be it further enacted,*** That the Treasury notes issued under the provisions of the said act to authorize a national loan, and for other purposes, or of any other act now in force authorizing the issue of such notes, shall be signed by the Treasurer of the United States, or by some officer of the Treasury Department, designated by the Secretary of the Treasury, for said Treasurer, and countersigned by the Register of the Treasury, or by some officer of the Treasury Department, designated by the Secretary of the Treasury, for said Register, and no Treasury notes, issued under any act, shall require the seal of the Treasury Department.

Need not have seal.

May be issued for not less than \$5. **SEC. 3. *And be it further enacted,*** That so much of the act to which this is supplementary as limits the denomination of a portion of the Treasury notes authorized by said act at not less than ten dollars, be and is so modified as to authorize the Secretary of the Treasury to fix the denomination of said notes at not less than five dollars.

Ante, p. 259.

Post, p. 338

Appropriation for purposes of this act, &c. **SEC. 4. *And be it further enacted,*** That, in addition to the amount heretofore appropriated, the sum of one hundred thousand dollars, or so much thereof as may be necessary, be, and the same is hereby, appropriated, out of any money in the Treasury not otherwise appropriated, to pay such expenses, commissions, or compensation as may be necessary, in the judgment of the Secretary of the Treasury, to carry into execution the provisions of this act, and of the act to which this is supplementary.

Notes on demand, &c., under \$50, receivable for public dues. **SEC. 5. *And be it further enacted,*** That the Treasury **notes authorized by the act to which this is supplementary, of a less denomination than fifty dollars, payable on demand without interest, and not exceeding in the sum of fifty millions of dollars, shall be receivable in payment of public dues.**

Portions of sub-treasury act suspended. **SEC. 6. *And be it further enacted,*** That the provisions of the act entitled "An Act to provide for the better organization of the Treasury, and for the collection, safe-keeping, transfer, and disbursements of the public revenue," passed August six, eighteen hundred and forty-six, be and the same are hereby suspended, so far as to allow the Secretary of the Treasury to deposit any of the moneys obtained on any of the loans authorized by law, to the credit of the Treasurer of the United States, in such solvent specie-paying banks as he may select; and the said moneys, so deposited, may be withdrawn from such deposit for deposit with the regular authorized depositories, or for the payment of public dues, or paid in redemption of the notes authorized to be issued under this act, or the act to which this is supplementary, payable on demand, as may seem expedient to, or be directed by, the Secretary of the Treasury.

1846, ch. 90.
Vol. ix. p. 59.

Deposits in solvent specie-paying banks.

Six per cent. bonds due in 20 years may be issued for certain seven per cent. bonds.

SEC. 7. *And be it further enacted,* That the Secretary of the Treasury may sell or negotiate, for any portion of the loan provided for in the act to which this is supplementary, bonds payable not more than twenty years from date, and bearing interest not exceeding six per centum per annum, payable semi-annually, at any rate not less than the equivalent of par, for the bonds bearing seven per centum interest, authorized by said act.

APPROVED, August 5, 1861.

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February 12, 1862.

CHAP. XX. — *An Act to authorize an additional Issue of United States Notes.*

\$10,000,000 of demand notes to be issued, &c.
1861, ch. 5 & 46.
Ante, pp. 259, 313.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, in addition to the **fifty millions of notes payable on demand of denominations not less than five dollars, heretofore authorized by the acts of July seventeenth and August fifth, eighteen hundred and sixty-one, be, and he is hereby, authorized to issue like notes, and for like purposes, to the amount of ten millions of dollars,** and said notes shall be deemed part of the loan of two hundred and fifty millions of dollars authorized by said acts.

Post, p. 370.

APPROVED, February 12, 1862.

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February 25, 1862.

CHAP. XXXIII. — *An Act to authorize the issue of United States Notes, and for the Redemption or Funding thereof, and for Funding the Floating Debt of the United States.*

\$150,000,000
treasury notes
authorized.

Denominations, how
payable, interest.
\$50,000,000, to be in
lieu of demand
notes.

Ante, p.259.

Treasury notes
receivable in
payment of dues to
United States, except
duties on imports,
and interest on
federal bonds and
notes which shall be
paid in coin, and to
be legal tender
except for duties and
interest.

To be convertible in
sums of not less than
\$50, &c. into United
States 6 per cent
stock, &c.

Funding treasury
notes and floating
debt, provisions for.

United States stocks
held within the
United States, to be
exempt from State
taxes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby authorized to issue, on the credit of the United States, one hundred and fifty millions of dollars of United States notes, not bearing interest, payable to the bearer, at the Treasury of the United States, and of such denominations as he may deem expedient, not less than five dollars each: *Provided, however,* That fifty millions of said notes shall be in lieu of the demand Treasury notes authorized to be issued by the act of July seventeen, eighteen hundred and sixty-one; which said demand notes shall be taken up as rapidly as practicable, and the notes herein provided for substituted for them; *And provided further,* That the amount of the two kinds of notes together shall at no time exceed the sum of one hundred and fifty millions of dollars, and such notes herein authorized shall be receivable in payment of all taxes, internal duties, excises, debts, and demands of every kind due to the United States, except duties on imports, and of all claims and demands against the United States of every kind whatsoever, except for interest upon bonds and notes, which shall be paid in coin, and shall also be lawful money and a legal tender in payment of all debts, public and private, within the United States, except duties on imports and interest as aforesaid. And any holders of said United States notes depositing any sum not less than fifty dollars, or some multiple of fifty dollars, with the Treasurer of the United States, or either of the Assistant Treasurers, shall receive in exchange therefor duplicate certificates of deposit, one of which may be transmitted to the Secretary of the Treasury, who shall thereupon issue to the holder an equal amount of bonds of the United States, coupon or registered, as may by said holder be desired, bearing interest at the rate of six per centum per annum, payable semi-annually, and redeemable at the pleasure of the United States after five years, and payable twenty years from the date thereof. And such United States notes shall be received the same as coin, at their par value, in payment for any loans that may be hereafter sold or negotiated by the Secretary of the Treasury, and may be re-issued from time to time as the exigencies of the public interest shall require.

SEC. 2. *And be it further enacted,* That to enable the Secretary of the Treasury to fund the Treasury notes and floating debt of the United States, he is hereby authorized to issue, on the credit of the United States, coupon bonds, or registered bonds, to an amount not exceeding five hundred millions of dollars, redeemable at the pleasure of the United States after five years, and payable twenty years from date, and bearing interest at the rate of six per centum per annum, payable semi-annually. And the bonds herein authorized shall be of such denominations, not less than fifty dollars, as may be determined upon by the Secretary of the Treasury. And the Secretary of the Treasury may dispose of such bonds at any time, at the market value thereof, for the coin of the United States, or for any of the Treasury notes that have been or may hereafter be issued under any former act of Congress, or for United States notes that may be issued under the provisions of this act; and all stocks, bonds, and other securities of the United States held by individuals, corporations, or associations, within the United States, shall be exempt from taxation by or under State authority.

Form of treasury notes and coupon or registered bonds,

how signed, countersigned, and sealed.

Provisions of act of 1857, ch. i. (vol. xi. p. 257,) revived; appropriation.

Notes in sums of not less than \$100 may be received on deposit, &c.

Interest on deposits. Deposits, how withdrawn. Interest to cease, &c. Aggregate not to exceed, &c. *Post*, p. 370.

Duties on imports to be paid in coin or in demand notes.

Coin, how to be applied.

Sinking fund.

SEC. 3. *And be it further enacted,* That the United States notes and the coupon or registered bonds authorized by this act shall be in such form as the Secretary of the Treasury may direct, and shall bear the written or engraved signatures of the Treasurer of the United States and the Register of the Treasury, and also, as evidence of lawful issue, the imprint of a copy of the seal of the Treasury Department, which imprint shall be made under the direction of the Secretary, after the said notes or bonds shall be received from the engravers and before they are issued; or the said notes and bonds shall be signed by the Treasurer of the United States, or for the Treasurer by such persons as may be specially appointed by the Secretary of the Treasury for that purpose, and shall be countersigned by the Register of the Treasury, or for the Register by such persons as the Secretary of the Treasury may specially appoint for that purpose; and all the provisions of the act entitled "An act to authorize the issue of Treasury notes," approved the twenty-third day of December, eighteen hundred and fifty-seven, so far as they can be applied to this act, and not inconsistent therewith, are hereby revived and reenacted; and the sum of three hundred thousand dollars is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to enable the Secretary of the Treasury to carry this act into effect.

SEC. 4. *And be it further enacted,* That the Secretary of the Treasury may receive from any person or persons, or any corporation, United States notes on deposit for not less than thirty days, in sums of not less than one hundred dollars, with any of the Assistant Treasurers or designated depositaries of the United States authorized by the Secretary of the Treasury to receive them, who shall issue therefor certificates of deposit, made in such form as the Secretary of the Treasury shall prescribe, and said certificates of deposit shall bear interest at the rate of five per centum per annum; and any amount of United States notes so deposited may be withdrawn from deposit at any time after ten days' notice on the return of said certificates: *Provided,* That the interest on all such deposits shall cease and determine at the pleasure of the Secretary of the Treasury: *And provided further,* That the aggregate of such deposit shall at no time exceed the amount of twenty-five millions of dollars.

SEC. 5. *And be it further enacted,* That all duties on imported goods shall be paid in coin, or in notes payable on demand heretofore authorized to be issued and by law receivable in payment of public dues, and the coin so paid shall be set apart as a special fund, and shall be applied as follows:

First. To the payment of the interest on the bonds and notes of the United States.

Second. To the purchase or payment of one per centum of the entire debt of the United States, to be made within each fiscal year after the first day of July, eighteen hundred and sixty-two, which is to be set apart as a sinking fund, and the interest of which shall in like manner be applied to the purchase or payment of the public debt as the Secretary of the Treasury shall from time to time direct.

Third. The residue thereof to be paid into the Treasury of the United States.

SEC. 6. *And be it further enacted,* That if any person or persons shall falsely make, forge, counterfeit, or alter, or cause or procure to be falsely made, forged, counterfeited, or altered, or cause or procure to be falsely made, forged or counterfeited, or altered, or shall willingly aid or assist in falsely making, forging, counterfeiting, or altering, any note, bond, coupon, or other security issued under the authority of this act, or heretofore issued under acts to authorize the issue of Treasury notes or bonds; or shall pass, utter, publish, or sell, or attempt to pass, utter, publish, or sell, or bring into the United States from any foreign place with intent to pass, utter, publish, or sell, or shall have or keep in possession or conceal, with intent to utter, publish, or sell, any such false, forged, counterfeited, or altered note, bond, coupon, or other security, with intent to defraud any body corporate or politic, or any other person or persons whatsoever, every person so offending shall be deemed guilty of felony, and shall, on conviction thereof, be punished by fine not exceeding five thousand dollars, and by imprisonment and confinement to hard labor not exceeding fifteen years, according to the aggravation of the offence.

Penalty for forging, &c., treasury notes, &c.,

for uttering or attempting to utter, &c., such notes, &c.,

for using, &c., plates, without authority,

for engraving, &c., plates in similitude, &c., with intent, &c., for selling such plates, or bringing them into the United States, with intent, &c.,

for having plates in possession, with intent, &c.,

SEC. 7. *And be it further enacted,* That if any person, having the custody of any plate or plates from which any notes, bonds, coupons, or other securities mentioned in this act, or any part thereof, shall have been printed, or which shall have been prepared for the purpose of printing any such notes, bonds, coupons, or other securities, or any part thereof, shall use such plate or plates, or knowingly permit the same to be used for the purpose of printing any notes, bonds, coupons, or other securities, or any part thereof, except such as shall be printed for the use of the United States by order of the proper officer thereof; or if any person shall engrave, or cause or procure to be engraved, or shall aid in engraving, any plate or plates in the likeness or similitude of any plate or plates designed for the printing of any such notes, bonds, coupons, or other securities, or any part thereof, or shall vend or sell any such plate or plates, or shall bring into the United States from any foreign place any such plate or plates, with any other intent or for any purpose, in either case, than that such plate or plates shall be used for printing of such notes, bonds, coupons, or other securities, or some part or parts thereof, for the use of the United States, or shall have in his custody or possession any metallic plate engraved after the similitude of any plate from which any such notes, bonds, coupons, or other securities, or any part or parts thereof, shall have been printed, with intent to use such plate or plates, or cause or suffer the same to be used, in forging or counterfeiting any such notes, bonds, coupons, or other securities, or any part or parts thereof, issued as aforesaid, or shall have in his custody or possession any blank note or notes, bond or bonds, coupon or coupons, or other security or securities, engraved and printed after the similitude of any notes, bonds, coupons, or other securities, issued as aforesaid, with intent to sell or otherwise use the same; or if any person shall print, photograph, or in any other manner execute or cause to be printed, photographed, or in any manner executed, or shall aid in printing, photographing, or executing any engraving, photograph, or other print, or impression, in the likeness or similitude of any such notes, bonds, coupons, or other securities, or any part or parts thereof, except for

for having in possession blank notes, &c., with intent to sell, &c., for printing or photographing, &c.,

for selling or bringing into the United States, with intent, &c.,

for having paper for printing such notes, &c., with intent, &c.

the use of the United States and by order of the proper officer thereof, or shall vend or sell any such engraving, photograph, print, or impression, except to the United States, or shall bring into the United States from any foreign place any such engraving, photograph, print, or other impression for the purpose of vending or selling the same, except by the direction of some proper officer of the United States, or shall have in his custody or possession any paper adapted to the making of such notes, bonds, coupons, or other securities, and similar to the paper upon which any such notes, bonds, coupons, or other securities shall have been issued, with intent to use such paper, or cause or suffer the same to be used, in forging or counterfeiting any of the notes, bonds, coupons, or other securities, issued as aforesaid, every such person so offending shall be deemed guilty of a felony, and shall, on conviction thereof, be punished by fine not exceeding five thousand dollars, and by imprisonment and confinement to hard labor not exceeding fifteen years, according to the aggravation of the offense.

APPROVED, February 25, 1862.

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June 30, 1864.

1865, ch. 22.
Post, p. 425.
 1865, ch. 77.
Post, p. 468.

Secretary of the Treasury may borrow \$400,000,000, and issue bonds, &c When redeemable.

Denominations.

CHAP. CLXXII. — *An Act to provide Ways and Means for the Support of the Government, 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 Secretary of the Treasury be, and he is hereby, authorized to borrow, from time to time, on the credit of the United States, four hundred millions of dollars, and to issue therefor coupon or registered bonds of the United States, redeemable at the pleasure of the government, after any period not less than five, nor more than thirty, years, or, if deemed expedient, made payable at any period not more than forty years from date. And said bonds shall be of such

Interest semi-annual in coin.
How bonds may be disposed of.

All obligations of the United States to be exempt from taxation.

Secretary may issue, in lieu of part of loan, \$200,000,000, treasury notes.

Denomination and when payable.

Interest payable in lawful money.
How may be disposed of.
How far to be legal tender.

Treasury notes to be convertible to bonds.

May be substituted for notes of previous issues.
Amount of bonds and notes not to exceed \$400,000,000; of notes not to exceed, &c.

Interest-bearing notes not to be tender for redemption of circulation of banks.

Interest of bonds heretofore issued may be paid semi-annually.

denominations as the Secretary of the Treasury shall direct, not less than fifty dollars, and bear an annual interest not exceeding six per centum, payable semi-annually in coin. And the Secretary of the Treasury may dispose of such bonds, or any part thereof, and of any bonds commonly known as five-twenties remaining unsold, in the United States, or if he shall find it expedient, in Europe, at any time, on such terms as he may deem most advisable, for lawful money of the United States, or, at his discretion, for treasury notes, certificates of indebtedness, or certificates of deposit issued under any act of congress. And all bonds, treasury notes, and other obligations of the United States shall be exempt from taxation by or under state or municipal authority.

SEC. 2. *And be it further enacted,* That the Secretary of the Treasury may issue on the credit of the United States, and in lieu of an equal amount of bonds authorized by the preceding section, and as a part of said loan, not exceeding two hundred millions of dollars, in treasury notes of any denomination not less than ten dollars, payable at any time not exceeding three years from date, or, if thought more expedient, redeemable at any time after three years from date, and bearing interest not exceeding the rate of seven and three tenths per centum, payable in lawful money at maturity, or, at the discretion of the secretary, semi-annually. And the said treasury notes may be disposed of by the Secretary of the Treasury, on the best terms that can be obtained, for lawful money; and such of them as shall be made payable, principal and interest, at maturity, shall be legal tender to the same extent as United States notes for their face value, excluding interest, and may be paid to any creditor of the United States at their face value, excluding interest, or to any creditor willing to receive them at par, including interest; and any treasury notes issued under the authority of this act may be made convertible, at the discretion of the Secretary of the Treasury, into any bonds issued under the authority of this act. And the Secretary of the Treasury may redeem and cause to be cancelled and destroyed any treasury notes or United States notes heretofore issued under authority of previous acts of congress, and substitute, in lieu thereof, an equal amount of treasury notes such as are authorized by this act, or of other United States notes: *Provided,* That the total amount of bonds and treasury notes authorized by the first and second sections of this act shall not exceed four hundred millions of dollars, in addition to the amounts heretofore issued; nor shall the total amount of United States notes, issued or to be issued, ever exceed four hundred millions of dollars, and such additional sum, not exceeding fifty millions of dollars, as may be temporarily required for the redemption of temporary loan; nor shall any treasury note bearing interest, issued under this act, be a legal tender in payment or redemption of any notes issued by any bank, banking association, or banker, calculated or intended to circulate as money.

SEC. 3. *And be it further enacted,* That the interest on all bonds heretofore issued, payable annually, may be paid semi-annually; and in lieu of such bonds authorized to be issued, the Secretary of the Treasury may issue bonds bearing interest, payable semi-annually. And he may also issue in exchange for treasury notes heretofore issued bearing seven and three tenths per centum per annum interest, besides the six per centum bonds heretofore authorized, like bonds of all the denominations in which such

Bonds may be issued in exchange for seven and three-tenths notes.

Repeal of part of 1864, ch. 17. § 1. *Ante*, p. 13,

of 1863, ch. 73, § 1. Vol. xii. p. 709.

Secretary of Treasury may receive temporary loans.

Certificates of deposit to be issued therefor. When payable, and interest.

Aggregate not to exceed, &c.

Reserve for their payment.

Fractional currency may be issued to an amount not over \$50,000,000.

treasury notes have been issued; and the interest on such treasury notes after maturity shall be paid in lawful money, and they may be exchanged for such bonds at any time within three months from the date of notice of redemption by the Secretary of the Treasury, after which the interest on such treasury notes shall cease. And so much of the law approved March third, eighteen hundred and sixty-four, as limits the loan authorized therein to the current fiscal year, is hereby repealed; and the authority of the Secretary of the Treasury to borrow money and issue therefor bonds or notes conferred by the first section of the act of March third, eighteen hundred and sixty-three, entitled, "An act to provide ways and means for the support of the government," shall cease on and after the passage of this act, except so far as it may effect seventy-five millions of bonds already advertised.

SEC. 4. *And be it further enacted,* That the Secretary of the Treasury may authorize the receipt, as a temporary loan, of United States notes or the notes of national banking associations on deposit for not less than thirty days, in sums of not less than fifty dollars, by any of the assistant treasurers of the United States, or depositaries designated for that purpose, other than national banking associations, who shall issue certificates of deposit in such form as the Secretary of the Treasury shall prescribe, bearing interest not exceeding six per centum annually, and payable at any time after the term of the deposit, and after ten days' subsequent notice, unless time and notice be waived by the Secretary of the Treasury; and the Secretary of the Treasury may increase the interest on deposits at less than six per centum to that rate, or, on ten days' notice to depositors, may diminish the rate of interest as the public interest may require; but the aggregate of such deposits shall not exceed one hundred and fifty millions of dollars; and the Secretary of the Treasury may issue, and shall hold in reserve for payment of such deposits, United States notes not exceeding fifty millions of dollars, including the amount already applied in such payment; and the United States notes, so held in reserve, shall be used only when needed, in his judgment, for the prompt payment of such deposits on demand, and shall be withdrawn and placed again in reserve as the amount of deposits shall again increase.

SEC. 5. *And be it further enacted,* That the Secretary of the Treasury may issue notes of the fractions of a dollar as now used for currency, in such form, with such inscriptions, and with such safeguards against counterfeiting, as he may judge best, and provide for the engraving and preparation, and for the issue of the same, as well as of all other notes and bonds, and other obligations, and shall make such regulations for the redemption of said fractional notes and other notes when mutilated or defaced, and for the receipt of said fractional notes in payment of debts to the United States, except for customs, in such sums, not over five dollars, as may appear to him expedient; and it is hereby declared that all laws and parts of laws applicable to the fractional notes engraved and issued as herein authorized, apply equally and with like force to all the fractional notes heretofore authorized, whether known as postage currency, or otherwise, and to postage-stamps issued as currency; but the whole amount of all descriptions of notes or stamps

less than one dollar issued as currency, shall not exceed fifty millions of dollars.

SEC. 6. *And be it further enacted,* That the coupon and registered bonds shall be in such form and bear such inscriptions as the Secretary of the Treasury may direct, and shall be signed by the register of the treasury, or for the register, by such person or persons as may be specially designated for that purpose by the Secretary of the Treasury, and shall bear, as evidence of lawful issue, the imprint of the seal of the Treasury Department, to be made under the direction of the Secretary of the Treasury, in a room set apart especially and exclusively for that purpose, under the care of some person appointed directly by him. And the coupons attached to such bonds shall bear the engraved signature of the register of the treasury, and such other device or safeguard against counterfeiting as the secretary may approve; and it is hereby declared than all bonds heretofore issued, bearing the signature of the register, shall have the same force, effect, and validity as if signed also by the treasurer, and all bonds bearing the signature of the register, erroneously described as treasurer of the United States, shall have the same force, effect, and validity, as if his official designation had been correctly stated; and all coupons bearing the engraved signature of the register of the treasury in office at the time when such signatures were authorized and engraved, shall have full force, validity, and effect, notwithstanding such register may have subsequently ceased to hold office as such, when issued in connection with bonds duly authorized and signed by or for the successor or successors of said register. And the treasury notes and United States notes authorized by this act shall be in such form as the Secretary of the Treasury shall direct, and shall bear the written or engraved signatures of the treasurer of the United States and the register of the treasury, and shall have printed upon them such statements, showing the amount of accrued or accruing interest and the character of the notes, as the Secretary of the Treasury may prescribe; and shall bear, as a further evidence of lawful issue, the imprint of the seal of the Treasury Department, to be made under the direction of the Secretary of the Treasury, as before directed.

SEC. 7. *And be it further enacted,* That the Secretary of the Treasury is hereby authorized to issue, upon such terms and under such regulations as he may from time to time prescribe, registered bonds in exchange for, and in lieu of, any coupon bonds which have been or may hereafter be lawfully issued; such registered bonds to be similar in all respects to the registered bonds issued under the acts authorizing the issue of the coupon bonds offered for exchange. And for all mutilated, defaced, or indorsed coupon or other bonds presented to the department, the Secretary of the Treasury is authorized to issue, upon terms and under regulations as aforesaid, and in substitution therefor, other bonds of like or equivalent issues.

Coupon and registered bonds, to be of what form and how signed.

Seal.

Where to be made.

Coupons.

Former bonds made valid.

Form, &c., of treasury notes.

Registered bonds may be issued for coupon.

Mutilated, defaced, &c., bonds.

Instructions, &c., to public officers receiving or preparing U. S. notes, &c.

SEC. 8. *And be it further enacted,* That the Secretary of the Treasury is hereby authorized and required to make and issue, from time to time, such instructions, rules, and regulations, to the several collectors, receivers, depositaries, officers, and others, who may receive treasury notes, United States notes, or other securities in behalf of the United States, or who may be in any way engaged or employed in the preparation and issue of the same, as he shall deem best calculated to promote the public convenience and security, and to protect the United States, as well as individuals, from fraud and loss.

Expenses of preparing and issuing bonds, notes, &c., how borne;.

SEC. 9. *And be it further enacted,* That the necessary expenses of engraving, printing, preparing, and issuing the United States notes, treasury notes, fractional notes, and bonds, hereby authorized, and of disposing of the same to subscribers and purchasers, shall be paid out of any money in the treasury not otherwise appropriated; but the whole amount thereof shall not exceed one per centum on the amount of notes and bonds issued.

not to exceed one per cent.

Penalty for counterfeiting or altering U. S. securities;.

SEC. 10. *And be it further enacted,* That if any person or persons shall falsely make, forge, counterfeit, or alter, or cause or procure to be falsely made, forged, counterfeited, or altered, any obligation or security of the United States, or shall pass, utter, publish, or sell, or attempt to pass, utter, publish, or sell, or shall bring into the United States from any foreign place with intent to pass, utter, publish, or sell, or shall have or keep in possession, or conceal, with intent to utter, publish, or sell, any such false, forged, counterfeited, or altered obligation, or other security, with intent to deceive or defraud, or shall knowingly aid or assist in any of the acts aforesaid, every person so offending shall be deemed guilty of felony, and shall, upon conviction thereof, be punished by fine not exceeding five thousand dollars, and by imprisonment and confinement at hard labor not exceeding fifteen years, according to the aggravation of the offence.

for uttering, &c., counterfeit, &c., notes;.

SEC. 11. *And be it further enacted,* That if any person having control, custody, or possession of any plate or plates from which any obligation or other security, or any part thereof, shall have been printed, or which may have been prepared by direction from the Secretary of the Treasury, for the purpose of printing any such obligation or other security, or any part thereof, shall use such plate or plates, or knowingly suffer the same to be used for the purpose of printing any such or similar obligation, or other security, or any part thereof, except such as shall be printed for the use of the United States, by order of the proper officer thereof; or if any person shall engrave, or cause or procure to be engraved, or shall aid or assist in engraving any plate or plates in the likeness or similitude of any plate or plates designed for the printing of any such obligation or other security, or any part thereof, or shall vend or sell any such plate or plates, or shall bring into the United States from any foreign place any such plate or plates, except under the direction of the Secretary of the Treasury or other proper officer, or with any other intent, or for any other purpose, in either case, than that such plate or plates shall be used for the printing of such notes, bonds, coupons, or other obligations or securities, or some part or parts thereof, for the use of the United States,

for using plates to print notes without authority;.

or shall have in his control, custody, or possession, any metallic plate engraved after the similitude of any plate from which any such obligation or other security, or any part or parts thereof, shall have been printed, with intent to use such plate or plates, or cause or suffer the same to be used in forging or counterfeiting any such obligation or other security, or any part or parts thereof, or shall have in his custody or possession, except under authority from the Secretary of the Treasury, or other proper officer, any obligation or other security, engraved and printed after the similitude of any obligation or other security issued under the authority of the United States, with intent to sell or otherwise use the same; or if any person shall print, photograph, or in any other manner make or execute, or cause to be printed, photographed, or in any manner made or executed, or shall aid in printing, photographing, making, or executing any engraving, photograph, or other print or impression in the likeness or similitude of any obligation or other security, or any part or parts thereof, or shall vend or sell any such engraving, photograph, print, or other impression, except to the United States, or shall bring into the United States from any foreign place any such engraving, photograph, print, or other impression, except by the direction of some proper officer of the United States, or shall have or retain in his custody or possession, after a distinctive paper shall have been adopted by the Secretary of the Treasury for obligations and other securities of the United States, any similar paper adapted to the making of any such obligation or other security, except under authority of the Secretary of the Treasury, or some other proper officer of the United States, every person so offending shall be deemed guilty of a felony, and shall, on conviction thereof, be punished by fine not exceeding five thousand dollars, or by imprisonment and confinement at hard labor, not exceeding fifteen years, or by both, in the discretion of the court.

for engraving plates,
&c.

Penalty for printing
or photographing
notes, &c.;

for bringing into the
United States such
photographed, &c.,
notes;

SEC. 12. *And be it further enacted,* That if any person shall have or retain in his or her custody, possession, or control, without the written authority or warrant of the Secretary of the Treasury, or of the comptroller of the currency, approved by the Secretary of the Treasury, any engraved or transferred plate, block, or electrotype, or any die, roll, or other original work used in making or preparing any plate, block, or electrotype, or any plate, block, or electrotype prepared or made after the similitude of any plate, block, or electrotype, from which any obligation or other security authorized to be issued by any act of congress, or any part thereof, has been, or may hereafter be, printed, or shall use, or cause, or knowingly suffer, the same to be used, in forging or counterfeiting any such obligation or other security, or shall print, or cause to be printed, any bronzed or gilt letters or devices, or shall print, or cause to be printed, any letters, figures, or devices with green ink, or any green color or pigment, upon any note, bond, or other

for retaining plates,
&c., without
authority;

representative of value, intended or adapted to be used as a currency or a circulating medium, every such person, being thereof convicted by due course of law, shall be deemed guilty of felony, and shall be imprisoned and kept at hard labor for a term not more than ten years, and fined in a sum not more than ten thousand dollars: *Provided*, That nothing in this act shall affect any prosecution pending, or any civil or criminal liabilities incurred under any former act: *Provided, further*, That the foregoing provisions of this section shall not be held or construed to deprive any person of the right to retain in his custody and possession and use for any lawful purpose, any engraved or transferred plate, block, or electrotype, or any die, roll, or other original work as aforesaid, which had been used by him in printing or engraving bank-notes or other obligations, before being used in printing any obligation or other security authorized to be issued by any act of congress; nor shall any of said foregoing provisions be held or construed to prohibit or restrain lawful use by any person of any ink, color, or pigment, the exclusive right to which has been secured to any such person by letters-patent which are still in force.

for using plates,&c.,
in counterfeiting
notes.

Pending prosecutions
under former act not
affected.
Proviso.

Words "obligation or
other security, &c.,"
to include what.

SEC. 13. *And be it further enacted*, That the words "obligation or other security of the United States," used in this act, shall be held to include and mean all bonds, coupons, national currency, United States notes, treasury notes, fractional notes, checks for money of authorized officers of the United States, certificates of indebtedness, certificates of deposit, stamps, and other representatives of value of whatever denomination, which have been or may be issued under any act of congress.

APPROVED, June 30, 1864.

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Jan. 28, 1865.

1864, ch. 172.
Ante, p. 218.

CHAP. XXII. — *An Act to amend an Act entitled "An Act to provide Ways and Means for the Support of the Government, and for other Purposes," approved June thirtieth, eighteen hundred and sixty-four.*

Treasury notes may be issued in lieu of bonds.

Bonds and notes not to exceed \$400,000,000 how disposed of;

exempt from taxation.

Certain five-twenties may be sold.

1862, ch.33. Vol. xii. p. 345.

No additional legal tender notes authorized hereby.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in lieu of any bonds authorized to be issued by the first section of the act entitled "An act to provide ways and means for the support of the government," approved June thirtieth, eighteen hundred and sixty-four, that may remain unsold at the date of this act, the Secretary of the Treasury may issue, under the authority of the act, treasury notes of the description and character authorized by the second section of said act: *Provided*, That the whole amount of bonds authorized as aforesaid, and treasury notes issued and to be issued in lieu thereof, shall not exceed the sum of four hundred millions of dollars; and such treasury notes may be disposed of for lawful money, or for any other treasury notes or certificates of indebtedness or certificates of deposit issued under any previous act of congress; and such notes shall be exempt from taxation by or under state or municipal authority.*

SEC. 2. *And be it further enacted, That any bonds known as five-twenties, issued under the act of twenty-fifth February, eighteen hundred and sixty-two, remaining unsold to an amount not exceeding four millions of dollars, may be disposed of by the Secretary of the Treasury in the United States, or, if he shall find it expedient, in Europe, at any time, on such terms as he may deem most advisable: *Provided*, That this act shall not be so construed as to give any authority for the issue of any legal tender notes, in any form, beyond the balance unissued of the amount authorized by the second section of the act to which this is an amendment.*

APPROVED, January 28, 1865.

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April 12, 1866.

1865, ch. 77. Vol. xiii. p. 468.

The Secretary of the Treasury may receive treasury notes, &c., in exchange for bonds, &c.;

CHAP. XXXIX. — *An Act to amend an Act entitled "An Act to provide Ways and Means to Support the Government," approved March third, eighteen hundred and sixty-five.*

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the act entitled "An act to provide ways and means to support the Government" approved March third, eighteen hundred and sixty-five, shall be extended and construed to authorize the Secretary of the Treasury, at his discretion, to receive any Treasury notes or other obligations issued under any act of Congress, whether bearing interest or not, in exchange for any description of bonds authorized by the act to which this is an amendment; and also to dispose of any description of bonds authorized by said act, either in the United States or elsewhere, to

may dispose of the bonds in the United States or elsewhere;

in what amount and at what rates.

Public debt not to be increased.

Limit to amount of notes to be retired. Former act to be in force, except &c.

such amount, in such manner, and at such rates as he may think advisable, for lawful money of the United States, or for any Treasury notes, certificates of indebtedness, or certificates of deposit, or other representatives of value, which have been or which may be issued under any act of Congress, the proceeds thereof to be used only for retiring Treasury notes or other obligations issued under any act of Congress; but nothing herein contained shall be construed to authorize any increase in public debt: *Provided*, That of United States notes not more than ten millions of dollars may be retired and cancelled within six months from the passage of this act, and thereafter not more than four millions of dollars in any one month: *And provided further*, That the act to which this is an amendment shall continue in full force in all its provisions, except as modified by this act.

Secretary to report to congress, &c.

SEC. 2. *And be it further enacted*, That the Secretary of the Treasury shall report to Congress at the commencement of the next session the amount of exchanges made or money borrowed under this act, and of whom, and on what terms; and also the amount and character of indebtedness retired under this act, and the act to which this is an amendment, with a detailed statement of the expense of making such loans and exchanges.

APPROVED, April 12, 1866.

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REFERENCES

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THE FIRST CENTRAL BANK OF THE UNITED STATES

UNITED STATES STATUTES AT LARGE.

Feb. 25, 1791.

CHAP. X.-*An Act to incorporate the subscribers to the Bank of the United States.*[\(b\)](#)

[Expired.]
Preamble.

WHEREAS it is conceived that the establishment of a bank for the United States, upon a foundation sufficiently extensive to answer the purposes intended thereby, and at the same time upon the principles which afford adequate security for an upright and prudent administration thereof, will be very conducive to the successful conducting of the national finances; will tend to give facility to the obtaining of loans, for the use of the government, in sudden emergencies; and will be productive of considerable advantages to trade and industry in general: Therefore,

Establishment of a Bank of the U. States, and amount and division of its stock, and time of subscribing.

SECTION 1. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That a bank of the United States shall be established; the capital stock whereof shall not exceed ten millions of dollars, divided into twenty-five thousand shares, each share being four hundred dollars; and that subscriptions, towards constituting the said stock, shall, on the first Monday of April next, be opened at the city of Philadelphia, under the superintendence of such persons, not less than three, as shall be appointed for that purpose by the President of the United States (who is hereby empowered to appoint the said persons accordingly); which subscriptions shall continue open, until the whole of the said stock shall have been subscribed.[\(a\)](#)

Act of March 2, 1791 ch. 11.

By whom to be subscribed.

SEC. 2. *And be it further enacted,* That it shall be lawful for any person, co-partnership, or body politic, to subscribe for such or so many shares, as he, she, or they shall think fit, not exceeding one thousand, except as shall be hereafter directed relatively to the United States; and that the sums, respectively subscribed, except on behalf of the United States, shall be payable one fourth in gold and silver, and three fourths in that part of public debt, which, according to the loan proposed in the fourth and fifteenth sections of the act, entitled "An act making provision for the debt of the United States," shall bear an accruing interest, at the time of payment, of six per centum per annum, and shall also be payable in four equal parts, in the aforesaid ratio of specie to debt, at the distance of six calendar months from each other; the first whereof shall be paid at the time of subscription.

Proportions of gold and silver and the public debt to be subscribed, and

when to be paid.

Subscribers to be a body politic.

By what name and how long to continue.

Powers.

Limitation of stock.

To have a seal,

and establish by-laws.

Number, and time of electing directors.

And of a president.

Proviso.

When \$400,000 in gold or silver shall be subscribed, notice be given, &c.

SEC. 3. *And be it further enacted,* That all those, who shall become subscribers to the said bank, their successors and assigns, shall be, and are hereby created and made a corporation and body politic, by the name and style of ***The President, Directors and Company, of the Bank of the United States;*** and shall so continue, until the fourth day of March, one thousand eight hundred and eleven: And by that name, shall be, and are hereby made able and capable in law, to have, purchase, receive, possess, enjoy, and retain to them and their successors, lands, rents, tenements, hereditaments, goods, chattels and effects of what kind, nature or quality soever, to an amount, not exceeding in the whole fifteen millions of dollars, including the amount of the capital stock aforesaid; and the same to sell, grant, demise, aliene or dispose of; to sue and be sued, plead and be impleaded, answer and be answered, defend and be defended, in courts of record, or any other place whatsoever: And also to make, have, and use a common seal, and the same to break, alter and renew, at their pleasure; and also to ordain, establish, and put in execution, such by-laws, ordinances and regulations, as shall seem necessary and convenient for the government of the said corporation, not being contrary to law, or to the constitution thereof (for which purpose, general meetings of the stockholders shall and may be called by the directors, and in the manner herein after specified), and generally to do and execute all and singular acts, matters and things, which to them it shall or may appertain to do; subject nevertheless to the rules, regulations, restrictions, limitations and provisions herein after prescribed and declared.

SEC. 4. *And be it further enacted,* That, for the well ordering of the affairs of the said corporation, there shall be twenty-five directors; of whom there shall be an election on the first Monday of January in each year, by the stockholders or proprietors of the capital stock of the said corporation, and by plurality of the votes actually given; and those who shall be duly chosen at any election, shall be capable of serving as directors, by virtue of such choice, until the end or expiration of the Monday of January next ensuing the time of such election, and no longer. And the said directors, at their first meeting after each election, shall choose one of their number as President.

SEC. 5. *Provided always, and be it further enacted,* That, as soon as the sum of four hundred thousand dollars, in gold and silver, shall have been actually received on account of the subscriptions to the said stock, notice thereof shall be given, by the persons under whose superintendence the same shall have been made, in at least two public gazettes printed in the city of Philadelphia; and the said persons shall, at the same time in like manner, notify a time and place within the said city, at the distance of ninety days from the time of such notification, for proceeding to the election of directors; and it shall be lawful for such election to be then and there made; and the persons, who shall then and there be chosen, shall be the first directors, and shall be capable of serving, by virtue of such choice, until the end or expiration of the Monday in January next ensuing the time of making the same, and shall forthwith thereafter commence the operations of the said bank, at the said city of Philadelphia. ***And provided further,*** That, in case it should at any time happen, that an election of directors should not be made upon any

How directors shall be chosen, and time of service.

day when pursuant to this act it ought to have been made, the said corporation shall not, for that cause, be deemed to be dissolved; but it shall be lawful, on any other day, to hold and make an election of directors in such manner as shall have been regulated by the laws and ordinances of the said corporation. **And provided lastly**, That, in case of the death, resignation, absence from the United States, or removal of a director by the stockholders, his place may be filled up, by a new choice, for the remainder of the year.

Vacancies filled up. Directors to appoint officers, &c.

SEC. 6. And be it further enacted, That the directors for the time being shall have power to appoint such officers, clerks, and servants under them, as shall be necessary for executing the business of the said corporation, and to allow them such compensation, for their services respectively, as shall be reasonable; and shall be capable of exercising such other powers and authorities, for the well governing and ordering of the affairs of the said corporation, as shall be described, fixed, and determined by the laws, regulations, and ordinances of the same.

Articles of constitution.

SEC. 7. And be it further enacted, That the following rules, restrictions, limitations and provisions, shall form and be fundamental articles of the constitution of the said corporation, viz.

Stockholders how to vote, in what proportion to sum subscribed, and

I. The number of votes to which each stockholder shall be entitled, shall be according to the number of shares he shall hold, in the proportions following: That is to say, for one share, and not more than two shares, one vote: for every two shares above two, and not exceeding ten, one vote: for every four shares above ten, and not exceeding thirty, one vote: for every six shares above thirty, and not exceeding sixty, one vote: for every eight shares above sixty, and not exceeding one hundred, one vote: and for every ten shares above one hundred, one vote: -But no person, co-partnership, or body politic shall be entitled to a greater number than thirty votes. And after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election. Stockholders actually resident within the United States, and none other, may vote in elections by proxy.

in certain cases may vote by proxy.

Number of electors eligible for ensuing year, and

II. Not more than three fourths of the directors in office, exclusive of the president, shall be eligible for the next succeeding year: but the director, who shall be president at the time of an election, may always be re-elected.

who as directors.

III. None but a stockholder, being a citizen of the United States, shall be eligible as a director.

Compensation to be allowed.

IV. No director shall be entitled to any emolument, unless the same shall have been allowed by the stockholders at a general meeting. The stockholders shall make such compensation to the president, for his extraordinary attendance at the bank, as shall appear to them reasonable.

How to constitute a board.	V. Not less than seven directors shall constitute a board for the transaction of business, of whom, the president shall always be one, except in case of sickness, or necessary absence; in which case his place may be supplied by any other director, whom he, by writing under his hand, shall nominate for the purpose.
Number of stockholders empowered to call a meeting, &c.	VI. Any number of stockholders, not less than sixty, who, together, shall be proprietors of two hundred shares or upwards, shall have power at any time to call a general meeting of the stockholders, for purposes relative to the institution, giving at least ten weeks notice, in two public gazettes of the place where the bank is kept, and specifying, in such notice, the object or objects of such meeting.
Cashier and treasurer to give bond.	VII. Every cashier or treasurer, before he enters upon the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in sum not less than fifty thousand dollars, with condition for his good behaviour.
Limitation of property;	VIII. The lands, tenements and hereditaments which it shall be lawful for the said corporation to hold, shall be only such as shall be requisite for its immediate accomodation in relation to the convenient transacting of its business, and such as shall have been <i>bona fide</i> mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.
and of debts they shall at any time owe.	IX. The total amount of the debts, which the said corporation shall at any time owe, whether by bond, bill, note, or other contract, shall not exceed the sum of ten millions of dollars, over and above the monies then actually deposited in the bank for safekeeping, unless the contracting of any greater debt shall have been previously authorized by a law of the United States. In case of excess, the directors, under whose administration it shall happen, shall be liable for the same, in their natural and private capacities; and an action of debt may, in such case, be brought against them, or any of them, their or any of their heirs, executors or administrators, in any court of record of the United States, or of either of them, by any creditor or creditors of the said corporation, and may be prosecuted to judgment and execution; any condition, covenant, or agreement to the contrary notwithstanding. But this shall not be construed to exempt the said corporation, or the lands, tenements, goods, or chattels of the same, from being also liable for and chargeable with the said excess. Such of the said directors, who may have been absent when the said excess was contracted or created, or who may have dissented from the resolution or act whereby the same was so contracted or created, may respectively exonerate themselves from being so liable, by forthwith giving notice of the fact, and of their absence or dissent, to the President of the United States, and to the stockholders, at a general meeting, which they shall have power to call for that purpose.
In case of excess, directors accountable in private capacities and may be prosecuted.	
Exception in favour of absentees at time of excess.	
Corporation may sell public debt and part of its stock, but not purchase, &c.	X. The said corporation may sell any part of the public debt whereof its stock shall be composed, but shall not be at liberty to purchase any public debt whatsoever; nor shall directly or indirectly deal or trade in any thing, except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time; or of goods which shall be the produce of its lands. Neither shall the said corporation take more than at the rate of six per centum per annum, for or upon

its loans or discounts.

and take not more than 6 per cent. per an.

How and for what objects to make loans.

XI. No loan shall be made by the said corporation, for the use or on account of the government of the United States, to an amount exceeding one hundred thousand dollars, or of any particular state, to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

And bills, &c. shall

XII. The stock of the said corporation shall be assignable and transferable, according to such rules as shall be instituted in that behalf, by the laws and ordinances of the same.

be assignable

XIII. The bills obligatory and of credit, under the seal of the said corporation, which shall be made to any person or persons, shall be assignable by indorsement thereupon, under the hand or hands of such person or persons, and of his, her, or their assignee or assignees, and so as absolutely to transfer and vest the property thereof in each and every assignee or assignees successively, and to enable such assignee or assignees to bring and maintain an action thereupon in his, her, or their own name or names. And

and

bills or notes, which may be issued by order of the said corporation, signed by the president, and countersigned by the principal cashier or treasurer thereof, promising the payment of money to any person or persons, his, her, or their order, or to bearer, though not under the seal of the said corporation, shall be binding and obligatory upon the same, in the like manner, and with the like force and effect, as upon any private person or persons, if issued by him or them, in his, her, or their private or natural capacity or capacities; and shall be assignable and negotiable, in like manner, as if they were so issued by such private person or persons--that is to say, those which shall be payable to any person or persons, his, her, or their order, shall be assignable by indorsement, in like manner, and with the like effect, as foreign bills of exchange now are; and those which are payable to bearer, shall be negotiable and assignable by delivery only.

bills to be obligatory.

Dividends of profits made.

XIV. Half yearly dividends shall be made of so much of the profits of the bank, as shall appear to the directors advisable; and once in every three years, the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts, which shall have remained unpaid after the expiration of the original credit, for a period of treble the term of that credit; and of the surplus of profit, if any, after deducting losses and dividends. If there shall be a failure in the payment of any part of any sum, subscribed by any person, co-partnership, or body politic, the party failing shall lose the benefit of any dividend, which may have accrued, prior to the time for making such payment, and during the delay of the same.

Offices may be established within United States, for discount and deposit only, &c.

XV. It shall be lawful for the directors aforesaid, to establish offices wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms, and in the same manner, as shall be practised at the bank; and to commit the management of the said offices, and the making of the said discounts, to such persons, under such agreements, and subject to such regulations as they shall deem proper; not being contrary to law, or to the constitution of the bank.

Officer at the head of the treasury, to be furnished with statements.

XVI. The officer at the head of the treasury department of the United States, shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the said corporation, and of the debts due to the same; of the monies deposited therein; of the notes in circulation, and of the cash in hand; and shall have a right to inspect such general accounts in the books of the bank, as shall relate to the said statements. *Provided*, That this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

Not of private nature.

Penalty for buying or selling goods, &c.

SEC. 8. *And be it further enacted*, That if the said corporation, or any person or persons for or to the use of the same, shall deal or trade in buying or selling any goods, wares, merchandise, or commodities whatsoever, contrary to the provisions of this act, all and every person and persons, by whom any order or direction for so dealing or trading shall have been given, and all and every person and persons who shall have been concerned as parties or agents therein, shall forfeit and lose teble the value of the goods, wares, merchandises, and commodities, in which such dealing and trade shall have been; one half thereof to the use of the informer, and the other half thereof to the use of the United States, to be recovered with costs of suit.

How money may be advanced or lent.

SEC. 9. *And be it further enacted*, That if the said corporation shall advance or lend any sum, for the use or on account of the government of the United States, to an amount exceeding one hundred thousand dollars; or of any particular state to an amount exceeding fifty thousand dollars; or of any foreign prince or state, (unless previously authorized thereto by a law of the United States,) all and every person and persons, by and with whose order, agreement, consent, approbation, or connivance, such unlawful advance or loan shall have been made, upon conviction thereof, shall forfeit and pay, for every such offence, treble the value or amount of the sum or sums which shall have been so unlawfully advanced or lent; one fifth thereof to the use of the informer, and the residue thereof to the use of the United States; to be disposed of by law and not otherwise.

Bills or notes made receivable by U. States.

SEC. 10. *And be it further enacted*, That the bills or notes of the said corporation, originally made payable, or which shall have become payable on demand, in gold and silver coin, shall be receivable in all payments to the United States.

1812, ch. 43.

Subscriptions made by United States, how to be paid, &c.

SEC. 11. *And be it further enacted*, That it shall be lawful for the President of the United States, at any time or times, within eighteen months after the first day of April next, to cause a subscription to be made to the stock of the said corporation, as part of the aforesaid capital stock of ten millions of dollars, on behalf of the United States, to an amount not exceeding two millions of dollars; to be paid out of the monies which shall be borrowed by virtue of either of the acts, the one entitled "An act making provisions for the debt of the United States;" and the other entitled "An act making provision for the reduction of the public debt;" borrowing of the bank an equal sum, to

1790, ch. 34.

1790, ch. 47.

be applied to the purposes, for which the said monies shall have been procured; reimbursable in ten years, by equal annual instalments; or at any time sooner, or in greater proportions, that the government may think fit.

No other bank to be established.

SEC. 12. *And be it further enacted*, That no other bank shall be established by any future law of the United States, during the continuance of the corporation hereby created; for which the faith of the United States is hereby pledged.

APPROVED, February 25, 1791.

(b) The acts relating to a Bank of the United States in addition to this act, have been: Act of March 2, 1791, chap. 11; act of June 27, 1798; act of March 23, 1804.

Authorizing the establishing of offices of discount and deposit in any of the territories of the United States: Act of March 23, 1804. See acts, 1812, chap. 43; act of April 10, 1816; act of March 3, 1817; act of March 3, 1819; act of April 11, 1836; act of April 20, 1836; act of June 15, 1836; act of June 23, 1836; resolution March 3, 1837. [return](#)

(a) Congress has power to incorporate a bank; and the act of April 10, 1816, to incorporate the subscribers to the Bank of the United States, is a law made in pursuance of the constitution. *McCulloch v. The State of Maryland*, 4 Wheat. 316; 4 Cond. Rep. 466.

The Bank of the United States has constituionally a right to establish branches or offices of discount and deposit within any state. *Ibid*.

A state cannot tax the Bank of the United States, and any attempt by the officers or courts of the state to enforce a law laying a tax upon the property of the Bank, may be restrained by injunction. *Osborne v The Bank of the United States*, 9 Wheat. 738; 5 Cond. Rep. 741. [return](#)

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NATIONAL CURRENCY ACT

(later called "NATIONAL BANK ACT")

June 3, 1864

CHAP. CVI. — *An Act to provide a National Currency, secured by a Pledge of United States Bonds, and to provide for the Circulation and Redemption thereof.*

1865, ch. 78, §§ 6, 7.
Post, p. 484.

Currency bureau
established.

Comptroller of the
currency.

Appointment.

Term of office.

Salary.

Deputy comptroller.

Clerks.

Comptroller to take
oath within what
time.

Bond.

Oath and bond of
deputy comptroller.

Not to be interested
in any banking
association.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there shall be established in the treasury department a separate bureau, which shall be charged with the execution of this and all other laws that may be passed by congress respecting the issue and regulation of a national currency secured by United States bonds. The chief officer of the said bureau shall be denominated the comptroller of the currency, and shall be under the general direction of the Secretary of the Treasury. He shall be appointed by the President, on the recommendation of the Secretary of the Treasury, by and with the advice and consent of the Senate, and shall hold his office for the term of five years unless sooner removed by the President, upon reasons to be communicated by him to the Senate; he shall receive an annual salary of five thousand dollars; he shall have a competent deputy, appointed by the secretary, whose salary shall be two thousand five hundred dollars, and who shall possess the power and perform the duties attached by law to the office of comptroller during a vacancy in such office and during his absence or inability; he shall employ, from time to time, the necessary clerks to discharge such duties as he shall direct, which clerks shall be appointed and classified by the Secretary of the Treasury in the manner now provided by law. Within fifteen days from the time of notice of his appointment the comptroller shall take and subscribe the oath of office prescribed by the constitution and laws of the United States; and he shall give to the United States a bond in the penalty of one hundred thousand dollars, with not less than two responsible sureties, to be approved by the Secretary of the Treasury, conditioned for the faithful discharge of the duties of his office. The deputy-comptroller so appointed shall also take the oath of office prescribed by the constitution and laws of the United States, and shall give a like bond in the penalty of fifty thousand dollars. The comptroller and deputy-comptroller shall not, either directly or indirectly, be interested in any association issuing national currency under the provisions of this act.

Seal of currency bureau,
and where to be kept.

Certain papers under such seal to be evidence.

Impression may be upon paper.

Rooms for currency bureau.

Fire-proof vaults.

Furniture, &c.

Term "United States Bonds" to include what.

Banking associations, how may be formed.

Organization certificate to specify,

name,

place of business,

SEC. 2. *And be it further enacted,* That the comptroller of the currency, with the approval of the Secretary of the Treasury, shall devise a seal, with suitable inscriptions, for his office, a description of which, with a certificate of approval by the Secretary of the Treasury, shall be filed in the office of the Secretary of State with an impression thereof, which shall thereupon become the seal of office of the comptroller of the currency, and the same may be renewed when necessary. Every certificate, assignment, and conveyance executed by the comptroller, in pursuance of any authority conferred on him by law, and sealed with his seal of office, shall be received in evidence in all places and courts whatsoever; and all copies of papers in the office of the comptroller, certified by him and authenticated by the said seal, shall in all cases be evidence equally and in like manner as the original. An impression of such seal directly on the paper shall be as valid as if made on wax or wafer.

SEC. 3. *And be it further enacted,* That there shall be assigned to the comptroller of the currency by the Secretary of the Treasury suitable rooms in the treasury building for conducting the business of the currency bureau, in which shall be safe and secure fire-proof vaults, in which it shall be the duty of the comptroller to deposit and safely keep all the plates not necessarily in the possession of engravers or printers, and other valuable things belonging to his department; and the comptroller shall from time to time furnish necessary furniture, stationery, fuel, lights, and other proper conveniences for the transaction of the said business.

SEC. 4. *And be it further enacted,* That the term "United States Bonds," as used in this act, shall be construed to mean all registered bonds now issued, or that may hereafter be issued, on the faith of the United States by the Secretary of the Treasury in pursuance of law.

SEC. 5. *And be it further enacted,* That associations for carrying on the business of banking 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 association is formed, and may contain any other provisions, not inconsistent with provisions of this act, which the association may see fit to adopt for the regulation of the business of the association and the conduct of its affairs, which said articles shall be signed by the persons uniting to form the association, and a copy of them forwarded to the comptroller of the currency, to be filed and preserved in his office.

SEC. 6. *And be it further enacted,* That the persons uniting to form such an association shall, under their hands, make an organization certificate, which shall specify—

First. The name assumed by such association, which name shall be subject to the approval of the comptroller.

Second. The place where its operations of discount and deposit are to be carried on, designating the state, territory, or district, and also the particular county and city, town, or village.

capital and shares, Third. The amount of its capital stock, and the number of shares into which the same shall be divided.

names &c., of shareholders, Fourth. The names and places of residence of the shareholders, and the number of shares held by each of them.

purpose of certificate. Fifth. A declaration that said certificate is made to enable such persons to avail themselves of the advantages of this act.

Certificate to be acknowledged. The said certificate shall be acknowledged before a judge of some court of record or a notary public, and such certificate, with the acknowledgement thereof authenticated by the seal of such court or notary, shall be transmitted to the comptroller of the currency, who shall record and carefully preserve the same in his office. Copies of such certificate, duly certified by the comptroller, and authenticated by his seal of office, shall be legal and sufficient evidence in all courts and places within the United States, or the jurisdiction of the government thereof, of the existence of such association, and of every other matter or thing which could be proved by the production of the original certificate.

Copies under seal to be evidence. SEC. 7. *And be it further enacted*, That no association shall be organized under this act, with a less capital than one hundred thousand dollars, nor in a city whose population exceeds fifty thousand persons, with a less capital than two hundred thousand dollars: *Provided*, That banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants.

Amount of capital to be not less than, &c. Proviso. SEC. 8. *And be it further enacted*, That every association formed pursuant to the provisions of this act shall, from the date of the execution of its organization certificate, be a body corporate, but shall transact no business except such as may be incidental to its organization and necessarily preliminary, until authorized by the comptroller of the currency to commence the business of banking. Such association shall have power to adopt a corporate seal, and shall have succession by the name designated in its organization certificate, for the period of twenty years from its organization, unless sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two thirds of its stock, or unless the franchise shall be forfeited by a violation of this act; by such name it may make contracts, sue and be sued, complain and defend, in any court of law and equity as fully as natural persons; it may elect or appoint directors, and by its board of directors appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss said officers or any of them at pleasure, and appoint others to fill their places, and exercise under this act all such incidental powers as shall be necessary to carry on the business of banking by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; by obtaining, issuing, and circulating notes according to the provisions of this act; and its board of directors shall also have power to define and regulate by by-laws, not inconsistent with the provisions of this act, the manner in

Associations when to be corporations and when to commence business. Seal. May continue twenty years, unless, &c. General powers.

which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and all the privileges granted by this act to associations organized under it shall be exercised and enjoyed; and its usual business shall be transacted at an office or banking house located in the place specified in its organization certificate.

Directors and officers.

By-laws.

Directors; qualifications; one to be president.

SEC. 9. *And be it further enacted,* That the affairs of every association shall be managed by not less than five directors, one of whom shall be the president. Every director shall, during his whole term of service, be a citizen of the United States; and at least three fourths of the directors shall have resided in the state, territory, or district in which such association is located one year next preceding their election as directors, and be residents of the same during their continuance in office. Each director shall own, in his own right, at least ten shares of the capital stock of the association of which he is a director. Each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on 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, and that he is the bona fide owner, in his own right, of the number of shares of stock required by this act, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt; which oath, subscribed by himself, and certified by the officer before whom it is taken, shall be immediately transmitted to the comptroller of the currency, and by him filed and preserved in his office.

Oath.

Term of office of directors.

SEC. 10. *And be it further enacted,* That the directors of any association first elected or appointed shall hold their places until their successors shall be elected and qualified. All subsequent elections shall be held annually on such day in the month of January as may be specified in the articles of association; and the directors so elected shall hold their places for one year, and until their successors are elected and qualified. But any director ceasing to be the owner of the requisite amount of stock, or having in any other manner become disqualified, shall thereby vacate his place. Any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election. If from any cause an election of directors shall not be made at the time appointed, the association shall not for that cause be dissolved, but an election may be held on any subsequent day, thirty days' notice thereof in all cases having been given in a newspaper published in the city, town, or county in which the association is located; and if no newspaper is published in such city, town, or county, such notice shall be published in a newspaper published nearest thereto. If the articles of association do not fix the day on which the election shall be held, or if the election should not be held on the day fixed, the day for the election shall be designated by the board of directors in their by-laws, or otherwise: *Provided,* That if the directors fail to fix the day, as aforesaid, shareholders representing two thirds of the shares may.

Elections.

Vacancies, how filled.

Voting and proxies.

SEC. 11. *And be it further enacted,* That in all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or book-keeper of such association shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

Capital stock to be divided into shares.

SEC. 12. *And be it further enacted,* That the capital stock of any association formed under this act shall be divided into shares of one hundred dollars each, and be deemed personal property and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association; and every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all the rights and liabilities of the prior holder of such shares, and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired. The shareholders of each association formed under the provisions of this act, and of each existing bank or banking association that may accept the provisions of this act, shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association to the extent of the amount of their stock therein at the par value thereof, in addition to the amount invested in such shares; except that shareholders of any banking association now existing under state laws, having not less than five millions of dollars of capital actually paid in, and a surplus of twenty per centum on hand, both to be determined by the comptroller of the currency, shall be liable only to the amount invested in their shares; and such surplus of twenty per centum shall be kept undiminished, and be in addition to the surplus provided for in this act; and if at any time there shall be a deficiency in said surplus of twenty per centum, the said banking association shall not pay any dividends to its shareholders until such deficiency shall be made good; and in case of such deficiency, the comptroller of the currency may compel said banking association to close its business and wind up its affairs under the provisions of this act. And the comptroller shall have authority to withhold from an association his certificate authorizing the commencement of business, whenever he shall have reason to suppose that the shareholders thereof have formed the same for any other than the legitimate objects contemplated by this act.

Transfer.

Rights of existing creditors not to be impaired.

Individual liability.

When comptroller may withhold certificate.

Increase of capital stock.

SEC. 13. *And be it further enacted,* That it shall be lawful for any association formed under this act, by its articles of association, to provide for an increase of its capital from time to time, as may be deemed expedient, subject to the limitations of this act: *Provided,* That the maximum of such increase in the articles of association shall be determined by the comptroller of the currency; and no increase of capital shall be valid until the whole amount of such increase shall be paid in, and notice thereof shall have been transmitted to the comptroller of the currency, and his certificate obtained specifying the amount of such increase of capital stock, with his approval thereof, and that it has been duly paid in as part of the capital of such association. And every association shall have power, by the vote of shareholders owning two thirds of its

Maximum. capital stock, to reduce the capital of such association to any sum not below the amount required by this act, in the formation of associations: *Provided*, That by no such reduction shall its capital be brought below the amount required by this act for its outstanding circulation, nor shall any such reduction be made until the amount of the proposed reduction has been reported to the comptroller of the currency and his approval thereof obtained.

Minimum.

Amount to be paid in before commencing business. Remainder, when to be paid.

SEC. 14. *And be it further enacted*, That at least fifty per centum of the capital stock of every association shall be paid in before it shall be authorized to commence business; and the remainder of the capital stock of such association shall be paid in instalments of at least ten per centum each on the whole amount of the capital as frequently as one instalment at the end of each succeeding month from the time it shall be authorized by the comptroller to commence business; and the payment of each instalment shall be certified to the comptroller, under oath, by the president or cashier of the association.

Proceedings, if shareholder fails to pay instalments.

SEC. 15. *And be it further enacted*, That if any shareholder, or his assignee, shall fail to pay any instalment on the stock when the same is required by the foregoing section to be paid, the directors of such association may sell the stock of such delinquent shareholder at public auction, having given three weeks' previous notice thereof in a newspaper published and of general circulation in the city or county where the association is located, and if no newspaper is published in said city or county, then in a newspaper published nearest thereto, to any person who will pay the highest price therefor, and not less than the amount due thereon, with the expenses of advertisement and sale; and the excess, if any, shall be paid to the delinquent shareholder. If no bidder can be found who will pay for such stock the amount due thereon to the association, and the cost of advertisement and sale, the amount previously paid shall be forfeited to the association, and such stock shall be sold as the directors may order, within six months from the time of such forfeiture, and if not sold it shall be cancelled and deducted from the capital stock of the association; and if such cancellation and reduction shall reduce the capital of the association below the minimum of capital required by this act, the capital stock shall, within thirty days from the date of such cancellation, be increased to the requirements of the act, in default of which a receiver may be appointed to close up the business of the association according to the provisions of the fiftieth section of this act.

Stock of delinquent shareholders to be sold.

SEC. 16. *And be it further enacted,* That every association, after having complied with the provisions of this act, preliminary to the commencement of banking business under its provisions, and before it shall be authorized to commence business, shall transfer and deliver to the treasurer of the United States any United States registered bonds bearing interest to an amount not less than thirty thousand dollars nor less than one third of the capital stock paid in, which bonds shall be deposited with the treasurer of the United States and by him safely kept in his office until the same shall be otherwise disposed of, in pursuance of the provisions of this act; and the Secretary of the Treasury is hereby authorized to receive and cancel any United States coupon bonds, and to issue in lieu thereof registered bonds of like amount, bearing a like rate of interest, and having the same time to run; and the deposit of bonds shall be, by every association, increased as its capital may be paid up or increased, so that every association shall at all times have on deposit with the treasurer registered United States bonds to the amount of at least one third of its capital stock actually paid in: *Provided,* That nothing in this section shall prevent an association that may desire to reduce its capital or to close up its business and dissolve its organization from taking up its bonds upon returning to the comptroller its circulation notes in the proportion hereinafter named in this act, nor from taking up any excess of bonds beyond one third of its capital stock and upon which no circulating notes have been delivered.

SEC. 17. *And be it further enacted,* That whenever a certificate shall have been transmitted to the comptroller of the currency, as provided in this act, and the association transmitting the same shall notify the comptroller that at least fifty per centum of its capital stock has been paid in as aforesaid, and that such association has complied with all the provisions of this act as required to be complied with before such association shall be authorized to commence the business of banking, the comptroller shall examine into the condition of such association, ascertain especially the amount of money paid in on account of its capital, the name and place of residence of each of the directors of such association, and the amount of the capital stock of which each is the bona fide owner, and generally whether such association has complied with all the requirements of this act to entitle it to engage in the business of banking; and shall cause to be made and attested by the oaths of a majority of the directors and by the president or cashier of such association, a statement of all the facts necessary to enable the comptroller to determine whether such association is lawfully entitled to commence the business of banking under this act.

United States registered bonds to be deposited with treasurer to an amount equal to one third of the capital stock.

Deposit to be increased;

may be diminished.

Comptroller to examine and determine if association can commence business.

SEC. 18. *And be it further enacted,* That if, upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the comptroller, whether by means of special commission appointed by him for the purpose of inquiring into the condition of such association, or otherwise, it shall appear that such association is lawfully entitled to commence the business of banking, the comptroller shall give to such association a certificate, under his hand and official seal, that such association has complied with all the provisions of this act required to be complied with before being entitled to commence the business of banking under it, and that such association is authorized to commence said business accordingly; and it shall be the duty of the association to cause said certificate to be published in some newspaper published in the city or county where the association is located for at least sixty days next after the issuing thereof: *Provided,* That if no newspaper is published in such city or county the certificate shall be published in a newspaper published nearest thereto.

When association is found entitled to commence business, comptroller to give certificate.

Certificate to be published.

Transfers of bonds by association, to be made to the treasurer in trust.

SEC. 19. *And be it further enacted,* That all transfers of United States bonds which shall be made by any association under the provisions of this act shall be made to the treasurer of the United States in trust for the association, with a memorandum written or printed on each bond, and signed by the cashier or some other officer of the association making the deposit, a receipt therefor to be given to said association, or by the comptroller of the currency, or by a clerk appointed by him for that purpose, stating that it is held in trust for the association on whose behalf such transfer is made, and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bonds by the treasurer shall be deemed valid or of binding force and effect unless countersigned by the comptroller or the currency. It shall be the duty of the comptroller of the currency to keep in his office a book in which shall be entered the name of every association from whose accounts such transfer of bonds is made by the treasurer, and the name of the party to whom such transfer is made; and the par value of the bonds so transferred shall be entered therein; and it shall be the duty of the comptroller, immediately upon countersigning and entering the same, to advise by mail the association from whose account such transfer was made of the kind and numerical designation of the bonds and the amount thereof so transferred.

How executed.

Comptroller to keep transfer book, &c.

SEC. 20. *And be it further enacted,* That it shall be the duty of the comptroller of the currency to countersign and enter in the book, in the manner aforesaid, every transfer or assignment of any bonds held by the treasurer presented for his signature; and the comptroller shall have at all times during office hours access to the books of the treasurer, for the purpose of ascertaining the correctness of the transfer or assignment presented to him to countersign; and the treasurer shall have the like access to the book above mentioned, kept by the comptroller, during office hours, to ascertain the correctness of the entries in the same; and the comptroller shall also at all times have access to the bonds on deposit with the treasurer, to ascertain their amount and condition.

Transfers to be countersigned and entered.

Books to be accessible.

Associations, after transfer, may receive circulating notes.

1865, ch. 82.
Post, p. 498.

Limit of amount.

Entire circulation not to exceed \$300,000,000.

Comptroller to prepare the notes.

Denominations.

Notes to express what.

Devices.

Notes under \$5.

When notes may be circulated as money;

to be received for all dues, except, &c.

Post notes, &c.; not to be issued.

SEC. 21. *And be it further enacted,* That upon the transfer and delivery of bonds to the treasurer, as provided in the foregoing section, the association making the same shall be entitled to receive from the comptroller of the currency circulating notes of different denominations, in blank, registered and countersigned as hereinafter provided, equal in amount to ninety per centum of the current market value of the United States bonds so transferred and delivered, but not exceeding ninety per centum of the amount of said bonds at the par value thereof, if bearing interest at a rate not less than five per centum per annum; and at no time shall the total amount of such notes, issued to any such association, exceed the amount at such time actually paid in of its capital stock.

SEC. 22. *And be it further enacted,* That the entire amount of notes for circulation to be issued under this act shall not exceed three hundred millions of dollars. In order to furnish suitable notes for circulation, the comptroller of the currency is hereby authorized and required, under the direction of the Secretary of the Treasury, to cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and to have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of one dollar, two dollars, three dollars, five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, and one thousand dollars, as may be required to supply, under this act, the associations entitled to receive the same; which notes shall express upon their face that they are secured by United States bonds, deposited with the treasurer of the United States by the written or engraved signatures of the treasurer and register, and by the imprint of the seal of the treasury; and shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signatures of the president or vice-president and cashier. And the said notes shall bear such devices and such other statements, and shall be in such form, as the Secretary of the Treasury shall, by regulation, direct: *Provided,* That not more than one sixth part of the notes furnished to an association shall be of a less denomination than five dollars, and that after specie payments shall be resumed no association shall be furnished with notes of less denomination than five dollars.

SEC. 23. *And be it further enacted,* That after any such association shall have caused its promise to pay such notes on demand to be signed by the president or vice-president and cashier thereof, in such manner as to make them obligatory promissory notes, payable on demand, at its place of business, such association is hereby authorized to issue and circulate the same as money; and the same shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to the United States, except for duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt, and in redemption of the national currency. And no such association shall issue post notes or any other notes to circulate as money than such as are authorized by the foregoing provisions of this act.

Worn-out and
mutilated notes.

SEC. 24. *And be it further enacted,* That it shall be the duty of the comptroller of the currency to receive worn-out or mutilated circulating notes issued by any such banking association, and also, on due proof of the destruction of any such circulating notes, to deliver in place thereof to such association other blank circulating notes to an equal amount. And such worn-out or mutilated notes, after a memorandum shall have been entered in the proper books, in accordance with such regulations as may be established by the comptroller, as well as all circulating notes which shall have been paid or surrendered to be cancelled, shall be burned to ashes in presence of four persons, one to be appointed by the Secretary of the Treasury, one by the comptroller of the currency, one by the treasurer of the United States, and one by the association, under such regulations as the Secretary of the Treasury may prescribe. And a certificate of such burning, signed by the parties so appointed, shall be made in the books of the comptroller, and a duplicate thereof forwarded to the association whose notes are thus cancelled.

Associations to
examine annually its
bonds deposited, and
make certificate.

SEC. 25 *And be it further enacted,* That it shall be the duty of every banking association having bonds deposited in the office of the treasurer of the United States, once or oftener in each fiscal year, and at such time or times during the ordinary business hours as said officer or officers may select, to examine and compare the bonds so pledged with the books of the comptroller and the accounts of the association, and, if found correct, to execute to the said treasurer a certificate setting forth the different kinds and the amounts thereof, and that the same are in the possession and custody of the treasurer at the date of such certificate. Such examination may be made by an officer or agent of such association, duly appointed in writing for that purpose, whose certificate before mentioned shall be of like force and validity as if executed by such president or cashier; and a duplicate signed by the treasurer shall be retained by the association.

Examination of
associations.

Deposited bonds to
be held exclusively
to secure circulation.

SEC. 26. *And be it further enacted,* That the bonds transferred to and deposited with the treasurer of the United States, as hereinbefore provided, by any banking association for the security of its circulating notes, shall be held exclusively for that purpose, until such notes shall be redeemed, except as provided in this act; but the comptroller of the currency shall give to any such banking association powers of attorney to receive and appropriate to its own use the interest on the bonds which it shall have transferred to the treasurer; but such powers shall become inoperative whenever such banking association shall fail to redeem its circulating notes as aforesaid. Whenever the market or cash value of any bonds deposited with the treasurer of the United States, as aforesaid, shall be reduced below the amount of the circulation issued for the same, the comptroller of the currency is hereby authorized to demand and receive the amount of such depreciation in other United States bonds at cash value, or in money, from the association receiving said bills, to be deposited with the treasurer of the United States as long as such depreciation continues. And said comptroller, upon the terms prescribed by the Secretary of the Treasury, may permit an exchange to be made of any of the bonds deposited with the treasurer by an association for other bonds of the United States authorized by this act to be received as security for circulating notes, if he shall be of

Provision as to
interest.

If bonds depreciate,
security to be made
good.

Bonds may be exchanged, if, &c.;

may be returned upon cancellation of circulating notes. Proviso.

The countersigning and delivery of circulating notes, except as permitted by this act, made unlawful. Penalty.

Associations may hold, &c., certain real estate.

Real estate.

opinion that such an exchange can be made without prejudice to the United States, and he may direct the return of any of said bonds to the banking association which transferred the same, in sums of not less than one thousand dollars, upon the surrender to him and the cancellation of a proportionate amount of such circulating notes: *Provided*, That the remaining bonds which shall have been transferred by the banking association offering to surrender circulating notes shall be equal to the amount required for the circulating notes not surrendered by such banking association, and that the amount of bonds in the hands of the treasurer shall not be diminished below the amount required to be kept on deposit with him by this act: *And provided*, That there shall have been no failure by such association to redeem its circulating notes, and no other violations by such association of the provisions of this act, and that the market or cash value of the remaining bonds shall not be below the amount required for the circulation issued for the same.

SEC. 27. *And be it further enacted*, That it shall be unlawful for any officer acting under the provisions of this act to countersign or deliver to any association, or to any other company or person, any circulating notes contemplated by this act, except as hereinbefore provided, and in accordance with the true intent and meaning of this act. And any officer who shall violate the provisions of this section shall be deemed guilty of a high misdemeanor, and on conviction thereof shall be punished by fine not exceeding double the amount so countersigned and delivered, and imprisonment not less than one year and not exceeding fifteen years, at the discretion of the court in which he shall be tried.

SEC. 28. *And be it further enacted*, That it shall be lawful for any such association to purchase, hold, and convey real estate as follows: —

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

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 judgements, decrees, or mortgages held by such association, or shall purchase to secure debts due to said association.

Such associations shall not purchase or hold real estate in any other case or for any other purpose than as specified in this section. Nor shall it hold possession of any real estate under mortgage, or hold the title and possession of any real estate purchased to secure any debts due to it for a longer period than five years.

No person, &c., to be liable to association for more than, &c.

Certain discounts not to be included.

Rate of interest.

Penalty for taking greater interest.

Action to be commenced in two years.

Amount of money to be kept on hand.

Liabilities not to be increased until reserve is made good.

SEC. 29. *And be it further enacted,* That the total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one tenth part of the amount of the capital stock of such association actually paid in: *Provided,* That the discount of bona fide bills of exchange drawn against actually existing values, and the discount of commercial or business paper actually owned by the person or persons, corporation, or firm negotiating the same shall not be considered as money borrowed.

SEC. 30. *And be it further enacted,* That every association may take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidences of debt, interest at the rate allowed by the laws of the state or territory where the bank is located, and no more, except that where by the laws of any state a different rate is limited for banks of issue organized under state laws, the rate so limited shall be allowed for associations organized in any such state under this act. And when no rate is fixed by the laws of the state or territory, the bank may take, receive, reserve, or charge a rate not exceeding seven per centum, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. And the knowingly taking, receiving, reserving, or charging a rate of interest greater than aforesaid shall be held and adjudged a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. And in case a greater rate of interest has been paid, the person or persons paying the same, or their legal representatives, may recover back, in any action of debt, twice the amount of interest thus paid from the association taking or receiving the same: *Provided,* That such action is commenced within two years from the time the usurious transaction occurred. But the purchase, discount, or sale of bona fide bill of exchange, payable at another place than the place of purchase, discount, or sale, at not more than the current rate of exchange for sight drafts in addition to the interest, shall not be considered as taking or receiving a greater rate of interest.

SEC. 31. *And be it further enacted,* That every association in the cities hereinafter named shall, at all times, have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of its notes in circulation and its deposits; and every other association shall, at all times, have on hand, in lawful money of the United States, an amount equal to at least fifteen per centum of the aggregate amount of its notes in circulation, and of its deposits. And whenever the lawful money of any association in any of the cities hereinafter named shall be below the amount of twenty-five per centum of its circulation and deposits, and whenever the lawful money of any other association shall be below fifteen per centum of its circulation and deposits, such associations shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until the required proportion between the aggregate amount of its outstanding notes of circulation and deposits and its lawful money of the United States shall be restored: *Provided,* That

Money deposited for redemption of circulation in certain cities to be included.

Clearing-house certificates to be deemed lawful money for this purpose.

Charleston and Richmond.

If association fails, after notice, to make good its reserve.

Circulation to be redeemed in New York at par.

Certain associations to select place for redemption of circulation.

Proceedings in case of failure.

Each association to take notes of other associations.

three fifths of said fifteen per centum may consist of balances due to an association available for the redemption of its circulating notes from associations approved by the comptroller of the currency, organized under this act, in the cities of Saint Louis, Louisville, Chicago, Detroit, Milwaukee, New Orleans, Cincinnati, Cleveland, Pittsburg, Baltimore, Philadelphia, Boston, New York, Albany, Leavenworth, San Francisco, and Washington City: *Provided, also,* That clearing-house certificates, representing specie or lawful money specially deposited for the purpose of any clearing-house association, shall be deemed to be lawful money in the possession of any association belonging to such clearing-house holding and owning such certificate, and shall be considered to be a part of the lawful money which such association is required to have under the foregoing provisions of this section: *Provided,* That the cities of Charleston and Richmond may be added to the list of cities in the national associations of which other associations may keep three fifths of their lawful money, whenever, in the opinion of the comptroller of the currency, the condition of the southern states will warrant it. And it shall be competent for the comptroller of the currency to notify any association, whose lawful money reserve as aforesaid shall be below the amount to be kept on hand as aforesaid, to make good such reserve; and if such association shall fail for thirty days thereafter so to make good its reserve of lawful money of the United States, the comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of such association, as provided in this act.

SEC. 32. *And be it further enacted,* That each association organized in any of the cities named in the foregoing section shall select, subject to the approval of the comptroller of the currency, an association in the city of New York, at which it will redeem its circulating notes at par. And each of such associations may keep one half of its lawful money reserve in cash deposits in the city of New York. And each association not organized within the cities named in the preceding section shall select, subject to the approval of the comptroller of the currency, an association in either of the cities named in the preceding section at which it will redeem its circulating notes at par, and the comptroller shall give public notice of the names of the associations so selected at which redemptions are to be made by the respective associations, and of any change that may be made of the association at which the notes of any association are redeemed. If any association shall fail either to make the selection or to redeem its notes as aforesaid, the comptroller of the currency may, upon receiving satisfactory evidence thereof, appoint a receiver, in the manner provided for in this act, to wind up its affairs: *Provided,* That nothing in this section shall relieve any association from its liability to redeem its circulating notes at its own counter, at par, in lawful money, on demand: *And provided, further,* That every association formed or existing under the provisions of this act shall take and receive at par, for any debt or liability to said association, any and all notes or bills issued by any association existing under and by virtue of this act.

Dividends.	<p>SEC. 33. <i>And be it further enacted,</i> That the directors of any association may, semi-annually, each year, declare a dividend of so much of the <i>nett</i> profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one tenth part of its <i>nett</i> profits of the preceding half year to its surplus fund until the same shall amount to twenty per centum of its capital stock.</p>
Surplus funds.	<p>SEC. 34. <i>And be it further enacted,</i> That every association shall make to the comptroller of the currency a report, according to the form which may be prescribed by him, verified by the oath or affirmation of the president or cashier of such association; which report shall exhibit in detail, and under appropriate heads, the resources and liabilities of the association before the commencement of business on the morning of the first Monday of the month of January, April, July, and October of each year, and shall transmit the same to the comptroller within five days thereafter. And any bank failing to make and transmit such report shall be subject to a penalty of one hundred dollars for each day after five days that such report is delayed beyond that time. And the comptroller shall publish abstracts of said reports in a newspaper to be designated by him for that purpose in the city of Washington, and the separate report of each association shall be published in a newspaper in the place where such association is established, or if there be no newspaper at such place, then in a newspaper published at the nearest place thereto, at the expense of the association making such report. In addition to the quarterly reports required by this section, every association shall, on the first Tuesday of each month, make to the comptroller of the currency a statement, under the oath of the president or cashier, showing the condition of the association making such statement, on the morning of the day next preceding the date of such statement, in respect to the following items and particulars, to wit: average amount of loans and discounts, specie, and other lawful money belonging to the association, deposits, and circulation. And associations in other places than those cities named in the thirty-first section of this act shall also return the amount due them available for the redemption of their circulation.</p>
Associations to report to comptroller quarterly. Contents of report.	<p>SEC. 35. <i>And be it further enacted,</i> That no association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchases shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale, in default of which a receiver may be appointed to close up the business of the association, according to the provisions of this act.</p>
Penalty for failing to report.	<p>SEC. 36. <i>And be it further enacted,</i> That no association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such times actually paid in and remaining undiminished by losses or otherwise, except on the following accounts, that is to say: —</p>
Comptroller to publish abstracts.	<p>First. On account of its notes in circulation.</p>
Monthly statements.	
Associations not to make loans, &c., on the security of their own stock, &c.	
Indebtedness not to exceed capital stock, &c.	

Second. On account of moneys deposited with, or collected by, such association.

Third. On account of bills of exchange or drafts drawn against money actually on deposit to the credit of such association, or due thereto.

Fourth. On account of liabilities to its stockholders for dividends and reserved profits.

SEC. 37. *And be it further enacted*, That no association shall, either directly or indirectly, pledge or hypothecate any of its notes of circulation, for the purpose of procuring money to be paid in on its capital stock, or to be used in its banking operations, or otherwise; nor shall any association use its circulating notes, or any part thereof, in any manner or form, to create or increase its capital stock.

Associations not to hypothecate circulating notes, for, &c.;

SEC. 38. *And be it further enacted*, That no association, or any member thereof, shall, during the time it shall continue its banking operations, withdraw, or permit to be withdrawn, either in form of dividends or otherwise, any portion of its capital. And if losses shall at any time have been sustained by any such association equal to or exceeding its undivided profits then on hand, no dividend shall be made; and no dividend shall ever be made by any association, while it shall continue its banking operations, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. And all debts due to any association, on which interest is past due and unpaid for a period of six months, unless the same shall be well secured, and shall be in process of collection, shall be considered bad debts within the meaning of this act: *Provided*, That nothing in this section shall prevent the reduction of the capital stock of the association under the thirteenth section of this act.

not to withdraw any portion of their capital.

Losses.

Bad debts.

What to be deemed bad debts.

SEC. 39. *And be it further enacted*, That no association shall at any time pay out on loans or discounts, or in purchasing drafts or bills of exchange, or in payment of deposits, or in any other mode pay or put in circulation the notes of any bank or banking association which shall not, at any such time, be receivable, at par, on deposit and in payment of debts by the association so paying out or circulating such notes; nor shall it knowingly pay out or put in circulation any notes issued by any bank or banking association which at the time of such paying out or putting in circulation is not redeeming its circulating notes in lawful money of the United States.

Association not to pay out certain notes.

SEC. 40. *And be it further enacted*, That the president and cashier of every such association shall cause to be kept at all times a full and correct list of the names and residences of all the shareholders, in the association, and the number of shares held by each, in the office where its business is transacted; and such list shall be subject to the inspection of all the shareholders and creditors of the association, and the officers authorized to assess taxes under state authority, during business hours of each day in which business may be legally transacted; and a copy of such list, on the first Monday of July in each year, verified by the oath of such president or cashier, shall be transmitted to the comptroller of the currency.

List of names of shareholders and residences to be kept;

to be subject to inspection;

to be sent to comptroller.

SEC. 41. *And be it further enacted,* That the plates and special dies to be procured by the comptroller of the currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the provisions of this act respecting the procuring of such notes, and all other expenses of the bureau, shall be paid out of the proceeds of the taxes or duties now or hereafter to be assessed on the circulation, and collected from associations organized under this act. And in lieu of all existing taxes, every association shall pay to the treasurer of the United States, in the months of January and July, a duty of one half of one per centum each half year from and after the first day of January, eighteen hundred and sixty-four, upon the average amount of its notes in circulation, and a duty of one quarter of one per centum each half year upon the average amount of its deposits, and a duty of one quarter of one per centum each half year, as aforesaid, on the average amount of its capital stock beyond the amount invested in United States bonds; and in case of default in the payment thereof by any association, the duties aforesaid may be collected in the manner provided for the collection of United States duties of other corporations, or the treasurer may reserve the amount of said duties out of the interest, as it may become due, on the bonds deposited with him by such defaulting association. And it shall be the duty of each association, within ten days from the first days of January and July of each year, to make a return, under the oath of its president or cashier, to the treasurer of the United States, in such form as he may prescribe, of the average amount of its notes in circulation, and of the average amount of its deposits, and of the average amount of its capital stock, beyond the amount invested in United States bonds, for the six months next preceding said first days of January and July as aforesaid, and in default of such return, and for each default thereof, each defaulting association shall forfeit and pay to the United States the sum of two hundred dollars, to be collected either out of the interest as it may become due such association on the bonds deposited with the treasurer, or, at his option, in the manner in which penalties are to be collected of other corporations under the laws of the United States; and in case of such default the amount of the duties to be paid by such association shall be assessed upon the amount of notes delivered to such association by the comptroller of the currency, and upon the highest amount of its deposits and capital stock, to be ascertained in such other manner as the treasurer may deem best: *Provided,* That nothing in this act shall be construed to prevent all the shares in any of the said associations, held by any person or body corporate, from being included in the valuation of the personal property of such person or corporation in the assessment of taxes imposed by or under state authority at the place where such bank is located, and not elsewhere, but not at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such state: *Provided, further,* That the tax so imposed under the laws of any state upon the shares of any of the associations authorized by this act shall not exceed the rate imposed upon the shares in any of the banks organized under authority of the state where such association is located: *Provided, also,* That nothing in this act shall exempt the real estate associations from either state, county, or municipal taxes to the same extent, according to its value, as other real estate is taxed.

Comptroller to keep control of plates and special dies.

Expenses to be borne by associations.

Duty upon circulation, deposits, and capital stock to be paid semi-annually.

How collected if not paid in time.

Return of circulation, &c., to be made.

Penalty for default.

Shares not hereby exempted from taxation by state authority.

Limit of state tax.

Real estate to be taxed.

SEC. 42. *And be it further enacted,* That any association may go into liquidation and be closed by the vote of its shareholders owning two thirds of its stock. And whenever such vote shall be taken it shall be the duty of the board of directors to cause notice of this fact to be certified, under the seal of the association, by its president or cashier, to the comptroller of the currency, and publication thereof to be made for a period of two months in a newspaper published in the city of New York, and also in a newspaper published in a city or town in which the association is located, and if no newspaper be there published, then in the newspaper published nearest thereto, that said association is closing up its affairs, and notifying the holders of its notes and other creditors to present the notes and other claims against the association for payment. And at any time after the expiration of one year from the time of the publication of such notice as aforesaid, the said association may pay over to the treasurer of the United States the amount of its outstanding notes in the lawful money of the United States, and take up the bonds which said association has on deposit with the treasurer for the security of its circulating notes; which bonds shall be assigned to the bank in the manner specified in the nineteenth section of this act, and from that time the outstanding notes of said association shall be redeemed at the treasury of the United States, and the said association and the shareholders thereof shall be discharged from all liabilities therefor.

How associations may be closed.

Proceedings.

SEC. 43. *And be it further enacted,* That the treasurer, on receiving from an association lawful money for the payment and redemption of its outstanding notes, as provided for in the preceding section of this act, shall execute duplicate receipts therefor, one to the association and the other to the comptroller of the currency, stating the amount received by him, and the purpose for which it has been received, which amount shall be paid into the treasury of the United States, and placed to the credit of such association upon redemption account. And it shall be the duty of the treasurer, whenever he shall redeem any of the notes of said association, to cause the same to be mutilated, and charged to the redemption account of said association; and all notes so redeemed by the treasurer shall, every three months, be certified to and burned in the manner prescribed in the twenty-fourth section of this act.

Treasurer to execute duplicate receipts.

Redeemed notes to be mutilated, &c.

SEC. 44. *And be it further enacted,* That any bank incorporated by special law, or any banking institution organized under a general law of any state, may, by authority of this act, become a national association under its provisions, by the name prescribed in its organization certificate; and in such case the articles of association and organization certificate required by this act may be executed by a majority of the directors of the bank or banking institution; and said certificate shall declare that the owners of two thirds of the capital stock have authorized the directors to make such certificate and to change and convert the said bank or banking institution into a national association under this act. And a majority of the directors, after executing said articles of association and organization certificate, shall have power to execute all other papers, and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before said conversion, and the directors aforesaid may be the directors of the

State banks may become national associations.

association until others are elected or appointed in accordance with the provisions of this act; and any state bank which is a stockholder in any other bank, by authority of state laws, may continue to hold its stock, although either bank, or both, may be organized under and have accepted the provisions of this act. When the comptroller shall give to such association a certificate, under his hand and official seal, that the provisions of this act have been complied with, and that it is authorized to commence the business of banking under it, the association shall have the same powers and privileges, and shall be subject to the same duties, responsibilities, and rules, in all respects as are prescribed in this act for other associations organized under it, and shall be held and regarded as an association under this act: *Provided, however,* That no such association shall have a less capital than the amount prescribed for banking associations under this act.

Mode of procedure.

SEC. 45. *And be it further enacted,* That all associations under this act, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the government; and they shall perform all such reasonable duties, as depositaries of public moneys and financial agents of the government, as may be required of them. And the Secretary of the Treasury shall require of the associations thus designated satisfactory security, by the deposit of United States bonds and otherwise, for the safe-keeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the government: *Provided,* That every association which shall be selected and designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatever association issued, which have been paid in to the government for internal revenue, or for loans or stocks.

Associations, when so designated, may be depositaries of public moneys, except, &c.;

may be financial agents.

Designated depositaries to pay promptly;

to receive national currency bills at par.

SEC. 46. *And be it further enacted,* That if any such association shall at any time fail to redeem, in the lawful money of the United States, any of its circulating notes, when payment thereof shall be lawfully demanded, during the usual hours of business, at the office of such association, or at its place of redemption aforesaid, the holder may cause the same to be protested, in one package, by a notary-public, unless the president or cashier of the association whose notes are presented for payment, or the president or cashier of the association at the place at which they are redeemable, shall offer to waive demand and notice of the protest, and shall, in pursuance of such offer, make, sign, and deliver to the party making such demand an admission in writing, stating the time of the demand, the amount demanded, and the fact of non-payment thereof; and such notary-public, on making such protest, or upon receiving such admission, shall forthwith forward such admission or notice of protest to the comptroller of the currency, retaining a copy thereof. And after such default, on examination of the facts by the comptroller, and notice by him to the association, it shall not be lawful for the association suffering the same to pay out any of its notes, discount any notes or bills, or otherwise prosecute the business of banking, except to receive and safely keep money belonging to it, and to

If associations fail to redeem their circulation, the notes may be protested, unless, &c.

Notices of protest, &c., to be forwarded to comptroller.

Association not to do business further, except, &c.

deliver special deposits: *Provided*, That if satisfactory proof be produced to such notary-public that the payment of any such notes is restrained by order of any court of competent jurisdiction, such notary-public shall not protest the same; and when the holder of such notes shall cause more than one note or package to be protested on the same day, he shall not receive pay for more than one protest.

Notes not to be protested in certain cases.

Fees of notary.

SEC. 47. *And be it further enacted*, That on receiving notice that any such association has failed to redeem any of its circulating notes, as specified in the next preceding section, the comptroller of the currency, with the concurrence of the Secretary of the Treasury, may appoint a special agent (of whose appointment immediate notice shall be given to such association) who shall immediately proceed to ascertain whether such association has refused to pay its circulating notes in the lawful money of the United States, when demanded as aforesaid, and report to the comptroller the fact so ascertained; and if, from such protest or the report so made, the comptroller shall be satisfied that such association has refused to pay its circulating notes as aforesaid and is in default, he shall, within thirty days after he shall have received notice of such failure, declare the United States bonds and securities pledged by such association forfeited to the United States, and the same shall thereupon be forfeited accordingly. And thereupon the comptroller shall immediately give notice in such manner as the Secretary of the Treasury shall, by general rules or otherwise, direct, to the holders of the circulating notes of such association to present them for payment at the treasury of the United States, and the same shall be paid as presented in lawful money of the United States; whereupon said comptroller may, in his discretion, cancel an amount of bonds pledged by such association equal at current market rates, not exceeding par, to the notes paid. And it shall be lawful for the Secretary of the Treasury, from time to time, to make such regulations respecting the disposition to be made of such circulating notes after presentation thereof for payment as aforesaid, and respecting the perpetuation of the evidence of the payment thereof as may seem to him proper; but all such notes, on being paid, shall be cancelled. And for any deficiency in the proceeds of the bonds pledged by such association, when disposed of as hereinafter specified, to reimburse to the United States the amount so expended in paying the circulating notes of such association, the United States shall have a first and paramount lien upon all the assets of such association; and such deficiency shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

Upon notice of failure to redeem circulation, comptroller to send special agent to ascertain facts,

when to declare securities forfeited,

to notify holders of notes to present them for payment,

to pay notes and cancel bonds.

The United States to have priority of lien upon assets for any deficiency in redemption of circulation.

SEC. 48. *And be it further enacted*, That whenever the comptroller shall become satisfied, as in the last preceding section specified, that any association has refused to pay its circulating notes as therein mentioned, he may, instead of cancelling the United States bonds pledged by such association, as provided in the next preceding section, cause so much of them as necessary to redeem the outstanding circulating notes of such association to be sold at public auction in the city of New York, after giving thirty days' notice of such sale to such association.

Bonds pledged as security may be sold at auction;

SEC. 49. *And be it further enacted,* That the comptroller of the currency may, if he shall be of opinion that the interests of the United States will be best promoted thereby, sell at private sale any of the bonds pledged by such association, and receive therefor either money or the circulating notes of such failing association: *Provided,* That no such bonds shall be sold by private sale for less than par, nor less than the market value thereof at the time of sale: *And provided, further,* That no sales of any such bonds, either public or private, shall be complete until the transfer thereof shall have been made with the formalities prescribed in this act.

SEC. 50. *And be it further enacted,* That on becoming satisfied, as specified in this act, that any association has refused to pay its circulating notes as therein mentioned, and is in default, the comptroller of the currency may forthwith appoint a receiver, and require of him such bond and security as he shall deem proper, who, under the direction of the comptroller, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to such association, and, upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like order, sell all the real and personal property of such association, on such terms as the court shall direct; and may, if necessary to pay the debts of such association, enforce the individual liability of the stockholders provided for by the twelfth section of this act; and such receiver shall pay over all money so made to the treasurer of the United States, subject to the order of the comptroller of the currency, and also make report to the comptroller of the currency of all his acts and proceedings. The comptroller shall thereupon cause notice to be given, by advertisement in such newspapers as he may direct, for three consecutive months, calling on all persons who may have claims against such association to present the same, and to make legal proof thereof. And from time to time the comptroller, after full provision shall have been first made for refunding to the United States any such deficiency in redeeming the notes of such association as is mentioned in this act, shall make a ratable dividend of the money so paid over to him by such receiver on all such claims as may have been proved to his satisfaction or adjudicated in a court of competent jurisdiction; and from time to time, as the proceeds of the assets of such association shall be paid over to him, he shall make further dividends, as aforesaid, on all claims previously proved or adjudicated; and the remainder of such proceeds, if any, shall be paid over to the shareholders of such association, or their legal representatives, in proportion to the stock by them respectively held: *Provided, however,* That if such association against which proceedings have been so instituted, on account of any alleged refusal to redeem its circulating notes as aforesaid, shall deny having failed to do so, such association may, at any time within ten days after such association shall have been notified of the appointment of an agent, as provided in this act, apply to the nearest circuit, or district, or territorial court of the United States, to enjoin further proceedings in the premises; and such court, after citing the comptroller of the currency to show cause why further proceedings should not be enjoined, and after the decision of the court or finding of a jury that such association has not refused to redeem its

or at private sale.

Proviso.

Comptroller may appoint a receiver to close affairs of defaulting association.

Bond and duties of receiver, &c.

If association denies that it has failed to redeem its notes, it may apply to the courts for an injunction.

Proceedings. circulating notes, when legally presented, in the lawful money of the United States, shall make an order enjoining the comptroller, and any receiver acting under his direction, from all further proceedings on account of such alleged refusal.

Fees for protest and other expenses, how to be paid.

SEC. 51. *And be it further enacted,* That all fees for protesting the notes issued by any such banking association shall be paid by the person procuring the protest to be made, and such banking association shall be liable therefor; but no part of the bonds pledged by such banking association, as aforesaid, shall be applied to the payment of such fees. And all expenses of any preliminary or other examinations into the condition of any association shall be paid by such association; and all expenses of any receivership shall be paid out of the assets of such association before distribution of the proceeds thereof.

Transfers, assignments, &c., in contemplation of insolvency, &c., to be void.

SEC. 52. *And be it further enacted,* That all transfer of the notes, bonds, bills of exchange, and other evidences of debt owing to any association, or of deposits to its credit; all assignments of mortgages, sureties on real estate, or of judgments or decrees in its favor; all deposits of money, bullion, or other valuable thing for its use, or for the use of any of its shareholders or creditors; and all payments of money to either, made after the commission of an act of insolvency, or in contemplation thereof, with a view to prevent the application of its assets in the manner prescribed by this act, or with a view to the preference of one creditor to another, except in payment of its circulating notes, shall be utterly null and void.

Penalty upon directors for violations of this act.

SEC. 53. *And be it further enacted,* That if the directors of any association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this act, all the rights, privileges, and franchises of the association derived from this act shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or territorial court of the United States, in a suit brought for that purpose by the comptroller of the currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person, shall have sustained in consequences of such violation.

Violation, how to be determined.

Personal liability.

SEC. 54. *And be it further enacted,* That the comptroller of the currency, with the approbation of the Secretary of the Treasury, as often as shall be deemed necessary or proper, shall appoint a suitable person or persons to make an examination of the affairs of every banking association, which person shall not be a director or other officer in any association whose affairs he shall be appointed to examine, and who shall have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath; and shall make a full and detailed report of the condition of the association to the comptroller. And the association shall not be subject to any other visitorial powers than such as are authorized by this act, except such as are vested in the several courts of law and chancery. And every person appointed to make such examinatin shall receive for his

Comptroller may appoint person to examine the affairs of any association.

services at the rate of five dollars for each day by him employed in such examination, and two dollars for every twenty-five miles he shall necessarily travel in the performance of his duty, which shall be paid by the association by him examined.

Duty of such examiner.

Pay.

SEC. 55. *And be it further enacted,* That every president, director, cashier, teller, clerk, or agent of any association, who shall embezzle, abstract, or wilfully misapply any of the moneys, funds, or credits of the association, or shall, without authority from the directors, issue or put in circulation any of the notes of the association, or shall, without such authority, issue or put forth any certificate of deposit, draw any order or bill of exchange, make any acceptance, assign any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or shall make any false entry in any book, report, or statement of the association, with intent, in either case, to injure or defraud the association or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punished by imprisonment not less than five nor more than ten years.

Penalty upon officers, &c., of association for embezzlement, &c., of funds.

SEC. 56. *And be it further enacted,* That all suits and proceedings arising out of the provisions of this act, in which the United States or its officers or agents shall be parties, shall be conducted by the district attorneys of the several districts, under the direction and supervision of the solicitor of the treasury.

District attorneys to conduct certain suits.

SEC. 57. *And be it further enacted,* That suits, actions, and proceedings, against any association under this act, may be had in any circuit, district, or territorial court of the United States held within the district in which such association may be established; or in any state, county, or municipal court in the county or city in which said association is located, having jurisdiction in similar cases: *Provided, however,* That all proceedings to enjoin the comptroller under this act shall be had in a circuit, district, or territorial court of the United States, held in the district in which the association is located.

In what courts, suits, &c., under this act may be prosecuted.

Proceedings for injunctions to be in what courts.

SEC. 58. *And be it further enacted,* That every person who shall mutilate, cut, deface, disfigure, or perforate with holes, or shall unite or cement together, or do any other thing to any bank bill, draft, note, or other evidence of debt, issued by any such association, or shall cause or procure the same to be done, with intent to render such bank bill, draft, note, or other evidence of debt unfit to be reissued by said association, shall, upon conviction, forfeit fifty dollars to the association who shall be injured thereby, to be recovered by action in any court having jurisdiction.

Penalty for mutilating notes to make them unfit for reissue.

Penalty for counterfeiting notes,

for knowingly uttering, &c.,

SEC. 59. *And be it further enacted,* That if any person shall falsely make, forge, or counterfeit, or cause or procure to be made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting, any note in imitation of, or purporting to be in imitation of, the circulating notes issued under the provisions of this act, or shall pass, utter, or publish, or attempt to pass, utter, or publish, any false, forged, or counterfeited note, purporting to be issued by any association doing a banking business under the provisions of this act, knowing the same to be falsely made, forged, or counterfeited, or shall falsely alter, or cause or procure to be falsely altered, or willingly aid or assist in falsely altering, any such circulating notes, issued as aforesaid, or shall pass, utter, or publish, or attempt to pass, utter, or publish, as true, any falsely altered or spurious circulating note issued, or purporting to have been issued, as aforesaid, knowing the same to be falsely altered or spurious, every such person shall be deemed and adjudged guilty of felony, and being thereof convicted by due course of law shall be sentenced to be imprisoned and kept at hard labor for a period of not less than five years, nor more than fifteen years, and fined in a sum not exceeding one thousand dollars.

for engraving, &c., plates for forging notes, &c.,

for having blank notes, &c., with intent,

for having paper, &c.

SEC. 60. *And be it further enacted,* That if any person shall make or engrave, or cause or procure to be made or engraved, or shall have in his custody or possession any plate, die, or block after the similitude of any plate, die, or block from which any circulating notes issued as aforesaid shall have been prepared or printed, with intent to use such plate, die, or block, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, or shall have in his custody or possession any blank note or notes engraved and printed after the similitude of any notes issued as aforesaid, with intent to use such blanks, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, or shall have in his custody or possession any paper adapted to the making of such notes, and similar to the paper upon which any such notes shall have been issued, with intent to use such paper, or cause or suffer the same to be used, or forging or counterfeiting any of the notes issued as aforesaid, every such person, being thereof convicted by due course of law, shall be sentenced to be imprisoned and kept to hard labor for a term not less than five or more than fifteen years, and fined in a sum not exceeding one thousand dollars.

Comptroller to report annually to congress.

Contents of report.

Contents of comptroller's report to congress.

SEC. 61. *And be it further enacted,* That it shall be the duty of the comptroller of the currency to report annually to congress at the commencement of its session —

First. A summary of the state and condition of every association from whom reports have been received the preceding year, at several dates to which such reports refer, with an abstract of the whole amount of banking capital returned by them, of the whole amount of their debts and liabilities, the amount of circulating notes outstanding, and the total amount of means and resources, specifying the amount of lawful money held by them at the times of their several returns, and such other information in relation to said associations as, in his judgment, may be useful.

Second. A statement of the associations whose business has been closed during the year, with the amount of their circulation redeemed and the amount outstanding.

Third. Any amendment to the laws relative to banking by which the system may be improved, and the security of the holders of its notes and other creditors may be increased.

Fourth. The names and compensation of the clerks employed by him, and the whole amount of the expenses of the banking department during the year. And such report shall be made by or before the first day of December in each year, and the usual number of copies for the use of the senate and house, and one thousand copies for the use of the department, shall be printed by the public printer and in readiness for distribution at the first meeting of congress.

SEC. 62. *And be it further enacted*, That the act entitled "An act to provide a national currency, secured by a pledge of United States stocks, and to provide for the circulation and redemption thereof," approved February twenty-fifth, eighteen hundred and sixty-three, is hereby repealed: *Provided*, That such repeal shall not effect any appointments made, acts done, or proceedings had, or the organization, acts, or proceedings of any association organized or in the process of organization under the act aforesaid: *And provided, also*, That all such associations so organized or in process of organization shall enjoy all the rights and privileges granted, and be subject to all the duties, liabilities, and restrictions imposed by this act, and with the approval of the comptroller of the currency, in lieu of the name specified in their respective organization certificates, may take any other name preferred by them and duly certified to the comptroller, without prejudice to any right acquired under this act, or under the act hereby repealed; but no such change shall be made after six months from the passage of this act: *Provided, also*, That the circulation issued or to be issued by such association shall be considered as a part of the circulation provided for in this act.

SEC. 63. *And be it further enacted*, That persons holding stock as executors, administrators, guardians, and trustees, shall not be personally subject to any liabilities as stockholders; but the estates and funds in their hands shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in said trust-funds would be if they were respectively living and competent to act and hold the stock in their own names.

SEC. 64. *And be it further enacted*, That congress may at any time amend, alter, or repeal this act.

Repeal of act of
1863, ch.58.
Vol. xii. p. 665.

Saving clauses.

Executors, trustees,
&c., holding stock,
not to be personally
liable.

Act may be altered
or repealed.

Approved, June 3, 1864.

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THE FEDERAL RESERVE ACT

United States Statutes at Large

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[Who owns the Federal Reserve?](#)

December 23, 1913
[H. R. 7837.]

[Public, No. 43.]

CHAP. 6.—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.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Federal Reserve Act.

Terms construed.
[12 USC Sec. 221](#)
[12 USC Sec. 221a](#)

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

Federal reserve districts.

[12 USC Sec. 222](#)

FEDERAL RESERVE DISTRICTS

Designation of Federal reserve cities

SEC. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal Reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be

Districts

Proviso.
Apportionment of territory.

Designation, etc.	known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.
Reserve Bank Organization Committee. Duties and authority.	Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons, and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."
Written acceptance of Act by banks.	Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, and payments to be in gold or gold certificates.
Federal reserve banks. Subscriptions by national banks to, required. 12 USC Sec. 282	
Payment for stock.	
Responsibility of shareholders.	The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscription have been paid up in whole or in part, under the provisions of this Act.
Nonaccepting banks not to be reserve agents.	Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.
Dissolution of nonaccepting national banks.	Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or

territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Dissolutions for violation of this act.

Liability of directors.

Further remedies.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Public subscriptions to stock of Federal reserve banks.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

[12 USC Sec. 283](#)

Limit of public subscriptions.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

[12 USC Sec. 283](#)

Conditional allotment to United States.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Payment, etc.

No voting power.

Stock not held by member banks shall not be entitled to voting power.

[12 USC Sec. 285](#)

Transfers of stock.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

Capital required.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this

Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

Appropriation for expenses of organization committee.

Branch offices.

BRANCH OFFICES.

Establishment of branch banks.

SEC. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

Management, etc.

Federal reserve banks.

FEDERAL RESERVE BANKS.

Establishment of districts and reserve cities.

SEC. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

Notice for organization.

Organization
proceedings.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

Deposit of
certificate.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Corporate powers.
[12 USC Sec. 341](#)

Upon filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

General.

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

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

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Issue of circulating notes. 12 USC 412	Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.
Restriction of business.	But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.
Board of directors.	Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.
General duties.	The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.
Administration.	Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard of the claims and demands of other member banks.
Number and term of directors. Classification.	Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.
Class A. 12 USC Sec. 304	Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.
Class B.	Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.
Class C. 12 USC Sec. 305	Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.
Chairman of board.	
Service of Senators or Representatives forbidden.	No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.
Other disqualifications.	No director of class B shall be an officer, director, or employee of any bank. No director of class C shall be an officer, director, employee or stockholder of any bank.

Directors of class A and class B.

Directors of class A and class B shall be chosen in the following manner:

Procedure for choosing.

[12 USC Sec. 304](#)

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

Electors for member banks.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Nomination of candidates.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Balloting for directors.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Declaration of result.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors. Appointment.

[12 USC Sec. 305](#)

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be

Chairman of board and Federal reserve agent.
Duties, etc.

established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Pay.

Deputy.

Compensation of directors.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

Preliminary meetings.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

Designation of first terms of members.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

Subsequent tenure.

Vacancies.

Capital stock.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

Provision for increase or decrease.
[12 USC Sec. 287](#)

SEC. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve

Stock of member banks not transferable.

Additional subscription from member banks increasing their capital.

Subscriptions from new members.

Certificates of increases.

Surrender from members reducing capital, etc.

Cancellation and payment of surrendered shares.

Insolvent members. Cancellation of stock, etc.
[12 USC Sec. 288](#)

Certificate of reduction.

Division of earnings.

Annual dividends.

Franchise tax.

Surplus fund.
[12 USC Sec. 289](#)

Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one percentum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reductions of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. After all necessary expenses of a 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 shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

Disposition of earnings derived by United States.
[12 USC Sec. 290](#)

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Banks dissolving, etc.

Tax exemption.
[12 USC 3019](#)

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

National banks.

SEC. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Conversion of State, etc., banks into. R. S., sec. 5154, p. 996, amended.

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Proviso.
Not to contravene State law.

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

Declaration by directors.

Capital stock.

Certificate, etc.

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State banks, etc.

STATE BANKS AS MEMBERS.

Application to become member banks.

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

Issue of stock.

Organizaton.

By-laws.

Capital required.

Additional restrictions.

The organization committee of the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Subject to specified regulations.

R. S., secs. 5198, 5201, 5208, 5209, pp. 1005-1007.

R. S., secs. 5211-5213, pp. 1007, 1008.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

Member banks not complying with regulations, etc., to be suspended.

Cancellation of stock, etc.

Restoration.

Federal Reserve Board.

Created; membership. [12 USC Sec. 241](#)

Appointive members.

Duties, salaries, etc.

Additional pay to Comptroller of the Currency.

Connections with member banks forbidden.

Tenure of appointive members.

Governor and vice governor. [12 USC Sec. 242](#)

Offices, etc.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

SEC. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

Assessment for expenses.	The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.
Meetings, etc.	The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.
Disqualifications.	
Vacancies.	
Commissions during recess of the senate.	The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.
Powers of Secretary of the Treasury unimpaired.	Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.
Annual report.	The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.
Office of the Comptroller of the Currency.	Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the currency and shall perform his duties under the general directions of the Secretary of the Treasury.
Duties. R. S., sec. 324, p. 54, amended.	
Authority and powers of Board. 12 USC Sec. 248	SEC 11. The Federal Reserve Board shall be authorized and empowered:

Examination, etc., of reserve and member banks.	(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.
Published statements.	
Rediscounted paper.	(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.
Suspension of reserve requirements.	To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: <i>Provided</i> , That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: <i>And provided further</i> , That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.
<i>Provisos.</i> Tax imposed.	
Graduated rates.	
Increase of interest rates.	
Control of Federal reserve notes.	(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.
Reserve cities.	(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.
<i>Post</i> , sec. 20.	
Reserve bank officials.	(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.
Doubtful assets.	(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.
Suspension of reserve banks.	(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

General authority over reserve agents, etc.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

Supervision of reserve banks.

(j) To exercise general supervision over said Federal reserve banks.

Fiduciary permits.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

Employees.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

Appointments without regard to civil service laws, etc.
Vol. 22, p. 403.

Proviso.
Authority of the President.

FEDERAL ADVISORY COUNCIL.

Federal Advisory Council.

Created.
[12 USC Sec. 261](#)

SEC. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective banks, and members selected to fill vacancies, shall serve for the unexpired term.

Selection of members, pay, etc.

Meetings, officers, etc.

Authority and duties.
[12 USC Sec. 262](#)

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS.

Federal reserve banks.

Deposits allowed.
[12 USC Sec. 342](#)

SEC. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Discounting commercial paper.
[12 USC Sec. 343](#)

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills 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. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days:

Description.

Agricultural, etc., paper.
[12 USC Sec. 344](#)

Provided, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Stock trading paper excluded.

Time limit.

Proviso.
Additional for agricultural notes, etc.

Rediscounting foreign trade acceptances.
Post, p. 958.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

Restriction on rediscount.

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; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Dealing in foreign trade paper by member banks allowed.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

National banks.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be

- Debts limited.
R. S., sec. 5202, p.
1006, amended.
Exceptions.
 - Circulating notes.
 - Deposits.
 - Drafts, etc.
 - Dividends, etc.
 - Federal reserve
provisions added.
 - Regulation of
rediscounts, etc.
- indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:.
- First. Notes of circulation.
 - Second. Moneys deposited with or collected by the association.
 - Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.
 - Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.
 - Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.
- The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

- Open-market
operations.
[12 USC Sec. 263](#)
 - Federal reserve
banks may deal in
commercial paper,
etc.
 - Additional powers.
 - Gold transactions.
 - Bonds, notes, etc.
 - Commercial
exchange.
- SEC. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.
- Every Federal reserve bank shall have power:
- (a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;
 - (b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;
 - (c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

Discount rates.

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

Foreign accounts and agencies.

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

Government deposits.

GOVERNMENT DEPOSITS.

Use of reserve bank as fiscal agent, etc.

SEC. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

Deposit of public funds restricted.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

Proviso.
Use of member banks as depositories.

Federal reserve notes.

NOTE ISSUES.

Issue authorized.
[12 USC Sec. 411](#)

SEC. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the 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 at 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.

Receivability.

Redemption.

Applications for, by reserve banks.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of section thirteen of this

Collateral required.
[12 USC Sec. 412](#)

Ante, Sec. 13. Act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal notes issued to it.

Additional security.

Reserves required for deposits and circulation. Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

Designation of notes.

Reserve banks to return notes to issuing banks.

Penalty for using otherwise.

Redemption at the Treasury.

Reimbursement by reserve bank.

Gold reserve to be kept.

Destruction of unfit notes.

Gold-redemption fund to be kept in Treasury.

Reserve Board to control note issue. [12 USC Sec. 414](#)

Interest to be paid.

issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all assets of such bank.

Post, Sec. 18.

Lien created.

Reduction of reserve liability.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

Reserve agent's duties.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Transfer of gold to the Treasury.

Exchange of collateral.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

Provision for printing, etc., notes.
[12 USC Sec. 418](#)

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

Custody of notes before issue.
[12 USC Sec. 417](#)

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

Custody of plates and dies.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

Annual examination of plates, etc.
R. S., sec. 5174, p. 1000.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Payment for engraving, printing, paper, etc.
Vol. 35, p. 547.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Additional appropriation.

Proviso.
Reimbursement.

Reserve banks.
Deposits, collections, etc., authorized.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

Charges for collections by member banks.

Clearing house provisions.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

National banks.
Deposit of registered bonds by, repealed.
R. S., sec. 5159, p. 997, amended.
Vol. 18, p. 124; Vol. 22, p. 164.

SEC. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

Refunding bonds.

REFUNDING BONDS.

Member banks may sell bonds to retire notes.	SEC. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.
Purchase by reserve banks.	The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: <i>Provided</i> , That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.
<i>Provisos.</i> Annual limit.	
<i>Ante</i> , Sec. 4.	
Allotment.	<i>Provided further</i> , That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.
Assignment, etc.	Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.
Cancellation of outstanding notes, etc.	
Issue of Federal reserve notes.	The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulation notes equal to the par value of such bonds.
Delivery of notes on deposit of bonds. <i>Ante</i> , Sec. 4.	Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.
Form and character of notes.	

Exchange of two per cent bonds, for gold notes and bonds.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

Proviso.
Gold purchases, etc.

Authority for interest bearing Treasury notes.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Issue of three per cent bonds.

Exchange of gold notes for bonds.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

Bank reserves.

BANK RESERVES.

Demand and time deposits construed.

SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

Reserves required for deposits.
[12 USC Sec. 461](#)

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

Banks not in reserve or central reserve cities.

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

In reserve cities.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of th member bank.

In central reserve cities.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Acceptance of eligible paper as part of reserves.
Post, sec. 14.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.

Reserves by State banks or trust companies.
Post, sec. 14.

If a State bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

Restrictions on deposits, etc., by member banks.

Use of reserves.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however*, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

Proviso.
Restriction.

Basis or reserves.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

Alaskan and insular banks.

Natonal banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that even maintain reserves and comply with all the conditons now provided by law regulating them; or said banks, except in the Phillipine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

Banks in the Phillipine Islands.

National bank redemption funds not to be part of reserve.
Vol. 18, p. 123.

SEC. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

Bank examinations

BANK EXAMINATIONS.

Examiners.
R. S., sec. 5240, p.
1013, amended.

SEC. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

Appointments, etc.

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* that the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust compaines and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

Proviso.
Acceptance of State
examinatons.

Authority, etc., of
examiners.

Salaries and
expenses.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

Special
examinations.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

Limit of other
examinations.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

Examination of
reserve banks.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Loans, etc., to
examiners forbidden.

SEC. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer,

Punishment for
violating by bank
official.

Punishment for acceptance by examiner. director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Restriction on service by examiners.

Receiving fees, etc., by bank officials restricted. Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commmission, gift, or other consideration for or in connection with any

Unauthorized disclosures by examiners forbidden. transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Punishment for violations.

In effect in 60 days. Except as herein provided in existing laws, this provision shall not take effect until sixty days after the passage of this act.

Individual liability of nationoal bank stockholders. SEC. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

R. S., sec. 5151, p. 995, amended.

Transferred stock.

Loans on farm lands.

LOANS ON FARM LAND.

National banks not in central reserve cities may make. SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest

Limit.

Permissible amounts. on the same.

Extension of restrictions. The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

Foreign branches.

FOREIGN BRANCHES.

National banks may establish. SEC. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Applications.

Approval of Reserve Board.

Information to be furnished, etc.

Independent accounts to be kept.

Inconsistent laws repealed.

Proviso. Parity of United States money maintained. Vol. 31, p. 45.

Securing gold by United States.

Retiring bonds and notes.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

SEC. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided*, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved 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," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

National currency associations. Provisions for, extended to June 30, 1915. Vol. 35, p. 546.

R. S., secs. 5153, 5172, 5191, 5214, pp. 996, 1000, 1004, 1008, amended. Former provisions reenacted.

Proviso. Tax on circulation. Vol. 35, p. 550, amended.

Tax notes secured other than by United States bonds, required. R. S., sec., 5214, p. 1008, amended.

Reduction of capital of national banks. R. S., sec. 5143, p. 994, amended.

Approval by Federal Reserve Board, etc., added.

Invalidity of any clause, etc., not to affect remainder of Act.

Amendment, etc.

SEC. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and nintety-one, and fifty-two hundred and fourteen, of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulaton as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

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BANKING ACT OF 1935

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August 23, 1935
(H. R. 7617)

(Public, No. 305.)

Title I—Federal
Deposit Insurance.

Banking Act of
1935.

Federal Reserve Act,
amendments.
Vol. 48, p. 168; U. S.
C., p. 381.

Federal Deposit
Insurance
Corporation.
Creation; duties.

Management of
Corporation.
Directors;
appointment;
qualifications.

Chairman.

Terms of office.

Compensation.

Vacancies.

AN ACT

To provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes.

TITLE —FEDERAL DEPOSIT INSURANCE

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Banking Act of 1935".

Section 101. Section 12B of the Federal Reserve Act, as amended (U. S. C., Supp. VII, title 12, sec. 264), is amended to read as follows:

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation') which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section, and which shall have the powers hereinafter granted.

(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of \$10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, the Acting Comptroller of the Currency shall be a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as chairman. The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any insured bank. The appointive members of the board of directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction

shall not apply to any appointive member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors on the effective date shall be subject to any of the provisions of the three preceding sentences until the expiration of his present term of office.

Ineligibility of members to hold position in insured bank.

Definitions.

"(c) As used in this section—

"State bank."

"(1) The term 'State bank' means any banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State, Hawaii, Alaska, Puerto Rico, or the Virgin Islands, or which is operated under the Code of Law for the District of Columbia (except national bank), and includes any unincorporated bank of deposits which are insured on the effective date under the provisions of this section.

"State member bank"; "State nonmember bank."

"(2) The term 'State member bank' means any state bank which is a member of the Federal Reserve System, and the term 'State nonmember bank' means any State bank which is not a member of the Federal Reserve System.

"District bank."

"(3) The term 'District bank' means any State bank operating under the Code of Law for the District of Columbia.

"National member bank."

"(4) The term 'national member bank' means any national bank located in any of the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is a member of the Federal Reserve System.

"National nonmember bank."

"(5) The term 'national nonmember bank' means any national bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is not a member of the Federal Reserve System.

"Mutual savings bank."

"(6) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

- "Savings bank." (7) The term 'savings bank' means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.
- "Insured bank." (8) The term 'insured bank' means any bank the deposits of which are insured in accordance with the provisions of this section; and the term 'noninsured bank' means any bank the deposits of which are not so insured.
- "New bank." (9) The term 'new bank' means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this section.
- "Receiver." (10) The term 'receiver' includes a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.
- "Board of directors" (11) The term 'board of directors' means the board of directors of the Corporation.
- "Deposit" (12) The term 'deposit' means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the board of directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: *Provided*, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, shall not be a deposit for any of the purposes of this section or be included as a part of total deposits or of an insured deposit: *Provided further*, That any insured bank having its principal place of business in any of the States of the United States or in the District of Columbia which maintains a branch in Hawaii, Alaska, Puerto Rico, or the Virgin Islands may elect to exclude from insurance under this section its deposit obligations which are payable only at such branch, and upon so electing the insured bank with respect to such branch shall comply with the provisions of this section applicable to the termination of insurance by nonmember banks: *Provided further*, That the bank may elect to restore the insurance to such deposits at

any time its capital stock is unimpaired.

"Insured deposit"

"(13) The term 'insured deposit' means the net amount due to any deposit or deposits in an insured bank (after deducting offsets) less any part thereof which is in excess of \$5,000. Such net amount shall be determined according to such regulations as the board of directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit either in his own name or in the names of others, except trust funds which shall be insured as provided in paragraph (9) of subsection (h) of this section.

Post, p. 690.

"Transferred deposit"

"(14) The term 'transferred deposit' means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such bank or other insured bank.

"Branch"

"(15) The term 'branch' includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State of the United States or in Hawaii, Alaska, Puerto Rico, or the Virgin Islands at which deposits are received or checks paid or money lent.

"Effective date."

"(16) The term 'effective date' means the date of enactment of the Banking Act of 1935.

Capital stock of Corporation; subscription by United States; appropriation authorized.

"(d) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal Reserve banks. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States. Every Federal Reserve bank shall subscribe to shares of stock in the Corporation to an amount equal to one-half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice. The capital stock of the Corporation shall consist of the shares subscribed for prior to the effective date. Such stock shall be without nominal or par value, and shares issued prior to the effective date shall be exchanged and reissued at the rate of one share for each \$100 paid into the Corporation for capital stock. The consideration received by the Corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board of directors shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends.

Payments.

Receipts.

Capital stock; subscription by Federal Reserve banks; amount.

Payment.

Nominal or par value.

Allocation of amounts received in payment for capital stock. Voting privilege; dividends.

Insurance provisions. Banks licensed before effective date.	"(e) (1) Every operating State or national member bank, including a bank incorporated since March 10, 1933, licensed on or before the effective date by the Secretary of the Treasury shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section.
After effective date.	"(2) After the effective date, every national member bank which is authorized to commence or resume the business of banking, and every State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: <i>Provided</i> , That in the case of an insured bank which is admitted to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in subsection (g) of this section.
Certificate; issue of; requirement.	
<i>Proviso.</i> Exception.	
Statements in certificate.	
Members of Temporary Federal Deposit Insurance Fund or Fund for Mutuals; insurance of. Vol. 48, pp. 179, 970.	"(f) (1) Every bank which is not a member of the Federal Reserve System which on June 30, 1935 was or thereafter became a member of the Temporary Federal Deposit Insurance Fund or of the Fund For Mutuals heretofore created pursuant to the provisions of this section, shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section: <i>Provided</i> , That any State nonmember bank which was admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals but which did not file on or before the effective date an October 1, 1934 certified statement and make the payments thereon required by law, shall cease to be an insured bank on August 31, 1935: <i>Provided further</i> , That no bank admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals prior to the effective date shall, after August 31, 1935, be an insured bank or have its deposits insured by the Corporation, if such bank shall have permanently discontinued its banking operations prior to the effective date.
<i>Provisos.</i> Banks not filing required statement or making payment.	
When banking operations discontinued.	
Application for insurance, National or State nonmember banks.	"(2) Subject to the provisions of this section, any national nonmember bank, upon application by the bank and certification by the Comptroller of the Currency in the manner prescribed in subsection (e) of this section, and any State nonmember bank, upon application to and examination by the Corporation and approval by the board of directors, may become an insured bank. Before approving the application of any such State nonmember bank, the board of directors shall give consideration to the factors enumerated in subsection (g) of this section and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all its liabilities to depositors and other creditors as shown by the books of the bank.
Consideration by Board of Directors.	
<i>Post</i> , p. 688.	

Contents of certificate.
Ante, p. 687.
 Factors for consideration when application pending.

"(g) The factors to be enumerated in the certificate required under subsection (e) and to be considered by the board of directors under subsection (f) shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this section.

Assessment; rate.

Amount.

Ante, p. 685.

"(h) (1) The assessment rate shall be one-twelfth of 1 per centum per annum. The semiannual assessment for each insured bank shall be in the amount of the product of one-half the annual assessment rate multiplied by an assessment base which shall be the average for six months of the differences at the end of each calendar day between the total amount of liability of the bank for deposits (according to the definition of the term 'deposit' in and pursuant to paragraph (12) of subsection (c) of this section, without any deduction for indebtedness of depositors) and the total of such uncollected items as are included in such deposits and credited subject to final payment: *Provided, however*, That the daily total of such uncollected items shall be determined according to regulations prescribed by the board of directors upon a consideration of the factors of general usage and ordinary time of availability, and for the purposes of such deduction no item shall be regarded as uncollected for longer periods than those prescribed by such regulations. Each insured bank shall, as a condition to the right to deduct any specific uncollected item in determining its assessment base, maintain such records as will readily permit verification of the correctness of the particular deduction claimed. The certified statements required to be filed with the Corporation under paragraphs (2), (3), and (4) of this subsection shall be in such form and set forth such supporting information as the board of directors shall prescribe. The assessment payments required from insured banks under paragraphs (2), (3), and (4) of this subsection shall be made in such manner and at such time or times as the board of directors shall prescribe, provided the time or times so prescribed shall not be later than sixty days after filing the certified statement setting forth the amount of the assessment. In the event that a separate Fund For Mutuals is established as provided in subsection (1), the board of directors from time to time may fix a lower assessment rate operative for such period as the board may determine which shall be applicable to insured mutual savings banks only, and the remainder of this paragraph shall not be applicable to such banks.

Proviso.
 Regulations governing determination of daily totals of uncollected items.

Records to be maintained.

Certified statements; form.

Assessment payments; time and manner of making.

Assessment rate applicable to insured mutual savings banks.
Post, p. 694.

Certified statements; filing; information to contain.

"(2) On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement under oath showing for the six months ending on the preceding June 30 the amount of the assessment base and the amount of the semiannual assessment due to the Corporation, determined in accordance with paragraph (1) of this subsection. Each insured bank shall pay to the Corporation the amount of the semiannual assessment it is required to certify. On or before the 15th day of January of each year after 1936 each insured bank shall file with the Corporation a similar certified statement for the six months ending on the preceding December 31 and shall pay to the Corporation the amount of the semiannual assessment it is required to certify.

Assessment; semiannual payment.

Statement of
payment due
December 31, 1935.
Ante, p. 687.

Amount.

Payment
Statement of
payment due June
30, 1936; filing.

Amount.

Payment.

Banks insured after
effective date;
provisions waived.

Certified statement
to be filed.

Contents.

Computation of first
assessment.

Second certified
statement;
information to
contain; time of
filing.

"(3) Each bank which becomes an insured bank according to the provisions of subsection (e) or (f) of this section shall, on or before the 15th day of November 1935, file with the Corporation a certified statement under oath showing the amount of the assessment due to the Corporation for the period ending December 31, 1935, which shall be an amount equal to the product of one-third the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the 31 days in the month of October 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified. Each such bank shall, on or before the 15th day of January 1936, file with the Corporation a certified statement under oath showing the amount of the semiannual assessment due to the Corporation for the period ending June 30, 1936, which shall be an amount equal to the product of one-half the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the days of the months of October, November and December of 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified.

"(4) Each bank which becomes an insured bank after the effective date shall be relieved from complying with the provisions of paragraph (2) of this subsection until it has operated as an insured bank for a full semiannual period ending on June 30 or December 31 as the case may be. Each such bank, on or before the forty-fifth day after its first day of operation as an insured bank, shall file with the Corporation its first certified statement which shall be under oath and shall show the amount of the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank. Each such certified statement shall also show as the amount of the first assessment due to the Corporation the prorated portion (for the period between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be) of an amount equal to the product of one-half the annual assessment rate multiplied by the base required to be set forth on its first certified statement. Each bank which becomes an insured bank after the effective date which has not operated as an insured bank for a full semiannual period ending on June 30 or December 31, as the case may be, shall, on or before the 15th day of the first month thereafter (except that banks becoming insured in June or December shall have thirty-one additional days) file with the Corporation its second certified statement under oath showing the amount of the assessment base and the amount of the semiannual assessment due to the Corporation. Such assessment base and amount shall be determined in accordance with paragraph (1) of this subsection, except that if the bank became an insured bank in the month of December or June the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank, and except that if it became an insured bank in any other month than December or June the assessment base shall be the average for the days between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be.

Assessment base and amount due; determination of. *Ante*, p. 688.

Each bank required to file a certified statement. under this paragraph shall pay to the Corporation the amount of the assessment the bank is required to certify.

Payments

Insured banks; balances credited to, upon termination of Funds. *Ante*, p. 687.

"(5) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsection (e) or (f) of this section, shall, in lieu of all right to refund (except as authorized in paragraph (3) of subsection (i)), be credited with any balance to which such bank shall become entitled upon the termination of the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals. The credit shall be applied by the Corporation toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

Application of credit.

Suit to compel filing of statement.

"(6) Any insured bank which fails to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation may be compelled to file such statement by mandatory injunction or other appropriate remedy in a suit brought for such purpose by the Corporation against the bank and any officer or officers thereof in any court of the United States of competent jurisdiction in the district or territory in which such bank is located.

Recovery by Corporation.

"(7) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank the amount of any unpaid assessment lawfully payable by such insured bank to the Corporation, whether or not such bank shall have filed any such certified statement and whether or not suit shall have been brought to compel the bank to file any such statement.

Forfeiture of privileges by national member or insured national nonmember banks.

"(8) Should any national member bank or any insured national nonmember bank fail to file any certified statement required to be filed by such bank under any provision of this subsection, or fail to pay any assessment required to be paid by such bank under any provision of this section, and should the bank not correct such failure within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this paragraph, and stating that the bank has failed to file or pay as required by law, all the rights, privileges, and franchises of the bank granted to it under the National Bank Act or under the provisions of this Act, as amended, shall be thereby forfeited. Whether or not the penalty provided in this paragraph has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of this Act, as amended. The remedies provided in this paragraph and in the two preceding paragraphs shall not be construed as limiting any other remedies against any insured bank, but shall be in addition thereto.

Vol. 38, p. 252; U. S. C., p. 405. Remedies.

Trust funds;
insurance of.

"(9) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured in an amount not to exceed \$5,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this section, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates:

Proviso.

To be considered
deposit liability of
fiduciary bank.

Provided, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of any certified statement required under paragraph (2), (3), or (4) of this subsection be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.

Regulations
respecting reporting
and depositing.

Insured bank;
termination of status
as; notice required.

"(i) (1) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank.

When bank
continues unsound
banking practices,
etc.

Whenever the board of directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank, or have knowingly or negligently permitted any of its officers or agents to violate any provision of any law or regulation to which the insured bank is subject, the board of directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, or to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such practices or violations for the purpose of securing the correction thereof. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Board of Governors of the Federal Reserve System, as the case may be, shall require, the board of directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the board of directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board of directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the board of directors shall find that any violation specified in such notice has been established, the board of directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to each of its depositors at his last address of record on the books of the bank, in such manner and at such time as the board of directors may

Notice to be given.

Notice of intention to
terminate status
when correction not
made.

Hearing.

Bank failing to
appear; effect.

Termination of status when specified violation established. Date. find to be necessary and may order for the protection of depositors. After the termination of the insured status of any bank under the provisions of this paragraph, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured, and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank during such period. No additions to any such deposits and no new deposits in such bank made after the date of such termination shall be insured by the Corporation, and the bank shall not advertise or hold itself out as having insured deposits unless in the same connection it shall also state with equal prominence that such additions to deposits and new deposits made after such date are not so insured. Such bank shall, in all other respects, be subject to the duties and obligations of an insured bank for the period of two years from the date of such termination, and in the event that such bank shall be closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

Publication of. Insurance of deposits thereafter. Payment of assessment. New deposits and additions. Status of bank during insured period.

Termination of membership in Federal Reserve System. " (2) Whenever the insured status of a State member bank shall be terminated by action of the board of directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation whenever the bank shall be unable to meet the demands of its depositors. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank shall, without notice or other action by the board of directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection.

Vol. 38, p. 260, U. S. C., p. 390. Appointment of receiver. Termination of insured status when membership ceases.

Election of nonmember bank to discontinue insured status. " (3) If any nonmember bank which becomes an insured bank under the provisions of paragraph (1) of subsection (f) of this section shall elect, within thirty days after the effective date, not to continue as an insured bank, and shall within such period give written notice to the Corporation of its election, in accordance with regulations to be prescribed by the board of directors, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, it shall cease to be an insured bank and cease to be subject to the provisions of this section and the rights of the bank (including its right to any refund) shall be as provided by law existing prior to the effective date. The board of directors shall cause notice of termination of insurance to be given to the depositors of such bank by publication or

Notice required.

- Notice to depositors. otherwise as the board of directors may determine, and the deposits in such bank shall continue to be insured for twenty days beyond such thirty day period.
- Assumption of liabilities of insured bank by another insured bank. "(4)Whenever the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection: *Provided*, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the board of directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect, and such bank shall thereupon be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.
- Proviso.*
Termination of insurance; when; notice to depositors.
- Corporate powers. "(j) Upon the date of enactment of the Banking Act of 1933[sic], the Corporation shall become a body corporate and as such shall have power—
- Seal. " First. To adopt and use a corporate seal.
- Succession. "Second. To have succession until dissolved by an Act of Congress.
- Contracts. "Third. To make contracts.
- Suits. "Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States: *Provided*, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court. The board of directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.
- Proviso.*
When Corporation a party as receiver, etc.
- Issue of attachment or execution against Corporation.
- Designation of agent for service of process.
- Personnel; appointment; compensation; bonds; etc. "Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.
- Bylaws. "Sixth. To prescribe by its board of directors, bylaws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

- Exercise of powers. "Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted.
- Examinations. "Eighth. To make examinations of and to require information and reports from banks, as provided in this section.
- Act as receiver. "Ninth. To act as receiver.
- Rules and regulations. "Tenth. To prescribe by its board of directors such rules and regulations as it may deem necessary to carry out the provisions of this section.
- Administration of Corporation. "(k) (1) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.
- Franking privilege.
- Cooperation of Federal agencies.
- Examiners; appointment and powers. "(2) The board of directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State nonmember bank (except a District bank), any State nonmember bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the board of directors an examination of the bank is necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank or District bank, and, with the written consent of the Board of Governors of the Federal Reserve System, any State member bank. Each such examiner shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof, and shall make a full and detailed report of the condition of the bank to the Corporation. The board of directors in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve the testimony of any persons relating to such claims. The provisions of sections 184 to 186 (both inclusive) of the Revised Statutes (U. S. C., title 5, secs. 94 to 96) are hereby extended to examinations and investigations authorized by this paragraph.
- Claim agents; appointment and powers.
- R. S., secs. 184-186, p. 29; U. S. C., p. 43.
- Reports of State nonmember banks. Publication. "(3) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the board of directors may require. The board of directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such report within such time, not less than five days, as the board of directors may require, shall be subject to a penalty of not more than \$100 for each day of such failure recoverable by the Corporation for its use.
- Penalty on failure to publish.

Reports of examinations and conditions; access to.

"(4) The Corporation shall have access to reports of examinations made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

Permanent Insurance Fund; created.

"(1) (1) The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of this section are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: *Provided*, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. On and after the effective date, the Corporation shall insure the deposits of all insured banks as provided in this section: *Provided*, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: *Provided further*, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before the effective date, such deposits shall not be insured. The maximum amount of the insured deposit of any depositor shall be \$5,000. The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks and depositors therein a separate Fund For Mutuals. If such Fund is opened, all assessments upon mutual savings banks shall be paid into such Fund and the Permanent Insurance Fund of the Corporation shall cease to be liable for insurance losses sustained in mutual savings banks: *Provided*, That the capital assets of the Corporation shall be so liable and all expenses of operation of the Corporation shall be allocated between such Funds on an equitable basis.

Provisos.

Obligations to remain unimpaired.

Insurance of deosits of insured banks.

Deposits applicable to.

When deposits not insured.

Maximum amount of insured deposits. Mutuals savings banks; separate Fund for mutuals may be opened for benefit of.

Payments into Fund.

Proviso.

Liability for insurance losses; expenses of operations.

When insured bank deemed closed.

"(2) For the purposes of this section, an insured bank shall be deemed to have been closed on account of inability to meet the demands of its depositors in any case in which it has been closed for the purpose of liquidation without adequate provision being made for payment of its depositors.

Appointment of Corporation as receiver.

"(3) Notwithstanding any other provision of law, whenever any insured national bank or insured District bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed as receiver of such closed bank.

Duties of Corporation.

"(4) It shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the

Right to retain portion of amounts realized.	liquidation of closed national banks, except as herein otherwise provided. The Corporation shall retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and it shall pay to depositors and other creditors the net amounts available for distribution to them. With respect to any such closed bank, the Corporation as such receiver shall have all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.
Rights as receiver.	
Closed insured State bank; acceptance of appointment as receiver.	"(5) Whenever any insured State bank (except a District bank) shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment is tendered by the authority having supervision of such bank and is authorized or permitted by State law. With respect to any such insured State bank, the Corporation as such receiver shall possess all the rights, powers and privileges granted by State law to a receiver of a State bank.
Rights, etc.	
Payment of insured deposits.	"(6) Whenever an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits in such bank shall be made by the Corporation as soon as possible, subject to the provisions of paragraph (7) of this subsection, either (A) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand, or (B) in such other manner as the board of directors may prescribe: <i>Provided</i> , That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.
Methods.	
<i>Proviso.</i> Proof of claims.	
Closed national or District banks; Corporation subrogated to rights of paid depositors.	"(7) In the case of a closed national bank or District bank, the Corporation, upon the payment of any depositor as provided in paragraph (6) of this subsection, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment. In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: <i>Provided</i> , That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.
Other closed insured banks.	
Rights of Corporation to receive dividends.	
<i>Proviso.</i> State laws to determine creditors' rights.	

New national banks; organization.	" (8) As soon as possible after the closing of an insured bank, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new national bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions hereinafter provided for. The new bank shall have its place of business in the same community as the closed bank.
Assumption of insured deposits of closed bank.	
Place of business.	
Articles of association and organization certificate; execution. Capital stock.	" (9) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where the new bank is the only bank in the community, shall not exceed \$5,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this section and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.
Management.	
Acceptance of new deposits.	
Restriction on new amount. Insured status of new bank.	
Funds; cash requirement; investments.	
Restriction on transaction of business.	
Tax exemption.	
Payment of insured deposits; amount made available.	" (10) Upon the organization of a new bank, the Corporation shall promptly make available to it an amount equal to the estimated insured deposits of such closed bank plus the estimated amount of the expenses of operating the new bank, and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon such determination, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of it[sic] depositors. Of the amounts so made available, the Corporation shall transfer to the new bank, in cash, such sums as may be necessary to enable it to meet its expenses of operation and immediate cash demands on such transferred deposits, and the remainder
Earnings of new bank. Amounts made available for payment of losses.	

Cash transfers.	of such amounts shall be subject to withdrawal by the new bank on demand.
Capital stock of new bank; sales authorized.	"(11) Whenever in the judgment of the board of directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the board of directors shall deem advisable in an amount sufficient, in the opinion of the board of directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 51), for the organization of a national bank in the place where such new bank is located. The stockholders of the closed insured bank shall be given the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, and thereupon the bank shall cease to have the status of a new bank, shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law, and it shall be subject to all the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.
R. S., sec. 5138, p. 993; U. S. C., p. 355.	
Priority right of stockholders of closed insured bank.	"
When capital stock subscribed for and paid in.	
Certificate of authority to commence business; issue.	"
Status as insured national bank.	
When capital stock not offered for sale, etc.	"(12) If the capital stock of the new bank is not offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid for, the board of directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the board of directors may deem adequate; or the board of directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided. Unless the capital stock of the new bank is sold or its assets are taken over and its liabilities are assumed by an insured bank as above provided within two years from the date of its organization, the Corporation shall wind up the affairs of such bank, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new bank. Thereafter the Corporation shall be liable for the obligations of such bank and shall be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 19., secs. 181 and 182) shall not apply to such new banks.
Termination of new bank	
Notice and certification.	"
Liability for obligations.	
R. S. secs. 5220, 5221, p. 1010; U. S. C., p. 371.	

Administration of receivership when Corporation is receiver.

"(m) (1) The Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver. The Comptroller of the Currency is authorized and empowered to waive and relieve the Corporation from complying with any regulations of the Comptroller of the Currency with respect to receiverships where in his discretion such action is deemed advisable to simplify administration.

Discharge of insurer liability when payment of insured deposit made.

"(2) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or by an insured bank in which a transferred deposit has been made available shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

Limitation on insurer liability.

"(8) Except, as otherwise prescribed by the board of directors, neither the Corporation nor such new bank or other insured bank shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank as part owner of said deposit, if such recognition would increase the aggregate amount of the insured deposits in such closed bank.

Withholding amount to satisfy stockholder's liability.

"(4) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the closed bank, or of any liability of such depositor to the closed bank or its receiver, which is not offset against a claim due from such bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

Depositors' claims not made timely.

"(5) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records of the closed bank, any depositor in the closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail within such period to claim or arrange to continue the transferred deposit with the new bank or with the other insured bank which assumes liability therefor, all rights of the depositor against the Corporation with respect to the insured deposit, and against the new bank and such other insured bank with respect to the transferred deposit, shall be barred, and all rights of the depositor against the closed bank and its shareholders, or the receivership estate to which the Corporation may have become subrogated, shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

Rights against Corporation, etc., barred.

Unclaimed transferred deposits.

Money of Corporation; investment or deposit.

Designation of Corporation as depositary of public moneys.

Employment as Government financial agent. Duties.

Loans to closed national and State member banks.

Sale of assets of closed insured banks to Corporation.

Permission required.

Proceeds of sale or loan; use.

Dividend payments of proved claims. Period of advertisement
R. S., sec. 5235, p. 1012; U. S. C., p. 372.

Authority of Corporation to assist closed insured banks.

Loans to avert threatened loss to Corporation; facilitate mergers.
Post, p. 1237.

Security.

"(n) (1) Money of the corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(2) Nothing contained in this section shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(3) Receivers or liquidators of insured banks closed on account of inability to meet the demands of their depositors shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of insured State banks, or from the Comptroller of the Currency in the case of national banks or District banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its depositors, but in any case in which the Corporation is acting as receiver of a closed insured bank, no such loan or purchase shall be made without the approval of a court of competent jurisdiction.

"(4) Until July 1, 1936, whenever in the judgment of the board of directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of an insured bank with another insured bank, or will facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of an open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities

Guaranty of insured bank against loss through assumption of liabilities of closed bank. Contracts for sales or loans. and purchasing the assets of an open or closed insured Bank. Any insured national bank or District bank, or, with the approval of the Comptroller of the Currency, any receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

Obligations of Corporation; issue and aggregate amount.

"(o) (1) The Corporation is authorized and empowered to issue and to have outstanding its notes, debentures, bonds, or other such obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock and in payment of the assessments upon insured banks for the year 1936. The notes, debentures, bonds, and other such obligations issued under this subsection shall be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and shall bear such rate or rates of interest, and shall mature at such time or times, as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

Redemption.

Interest rate; maturity.

Proviso.
Short term obligations.
Security.

Sale price.

Purchase of Corporation obligations by Secretary of Treasury.

"(2) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases: *Provided*, That if the Reconstruction Finance Corporation fails for any reason to purchase any of the obligations of the Corporation as provided in subsection (b) of section 5e of the Reconstruction Finance Corporation Act, as amended, the Secretary of the Treasury is authorized and directed to purchase such obligations in an amount equal to the amount of such obligations the Reconstruction Finance Corporation so fails to purchase: *Provided further*, That the Secretary of the Treasury is authorized and directed, whenever in the judgment of the board of directors of the Corporation additional funds are required for insurance purposes, to purchase obligations of the Corporation in an additional amount of not to exceed \$250,000,000 par value: *Provided further*, That the proceeds derived from the purchase by the Secretary of the Treasury of any such obligations shall be used by the Corporation solely in carrying out its functions with respect to such insurance. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States.

Vol. 40, p. 288; U. S. C., p. 1419.
Ante, pp. 20, 622.

Provisos.
When Reconstruction Finance Corporation fails to purchase.
Vol. 48, p. 971;
Ante, p. 3.

Aggregate amount.

Use of proceeds by Corporation.

Resale of obligations by Secretary of Treasury.

Tax exemptions; Corporation obligations.	<p>"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipal, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as the other real property is taxed.</p>
Franchises, etc.	
Preparation of note, debenture, etc., forms.	<p>"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.</p>
Custody of engraved plates, dies, etc.	
Reimbursement for expenses.	
Annual report of Corporation.	<p>"(r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.</p>
Penalty provisions.	
False statements.	<p>"(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval, or payment of any claim, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years or both.</p>
Willful overvaluations of securities.	
Counterfeiting obligations of Corporation.	<p>"(t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.</p>

- Embezzlement, etc. "(u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.
- "Federal Deposit Insurance Corporation", exclusive use of term. "(v) (1) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination of any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation or by the United States or any instrumentality thereof; and no insured bank shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding \$1,000, or by imprisonment not exceeding one year, or both.
- False advertising. "(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement to the effect that its deposits are insured by the Corporation. The board of directors shall prescribe by regulation the form of such signs and the manner of display and the substance of such statements and the manner of use. For each day an insured bank continues to violate any provision of this paragraph or any lawful provision of said regulations, it shall be subject to a penalty of not more than \$100, recoverable by the Corporation for its use.
- Display of sign indicating insured status. Vol. 48, p. 970. Advertisements. Regulations. "(3) No insured bank shall pay any dividends on its capital stock or interest on its capital notes or debentures (of such interest is required to be paid only out of net profits) while it remains in default in the payment of any assessment due to the Corporation; and any director or officer of any insured bank who participates in the declaration or payment of any such dividend shall, upon conviction, be fined not more than \$1,000, or imprisoned not more than one year, or both: *Provided*, That if such default is due to a dispute between the insured bank and the Corporation over the amount of such assessment, this paragraph shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.
- Penalty for violation. "Proviso. When amount of assessment in dispute.

Merger of insured and nonmember banks; consent required.

"(4) Unless, in addition to compliance with other provisions of law, it shall have the prior written consent of the Corporation, no insured bank shall enter into any consolidation or merger with any noninsured bank, or assume liability to pay any deposits made in any noninsured bank, or transfer assets to any noninsured bank in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

Branch banks; establishing or moving to new location; consent required.

"(5) No State nonmember insured bank (except a District bank) shall establish and operate any new branch after thirty days after the effective date unless it shall have the prior written consent of the Corporation, and no branch of any State nonmember insured bank shall be moved from one location to another after thirty days after the effective date without such consent. The factors to be considered in granting or withholding the consent of the Corporation under this paragraph shall be those enumerated in subsection (g) of this section.

Indemnity protection of insured banks.

"(6) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank.

Publication of report of examination when recommendation not complied with.

"(7) Whenever any insured bank (except a national bank or a District bank), after written notice of the recommendations of the Corporation based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations within one hundred and twenty days after such notice, the Corporation shall have the power, and is hereby authorized, to publish only such part of such report of examination as relates to any recommendation not complied with: *Provided*, That notice of intention to make such publication shall be given to the bank at least ninety days before such publication is made.

Proviso.
Notice of intention to publish.

Payment of interest on demand deposits; regulations to prohibit.

"(8) The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of this Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The board of directors shall from time to time limit by regulation the rates of interest or dividends which may be paid by insured nonmember banks on time and savings deposits, but such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing such rates of interest or dividends, the board of directors shall by regulation prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. The

Exceptions.

Time and savings deposit; regulations.

board of directors shall by regulation define what constitutes time and savings deposits in an insured nonmember bank. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the board of directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. For each violation of any provision of this paragraph or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty or[sic] not more than \$100, recoverable by the Corporation for its use.

Penalty for violation.

Criminal Code of United States. Vol. 35, p. 1108; U. S. C., p. 735. Applicable to corporate contracts and agreements.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

Secret Service Division, Treasury Department. Detection, etc., of persons violating.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

State banks; requirement of membership.

"(y) (1) No State bank which during the calendar year 1941 or any succeeding calendar year shall have average deposits of \$1,000,000 or more shall be an insured bank or continue to have any part of its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits, unless such bank shall be a member of the Federal Reserve System: *Provided*, That for the purposes of this paragraph the term 'State bank' shall not include a savings bank, a mutual savings bank, a Morris Plan bank or other incorporated banking institution engaged only in a business similar to that transacted by Morris Plan banks, a State trust company doing no commercial banking business, or a bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands.

Proviso. "State bank" construed.

Purpose of section.

"(2) It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

Discrimination prohibited.

Separability provision.

"(z) The provisions of this section limiting the insurance of the deposits of any depositor to a maximum less than the full amount shall be independent and separable from each and all of the provisions of this section."

Title II—Federal Reserve Act, amendments.

TITLE II—AMENDMENTS TO THE FEDERAL RESERVE ACT

Corporate powers of Federal Reserve banks.

Vol. 38, p. 254; U. S. C., p. 392.

Board of directors; appointment of officers.

President; term of office.

First vice president.

Vacancies.

Vol. 38, p. 260; U. S. C., p. 389.

Admission to membership; waiver of requirements.
Vol. 40, p. 234.
Ante, p. 703

Provisos.
When bank admitted with capital less than required for national bank organization.

Restriction.

"Board of Governors of the Federal Reserve System", established;
Vol. 42, p. 620.

Vol. 38, p. 260; U. S. C., p. 377.

SECTION 201. Paragraph "Fifth" of section 4 of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"Fifth. To appoint by its board of directors a president, vice presidents, and such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds for them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. The president shall be the chief executive officer of the bank and shall be appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years; and all other executive officers and all employees of the bank shall be directly responsible to him. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the bank. Whenever a vacancy shall occur in the office of the president or the first vice president, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor."

SEC. 202. Section 9 of the Federal Reserve Act, as amended, is amended by inserting after the tenth paragraph thereof the following new paragraph:

"In order to facilitate the admission to membership in the Federal Reserve System of any State bank which is required under subsection (y) of section 12B of this Act to become a member of the Federal Reserve System in order to be an insured bank or continue to have any part of its deposits insured under such section 12B, the Board of Governors of the Federal Reserve System may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: *Provided*. That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Board of Governors of the Federal Reserve System, adequate in relation to its liabilities to depositors and other creditors, the said Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: *Provided, however*, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place."

SEC. 203. (a) Hereafter the Federal Reserve Board shall be known as the "Board of Governors of the Federal Reserve System", and the governor and the vice governor of the Federal Reserve Board shall be known as the "chairman" and the "vice chairman", respectively, of the Board of Governors of the Federal Reserve System.

(b) The first two paragraphs of section 10 of the Federal Reserve Act, as amended, are amended to read as follows:

Board of Governors;
composition and
appointment.

Terms of office.

Qualifications.

Restriction on other
employment; salary.

Ineligibility to hold
office in member
banks.

Successors to
members now
serving; terms of
office.
Vol. 48, p. 166.

Chairman; vice
chairman.

Oath of office

Service of member
until successor
appointed.

Reappointments.

Vol. 38, p. 261; Vol.
48, p. 167.
Meetings of Board;
presiding officer.

Vol. 38, p. 261; Vol.
42, p. 620.

"SEC. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the 'Board') shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of \$15,000, payable monthly, together with actual necessary traveling expenses.

"The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term fourteen years."

(c) The fourth paragraph of section 10 of the Federal Reserve Act, as amended, is amended by striking out the second, third, and fourth sentences thereof and inserting in lieu thereof the following: "At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore."

(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraph:

Records to be kept
by Board.

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

Vol. 47, pp. 56, 794;
Vol. 48, p. 7; U. S.
C., p. 394.

SEC. 204. Section 10 (b) of the Federal Reserve Act, as amended, is amended to read as follows:

Advances to
individual member
banks.

"**SEC. 10 (b).** Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

Security.

Interest rate.

Vol. 48, p. 168; U. S.
C., p. 380.

SEC. 205. Section 12A of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

Federal Open Market
Committee.
Creation;
membership.

"**SEC. 12A (a)** There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'Committee'), which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives of the Federal Reserve banks shall be elected annually as follows: One by the boards of directors of the Federal Reserve Banks of Boston and New York, one by the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland, one by the boards of directors of the Federal Reserve Banks of Chicago and Saint Louis, one by the boards of directors of the Federal Reserve Banks of Richmond, Atlanta, and Dallas, and one by the boards of directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. An alternate to serve in the absence of each such representative shall be elected annually in the same manner. The meetings of said Committee shall be held at Washington, District of Columbia, at least four times each year upon the call of the chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.

Annual election of
representatives.

Alternates.

Meetings

Regulations
governing open-
market transactions.

Vol. 38, p. 264; U. S.
C., p. 396.

"(b) No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Committee. The Committee shall consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

Vol. 38, p. 265; U. S. C., p. 396.

Purchase and sale of obligations of the United States in open market.

SEC. 206. (a) Subsection (b) of section 14 of the Federal Reserve Act, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: ["*Provided*, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market".

Vol. 38, p. 265; U. S. C., p. 396.

Discount rates; establishing.

(b) Subsection (d) of section 14 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;".

Vol. 38, p. 270; Vol. 40, p. 239; Vol. 48, p. 54; U. S. C., p. 403.

SEC. 207. The sixth paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

Bank reserves; maintenance; changing requirements.

"Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount."

Amount of.

Vol. 38, p. 273; U. S. C., p. 397.

SEC. 208. The first paragraph of section 24 of the Federal Reserve Act, as amended, is amended to read as follows:

Vol. 44, p. 1232.
Loans on farm lands and improved real estate by national banks.

Form of obligation.

"**SEC. 24.** Any national banking association may make real-estate loans secured by first liens upon improved real estate including improved farm land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or

Amount of loan. more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located."

Exception.

Vol. 48, p. 1247.

Aggregate amount of loans.

Time and deposits; interest rate.

R. S., sec. 325, p. 54; U. S. C., p. 349. **SEC. 209.** Section 325 of the Revised Statutes is amended to read as follows:

Comptroller of the Currency; appointment and term of office. Removal.

Salary. *Post*, p. 1125.

"SEC. 325. The Comptroller of the Currency shall be appointed by the President, by and with the advice and consent of the Senate, and shall hold his office for a term of five years unless sooner removed by the President, upon reasons to be communicated by him to the Senate; and he shall receive a salary at the rate of \$15,000 a year."

Title III—Technical Amendments to the Banking Laws.

TITLE III—TECHNICAL AMENDMENTS TO THE BANKING LAWS

Banking Act of 1933. Vol. 48, p. 162.; U. S. C., p. 376.

SECTION 301. Subsection (c) of section 2 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following paragraph:

"Holding company affiliate", construed. Vol. 48, p. 183; U. S. C., p. 397.

"Notwithstanding the foregoing, the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

Vol. 48, p. 188; U. S. C., p. 399.

Member bank affiliation with securities organization; organization in liquidation.

SEC. 302. The first paragraph of section 20 of the Banking Act of 1933, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs".

Vol. 48, p. 189; U. S. C., p. 399.

Securities dealers engaging in banking business.

Exceptions from prohibition

R. S., sec. 5136, p. 993; U. S. C., p. 352.

Sales of mortgages.

Vol. 48, p. 189; U. S. C., p. 399.

Persons or organizations engaging in banking business.

Authority required.

Vol. 48, p. 189; U. S. C., p. 358.

Double liability on national bank stock. Termination of.

Proviso.

Publication of notice.

SEC. 303. (a) Paragraph (1) of subsection (a) of section 21 of the Banking Act of 1933, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: "*Provided*, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 5136 of the Revised Statutes, as amended (U. S. C., title 12, sec. 24; Supp. VII, title 12, sec. 24): *Provided further*, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate".

(b) Paragraph (2) of subsection (a) of such section 21 is amended to read as follows:

"(2) For any person, firm, corporation, association, business trust, or other similar organization to engage, to any extent whatever with others than his or its officers, agents or employees, in the business of receiving deposits subject to check or to repayment upon presentation of a pass book, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization (A) shall be incorporated under, and authorized to engage in such business by, the laws of the United States or of any State, Territory, or District, or (B) shall be permitted by any State, Territory, or District to engage in such business and shall be subjected by the law of such State, Territory, or District to examination and regulation, or (C) shall submit to periodic examination by the banking authority of the State, Territory, or District where such business is carried on and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and under the same conditions as required by the law of such State, Territory, or District in the case of incorporated banking institutions engaged in such business in the same locality."

SEC. 304. Section 22 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following sentences: "Such additional liability shall cease on July 1, 1937, with respect to all shares issued by any association which shall be transacting the business of banking on July 1, 1937: *Provided*, That not less than six months prior to such date, such association shall have caused notice of such prospective termination of liability to be published in a newspaper published in the city, town, or county in which such association is located, and if no newspaper is published in such city, town, or county, then in a newspaper of general circulation therein. If the association fail[sic] to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six month[sic] subsequent to publication, in the manner above provided."

R. S., sec 5155, p. 996; U. S. C., p. 354. Vol. 48, p. 189.

National bank agency; establishment in resort community.

Proviso. Revocation of permit; when. Restriction on establishing branch banks.

Vol. 48, p. 971.

Vol. 48, p. 194; U. S. C., p. 359. Stock ownership of members governing bodies of national bank association.

Vol. 48, p. 194; U. S. C., p. 360.

Member bank officers, directors, etc. Restriction on engaging in securities transactions.

Exception.

National Bank Act, amendments.

R. S., sec. 5136. p. 993; U. S. C., p. 352. Vol. 48, p. 184. Corporate powers of associations. Security transactions.

SEC. 305. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12. sec. 36), is amended (1) by inserting after the first sentence thereof the following new sentence: "In any State in which State banks are permitted by statute law to maintain branches within county or greater limits, if no bank is located and doing business in the place where the proposed agency is to be located, any national banking association situated in such State may, with the approval of the Comptroller of the Currency, establish and operate, without regard to the capital requirements of this section, a seasonal agency in any resort community within the limits of the county in which the main office of such association is located, for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto: *Provided*, That any permit issued under this sentence shall be revoked upon the opening of a State or national bank in such community."; and (2) by striking out the first word in the last sentence of such paragraph (c) and inserting in lieu thereof the following: "Except as provided in the immediately preceding sentence, no".

SEC. 306. Section 4 of the Act entitled "An Act to amend section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance, and for other purposes", approved June 16, 1934 (48 Stat. 969), is amended to read as follows:

"**SEC. 4.** So much of section 31 of the Banking Act of 1933, as amended, as relates to stock ownership by directors, trustees, or members of similar governing bodies of any national banking association, or of any State bank or trust company which is a member of the Federal Reserve System, is hereby repealed."

SEC. 307. Effective January 1, 1936, section 32 of the Banking Act of 1933, as amended, is amended to read as follows:

"**SEC. 32.** No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

SEC. 308. (a) The second sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 24), is amended to read as follows: "The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided*, That the association may purchase for its own account investment securities under such

Proviso.
Purchases by
association for own
account.

Total amount of
investments.

Purchases of shares
of any corporation.

Obligations insured
by Federal Housing
Administration.

Vol. 48, p. 1252.

R. S., sec. 5138, p.
993; U. S. C., p. 355.
Vol. 48, p. 185.
Requisite amount of
capital stock.
Paid-in surplus
required.

Provisos.
When State bank
converting into
national banking
association.

Amounts paid for
retirement of
preferred stock of
converted bank.

R. S., sec. 5139, p.
993; U. S. C., p. 356.
Vol. 48, p. 186.

limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935."

(b) The fourth sentence of such paragraph Seventh is amended to read as follows: "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation."

(c) The last sentence of such paragraph Seventh is amended by inserting before the colon after the words "Home Owners' Loan Corporation" a comma and the following: "or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States."

SEC. 309. Section 5138 of the Revised Statutes, as amended, (U. S. C., Supp. VII, title 12, sec. 51), is amended by adding the following sentences at the end thereof: "No such association shall hereafter be authorized to commence the business of banking until it shall have a paid-in surplus equal to 20 per centum of its capital: *Provided*, That the Comptroller of the Currency may waive this requirement as to a State bank converting into a national banking association, but each such State bank which is converted into a national banking association shall, before the declaration of a dividend on its shares of common stock, carry not less than one-half part of its net profits of the preceding half year to its surplus fund until it shall have a surplus equal to 20 per centum of its capital: *Provided*, That for the purposes of this section any amounts paid into a fund for the retirement of any preferred stock of any such converted State bank out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the converted State bank shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 310. (a) The last paragraph of section 5139 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 52), is amended to read as follows:

Stock certificates of banking associations. Conditioning transfer on the transfer of stock of another corporation.

Proviso.
Exception.

Vol. 38, p. 259; Vol. 48, p. 165; U. S. C., p. 389.

Stock certificates of State member banks. Transfer of shares.

Proviso.
Exception.

R. S., sec. 5144, p. 994; Vol. 48, p. 186; U. S. C., p. 357.

Right of shareholders to vote.

Holders of preferred stock.

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any such association shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or corporation engaged on June 16, 1934 in holding the bank premises of such association: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a national banking association."

(b) The nineteenth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any State member bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a State member bank."

SEC. 311. (a) The first paragraph of section 5144 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and

Stocks held in trust. one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper or such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

Stocks controlled by holding company affiliate.

Proxies.

R. S., sec. 5144, p. 994; U. S. C., p. 357. Application of holding company affiliate for voting permit.

(b) The first sentence of the third paragraph of such section 5144 is amended to read: "Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same."

Reserves to be maintained by.

(c) Section 5144 of the Revised Statutes, as amended, is further amended by adding at the end of subsection (c) thereof the following: "and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock; "

R. S., sec. 5154, p. 996; Vol. 38, p. 259; U. S. C., p. 354.

SEC. 312. Section 5154 of the Revised Statutes, as amended (U. S. C., title 12, sec. 35), is amended by adding at the end thereof the following paragraph:

Conversion of State banks into national banking associations. Retention of assets not conforming to legal requirements.

"The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations."

R. S., sec. 5162, p. 998; U. S. C., p. 370.

SEC. 313. Section 5162 of the Revised Statutes (U. S. C., title 12, sec. 170) is amended by adding at the end thereof the following paragraph:

Transfer of bonds; countersigning name of Comptroller.

"The Comptroller of the Currency may designate one or more persons to countersign in his name and on his behalf such assignments or transfers of bonds as require his countersignature."

R. S., sec. 5197, p. 1005; Vol. 48, p. 191; U. S. C., p. 361.

Rates of interest or discount, branches outside United States.

R. S., sec. 5199, p. 1005; U. S. C., p. 357.

Dividends and surplus funds.

Proviso
Amounts paid for retirement of preferred stock.

R. S., sec. 5209, p. 1007; Vol. 40, p. 972; U. S. C., p. 409.
Crimes by officers, etc., of insured banks.

R. S., sec. 5220, p. 1010; U. S. C., p. 371.

Voluntary liquidation.
Designation of liquidating agent.

Annual reports.

Special meetings of stockholders.

SEC. 314. Section 5197 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 85), is amended by inserting after the second sentence thereof the following new sentence: "The maximum amount of interest or discount to be charged at a branch of an association located outside of the States of the United States and the District of Columbia shall be at the rate allowed by the laws of the country, territory, dependency, province, dominion, insular possession, or other political subdivision where the branch is located."

SEC. 315. Section 5199 of the Revised Statutes (U. S. C., title 12, sec. 60), is amended to read as follows:

"**SEC. 5199.** The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend on its shares of common stock, carrying not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock of any such association out of its net earnings for such half-year periods shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the association shall be obligated to transfer to surplus the amounts so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 316. Section 5209 of the Revised Statutes (U. S. C., title 12, sec. 592), is hereby amended by inserting after the words "known as the Federal Reserve Act", the words "or of any national banking association, or of any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act", and by inserting after the words "such Federal Reserve bank or member bank", wherever they appear in such section, the words "or such national banking association or insured bank"; and by inserting after the words "or the Comptroller of the Currency", the words "or the Federal Deposit Insurance Corporation,".

SEC. 317. Section 5220 of the Revised Statutes (U. S. C., title 12, sec. 181), is amended by adding at the end thereof the following paragraph:

"The shareholders shall designate one or more persons to act as liquidating agent or committee, who shall conduct the liquidation in accordance with law and under the supervision of the board of directors, who shall require a suitable bond to be given by said agent or committee. The liquidating agent or committee shall render annual reports to the Comptroller of the Currency on the 31st day of December of each year showing the progress of said liquidation until the same is completed. The liquidating agent or committee shall also make an annual report to a meeting of the shareholders to be held on the date fixed in the articles of association for the annual meeting, at which meeting the shareholders may, if they see fit, by a vote representing a majority of the entire stock

of the bank, remove the liquidating agent or committee and appoint one or more others in place thereof. A special meeting of the shareholders may be called at any time in the same manner as if the bank continued an active bank and at said meeting the shareholders may, by vote of the majority of the stock, remove the liquidating agent or committee. The Comptroller of the Currency is authorized to have an examination made at any time into the affairs of the liquidating bank until the claims of all creditors have been satisfied, and the expense of making such examinations shall be assessed against such bank in the same manner as in the case of examinations made pursuant to section 5240 of the Revised Statutes, as amended (U. S. C., title 12, secs. 484, 485; Supp. VII, title 12, secs. 481-483)."

Examination of liquidating bank.

Assessment for expenses.

R. S., sec. 5240, p. 1013; U. S. C., p. 403.

R. S., sec. 5243, p. 1014; U. S. C., p. 408.

SEC. 318. Section 5243 of the Revised Statutes (U. S. C., title, 12. sec. 583) is amended by striking out the semicolon therein and all that precedes it and substituting the following:

Exclusive use of terms.

"**SEC. 5243.** The use of the word 'national', the word 'Federal' or the words 'United States', separately, in any combination thereof, or in combination with other words or syllables, as part of the name or title used by any person, corporation, firm, partnership, business trust, association or other business entity, doing the business of bankers, brokers, or trust or savings institutions is prohibited except where such institution is organized under the laws of the United States, or is otherwise permitted by the laws of the United States to use such name or title, or is lawfully using such name or title on the date when this section, as amended, takes effect;".

Federal Reserve Act, amendments.

Vol. 38, p. 257; U. S. C., p. 387.

Capital stock and surplus of member bank; proportionate reduction.

SEC. 319. (a) Section 5 of the Federal Reserve Act, as amended, is amended by striking out the last three sentences thereof and inserting in lieu thereof the following: "When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank."

When member bank voluntarily liquidates.

Cancellation of surrendered shares.

Vol. 38, p. 258; Vol. 46, p. 250; U. S. C., p. 387.

(b) Section 6 of the Federal Reserve Act, as amended, is amended by striking out the last paragraph thereof.

Vol. 38, p. 259; Vol. 40, p. 233; U. S. C., p. 389.
Reports of condition.

SEC. 320. The fifth paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following sentence: "Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe."

Vol. 39, p. 752; Vol. 48, p. 167.
Loans by State member banks to borrowers on Government securities; limitations.

SEC. 321. (a) The first sentence of paragraph (m) of section 11 of the Federal Reserve Act, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That with respect to loans represented by obligations in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, such limitation of 10 per centum on loans to any person shall not apply, but State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section, 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12. sec. 84)".

R. S., sec. 5200, p. 1005; U. S. C., p. 360.

(b) Paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84), is amended by inserting after the comma following the words "certificate of indebtedness of the United States", the words "Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States".

R. S., sec. 5200, p. 1005; Vol. 44, p. 1231; U. S. C., p. 360.

Limit of liability of any person to bank.

Vol. 38, p. 263; Vol. 47, p. 715.

Discount of paper for individuals or corporations.

SEC. 322. The third paragraph of section 13 of the Federal Reserve Act, as amended, is amended by changing the words "indorsed and otherwise secured to the satisfaction of the Federal Reserve bank" in that paragraph to read "indorsed or otherwise secured to the satisfaction of the Federal Reserve bank".

Vol. 48, p. 1106.

Direct loans for industrial purposes. Payments to Reserve banks.

SEC. 323. Subsection (e) of section 13b of the Federal Reserve Act, as amended, is amended by striking out "upon the date this section takes effect", and inserting in lieu thereof "on and after June 19, 1934"; and by striking out "the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock", and inserting in lieu thereof "the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation".

Vol. 38, p. 270; Vol. 40, p. 239; U. S. C., p. 402.

SEC. 324. (a) The first paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

Board authorized to define terms.

"**SEC. 19.** The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms 'demand deposits', 'gross demand deposits', 'deposits payable on demand', 'time deposits', 'savings deposits', and 'trust funds', to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided*, That, within the meaning of the

provisions of this section regarding the reserves required of member banks, the term 'time deposits' shall include 'savings deposits'."

Proviso.

Time deposits to include savings deposits.

Vol. 38, p. 270; U. S. C., p. 402.

(b) The tenth paragraph of such section 19 is amended to read as follows:

Ascertainment of reserve balances required.

"In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System."

Vol. 38, p. 270; Vol. 48, p. 181; U. S. C., p. 402.

(c) The last two paragraphs of such section 19 are amended to read as follows:

Interest payments on demand deposits.

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

Proviso.

Contracts made prior hereto.

Renewals prohibited.

Deposits payable foreign.

Deposits to which provisions inapplicable.

Repeal of inconsistent laws. Vol. 39, pp. 121, 159.

Time and saving deposits; regulations respecting rates of interest.

"The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different

Payment of time deposit before maturity; restrictions.

locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia."

Proviso.
Deposits payable foreign.

Vol. 38, p. 271.

(d) Such section 19 is amended by adding at the end thereof the following new paragraph:

Reserves against deposits of public moneys.

"Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits."

Vol. 38, p. 271; U. S. C., p. 403.

SEC. 325. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:

Bank examinations and reports.
Reports of affiliate of member bank.

"Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to all such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

Vol. 40, p. 970; Vol. 44, p. 1232; U. S. C., p. 409.

Loans or gratuities to bank examiners prohibited.

SEC. 326. (a) Subsection (a) of section 22 of the Federal Reserve Act, as amended, is amended by inserting in the first paragraph thereof after "No member bank" the following: "and no insured bank as defined in subsection (c) of section 12B of this Act"; by inserting before the period at the end of the first sentence of such paragraph "or assistant examiner, who examines or has authority to examine such bank"; and by inserting after "any member bank" in the second paragraph thereof "or insured bank"; by inserting before the period at the end thereof "or Federal Deposit Insurance Corporation examiner"; and by adding at the end of such subsection a new paragraph, as follows:

Application of provision.

"The provisions of this subsection shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve agent, by a Federal Reserve bank, or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or assistant examiners employed only by a clearing-house association or by the directors of a bank."

Vol. 40, p. 970; U. S. C., p. 409.
 Restriction on other employment by bank examiners.

(b) Subsection (b) of such section 22 is amended by inserting therein after "no national bank examiner" the following: "and no Federal Deposit Insurance Corporation examiner"; and by inserting after "member bank" the following: "or insured bank"; and by inserting after "from the Comptroller of the Currency," the following: "as to a national bank, the Board of Governors of the Federal Reserve System as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank,".

Vol. 48, p. 182; U. S. C., p. 398.

(c) Subsection (g) of such section 22 is amended to read as follows:

Loans to executive officer of member bank prohibited.
Ante, p. 375.

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: *Provided further*, That with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding \$2,500. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Board of Governors of the Federal Reserve System is authorized to define the term 'executive officer', to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: *Provided*, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of

Provisos.
 Renewal of loans made prior to June 16, 1933.

Loans on approval of directors.

Officer indebted to other member bank. Report to board of directors.

Loans to partnerships.

Endorsement of loans by officers.

"Executive officer" to be defined.

Rules and regulations.

Penalty provision.

such violation within the meaning of said section 30."

Proviso.

Continuation of
violation.
Vol. 48, p. 193.

Vol. 48, p. 183; U. S.
C., p. 397.

SEC. 327. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

Loans to affiliates;
restrictions.
"Affiliate"
construed.
Affiliates exempted
from limitations.

"For the purpose of this section, the term 'affiliate' shall include holding-company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged on June 16, 1934, in holding the bank premises of the member bank with which it is affiliated or in maintaining and operating properties acquired for banking purposes prior to such date; (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company; (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (4) organized under section 25 (a) of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (5) engaged solely in holding obligations of the United States or obligations fully guaranteed by the United States as to principal and interest, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; (6) where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship; or (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depository, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations. The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank or to loans secured by, or extensions of credit against, obligations of the United States or obligations fully guaranteed by the United States as to principal and interest."

Vol. 38, p. 273; Vol.
44, p. 1232; U. S. C.,
p. 397.

SEC. 328. Section 24 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

Loans to industrial or commercial businesses exempt from restrictions on real estate loans.

"Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate."

Vol. 38, p. 755; U. S. C., p. 410.

Interlocking personnel; between national bank and foreign banking corporation.

SEC. 329. Section 25 of the Federal Reserve Act, as amended, is further amended by striking out the last paragraph of such section; the paragraph of section 25 (a) of the Federal Reserve Act, as amended, which commences with the words "A majority of the shares of the capital stock of any such corporation" is amended by striking out all of said paragraph except the first sentence thereof; and the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes" (38 Stat. 730), approved October 15, 1914, as amended, is further amended (a) by striking out section 8A thereof and (b) by substituting for the first three paragraphs of section 8 thereof the following:

Vol. 39, p. 756; Vol. 48, p. 194; U. S. C., p. 411.

Interlocking directorates and officers between banks.

Vol. 41, p. 626; Vol. 45, p. 253.

"**SEC. 8.** No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:

When prohibition inapplicable.

"(1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

"(2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or which is in the hands of a receiver, conservator, or other official exercising similar functions.

"(3) A corporation, principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.

"(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

"(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

"(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

"(7) A mutual savings bank having no capital stock.

Vol. 45, p. 1536.

"Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

Enforcement provision.

"The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

Consolidation of national banks.
Vol. 40, p. 1043;
Vol. 48, p. 190; U. S. C., p. 353.

SEC. 330. (a) Section 1 of the Act of November 7, 1918, as amended (U. S. C., title 12, sec. 33; Supp. VII, title 12, sec. 33), is amended by striking out the second proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: *And provided further*, That if such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of each of the associations proposing to consolidate, any shareholder of any of the associations so consolidated, who has voted against such consolidation at the meeting of the association of which he is a shareholder or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval".

Dissenting shareholder; meetings.

Entitlement to value of shares held.

(b) Such section 1 is further amended by adding at the end thereof the following paragraphs:

Notice of meetings.

"Publication of notice and notification by registered mail of the meeting provided for in the foregoing paragraph may be waived by unanimous action of the shareholders of the respective associations. Where a dissenting shareholder has given notice as above provided to the association of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such association.

Appointment of appraiser.

Shares; appraisal; sale at public auction; payment to shareholder. Liability of consolidated association. When appraisers fail to agree.

"If shares, when sold at public auction in accordance with this section, realize a price greater than their final appraised value, the excess in such sale price shall be paid to the shareholder. The consolidated association shall be liable for all liabilities of the respective consolidating associations. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

Vol. 44, p. 1225; U. S. C., p. 353.

SEC. 331. (a) Section 3 of the Act of November 7, 1918, as amended (U. S. C., Supp. VII, title 12, sec. 34 (a)), is amended by striking out the first sentence following the proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "If such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of the association and of the State or other bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller of the Currency, any shareholder of either the association or the State or other bank so consolidated, who has voted against such consolidation at the meeting of the association of which he is a stockholder, or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval."

Consolidation of State bank, etc., with national bank.

Dissenting shareholder.

Entitlement to value of shares held.

(b) Such section 3 is further amended by adding at the end thereof the following paragraph:

Appointment of appraiser.

"Where a dissenting shareholder has given notice as provided in this section to the bank of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such bank. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

When appraisers fail to agree.

Vol. 44, p. 628; U. S. C., p. 408.

SEC. 332. The Act entitled "An Act to prohibit offering for sale as Federal farm-loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words 'Federal', 'United States', or 'reserve', or a combination of such words, to prohibit false advertising, and for other purposes", approved May 24, 1926 (U. S. C., Supp. VII, title 12, secs. 584-588), is amended by inserting in section 2 thereof after "the words 'United States'", the following: "the words 'Deposit Insurance'"; and by inserting in said section after the words "the laws of the United States", the following: "nor to any new bank organized by the Federal Deposit Insurance Corporation as provided in section 12B of the Federal Reserve Act, as amended,"; and by striking out the period at the end of section 4 and inserting the following: "or the Federal Deposit Insurance Corporation."

Exclusive use of terms.

Use of the words "deposit insurance"; false advertising.

Vol. 48, p. 783.
Punishment for
certain offenses
against banks.
"Bank" construed.

SEC. 333. The Act entitled "An Act to provide punishment for certain offenses committed against banks organized or operating under laws of the United States or any member of the Federal Reserve System", approved May 18, 1934 (48 Stat. 783), is amended by striking out the period after "United States" in the first section thereof and inserting the following: "and any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act, as amended."

R. S., sec. 5143, p.
994; U. S. C., p. 357.
Vol. 38, p. 274.
Reduction of capital
stock by
associations.
Distribution to
shareholders;
approval required.

SEC. 334. Section 5143 of the Revised Statutes, as amended, is hereby amended by striking out everything following the words "Comptroller of the Currency", where such words last appear in such section, and substituting the following: "and no shareholder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes."

R. S., sec. 5139, p.
993; U. S. C., p. 356.

SEC. 335. Section 5139 of the Revised Statutes, as amended, is amended by adding at the end of the first paragraph the following new paragraph:

National bank stock
certificates;
requirements
respecting contents
and issue.

"Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented thereby, (3) the number and class of shares which the certificate represents, and (4) if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in full or in summary upon the front or back of the certificates or shall be incorporated by a reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association."

Signatures required.

Vol. 48, p. 148; U. S.
C., p. 355.
Preferred stock of
national banking
associations.
Approval of issue
required.

SEC. 336. The last sentence of section 301 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, is amended to read as follows: "No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of such association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued."

Banks in District of Columbia.
Vol. 47, p. 1566;
Vol. 31, p. 1307.
Additional liability on shareholders.

Proviso.
Notice of termination; publication.

When notice not published.

Dividends and surplus fund.

Amounts paid in for retirement of preferred stock or debenture.

To be transferred to surplus.

Federal Reserve Act amendment.
Vol. 38, p. 259; Vol. 44, p. 1229; U. S. C., p. 389.
Branch banks of State member bank; approval required to establish.

R. S., sec. 5234, p. 1012; U. S. C., p. 371.
Default in payment of circulating notes.
Vol. 39, p. 122.

Security for insured deposits not required.

SEC. 337. The additional liability imposed by section 4 of the Act of March 4, 1933, as amended (D. C. Code, Supp. I, title 5, sec. 300a), upon the shareholders of saving banks, savings companies, and banking institutions and the additional liability imposed by section 734 of the Act of March 3, 1901 (D. C. Code, title 5, sec. 361), upon the shareholders of trust companies, shall cease to apply on July 1, 1937, with respect to such savings banks, savings companies, banking institutions, and trust companies which shall be transacting business on such date: *Provided*, That not less than six months prior to such date, the savings bank, savings company, banking institution, or trust company, desiring to take advantage hereof, shall have caused notice of such prospective termination of liability to be published in a newspaper published in the District of Columbia and having general circulation therein. In the event of failure to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six months subsequent to publication in the manner above provided. Each such savings bank, savings company, banking institution, and trust company shall, before the declaration of a dividend on its shares of common stock, carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common stock: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock or debentures of any such savings bank, savings company, banking institution, or trust company, out of its net earnings for such half-year period shall be deemed to be an addition to its surplus if, upon the retirement of such preferred stock or debentures, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the savings bank, savings company, banking institution, or trust company shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock or debentures as such stock or debentures are retired.

SEC. 338. The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by striking out the period at the end thereof and adding thereto the following: "except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated."

SEC. 339. Section 5234 of the Revised Statutes, as amended (U. S. C., title 12, sec. 192), is amended by striking out the period after the words "money so deposited" at the end of the next to the last sentence of such section and inserting in lieu of such period a colon and the following: "*Provided*, That no security in the form of deposit of United States bonds, or otherwise, shall be required in the case of such parts of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

Bankruptcy Act,
amendment.
Vol. 30, p. 562; Vol.
47, p. 1482; U. S. C.,
p. 330.
Depositories for
money.
Security for insured
deposits not
required.

SEC. 340. Section 61 of the Act entitled "An Act to establish a uniform system of bankruptcy throughout the United States", approved July 1, 1898, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That no security in form of a bond or otherwise shall be required in the case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended ".

Vol. 36, p. 816; Vol.
48, p. 182; U. S. C.,
p. 1760.
Postal savings
depositories.

SEC. 341. Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U. S. C., title 39, sec. 758; Supp. VII, title 39, sec. 758), is amended by striking out the first sentence thereof and inserting in lieu thereof the following: "Notwithstanding any other provision of law, (1) each deposit in a postal savings depository office shall be a savings deposit, and interest thereon shall be allowed and entered to the credit of the depositor once for each quarter beginning with the first day of the month following the date of such deposit, but no interest shall be allowed to any such depositor with respect to the whole or any part of the funds to his or her credit for any period of less than three months; (2) no interest shall be paid on any such deposit at a rate in excess of that which may lawfully be paid on savings deposits under regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to the Federal Reserve Act, as amended, for member banks of the Federal Reserve System located in or nearest to the place where such depository office is situated; and (3) postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon."

Deposits; nature of.

Interest.

Deposits of savings
in Federal Reserve
banks.

Vol. 38, p. 262; Vol.
40, p. 969; U. S. C.,
p. 379.
National banks
acting as trustees.
Access to reports of
examinations.

SEC. 342. The last sentence of the third paragraph of subsection (k) of section 11 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 348 (k)), is amended to read as follows: "The State banking authorities may have access to reports of examination made by the Comptroller of the Currency insofar as such reports relate to the trust department of such bank, but nothing in this Act shall be construed as authorizing the State banking authorities to examine the books, records, and assets of such bank."

R. S., sec. 5240, p.
1013; Vol. 48, p.
192; U. S. C., p. 403.
Bank examiners.
Retirement annuities.

SEC. 343. The first sentence after the third proviso of section 5240 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, secs. 481 and 482), is amended by striking out the word "is" after the words "whose compensation" and inserting in lieu thereof a comma and the following: "including retirement annuities to be fixed by the Comptroller of the Currency, is and shall be"; and such section 5240 is further amended by striking out "The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency," and inserting in lieu thereof "The Comptroller of the Currency".

Salaries.
Vol. 38, p. 272.

National Housing Act.
Vol. 48, p. 1246.

Suits by and against administrator.

Ante, p. 299.
Insurance of financial institutions.
Post, pp. 1187, 1234.

Vol. 48, p. 1248.
Limit on aggregate principal obligations.

Vol. 48, p. 1252.
Low-cost housing insurance; aggregate amount.

Preferred stock, notes or debentures of member banks.
Consideration to be given in determining whether capital stock is impaired.

Dividends on preferred stock.
Vol. 48, p. 5.

Priority.

SEC. 344. (a) Section 1 of the National Housing Act is amended by adding at the end thereof the following new sentence: "The Administrator shall, in carrying out the provisions of this title and titles II and III, be authorized, in his official capacity, to sue and be sued in any court of competent jurisdiction, State or Federal."

(b) The first sentence of section 2 of the National Housing Act, as amended, is further amended by striking out the words "including the installation of equipment and machinery" and inserting in lieu thereof the words "and the purchase and installation of equipment and machinery on real property".

(c) Subsection (a) of section 203 of the National Housing Act is amended by inserting the words "property and" before the word "projects" in clause (1) of such subsection.

(d) The last sentence of section 207 of the National Housing Act is amended by inserting the words "property or" before the word "project".

SEC. 345. If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto. Notwithstanding any other provision of law, the holders of preferred stock issued by a national banking association pursuant to the provisions of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, shall be entitled to receive such cumulative dividends at a rate not exceeding six per centum per annum on the purchase price received by the association for such stock and, in the event of the retirement of such stock, to receive such retirement price, not in excess of such purchase price plus all accumulated dividends, as may be provided in the articles of association with the approval of the Comptroller of the Currency. If the association is placed in voluntary liquidation, or if a conservator or a receiver is appointed therefor, no payment shall be made to the holders of common stock until the holders of preferred stock shall have been paid in full such amount as may be provided in the articles of association with the approval of the Comptroller of the Currency, not in excess of such purchase price of such preferred stock plus all accumulated dividends.

Separability
provision.

SEC. 346. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons and circumstances, shall not be affected thereby.

Approved, August 23, 1935.

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DEPOSITORY INSTITUTIONS DEREGULATION AND MONETARY CONTROL ACT OF 1980

Effort has been made to faithfully reproduce this statute. However, it should not be considered an official legal source. It is provided here for information only. Any noted errors will be corrected upon notification.

94 STAT. 132

Public Law 96-221
96th Congress

An Act

[TITLE I](#) Monetary Control Act

[TITLE II](#) Depository Institutions Deregulation

[TITLE III](#) Consumer Checking Account Equity Act

[TITLE IV](#) Powers of Thrift Institutions

[TITLE V](#) State Usury Laws

[TITLE VI](#) Truth in Lending Simplification

[TITLE VII](#) Amendments to National Banking Laws

[TITLE VIII](#) Regulatory Simplification

[TITLE IX](#) Foreign Control of United States Institutions

Mar. 31, 1980.

[H. R. 4986]

To facilitate the implementation of monetary policy, to provide for the gradual elimination of all limitations on the rates of interest which are payable on deposits and accounts, and to authorize interest-bearing transaction accounts, and for other purposes.

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

Depository
Institutions
Deregulatory and
Monetary Control
Act of 1980.
12 USC 226 note.

SHORT TITLE

SECTION 1. This Act may be cited as the “Depository Institutions Deregulatory and Monetary Control Act of 1980”.

Monetary Control
Act of 1980.

TITLE I—MONETARY CONTROL ACT OF 1980

SHORT TITLE

12 USC note.

SECTION 101. This title may be cited as the “Monetary Control Act of 1980”.

REPORTING REQUIREMENTS

SEC. 102. Section 11(a) of the Federal Reserve Act (12 U.S.C. 248(a)) is amended—

(1) by inserting “(1)” after “(a)”; and

(2) by adding at the end thereof the following new paragraph:

Reports of assets and
liabilities.

“(2) To require any depository institution specified in this paragraph to make, at such intervals as the Board may prescribe, such reports of its liabilities and assets as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates. Such reports shall be made (A) directly to the Board in the case of member banks and in the case of other depository institutions whose reserve requirements under section 19 of this Act exceed zero, and (B) for all other reports to the Board through the (i) Federal Deposit Insurance Corporation in the case of insured State nonmember banks, savings banks, and mutual savings banks, (ii) National Credit Union Administration Board in the case of insured credit unions, (iii) Federal Home Loan Bank Board in the case of any institution insured by the Federal Savings and Loan Insurance Corporation or which is a member as defined in section 2 of the Federal Home Loan Bank Act, and (iv) such State officer or agency as the Board may designate in the case of any other type of bank, savings and loan association, or credit union. The Board shall endeavor to avoid the imposition of unnecessary burdens on reporting institutions and the duplication of other reporting requirements. Except as otherwise required by law, any data provided to any department, agency, or instrumentality of the United States pursuant to other reporting requirements shall be made available to the Board. The Board may classify depository institutions for the purposes of this paragraph and may impose different requirements on each class.”.

12 USC 461.

12 USC 1422.

RESERVE REQUIREMENTS

SEC. 103. Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)) is amended to read as follows:

“(b) RESERVE REQUIREMENTS.—

Post, p. 140.

Post, p. 139.

Post, p. 140.

“(1) Definitions.—The following definitions and rules apply to this subsection, subsection (c), section 11A, the first paragraph of section 13, and the second, thirteenth, and fourteenth paragraphs of section 16:

“(A) The term ‘depository institution’ means—

12 USC 1813.

“(i) any insured bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

12 USC 1815.

“(ii) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

“(iii) any savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

12 USC 1752.

“(iv) any insured credit union as defined in section 101 of the Federal Credit Union Act or any credit union which is eligible to make application to become an insured credit union pursuant to section 201 of such Act;

12 USC 1781.

12 USC 1422.

“(v) any member as defined in section 2 of the Federal Home Loan Bank Act;

12 USC 1724.

“(vi) any insured institution as defined in section 401 of the National Housing Act or any institution which is eligible to make application to become an insured institution under section 403 of such Act; and

12 USC 1726.

Post, p. 139.

“(vii) for the purpose of section 13 and the fourteenth paragraph of section 16, any association or entity which is wholly owned by or which consists only of institutions referred to in clauses (i) through (vi).

Post, p. 140.

12 USC 1813.

“(B) The term ‘bank’ means any insured or noninsured bank, as defined in section 3 of the Federal Deposit Insurance Act, other than a mutual savings bank or a savings bank as defined in such section.

“(C) The term ‘transaction account’ means a deposit or account on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others. Such term includes demand deposits, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

“(D) The term ‘nonpersonal time deposits’ means a transferable time deposit or account or a time deposit or account representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor who is not a natural person.

Transaction account,
determination by
regulation.

“(E) In order to prevent evasions of the reserve requirements imposed by this subsection, after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, the Board of Governors of the Federal Reserve System is authorized to determine, by regulation or order, that an account or deposit is a transaction account if such account or deposit may be used to provide funds directly or indirectly for the purpose of making payments or transfers to third persons or others.

“(2) RESERVE REQUIREMENTS.—(A) Each depository institution shall maintain reserves against its transaction accounts as the Board may prescribe by regulation solely for the purpose of implementing monetary policy—

“(i) in the ratio of 3 per centum for that portion of its total transaction accounts of \$25,000,000 or less, subject to subparagraph (C); and

“(ii) in the ratio of 12 per centum, or in such other ratio as the Board may prescribe not greater than 14 per centum and not less than 8 per centum, for that portion of its total transaction accounts in excess of \$25,000,000, subject to subparagraph (C).

“(B) Each depository institution shall maintain reserves against its nonpersonal time deposits in the ratio of 3 per centum, or in such other ratio not greater than 9 per centum and not less than zero per centum as the Board may prescribe by regulation solely for the purpose of implementing monetary policy.

Regulation.

“(C) Beginning in 1981, not later than December 31 of each year the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount which is contained in subparagraph (A) or which was last determined pursuant to this subparagraph for the purpose of such subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total transaction accounts of all depository institutions. The increase in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the preceding calendar year from the amount of such accounts on June 30 of the calendar year involved. In the case of any such 12-month period in which there has been a decrease in the total transaction accounts of all depository institutions, the Board shall issue such a regulation decreasing for the next succeeding calendar year such dollar amount by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage decrease in the total transaction accounts of all depository institutions. The decrease in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the calendar year involved from the amount of such accounts on June 30 of the previous calendar year.

Uniform application.

“(D) Any reserve requirement imposed under this subsection shall be uniformly applied to all transaction accounts at all depository institutions. Reserve requirements imposed under this subsection shall be uniformly applied to nonpersonal time deposits at all depository institutions, except that such requirements may vary by the maturity of such deposits.

Waiver.

“(3) WAIVER OF RATIO LIMITS IN EXTRAORDINARY CIRCUMSTANCES.—Upon a finding by at least 5 members of the Board that extraordinary circumstances require such action, the Board, after consultation with the appropriate committees of the Congress, may impose, with respect to any liability of depository institutions, reserve requirements outside the limitations as to ratios and as to types of liabilities otherwise prescribed by paragraph (2) for a period not exceeding 180 days, and for further periods not exceeding 180 days each by affirmative action by at least 5 members of the Board in each instance. The Board shall promptly transmit to the Congress a report of any exercise of its authority under this paragraph and the reasons for such exercise of authority.

Report to Congress.

“(4) SUPPLEMENTAL RESERVES.—(A) The Board may, upon the affirmative vote of not less than 5 members, impose a supplemental reserve requirement on every depository institution of not more than 4 per centum of its total transaction accounts. Such supplemental reserve requirement may be imposed only if—

“(i) the sole purpose of such requirement is to increase the amount of reserves maintained to a level essential for the conduct of monetary policy;

“(ii) such requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of the reserve requirements pursuant to paragraph (2);

“(iii) such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and

“(iv) on the date on which the supplemental reserve requirement is imposed, the total amount of reserves required pursuant to paragraph (2) is not less than the amount of reserves that would be required if the initial ratios specified in paragraph (2) were in effect.

“(B) The Board may require the supplemental reserve authorized under subparagraph (A) only after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board. The Board shall promptly transmit to the Congress a report with respect to any exercise of its authority to require supplemental reserves under subparagraph (A) and such report shall state the basis for the determination to exercise such authority.

Report to Congress.

“(C) The supplemental reserve authorized under subparagraph (A) shall be maintained by the Federal Reserve banks in an Earnings Participation Account. Except as provided in subsection (c)(1)(A)(ii), such Earnings Participation Account shall receive earnings to be paid by the Federal Reserve banks during each calendar quarter at a rate not more than the rate earned on the securities portfolio of the Federal Reserve System during the previous calendar quarter. The Board may prescribe rules and regulations concerning the payment of earnings on Earnings Participation Accounts by Federal Reserve banks under this paragraph.

Earnings
Participation
account.

Reports to Congress. “(D) If a supplemental reserve under subparagraph (A) has been required of depository institutions for a period of one year or more, the Board shall review and determine the need for continued maintenance of supplemental reserves and shall transmit annual reports to the Congress regarding the need, if any, for continuing the supplemental reserve.

Termination. “(E) Any supplemental reserve imposed under subparagraph (A) shall terminate at the close of the first 90-day period after such requirement is imposed during which the average amount of reserves required under paragraph (2) are less than the amount of reserves which would be required during such period if the initial ratios specified in paragraph (2) were in effect.

“(5) RESERVES RELATED TO FOREIGN OBLIGATIONS OR ASSETS.—Foreign branches, subsidiaries, and international banking facilities of nonmember depository institutions shall maintain reserves to the same extent required by the Board of foreign branches, subsidiaries, and international banking facilities of member banks. In addition to any reserves otherwise required to be maintained pursuant to this subsection, any depository institution shall maintain reserves in such ratios as the Board may prescribe against—

“(A) net balances owed by domestic offices of such depository institution in the United States to its directly related foreign offices and to foreign offices of nonrelated depository institutions;

“(B) loans to United States residents made by overseas offices of such depository institution if such depository institution has one or more offices in the United States; and

“(C) assets (including participations) held by foreign offices of a depository institution in the United States which were acquired from its domestic offices.

“(6) EXEMPTION FOR CERTAIN DEPOSITS.—The requirements imposed under paragraph (2) shall not apply to deposits payable only outside the States of the United States and the District of Columbia, except that nothing in this subsection limits the authority of the Board to impose conditions and requirements on member banks under section 25 of this Act or the authority of the Board under section 7 of the International Banking Act of 1978 (12 U.S.C. 3105).

12 USC 601-604a.

“(7) DISCOUNT AND BORROWING.—Any depository institution in which transaction accounts or nonpersonal time deposits are held shall be entitled to the same discount and borrowing privileges as member banks. In the administration of discount and borrowing privileges, the Board and the Federal Reserve banks shall take into consideration the special needs of savings and other depository institutions for access to discount and borrowing facilities consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets.

Reserves.

“(8) TRANSITIONAL ADJUSTMENTS.—

“(A) Any depository institution required to maintain reserves under this subsection which was engaged in business on July 1, 1979, but was not a member of the Federal Reserve System on or after that date, shall maintain reserves against its deposits during the first twelve-month period following the effective date of this paragraph in amounts equal to one-eighth of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to one-fourth of those otherwise required, during the third such twelve-month period in amounts equal to three-eighths of those otherwise required, during the fourth twelve-month period in amounts equal to one-half of those otherwise required, and during the fifth twelve-month period in amounts equal to five-eighths of those otherwise required, during the sixth twelve-month period in amounts equal to three-fourths of those otherwise required, and during the seventh twelve-month period in amounts equal to seven-eighths of those otherwise required. This subparagraph does not apply to any category of deposits or accounts which are first authorized pursuant to Federal law in any State after April 1, 1980.

“(B) With respect to any bank which was a member of the Federal Reserve System during the entire period beginning on July 1, 1979, and ending on the effective date of the Monetary Control Act of 1980, the amount of required reserves imposed pursuant to this subsection on and after the effective date of such Act that exceeds the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied may, at the discretion of the Board and in accordance with such rules and regulations as it may adopt, be reduced by 75 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 25 per centum during the third year.

Ante, p.132.

“(C)(i) With respect to any bank which is a member of the Federal Reserve System on the effective date of the Monetary Control Act of 1980, the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied that exceeds the amount of required reserves imposed pursuant to this subsection shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

“(ii) If a bank becomes a member bank during the four-year period beginning on the effective date of the Monetary Control Act of 1980, and if the amount of reserves which would have been required of such bank, determined as if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied, and as if such bank had been a member during such period, exceeds the amount of reserves required pursuant to this subsection, the amount of reserves required to be maintained by such bank beginning on the date on which such bank becomes a member of the Federal Reserve System shall be the amount of reserves which would have been required of such bank if it had been a member on the day before such effective date,

except that the amount of such excess shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

“(D)(i) Any bank which was a member bank on July 1, 1979, and which withdraws from membership in the Federal Reserve System during the period beginning on July 1, 1979, and ending on the day before the date of enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980, shall maintain reserves beginning on such date of enactment in an amount equal to the amount of reserves it would have been required to maintain if it had been a member bank on such date of enactment. After such date of enactment, any such bank shall maintain reserves in the same amounts as member banks are required to maintain under this subsection, pursuant to subparagraphs (B) and (C)(i).

Ante, p.132.

“(ii) Any bank which withdraws from membership in the Federal Reserve System on or after the date of enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980 shall maintain reserves in the same amount as member banks are required to maintain under this subsection, pursuant to subparagraphs (B) and (C)(i).

Ante, p.132.

“(E) This subparagraph applies to any depository institution which was engaged in business on August 1, 1978, as a depository institution organized under the laws of a State, which was not a member of the Federal Reserve System on that date, and the principal office of which was outside the continental limits of the United States on that date and has remained outside the continental limits of the United States ever since. Such a depository institution shall not be required to maintain reserves against its deposits pursuant to this subsection until the first day of the sixth calendar year which begins after the effective date of the Monetary Control Act of 1980. Such a depository institution shall maintain reserves against its deposits during the sixth calendar year which begins after such effective date in an amount equal to one-eighth of that otherwise required by paragraph (2), during the seventh such year in an amount equal to one-fourth of that otherwise required, during the eighth such year in an amount equal to three-eighths of that otherwise required, during the ninth such year in an amount equal to one-half of that otherwise required, during the tenth such year in an amount equal to five-eighths of that otherwise required, during the eleventh such year in an amount equal to three-fourths of that otherwise required, and during the twelfth such year in an amount equal to seven-eighths of that otherwise required.

“(9) EXEMPTION.—This subsection shall not apply with respect to any financial institution which—

“(A) is organized solely to do business with other financial institutions;

“(B) is owned primarily by the financial institutions with which it does business; and

“(C) does not do business with the general public.

“(10) WAIVERS.—In individual cases, where a Federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Board shall waive the reserve requirement, or waive the penalty for failing to satisfy

a reserve requirement, imposed pursuant to this subsection for the depository institution involved when requested by the Federal supervisory authority involved.”.

FORM OF RESERVES

SEC. 104. (a) Section 19(c) of the Federal Reserve Act (12 U.S.C. 461) is amended to read as follows:

“(c)(1) Reserves held by a depository institution to meet the requirements imposed pursuant to subsection (b) shall, subject to such rules and regulations as the Board shall prescribe, be in the form of—

Vault cash. “(A) balances maintained for such purposes by such depository institution in the Federal Reserve bank of which it is a member or at which it maintains an account, except that (i) the Board may, by regulation or order, permit depository institutions to maintain all or a portion of their required reserves in the form of vault cash, except that any portion so permitted shall be identical for all depository institutions, and (ii) vault cash may be used to satisfy any supplemental reserve requirement imposed pursuant to subsection (b)(4), except that all such vault cash shall be excluded from any computation of earnings pursuant to subsection (b)(4)(C); and

“(B) balances maintained by a depository institution which is not a member bank in a depository institution which maintains required reserve balances at a Federal Reserve bank, in a Federal Home Loan Bank, or in the National Credit Union Administration Central Liquidity Facility, if such depository institution, Federal Home Loan Bank, or National Credit Union Administration Central Liquidity Facility maintains such funds in the form of balances in a Federal Reserve bank of which it is a member or at which it maintains an account. Balances received by a depository institution from a second depository institution and used to satisfy the reserve requirement imposed on such second depository institution by this section shall not be subject to the reserve requirements of this section imposed on such first depository institution, and shall not be subject to assessments or reserves imposed on such first depository institution pursuant to section 7 of the Federal Deposit Insurance Act (12 U.S.C. 1817), section 404 of the National Housing Act (12 U.S.C. 1727), or section 202 of the Federal Credit Union Act (12 U.S.C. 1782).

Liquidity requirements. “(2) The balances maintained to meet the reserve requirements of subsection (b) by a depository institution in a Federal Reserve bank or passed through a Federal Home Loan Bank or the National Credit Union Administration Central Liquidity Facility or another depository institution to a Federal Reserve bank may be used to satisfy liquidity requirements which may be imposed under other provisions of Federal or State law.”.

(b) The first sentence of section 5A(b)(1) of the Federal Home Loan Bank Act (12 U.S.C. 1425a(b)) is amended—

(1) by striking out “and” before “(D)”;

(2) by inserting before the period at the end thereof the following: “; and (E) balances maintained in a Federal Reserve bank or passed through a Federal Home Loan Bank or another depository institution to a Federal Reserve bank pursuant to the Federal Reserve Act”.

12 USC 226.

MISCELLANEOUS AMENDMENTS

SEC. 105. (a) The first paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 342) is amended—

(1) by inserting “or other depository institutions” after “member banks”;

(2) by inserting “or other items” after “payable upon presentation” the first and third place it appears therein;

(3) by inserting “or other items” after “payable upon presentation within its district”;

(4) by inserting “or other depository institution” after “nonmember bank or trust company” each place it appears therein;

(5) by striking out “sufficient to offset the items in transit held for its account by the Federal reserve bank” and inserting in lieu thereof “in such amount as the Board determines taking into account items in transit, services provided by the Federal Reserve bank, and other factors as the Board may deem appropriate”;

(6) by inserting “or other depository institution” after “prohibiting a member or nonmember bank”.

(b)(1) The second paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 412) is amended—

(A) by inserting before the period at the end of the third sentence the following: “, or assets that Federal Reserve banks may purchase or hold under section 14 of this Act”; and

(B) by adding at the end thereof the following: “Collateral shall not be required for Federal Reserve notes which are held in the vaults of Federal Reserve banks.”.

(2) Section 14(b)(1) of the Federal Reserve Act (12 U.S.C. 355), as such section is in effect on the effective date of this title and as it will be in effect on June 1, 1981, is amended by inserting after “reclamation districts,” the following: “and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof,”.

(c) The thirteenth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 360) is amended—

(1) by striking out “member banks” each place it appears therein and inserting in lieu thereof “depository institutions”;

(2) by striking out “member bank” each place it appears therein and inserting in lieu thereof “depository institution”;

(3) by inserting after “checks” each place it appears therein, the following: “and other

12 USC 353-359,
348a.

items, including negotiable orders of withdrawal and share drafts”.

(d) The fourteenth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 248(o)) is amended by striking out “its member banks” and inserting in lieu thereof “depository institutions”.

(e) The first sentence of section 19(e) of the Federal Reserve Act (12 U.S.C. 463) is amended to read as follows: “No member bank shall keep on deposit with any depository institution which is not authorized to have access to Federal Reserve advances under section 10(b) of this Act a sum in excess of 10 per centum of its own paid-up capital and surplus.”

(f) The last subsection of section 19 of the Federal Reserve Act (12 U.S.C. 505) is amended by striking out “(j)(1)” and inserting in lieu thereof “(1)(1)”.

12 USC 347b.

ABOLITION OF PENALTY RATE

SEC. 106. Section 10(b) of the Federal Reserve Act (12 U.S.C. 374b) is amended by striking out the second sentence of the first paragraph.

12 USC 347b.

PRICING OF SERVICES

SEC. 107. The Federal Reserve Act is amended by inserting after section 11 the following new section:

“PRICING OF SERVICES

“SEC. 11A. (a) Not later than the first day of the sixth month after the date of enactment of the Monetary Control Act of 1980, the Board shall publish for public comment a set of pricing principles in accordance with this section and a proposed schedule of fees based upon those principles for Federal Reserve bank services to depository institutions, and not later than the first day of the eighteenth month after the date of enactment of the Monetary Control Act of 1980, the Board shall begin to put into effect a schedule of fees for such services which is based on those principles.

12 USC 248a
Ante, p. 132.

Ante, p. 132.

“(b) The services which shall be covered by the schedule of fees under subsection (a) are—

“(1) currency and coin services;

“(2) check clearing and collection services;

“(3) wire transfer services;

“(4) automated clearinghouse services;

“(5) settlement services;

“(6) securities safekeeping services;

“(7) Federal Reserve float; and

“(8) any new services which the Federal Reserve System offers, including but not limited to payment services to effectuate the electronic transfer of funds.

“(c) The schedule of fees prescribed pursuant to this section shall be based on the following principles:

“(1) All Federal Reserve bank services covered by the fee schedule shall be priced explicitly.

“(2) All Federal Reserve bank services covered by the fee schedule shall be available to nonmember depository institutions and such services shall be priced at the same fee schedule applicable to member banks, except that nonmembers shall be subject to any other terms, including a requirement of balances sufficient for clearing purposes, that the Board may determine are applicable to member banks.

“(3) Over the long run, fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services priced, including interest on items credited prior to actual collection, overhead, and an allocation of imputed costs which takes into account the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm, except that the pricing principles shall give due regard to competitive factors and the provision of an adequate level of such services nationwide.

“(4) Interest on items credited prior to collection shall be charged at the current rate applicable in the market for Federal funds.

“(d) The Board shall require reductions in the operating budgets of the Federal Reserve banks commensurate with any actual or projected decline in the volume of services to be provided by such banks. The full amount of any savings so realized shall be paid into the United States Treasury.”

EFFECTIVE DATES

SEC. 108. This title shall take effect on the first day of the sixth month which begins after the date of the enactment of this title, except that the amendments regarding sections 19(b)(7) and 19(b)(8)(D) of the Federal Reserve Act shall take effect on the date of enactment of this title. [Title index](#)

12 USC 248 note.

Ante, p. 133.

TITLE II—DEPOSITORY INSTITUTIONS DEREGULATION

SHORT TITLE

12 USC 3501 note. SEC. 201. This title may be cited as the “Depository Institutions Deregulation Act of 1980”.

FINDINGS AND PURPOSE

12 USC 3501. SEC. 202. (a) The Congress hereby finds that—

- (1) limitations on the interest rates which are payable on deposits and accounts discourage persons from saving money, create inequities for depositors, impede the ability of depository institutions to compete for funds, and have not achieved their purpose of providing an even flow of funds for home mortgage lending; and
- (2) all depositors, and particularly those with modest savings, are entitled to receive a market rate of return on their savings as soon as it is economically feasible for depository institutions to pay such rate.

(b) It is the purpose of this title to provide for the orderly phase-out and the ultimate elimination of the limitations on the maximum rates of interest and dividends which may be paid on deposits and accounts by depository institutions by extending the authority to impose such limitations for 6 years, subject to specific standards designed to ensure a phase-out of such limitations to market rates of interest.

ESTABLISHMENT AND AUTHORITY OF COMMITTEE

Depository
Institutions
Deregulation
Committee.
12 USC 3502. SEC. 203. (a) The authorities conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. 371b), section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)), and section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) or by any other provision of Federal law, other than section 117 of the Federal Credit Union Act (12 U.S.C. 1763), to prescribe rules governing the payment of interest and dividends and the establishment of classes of deposits or accounts, including limitations on the maximum rates of interest and dividends which may be paid on deposits and accounts, and the authority conferred by the provisions of section 102 of Public Law 94-200 (12 U.S.C. 461 note) are hereby transferred to the Depository Institutions Deregulation Committee (hereinafter in this title referred to as the “Deregulation Committee”).

Members.

(b) The Deregulation Committee shall consist of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, the Chairman of the Federal Home Loan Bank Board, and the Chairman of the National Credit Union Administration Board, who shall be voting members, and the Comptroller of the Currency who shall be a nonvoting member of the Deregulation Committee. The Deregulation Committee shall hold public meetings at least quarterly. All meetings of the Deregulation Committee shall be conducted in conformity with the provisions of section 552b of title 5, United States Code. The Deregulation Committee may not take any action unless such action is approved by a majority vote of the voting members of the Deregulation Committee.

Delegation of
authorities
prohibition.

(c) The authorities conferred by this title on the Deregulation Committee and its members may not be delegated.

DIRECTIVE TO THE COMMITTEE

Regulation.
12 USC 3503.

SEC. 204. (a) The Deregulation Committee shall, by regulation, exercise the authorities transferred by section 203 to provide for the orderly phase-out and the ultimate elimination of the limitations on the maximum rates of interest and dividends which may be paid on deposits and accounts as rapidly as economic conditions warrant. The phase-out of such limitations may be achieved by the Deregulation Committee by the gradual increase in such limitations applicable to all existing categories of accounts, the complete elimination of the limitations applicable to particular categories of accounts, the creation of new categories of accounts not subject to limitations or with limitations set at current market rates, any combination of the above methods, or any other method.

(b) The Deregulation Committee shall work toward providing all depositors with a market rate of return on their savings with due regard for the safety and soundness of depository institutions. Pursuant to the authority granted by this title, the Deregulation Committee shall increase all limitations on the maximum rates of interest and dividends which may be paid on deposits and accounts to market rates as soon as feasible, except that the Deregulation Committee shall not increase such limitations above market rates during the six-year period beginning on the date of enactment of this title.

TARGETS

12 USC 3504.

SEC. 205. (a) In order to assist the Deregulation Committee in establishing the limitations on the maximum rates of interest and dividends which may be paid on all deposits and accounts at market rates as soon as feasible and in order to provide maximum assurance that interest rate controls will be phased-out during the 6-year period following the date of enactment of this title, the Deregulation Committee shall vote, not later than 18 months after such date of enactment, on whether to increase the limitations on the maximum rates applicable to passbook and similar savings accounts by at least one-fourth of one percentage point during such 18-month period, and shall vote, not later than the end of each of the third, fourth, fifth, and sixth years after such date of enactment, on whether to increase the limitations on the maximum rates applicable to all categories of deposits and accounts by at least one-half of one percentage point.

(b) The Deregulation Committee may, consistent with the purposes of this title, adjust the limitations on the rates applicable to all categories of deposits and accounts to rates which are higher or lower than the targets set forth in this section.

REPORTS

12 USC 3505.

SEC. 206. Each member of the Deregulation Committee shall separately report to the Congress annually after the date of enactment of this Act regarding the economic viability of depository institutions. Each such report shall contain—

(1) an assessment of whether the removal of any differential between the rates payable on deposits and accounts by banks and those payable by thrift institutions will adversely affect the housing finance market or the viability of the thrift industry;

(2) recommendations for measures which would encourage savings, provide for the equitable treatment of small savers, and ensure a steady and adequate flow of funds to thrift institutions and the housing market;

(3) findings concerning disintermediation of savings deposits from insured banks and insured thrift institutions to uninsured money market innovators paying market rates to savers; and

(4) recommendations for such legislative and administrative actions as the member involved considers necessary to maintain the economic viability of depository institutions.

TERMINATIONS

Repeals.
12 USC 3506.

- SEC. 207. (a) Section 7 of Public Law 89-597 (12 U.S.C. 461 note) is hereby repealed.
- (b) Effective upon the expiration of 6 years after the date of enactment of this Act—
- (1) section 102 of Public Law 94-200 (12 U.S.C. 461 note) is hereby repealed;
 - (2) the second sentence of section 18(g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)(1)) is amended by striking out “payment and” and by striking out “, including limitations on the rates of interest and dividends that may be paid”;
 - (3) the third, fifth, and eighth sentences of section 18(g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)(1)) are hereby repealed;
 - (4) the first sentence of section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) is amended by striking out “payment and” and by striking out “, including limitations on the rates of interest which may be paid”;
 - (5) the second sentence of section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) is hereby repealed;
 - (6) the third sentence of section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) is amended by striking out “No member bank” and all that follows through “*Provided, That, the*” and inserting in lieu thereof “*The*”;
 - (7) the first sentence of section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) is amended by striking out “payment and” and by striking out “, including limitations on the rates of interest or dividends on deposits, shares, or withdrawable accounts that may be paid”;
 - (8) the second and fourth sentences of section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) are hereby repealed;
 - (9) the third sentence of section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) is amended by striking out “, including specifically the authority” and all that follows through “of that authority”;
 - (10) section 117 of the Federal Credit Union Act (12 U.S.C. 1763) is amended by striking out “, pursuant to such regulations as may be issued by the Board.”;
 - (11) section 501(a)(2) of the Depository Institutions Deregulation and Monetary Control Act of 1980 is amended by striking out “(A)” and by striking out subparagraph (B);
 - (12) section 527 of the Depository Institutions Deregulation and Monetary Control Act of 1980 is amended by striking out “, except as provided in section 501(a)(2)(B)”;
 - (13) Public Law 93-123 (12 U.S.C. 371b note) is hereby repealed.

Post, p. 161.

Post, p. 168.

ENFORCEMENT

USC 3507. SEC. 208. (a) Compliance with the regulations issued by the Deregulation Committee under this title shall be enforced under—

(1) section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), in the case of—

(A) national banks, by the Comptroller of the Currency;

(B) member banks of the Federal Reserve System (other than national banks), by the Board of Governors of the Federal Reserve System;

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation; and

(2) section 5(d) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(d)), section 407 of the National Housing Act (12 U.S.C. 1730), and section 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions.

(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any regulation prescribed under this title shall be deemed to be a violation of a regulation prescribed under the Act involved. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in such subsection may exercise, for the purpose of enforcing compliance with any regulation prescribed under this title, any other authority conferred on it by law.

TRANSITIONAL PROVISIONS

12 USC 3508. SEC. 209. All rules and regulations issued pursuant to any authority transferred by section 203 of this title shall remain in effect until repealed, amended, or superseded by a regulation of the Deregulation Committee.

TERMINATION OF AUTHORITY

12 USC 3509. SEC. 210. Upon the expiration of six years after the date of the enactment of this Act, all authorities transferred to the Deregulation Committee by this title shall cease to be effective and the Deregulation Committee shall cease to exist. [Title index](#)

TITLE III—CONSUMER CHECKING ACCOUNT EQUITY ACT OF 1980

Consumer Checking
Account Equity Act
of 1980.

SHORT TITLE

SEC. 301. This title may be cited as the "Consumer Checking Account Equity Act of 1980.

AUTOMATIC TRANSFER ACCOUNTS

SEC. 302. (a) Section 19(i) of the Federal Reserve Act (12 U.S.C. 371a) is amended by adding at the end thereof the following new sentence: "Notwithstanding any other provision of this section, a member bank may permit withdrawals to be made automatically from a savings deposit that consists only of funds in which the entire beneficial interest is held by one or more individuals through payment to the bank itself or through transfer of credit to a demand deposit or other account pursuant to written authorization from the depositor to make such payments or transfers in connection with checks or drafts drawn upon the bank, pursuant to terms and conditions prescribed by the Board."

(b) Section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended by inserting "(1)" after "(g)" and by adding at the end thereof the following new paragraph:

"(2) Notwithstanding the provisions of paragraph (1), an insured nonmember bank may permit withdrawals to be made automatically from a savings deposit that consists only of funds in which the entire beneficial interest is held by one or more individuals through payment to the bank itself or through transfer of credit to a demand deposit or other account pursuant to written authorization from the depositor to make such payments or transfers in connection with checks or drafts drawn upon the bank, pursuant to terms and conditions prescribed by the Board of Directors."

NOW ACCOUNTS

SEC. 303. Section 2(a) of Public Law 93-100 (12 U.S.C. 1832(a)) is amended to read as follows:

"(a)(1) Notwithstanding any other provision of law but subject to paragraph (2), a depository institution is authorized to permit the owner of a deposit or account on which interest or dividends are paid to make withdrawals by negotiable or transferable instruments for the purpose of making transfers to third parties.

"(2) Paragraph (1) shall apply only with respect to deposits or accounts which consist solely of funds in which the entire beneficial interest is held by one or more individuals or by an organization which is operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and which is not operated for profit."

REMOTE SERVICE UNITS

SEC. 304. Section 5(b)(1) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(b)(1)) is amended by adding at the end thereof the following new sentence: "This section does not prohibit the establishment of remote service units by associations for the purpose of crediting savings accounts, debiting such accounts, crediting payments on loans, and the disposition of related financial transactions, as provided in regulations prescribed by the Board."

SHARE DRAFTS

SEC. 305. (a) Section 101(5) of the Federal Credit Union Act (12 U.S.C. 1752(5)) is amended—

(1) by striking out "or share certificate" each place it appears therein and inserting in lieu thereof ", share certificate, or share draft account"; and

(2) by striking out "or 'share certificate'" and inserting in lieu thereof ", 'share certificate', or 'share draft'".

(b) Section 107(6) of the Federal Credit Union Act (12 U.S.C. 1757(6)) is amended by striking out "credit unions serving" and all that follows through the end thereof and inserting in lieu thereof "credit unions serving predominately low-income members (as defined by the Board) payments on—

"(A) shares which may be issued at varying dividend rates;

"(B) share certificates which may be issued at varying dividend rates and maturities; and

"(C) share draft accounts authorized under section 205(f); subject to such terms, rates, and conditions as may be established by the board of directors, within limitations prescribed by the Board."

(c) Section 117 of the Federal Credit Union Act (12 U.S.C. 1763) is amended—

(1) in the first sentence—

(A) by striking out "and" the second place it appears therein and inserting in lieu thereof a comma; and

(B) by inserting ", and at different rates on different types of share draft accounts" before the period at the end thereof; and

(2) in the second sentence, by striking out "and share certificates" and inserting in lieu thereof ", share certificates, and share draft accounts".

(d) Section 205 of the Federal Credit Union Act (12 U.S.C. 1785) is amended by adding at the end thereof the following new subsection:

"(f)(1) Every insured credit union is authorized to maintain, and make loans with respect to, share draft accounts in accordance with rules and regulations prescribed by the Board. Except as provided in paragraph (2), an insured credit union may pay dividends on share draft accounts and may permit the owners of such share draft accounts to make withdrawals by negotiable or transferable instruments or other orders for the purpose of making transfers to third parties.

"(2) Paragraph (1) shall apply only with respect to share draft accounts in which the entire beneficial interest is held by one or more individuals or members or by an

12 USC 1785.

organization which is operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and which is not operated for profit.”.

EFFECTIVE DATES

SEC. 306. The amendments made by sections 302, 304, and 305 of this title shall take effect at the close of March 31, 1980, and the amendments made by section 303 of this title shall take effect on December 31, 1980.

12 USC 371a note.

REPEAL OF EXISTING LAW

SEC. 307. At the close of March 31, 1980, the amendments made by sections 101 through 103 of Public Law 96-161 are hereby repealed.

12 USC 371a, 1464, 1752, 1757, 1828.

DEPOSIT INSURANCE

SEC. 308. (a)(1) The following provisions of the Federal Deposit Insurance Act are amended by striking out “\$40,000” each place it appears therein and inserting in lieu thereof “\$100,000”:

12 USC 1811 note.

(A) The first sentence of section 3(m) (12 U.S.C. 1813(m)).

(B) The first sentence of section 7(i) (12 U.S.C. 1817(i)).

(C) The last sentence of section 11(a)(1) (12 U.S.C. 1821(a)(1)).

(D) The fifth sentence of section 11(i) (12 U.S.C. 1821(i)).

(2) The amendments made by this subsection are not applicable to any claim arising out of the closing of a bank prior to the effective date of this section.

Exemption.
12 USC 1813 note.

(b)(1) The following provisions of title IV of the National Housing Act are amended by striking out “\$40,000” each place it appears therein and inserting in lieu thereof “\$100,000”:

12 USC 1724.

(A) Section 401(b) (12 U.S.C. 1724(b)).

(B) Section 405(a) (12 U.S.C. 1728(a)).

(2) The amendments made by this subsection are not applicable to any claim arising out of a default, as defined in section 401(d) of the National Housing Act (12 U.S.C. 1724(d)), where the appointment of a conservator, receiver, or other legal custodian as set forth in that section became effective prior to the effective date of this section.

Exemption.
12 USC 1724 note.

(c)(1) The second sentence of section 207(c) of the Federal Credit Union Act (12 U.S.C. 1787(c)) is amended by striking out “\$40,000” and inserting in lieu thereof “\$100,000”.

Exemption.
12 USC 1787 note.

(2) The amendment made by this subsection is not applicable to any claim arising out of the closing of a credit union for liquidation on account of bankruptcy or insolvency pursuant to section 207 of the Federal Credit Union Act (12 U.S.C. 1787) prior to the effective date of this section.

(d) Section 7(d) of the Federal Deposit Insurance Act (12 U.S.C. 1817(d)) is amended—

(1) in the first sentence—

(A) by inserting “(1)” after “(d)”;

(B) by striking out “December 31, 1961” and inserting in lieu thereof “December 31, 1980”; and

(C) by striking out “33¹/₃ per centum” and inserting in lieu thereof “40 per centum”; and

(2) by adding at the end thereof the following new paragraph: “(2) Notwithstanding any other provision of this subsection—

“(A) whenever the Board of Directors determines that the ratio of the Corporation's capital account to the estimated insured deposits is less than 1.10 per centum, the Board of Directors shall increase the per centum of net assessment income to be transferred to the Corporation's capital account by such an amount, but not to exceed 50 per centum, as it determines will result in maintaining that ratio at not less than 1.10 per centum;

“(B) whenever the Board of Directors determines that the ratio of the Corporation's capital account to the estimated insured deposits exceeds 1.25 per centum, the Board of Directors may reduce the per centum of net assessment income to be transferred to the Corporation's capital account by such an amount as it determines will result in maintaining such ratio at not less than 1.25 per centum; and

“(C) whenever the Board of Directors determines that the ratio of the Corporation's capital account to the estimated insured deposits exceeds 1.40 per centum, the Board of Directors shall reduce the per centum of net assessment income to be transferred to the Corporation's capital account by such an amount as it determines will result in maintaining that ratio at not more than 1.40 per centum.”.

(e) The amendments made by this section shall take effect on the date of enactment of this Act.

Effective date.
12 USC 1817 note.

CREDIT UNION AMENDMENTS

SEC. 309. (a) The Federal Credit Union Act is amended—

12 USC 1757.

(1) in section 107(5)(A)(i)—

(A) by inserting “, including an individual cooperative unit,” immediately following “dwelling”; and

(B) by inserting “(except that a loan on an individual cooperative unit shall be adequately secured as defined by the Board)” after “thirty years”:

- 12 USC 1795d. (2) by striking out section 305(b)(3) and inserting in lieu thereof the following:
“(3) shall share in dividend distributions at rates determined by the Board. However, rates on the required capital stock shall be without preference; and”;
- 12 USC 1795f. (3) by striking out “, to the extent or in such amounts as are provided in advance in appropriation Acts” in section 307(15); and
- 12 USC 1795b-1795g. (4) in title III, as so redesignated by subsection (b)(1), by striking out “Administrator” each place it appears and inserting in lieu thereof “Board”.
- 12 USC 1751
12 USC 1795. (b) The Federal Credit Union Act is amended—
(1) by striking out the heading of subchapter III of such Act and inserting in lieu thereof “TITLE III—CENTRAL LIQUIDITY FACILITY”;
- 12 USC 1795a,
1795c, 1795f, 1795g. (2) in title III, as so redesignated by paragraph (1), by striking out “subchapter” each place it appears therein and inserting in lieu thereof “title”; and
- 12 USC 1795f. (3) in section 307(3), by striking out “subchapters I and II of this chapter” and inserting in lieu thereof “titles I and II of this Act”.

INTEREST RATES ON CREDIT UNION LOANS

SEC. 310. Section 107(5)(A)(vi) of the Federal Credit Union Act (12 U.S.C. 1757(5)(A)(vi)) is amended to read as follows:

“(vi) the rate of interest may not exceed 15 per centum per annum on the unpaid balance inclusive of all finance charges, except that the Board may establish—

“(I) after consultation with the appropriate committees of the Congress, the Department of Treasury, and the Federal financial institution regulatory agencies, an interest rate ceiling exceeding such 15 per centum per annum rate, for periods not to exceed 18 months, if it determines that money market interest rates have risen over the preceding six-month period and that prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth; and

“(II) a higher interest rate ceiling for Agent members of the Central Liquidity Facility in carrying out the provisions of title III for such periods as the Board may authorize;”.

12 USC 1795.

FEDERAL HOME LOAN BANK SETTLEMENT AND PROCESSING OF DRAFTS

SEC. 311. Section 11(e) of the Federal Home Loan Bank Act (12 U.S.C. 1431(e)) is amended—

(1) by inserting “(1)” after “(e)”; and

(2) by adding at the end thereof the following new paragraph:

“(2)(A) The Board may, subject to such rules and regulations, including definitions of terms used in this paragraph, as the Board shall from time to time prescribe, authorize Federal Home Loan Banks to be drawees of, and to engage in, or be agents or intermediaries for, or otherwise participate or assist in, the collection and settlement of (including presentment, clearing, and payment of, and remitting for), checks, drafts, or any other negotiable or nonnegotiable items or instruments of payment drawn on or issued by members of any Federal Home Loan Bank or by institutions which are eligible to make application to become members pursuant to section 4, and to have such incidental powers as the Board shall find necessary for the exercise of any such authorization.

“(B) A Federal Home Loan Bank shall make charges, to be determined and regulated by the Board consistent with the principles set forth in section 11A(c) of the Federal Reserve Act, or utilize the services of, or act as agent for, or be a member of, a Federal Reserve bank, clearinghouse, or any other public or private financial institution or other agency, in the exercise of any powers or functions pursuant to this paragraph.

“(C) The Board is authorized, with respect to participation in the collection and settlement of any items by Federal Home Loan Banks, and with respect to the collection and settlement (including payment by the payor institution) of items payable by Federal savings and loan associations and Federal mutual savings banks, to prescribe rules and regulations regarding the rights, powers, responsibilities, duties, and liabilities, including standards relating thereto, of such Banks, associations, or banks and other parties to any such items or their collection and settlement. In prescribing such rules and regulations, the Board may adopt or apply, in whole or in part, general banking usage and practices, and, in instances or respects in which they would otherwise not be applicable, Federal Reserve regulations and operating letters, the Uniform Commercial Code, and clearinghouse rules.”.

CENTRAL LIQUIDITY FACILITY SETTLEMENT AND PROCESSING OF SHARE DRAFTS

SEC. 312. Section 307 of the Federal Credit Union Act (12 U.S.C. 1795f) is amended—

(1) by inserting “(a)” after “SEC. 307.”; and

(2) by adding at the end thereof the following:

“(b)(1) The Board may authorize the Central Liquidity Facility or its Agent members, subject to such rules and regulations, including definitions of terms used in this subsection, as the Board shall from time to time prescribe, to be drawees of, and to engage in, or be agents or intermediaries for, or otherwise participate or assist in, the collection and settlement of (including presentment, clearing, and payment of, and remitting for), checks, share drafts, or any other negotiable or nonnegotiable items or instruments of payment drawn on or issued by members of the Central Liquidity Facility, any of its Agent members, or any other credit union eligible to become a member of the Central Liquidity Facility, and to have such incidental powers as the Board shall find necessary for the exercise of any such authorization.

“(2) The Central Liquidity Facility or its Agent members shall make charges, to be determined and regulated by the Board consistent with the principles set forth in section 11A(c) of the Federal Reserve Act, or utilize the services of, or act as agent for, or be a member of, a Federal Reserve bank, clearinghouse, or any other public or private financial institution or other agency, in the exercise of any powers or functions pursuant to this subsection.

“(3) The Board is authorized, with respect to participation in the collection and settlement of any items by the Central Liquidity Facility or by its Agent members, and with respect to the collection and settlement (including payment by the payor institution) of items payable by members of the Central Liquidity Facility or of any of its Agent members, to prescribe rules and regulations regarding the rights, powers, responsibilities, duties, and liabilities, including standards relating thereto, of such entities and other parties to any such items or their collection and settlement. In prescribing such rules and regulations, the Board may adopt or apply, in whole or in part, general banking usage and practices, and, in instances or respects in which they would otherwise not be applicable, Federal Reserve regulations and operating letters, the Uniform Commercial Code, and clearinghouse rules.”.

ALASKA USA FEDERAL CREDIT UNION

SEC. 313. Any person who is a member of the Alaska USA Federal Credit Union prior to any termination date which is contained in section 5 of the charter of such credit union and which would otherwise apply to such person may continue to be a member of such credit union on and after such date until the expiration of two years after the date of the enactment of this Act. For purposes of this section, the term “member of the Alaska USA Federal Credit Union” means any person who has an account at such credit union. [Title index](#)

Ante, p. 140.

Rules and
regulations.

TITLE IV—POWERS OF THRIFT INSTITUTIONS AND MISCELLANEOUS PROVISIONS

FEDERAL SAVINGS AND LOAN INVESTMENT AUTHORITY

SEC. 401. Section 5(c) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(c)) is amended to read as follows:

“(c) An association may to such extent, and subject to such rules and regulations as the Board may prescribe from time to time, invest in, sell, or otherwise deal with the following loans, or other investments:

“(1) Loans or investments without percentage of assets limitation: Without limitation as a percentage of assets, the following are permitted:

“(A) ACCOUNT LOANS.—Loans on the security of its savings accounts and loans specifically related to negotiable order-of-withdrawal accounts.

“(B) SINGLE-FAMILY AND MULTI-FAMILY MORTGAGE LOANS.—Loans on the security of liens upon residential real property in an amount which, when added to the amount unpaid upon prior mortgages, liens or encumbrances, if any, upon such real estate does not exceed the appraised value thereof, except that the amount of any such loan hereafter made shall not exceed $\frac{66}{3}$ per centum of the appraised value if such real estate is unimproved, 75 per centum of the appraised value if such real estate is improved by offsite improvements such as street, water, sewers, or other utilities, 75 per centum of the appraised value if such real estate is in the process of being improved by a building or buildings to be constructed or in the process of construction, or 90 per centum of the appraised value if such real estate is improved by a building or buildings. Notwithstanding the above loan-to-value ratios, the Board may permit a loan-to-value ratio in excess of 90 per centum if such real estate is improved by a building or buildings and that portion of the unpaid balance of such loan which is in excess of an amount equal to 90 per centum of such value is guaranteed or insured by a public or private mortgage insurer or in the case of any loan for the purpose of providing housing for persons of low income, as described in regulations of the Board.

“(C) UNITED STATES GOVERNMENT SECURITIES.—Investments in obligations of, or fully guaranteed as to principal and interest by, the United States.

“(D) FEDERAL HOME LOAN BANK AND FEDERAL NATIONAL MORTGAGE ASSOCIATION SECURITIES.—Investments in the stock or bonds of a Federal home loan bank or in the stock of the Federal National Mortgage Association.

“(E) FEDERAL HOME LOAN MORTGAGE CORPORATION INSTRUMENTS.—Investments in mortgages, obligations, or other securities which are or ever have been sold by the Federal Home Loan Mortgage Corporation pursuant to section 305 or 306 of the Federal Home Loan Mortgage Corporation Act.

12 USC 1454, 1455.

“(F) OTHER GOVERNMENT SECURITIES.—Investments in obligations, participations, securities, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, the Student Loan Marketing Association or the Government National Mortgage Association, or any other agency of the United States and an association may issue and sell securities which are guaranteed pursuant to section 306(g) of the National Housing Act.

12 USC 1721.

“(G) BANK DEPOSITS.—Investments in the time deposits, certificates, or accounts of any bank the deposits of which are insured by the Federal Deposit Insurance Corporation.

“(H) STATE SECURITIES.—Investments in general obligations of any State or any political subdivision thereof.

“(I) PURCHASE OF INSURED LOANS.—Purchase of loans secured by liens on improved real estate which are insured under provisions of the National Housing Act, or insured as provided in the Servicemen's Readjustment Act of 1944 or chapter 37 of title 38, United States Code.

12 USC 1701.

38 USC 1801 note.

38 USC 1801 *et seq.*

“(J) HOME IMPROVEMENT AND MANUFACTURED HOME LOANS.—Loans made for the repair, equipping, alteration, or improvement of any residential real property, and loans made for the purpose of manufactured home financing.

“(K) INSURED LOANS TO FINANCE THE PURCHASE OF FEE SIMPLE.—Loans as to which the association has the benefit of insurance under section 240 of the National Housing Act, or of a commitment or agreement therefor.

12 USC 1715z-5.

“(L) LOANS TO FINANCIAL INSTITUTIONS, BROKERS, AND DEALERS.—Loans to financial institutions with respect to which the United States or an agency or instrumentality thereof has any function of examination or supervision, or to any broker or dealer registered with the Securities and Exchange Commission, secured by loans, obligations, or investments in which the association has the statutory authority to invest directly.

“(M) LIQUIDITY INVESTMENTS.—Investments which, at the time of making, are assets eligible for inclusion toward the satisfaction of any liquidity requirement imposed by the Board pursuant to section 5A of the Federal Home Loan Bank Act, but only to the extent that the investment is permitted to be so included under regulations of the Board or otherwise authorized.

12 USC 1425a.

“(N) INVESTMENT IN THE NATIONAL HOUSING PARTNERSHIP CORPORATION, PARTNERSHIPS, AND JOINT VENTURES.—Investments in shares of stock issued by a corporation authorized to be created pursuant to title IX of the Housing and Urban Development Act of 1968, and investments in any partnership, limited partnership, or joint venture formed pursuant to section 907(a) or 907(c) of such Act.

42 USC 3931.

42 USC 3937.

“(O) HOUSING AND URBAN DEVELOPMENT GUARANTEED INVESTMENTS.—Loans as to which the association has the benefit of any guaranty under title IV of the Housing and Urban Development Act of 1968, under part B of the Urban Growth and New Community Development Act of 1970, or under section 802 of the Housing and Community Development Act of 1974 as in effect on or after the date of enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980, or of a commitment or agreement therefor.

42 USC 3901.
42 USC 4511.
42 USC 1440, 12
USC 371, 1464.
Ante, p. 132.

“(P) STATE HOUSING CORPORATION INVESTMENTS.—Investments in, commitments to invest in, loans to, or commitments to lend to any State housing corporation, provided that such obligations or loans are secured directly, or indirectly through an agent or fiduciary, by a first lien on improved real estate which is insured under the provisions of the National Housing Act and that in the event of default, the holder of such obligations or loans would have the right directly, or indirectly through an agent or fiduciary, to cause to be subject to the satisfaction of such obligations or loans the real estate described in the first lien or the insurance proceeds under the National Housing Act.

12 USC 1701.

“(Q) INVESTMENT COMPANIES.—An association may invest in, redeem, or hold shares or certificates in any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such management company's investment policy, changeable only if authorized by shareholder vote, solely to any such investments as an association by law or regulation may, without limitation as to percentage of assets, invest in, sell, redeem, hold, or otherwise deal with. The Board shall prescribe rules and regulations to implement the provisions of this subparagraph.

15 USC 80a-51.

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regulations.

“(2) LOANS OR INVESTMENTS LIMITED TO 20 PER CENTUM OF ASSETS.—The following loans or investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 20 per centum of the assets of the association for each subparagraph:

“(A) COMMERCIAL REAL ESTATE LOANS.—Loans on security of first liens upon other improved real estate.

“(B) CONSUMER LOANS AND CERTAIN SECURITIES.—An association may make secured or unsecured loans for personal, family, or household purposes, and may invest in, sell, or hold commercial paper and corporate debt securities, as defined and approved by the Board.

“(3) LOANS OR INVESTMENTS LIMITED TO 5 PER CENTUM OF ASSETS.—The following loans or investments are permitted, but the authority conferred in the following subparagraphs is limited to not in excess of 5 per centum of assets of the association for each subparagraph:

“(A) EDUCATION LOANS.—Loans made for the payment of expenses of college, university, or vocational education.

42 USC 5301.

“(B) COMMUNITY DEVELOPMENT INVESTMENTS.—Investments in real property and obligations secured by liens on real property located within a geographic area or neighborhood receiving concentrated development assistance by a local government under title I of the Housing and Community Development Act of 1974, except that no investment under this subparagraph in such real property may exceed an aggregate investment of 2 per centum of the assets of the association.

“(C) NONCONFORMING LOANS.—Loans upon the security of or respecting real property or interests therein used for primarily residential or farm purposes that do not comply with the limitations of this subsection.

“(D) CONSTRUCTION LOANS WITHOUT SECURITY.—Investments not exceeding the greater of (A) the sum of its surplus, undivided profits, and reserves or (B) 5 per centum of the assets of the association, in loans the principal purpose of which is to provide financing with respect to what is or is expected to become primarily residential real estate where (i) the association relies substantially for repayment on the borrower's general credit standing and forecast of income without other security, or (ii) the association relies on other assurances for repayment, including but not limited to a guaranty or similar obligation of a third party. Investments under this subsection shall not be included in any percentage of assets or other percentage referred to in this subsection.

“(4) OTHER LOANS AND INVESTMENTS.—The following additional loans and other investments to the extent authorized below:

“(A) BUSINESS DEVELOPMENT CREDIT CORPORATIONS.—An association whose general reserves, surplus, and undivided profits aggregate a sum in excess of 5 per centum of its withdrawable accounts is authorized to invest in, lend to, or to commit itself to lend to, any business development credit corporation incorporated in the State in which the home office of the association is located in the same manner and to the same extent as savings and loan associations chartered by such State are authorized, but the aggregate amount of such investments, loans, and commitments of any such association shall not exceed one-half of 1 per centum of the total outstanding loans of the association or \$250,000, whichever is less.

“(B) SERVICE CORPORATIONS.—Investments in the capital stock, obligations, or other securities of any corporation organized under the laws of the State in which the home office of the association is located, if the entire capital stock of such corporation is available for purchase only by savings and loan associations of such State and by Federal associations having their home offices in such State, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would exceed 3 per centum of the assets of the association, except that not less than one-half of the investment permitted under this subparagraph which exceeds one per centum of assets shall be used primarily for community, inner-city, and community development purposes.

12 USC 1749aa.

“(C) FOREIGN ASSISTANCE, CERTAIN GUARANTEED LOANS.—(i) Loans secured by mortgages as to which the association has the benefit of insurance under title X of the National Housing Act or of a commitment or agreement for such insurance.

12 USC 2181.
75 Stat. 432.

“(ii) Investments in housing project loans having the benefit of any guaranty under section 221 of the Foreign Assistance Act of 1961 or loans having the benefit of any guaranty under section 224 of such Act, or any commitment or agreement with respect to such loans made pursuant to either of such sections and in the share capital and capital reserve of the Inter-American Savings and Loan Bank. This authority extends to the acquisition, holding, and disposition of loans having the benefit of any guaranty under section 221 or 222 of such Act, or of any commitment or agreement for any such guaranty.

12 USC 2181, 2182.

“(iii) Investments under clause (i) of this subparagraph shall not be included in any percentage of assets or other percentage referred to in this subsection. Investments under clause (ii) of this subparagraph shall not exceed, in the case of any association, 1 per centum of the assets of such association.

12 USC 1726.

“(D) STATE AND LOCAL GOVERNMENT OBLIGATIONS.—An association whose general reserves, surplus, and undivided profits aggregate a sum in excess of that amount which is determined by the Board for the purpose of the third sentence of section 403(b) of the National Housing Act is authorized to invest in obligations which constitute prudent investments, as defined by the Board, of its home State and political subdivisions thereof (including any agency, corporation, or instrumentality) if (i) the proceeds of such obligations are to be used for rehabilitation, financing, or the construction of residential real estate, and (ii) the aggregate amount of all investments under this subparagraph shall not exceed the amount of the association's general reserves, surplus, and undivided profits.

“(6) DEFINITIONS.—As used in this subsection—

“(A) the terms ‘residential real property’ or ‘residential real estate’ mean leaseholds, homes (including condominiums and cooperatives, except that in connection with loans on individual cooperative units, such loans shall be adequately secured as defined by the Board), combinations of homes and business property, other dwelling units, or combinations of dwelling units including homes and business property involving only minor or incidental business use, or property to be improved by construction of such structures;

“(B) the term ‘loans’ includes obligations and extensions or advances of credit; and any reference to a loan or investment includes an interest in such a loan or investment; and

“(C) the term ‘State’ means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, the Canal Zone, Guam, American Samoa, and any territory or possession of the United States.”.

CREDIT CARDS

SEC. 402. Section 5(b) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(b)) is amended by adding at the end thereof the following new paragraph:

“(4) An association is authorized, subject to such regulations as the Board may prescribe, to issue credit cards, extend credit in connection therewith, and otherwise engage in or participate in credit card operations.”.

TRUST POWERS

SEC. 403. Section 5 of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464) is amended by adding at the end thereof the following new subsection:

“(n)(1) The Board is authorized and empowered to grant by special permit to an association applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, guardian, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with associations are permitted to act under the laws of the State in which the association is located. Subject to the rules and regulations of the Board, service corporations may invest in State or federally-chartered corporations which are located in the State in which the home office of the association is located and which are engaged in trust activities.

“(2) Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with associations, the granting to and the exercise of such powers by associations shall not be deemed to be in contravention of State or local law within the meaning of this section.

“(3) Associations exercising any or all of the powers enumerated in this section shall segregate all assets held in any fiduciary capacity from the general assets of the association and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this section. The State banking authority involved may have access to reports of examination made by the Board insofar as such reports relate to the trust department of such association but nothing in this section shall be construed as authorizing such State banking authority to examine the books, records, and assets of such associations.

“(4) No association shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the association awaiting investment shall be carried in a separate account and shall not be used by the association in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Board.

“(5) In the event of the failure of such association, the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the association.

“(6) Whenever the laws of a State require corporations acting in a fiduciary capacity to deposit securities with the State authorities for the protection of private or court trusts,

associations so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law. Associations in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement. Associations shall have power to execute such bond when so required by the laws of the State involved.

“(7) In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such association may take the necessary oath or execute the necessary affidavit.

“(8) It shall be unlawful for any association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

“(9) In passing upon applications for permission to exercise the powers enumerated in this section, the Board may take into consideration the amount of capital and surplus of the applying association, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly, except that no permit shall be issued to any association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

“(10)(A) Any association desiring to surrender its right to exercise the powers granted under this section, in order to relieve itself of the necessity of complying with the requirements of this section, or to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, or for any other purpose, may file with the Board a certified copy of a resolution of its board of directors signifying such desire.

“(B) Upon receipt of such resolution, the Board, after satisfying itself that such association has been relieved in accordance with State law of all duties as trustee, executor, administrator, guardian or other fiduciary, under court, private or other appointments previously accepted under authority of this section, may in its discretion, issue to such association a certificate certifying that such association is no longer authorized to exercise the powers granted by this section.

“(C) Upon the issuance of such a certificate by the Board, such association (i) shall no longer be subject to the provisions of this section or the regulations of the Board made pursuant thereto, (ii) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (iii) shall not exercise thereafter any of the powers granted by this section without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of this section.

- Regulations. “(D) The Board is authorized and empowered to promulgate such regulations as it may deem necessary to enforce compliance with the provisions of this subsection and the proper exercise of the trust powers granted by this subsection.
- Revocation order. “(11)(A) In addition to the authority conferred by other law, if, in the opinion of the Board, an association is unlawfully or unsoundly exercising, or has unlawfully or unsoundly exercised, or has failed for a period of five consecutive years to exercise, the powers granted by this section or otherwise fails or has failed to comply with the requirements of this subsection, the Board may issue and serve upon the association a notice of intent to revoke the authority of the association to exercise the powers granted by this subsection. The notice shall contain a statement of the facts constituting the alleged unlawful or unsound exercise of powers, or failure to exercise powers, or failure to comply, and shall fix a time and place at which a hearing will be held to determine whether an order revoking authority to exercise such powers should issue against the association.
- Hearing. “(B) Such hearing shall be conducted in accordance with the provisions of subsection (d)(7), and subject to judicial review as therein provided, and shall be fixed for a date not earlier than thirty days and not later than sixty days after service of such notice unless an earlier or later date is set by the Board at the request of any association so served.
- “ (C) Unless the association so served shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the revocation order. In the event of such consent, or if upon the record made at any such hearing, the Board shall find that any allegation specified in the notice of charges has been established, the Board may issue and serve upon the association an order prohibiting it from accepting any new or additional trust accounts and revoking authority to exercise any and all powers granted by this subsection, except that such order shall permit the association to continue to service all previously accepted trust accounts pending their expeditious divestiture or termination.
- Effective date. “(D) A revocation order shall become effective not earlier than the expiration of thirty days after service of such order upon the association so served (except in the case of a revocation order issued upon consent, which shall become effective at the time specified therein), and shall remain effective and enforceable, except to such extent as it is stayed, modified, terminated, or set aside by action of the Board or a reviewing court.”.

CONVERSIONS

SEC. 404. The first sentence of section 5(i) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(i)) is amended by inserting “, and any State stock savings and loan type institution may (if such institution existed in stock form for at least the 4 years preceding the date of enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980) convert its charter to a Federal stock charter under this Act,” after “Federal savings and loan association under this Act”.

Ante, p. 132.

LIQUIDITY REQUIREMENTS

SEC. 405. Section 5A(b) of the Federal Home Loan Bank Act (12 U.S.C. 1425a(b)) is amended to read as follows:

“(b)(1) Any institution which is a member or which is an insured institution as defined in section 401(a) of the National Housing Act shall maintain the aggregate amount of its assets of the following types at not less than such amount as, in the opinion of the Board, is appropriate:

12 USC 1724.

“(A) cash;

“(B) to such extent as the Board may approve for the purposes of this section, time and savings deposits in Federal Home Loan Banks and commercial banks;

“(C) to such extent as the Board may so approve, such obligations, including such special obligations, of the United States, a State, any territory or possession of the United States, or a political subdivision, agency or instrumentality of any one or more of the foregoing, and bankers' acceptances, as the Board may approve; and

“(D) to such extent as the Board may so approve, shares or certificates of any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such investment company's investment policy, changeable only if authorized by shareholder vote, solely to any of the obligations or other investments enumerated in subparagraphs (A) through (C).

15 USC 80a-51.

“(2) The requirement prescribed by the Board pursuant to this subsection (hereinafter in this section referred to as the ‘liquidity requirement’) may not be less than 4 per centum or more than 10 per centum of the obligation of the institution on withdrawable accounts and borrowings payable on demand or with unexpired maturities of one year or less, or in the case of institutions which are insurance companies, such other base or bases as the Board may determine to be comparable. The Board shall prescribe rules and regulations to implement the provisions of this subsection.”.

Liquidity requirement.

Rules and regulations.

STUDY OF MORTGAGE PORTFOLIOS

Interagency task
force
12 USC 1425a note.

SEC. 406. (a)(1) The President shall convene an interagency task force consisting of the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Federal Home Loan Bank Board, the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the National Credit Union Administration Board. The task force shall conduct a study and make recommendations regarding—

(A) the options available to provide balance to the asset-liability management problems inherent in the thrift portfolio structure;

(B) the options available to increase the ability of thrift institutions to pay market rates of interest in period of rapid inflation and high interest rates; and

(C) the options available through the Federal Home Loan Bank system and other Federal agencies to assist thrifts in times of economic difficulties.

(2) In carrying out such study, the task force shall solicit the views of, and invite participation by, consumer and public interest groups, business, labor, and State regulators of depository institutions.

(b) Not later than three months after the date of enactment of this Act, the task force shall transmit to the President and the Congress its findings and recommendations for such action as it deems appropriate.

Report to President
and Congress.

MUTUAL CAPITAL CERTIFICATES

SEC. 407. (a) Section 5(b) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(b)) is amended by adding at the end thereof the following:

"(5)(A) In accordance with rules and regulations issued by the Board, mutual capital certificates may be issued and sold directly to subscribers or through underwriters, and such certificates shall constitute part of the general reserve and net worth of the issuing association. The Board, in its rules and regulations relating to the issuance and sale of mutual capital certificates, shall provide that such certificates—

“(i) shall be subordinate to all savings accounts, savings certificates, and debt obligations;

“(ii) shall constitute a claim in liquidation on the general reserves, surplus, and undivided profits of the association remaining after the payment in full of all savings accounts, savings certificates, and debt obligations;

“(iii) shall be entitled to the payment of dividends; and

“(iv) may have a fixed or variable dividend rate.

“(B) The Board shall provide in its rules and regulations for charging losses to the mutual capital certificate, reserves, and other net worth accounts.”.

Rules and regulations.

(b) Section 403(b) of the National Housing Act (12 U.S.C. 1726(b)), is amended by adding at the end thereof the following: “Mutual capital certificates, subordinate to the rights of holders of savings accounts, savings certificates, and the Corporation, shall be deemed to be reserves for the purposes of this subsection in accordance with rules and regulations prescribed by the Corporation. The Corporation shall provide in its rules and regulations for charging losses to the mutual capital certificate, reserves, and other net worth accounts. In the event an insured institution fails to maintain the reserves required by this title, no payment of dividends on such certificates shall be made except with the approval of the Corporation.”.

MUTUAL SAVINGS BANKS

SEC. 408. (a) Section 5(a) of the Home Owners’ Loan Act of 1933 (12 U.S.C. 1464(a)) is amended—

(1) by inserting “(1)” after “(a)”;

(2) in the fourth and fifth sentences by striking out “(1)” and “(2)” each place they appear therein and inserting in lieu thereof “(A)” and “(B)”, respectively; and

(3) by adding at the end thereof the following new paragraph:

“(2) A Federal mutual savings bank may make commercial, corporate, and business loans except that—

“(A) not more than 5 per centum of the assets of such a bank may be so loaned; and

“(B) such loans may only be made within the State where the bank is located or within 75 miles of the bank’s home office.”.

(b) Section 5(a) of the Home Owners’ Loan Act of 1933 (12 U.S.C. 1464(a)) is amended by adding at the end thereof the following new paragraph:

“(3) In addition to the authority conferred by paragraph (1), Federal mutual savings bank may accept demand deposits in connection with a commercial, corporate, or business loan relationship.”.

INSURANCE RESERVES

SEC. 409. The third sentence of section 403(b) of the National Housing Act (12 U.S.C. 1726(b)) is amended by striking out “5 per centum” and inserting in lieu thereof “an amount no greater than 6 per centum nor less than 3 per centum as determined by the Federal Home Loan Bank Board”. [Title index](#)

TITLE V—STATE USURY LAWS

PART A—MORTGAGE USURY LAWS

MORTGAGES

12 USC 1735f-7
note.

SEC. 501. (a)(1) The provisions of the constitution or the laws of any State expressly limiting the rate or amount of interest, discount points, finance charges, or other charges which may be charged, taken, received, or reserved shall not apply to any loan, mortgage, credit sale, or advance which is—

(A) secured by a first lien on residential real property, by a first lien on stock in a residential cooperative housing corporation where the loan, mortgage, or advance is used to finance the acquisition of such stock, or by a first lien on a residential manufactured home;

(B) made after March 31, 1980; and

(C) described in section 527(b) of the National Housing Act (12 U.S.C. 1735f-5(b)), except that for the purpose of this section—

(i) the limitation described in section 527(b)(1) of such Act that the property must be designed principally for the occupancy of from one to four families shall not apply;

(ii) the requirement contained in section 527(b)(1) of such Act that the loan be secured by residential real property shall not apply to a loan secured by stock in a residential cooperative housing corporation or to a loan or credit sale secured by a first lien on a residential manufactured home;

“Federally related mortgage loan.”

(iii) the term “federally related mortgage loan” in section 527(b) of such Act shall include a credit sale which is secured by a first lien on a residential manufactured home and which otherwise meets the definitional requirements of section 527(b) of such Act, as those requirements are modified by this section;

“Residential loans.”

(iv) the term “residential loans” in section 527(b)(2)(D) of such Act shall also include loans or credit sales secured by a first lien on a residential manufactured home;

(v) the requirement contained in section 527(b)(2)(D) of such Act that a creditor make or invest in loans aggregating more than \$1,000,000 per year shall not apply to a creditor selling residential manufactured homes financed by loans or credit sales secured by first liens on residential manufactured homes if the creditor has an arrangement to sell such loans or credit sales in whole or in part, or if such loans or credit sales are sold in whole or in part to a lender, institution, or creditor described in section 527(b) of such Act or in this section or a creditor, as defined in section 103(f) of the Truth in Lending Act, as such section was in effect on the day preceding the date of enactment of this title, if such creditor makes or invests in residential real estate loans or loans or credit sales secured by first liens on residential manufactured homes aggregating more than \$1,000,000 per year; and

15 USC 1602.

“Lender.”

(vi) the term “lender” in section 527(b)(2)(A) of such Act shall also be deemed to include any lender approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act.

“Depository institution.”

(2)(A) The provisions of the constitution or law of any State expressly limiting the rate or amount of interest which may be charged, taken, received, or reserved shall not apply to any deposit or account held by, or other obligation of a depository institution. For purposes of this paragraph, the term “depository institution” means—

(i) any insured bank as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(ii) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(iii) any savings bank as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(iv) any insured credit union as defined in section 101 of the Federal Credit Union Act (12 U.S.C. 1752);

(v) any member as defined in section 2 of the Federal Home Loan Bank Act (12 U.S.C. 1422); and

(vi) any insured institution as defined in section 408 of the National Housing Act (12 U.S.C. 1730a).

Exemption.
12 USC 1813. (B) This paragraph shall not apply to any such deposit, account, or obligation which is payable only at an office of an insured bank, as defined in section 3 of the Federal Deposit Insurance Act, located in the Commonwealth of Puerto Rico.

Effective date. (b)(1) Except as provided in paragraphs (2) and (3), the provisions of subsection (a)(1) shall apply to any loan, mortgage, credit sale, or advance made in any State on or after April 1, 1980.

Exemption.
State action. (2) Except as provided in paragraph (3), the provisions of subsection (a)(1) shall apply to any loan, mortgage, credit sale, or advance made in any State after the date (on or after April 1, 1980, and before April 1, 1983) on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states explicitly and by its terms that such State does not want the provisions of subsection (a)(1) to apply with respect to loans, mortgages, credit sales, and advances made in such State.

(3) In any case in which a State takes an action described in paragraph (2), the provisions of subsection (a)(1) shall continue to apply to—

(A) any loan, mortgage, credit sale, or advance which is made after the date such action was taken pursuant to a commitment therefor which was entered during the period beginning on April 1, 1980, and ending on the date on which such State takes such action; and

(B) any loan, mortgage, or advance which is a rollover of a loan, mortgage, or advance, as described in regulations of the Federal Home Loan Bank Board, which was made or committed to be made during the period beginning on April 1, 1980, and ending on the date on which such State takes any action described in paragraph (2).

Discount points,
limitation.

(4) At any time after the date of enactment of this Act, any State may adopt a provision of law placing limitations on discount points or such other charges on any loan, mortgage, credit sale, or advance described in subsection (a)(1).

(c) The provisions of subsection (a)(1) shall not apply to a loan, mortgage, credit sale, or advance which is secured by a first lien on a residential manufactured home unless the terms and conditions relating to such loan, mortgage, credit sale, or advance comply with consumer protection provisions specified in regulations prescribed by the Federal Home Loan Bank Board. Such regulations shall—

(1) include consumer protection provisions with respect to balloon payments, prepayment penalties, late charges, and deferral fees;

(2) require a 30-day notice prior to instituting any action leading to repossession or foreclosure (except in the case of abandonment or other extreme circumstances);

(3) require that upon prepayment in full, the debtor shall be entitled to a refund of the unearned portion of the precomputed finance charge in an amount not less than the amount which would be calculated by the actuarial method, except that the debtor shall not be entitled to a refund which is less than \$1; and

(4) include such other provisions as the Federal Home Loan Bank Board may prescribe after a finding that additional protections are required.

(d) The provisions of subsection (c) shall not apply to a loan, mortgage, credit sale, or advance secured by a first lien on a residential manufactured home until regulations required to be issued pursuant to paragraphs (1), (2), and (3) of subsection (c) take effect, except that the provisions of subsection (c) shall apply in the case of such a loan, mortgage, credit sale, or advance made prior to the date on which such regulations take effect if the loan, mortgage, credit sale, or advance includes a precomputed finance charge and does not provide that, upon prepayment in full, the refund of the unearned portion of the precomputed finance charge is in an amount not less the amount which would be calculated by the actuarial method, except that the debtor shall not be entitled to a refund which is less than \$1. The Federal Home Loan Bank Board shall issue regulations pursuant to the provisions of paragraphs (1), (2), and (3) of subsection (c) that shall take effect prospectively not less than 30 days after publication the Federal Register and not later than 120 days from the date of enactment of this Act.

Regulations.

- Definitions.
- (e) For the purpose of this section—
- (1) a “prepayment” occurs upon—
- (A) the refinancing or consolidation of the indebtedness;
- (B) the actual prepayment of the indebtedness by the consumer whether voluntarily or following acceleration of the payment obligation by the creditor; or
- (C) the entry of a judgment for the indebtedness in favor of the creditor;
- (2) the term “actuarial method” means the method of allocating payments made on a debt between the outstanding balance of the obligation and the precomputed finance charge pursuant to which a payment is applied first to the accrued precomputed finance charge and any remainder is subtracted from, or any deficiency is added to, the outstanding balance of the obligation;
- (3) the term “precomputed finance charge” means interest or a time price differential within the meaning of sections 106(a)(1) and (2) of the Truth in Lending Act (15 U.S.C. 1605(a)(1) and (2)) as computed by an add-on or discount method; and
- (4) the term “residential manufactured home” means a mobile home as defined in
- 42 USC 5402. section 603(6) of the National Mobile Home Construction and Safety Standards Act of 1974 which is used as a residence.
- Rules and regulations.
- (f) The Federal Home Loan Bank Board is authorized to issue rules and regulations and to publish interpretations governing the implementation of this section.
- Effective date.
- (g) This section takes effect on April 1, 1980.

PART B—BUSINESS AND AGRICULTURAL LOANS

BUSINESS AND AGRICULTURAL LOANS

- 12 USC 86a. SEC. 511. (a) If the applicable rate prescribed in this section exceeds the rate a person would be permitted to charge in the absence of this section, such person may in the case of a business or agricultural loan in the amount of \$25,000 or more, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any such loan, interest at a rate of not more than 5 per centum in excess of the discount rate, including any surcharge thereon, on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the person is located.
- (b) If the rate prescribed in subsection (a) exceeds the rate such person would be permitted to charge in the absence of this section, and such State imposed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate than is allowed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the loan carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of interest paid from the person taking, receiving, reserving, or

charging such interest.

EFFECTIVE DATE OF PART B

12 USC 86a note.

SEC. 512. The provisions of this part shall apply only with respect to business or agricultural loans in amounts of \$25,000 or more made in any State during the period beginning on April 1, 1980, and ending on the earlier of—

(1) April 1, 1983; or

(2) the date, on or after April 1, 1980, on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states explicitly and by its terms that such State does not want the provisions of this part to apply with respect to loans made in such State, except that such provisions shall apply to any loan made on or after such earlier date pursuant to a commitment to make such loan which was entered into on or after April 1, 1980, and prior to such earlier date.

PART C—OTHER LOANS

INSURED BANKS

SEC. 521. The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended by adding at the end thereof the following new section:

12 USC 1831d.

“SEC. 27. (a) In order to prevent discrimination against State-chartered insured banks, including insured savings banks and insured mutual savings banks, or insured branches of foreign banks with respect to interest rates, if the applicable rate prescribed in this subsection exceeds the rate such State bank or insured branch of a foreign bank would be permitted to charge in the absence of this subsection, such State bank or such insured branch of a foreign bank may, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidence of debt, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such State bank or such insured branch of a foreign bank is located or at the rate allowed by the laws of the State, territory, or district where the bank is located, whichever may be greater.

“(b) If the rate prescribed in subsection (a) exceeds the rate such State bank or such insured branch of a foreign bank would be permitted to charge in the absence of this section, and such State fixed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate of interest than is allowed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover in a civil action commenced in a court of appropriate

jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of the interest paid from such State bank or such insured branch of a foreign bank taking, receiving, reserving, or charging such interest.”.

INSURED SAVINGS AND LOAN ASSOCIATIONS

SEC. 522. Title IV of the National Housing Act (12 U.S.C. 1724 et seq.) is amended by adding at the end thereof the following new section:

12 USC 1730g. “SEC. 414. (a) If the applicable rate prescribed in this section exceeds the rate an insured institution would be permitted to charge in the absence of this section, such institution may, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidence of debt, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such institution is located or at the rate allowed by the laws of the State, territory, or district where such institution is located, whichever may be greater.

“(b) If the rate prescribed in subsection (a) exceeds the rate such institution would be permitted to charge in the absence of this section, and such State fixed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate of interest than that prescribed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of the interest paid from the institution taking or receiving such interest.”.

INSURED CREDIT UNIONS

Ante, p. 147. SEC. 523. Section 205 of the Federal Credit Union Act (12 U.S.C. 1785) is amended by adding at the end thereof the following new subsection:

“(g)(1) If the applicable rate prescribed in this subsection exceeds the rate an insured credit union would be permitted to charge in the absence of this subsection, such credit union may, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this subsection, take, receive, reserve, and charge on any loan, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such insured credit union is located or at the rate allowed by the laws of the State, territory, or district where such credit union is located, whichever may be greater.

“(2) If the rate prescribed in paragraph (1) exceeds the rate such credit union would be

permitted to charge in the absence of this subsection, and such State fixed rate is thereby preempted by the rate described in paragraph (1), the taking, receiving, reserving, or charging a greater rate than is allowed by paragraph (1), when knowingly done, shall be deemed a forfeiture of the entire interest which the loan carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of interest paid from the credit union taking or receiving such interest.”.

SMALL BUSINESS INVESTMENT COMPANIES

SEC. 524. Section 308 of the Small Business Investment Act of 1958 (15 U.S.C. 687) is amended by adding at the end thereof the following new subsection:

“(i)(1) The purpose of this subsection is to facilitate the orderly and necessary flow of long-term loans and equity funds from small business investment companies to small business concerns.

“(2) In the case of a business loan, the small business investment company making such loan may charge interest on such loan at a rate which does not exceed the lowest of the rates described in subparagraphs (A), (B), and (C).

“(A) The rate described in this subparagraph is the maximum rate prescribed by regulation by the Small Business Administration for loans made by any small business investment company (determined without regard to any State rate incorporated by such regulation).

“(B) The rate described in this subparagraph is the maximum rate authorized by an applicable State law or constitutional provision which is not preempted for purposes of this subsection.

“(C)(i) The rate described in this subparagraph is the higher of the Federal Reserve rate or the maximum rate authorized by applicable State law or constitutional provision (determined without regard to the preemption of such State law or constitutional provision).

“(ii) For purposes of clause (i), the term ‘Federal Reserve rate’ means the rate equal to the sum of 1 percentage point plus the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district in which the principal office of the small business investment company is located.

“(iii) The rate described in this subparagraph shall not apply to loans made in a State if there is no maximum rate authorized by applicable State law or constitutional provision for such loans or there is a maximum rate authorized by an applicable State law or constitutional provision which is not preempted for purposes of this subsection.

“(3) A State law or constitutional provision shall be preempted for purposes of paragraph (2)(B) with respect to any loan if such loan is made before the date, on or after April 1, 1980, on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states

“Federal Reserve rate.”

explicitly and by its terms that such State does not want the provisions of this subsection to apply with respect to loans made in such State, except that such State law or constitutional or other provision shall be preempted in the case of a loan made, on or after the date on which such law is adopted or such certification is made, pursuant to a commitment to make such loan which was entered into on or after April 1, 1980, and prior to the date on which such law is adopted or such certification is made.

“(4)(A) If the maximum rate of interest authorized under paragraph (2) on any loan made by a small business investment company exceeds the rate which would be authorized by applicable State law if such State law were not preempted for purposes of this subsection, the charging of interest at any rate in excess of the rate authorized by paragraph (2) shall be deemed a forfeiture of the greater of (i) all interest which the loan carries with it, or (ii) all interest which has been agreed to be paid thereon.

“(B) In the case of any loan with respect to which there is a forfeiture of interest under subparagraph (A), the person who paid the interest may recover from a small business investment company making such loan an amount equal to twice the amount of the interest paid on such loan. Such interest may be recovered in a civil action commenced in a court of appropriate jurisdiction not later than two years after the most recent payment of interest.”.

EFFECTIVE DATE

12 USC 1730g note. SEC. 525. The amendments made by sections 521 through 523 of this title shall apply only with respect to loans made in any State during the period beginning on April 1, 1980, and ending on the date, on or after April 1, 1980, on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states explicitly and by its terms that such State does not want the amendments made by such sections to apply with respect to loans made in such State, except that such amendments shall apply to a loan made on or after the date such law is adopted or such certification is made if such loan is made pursuant to a commitment to make such loan which was entered into on or after April 1, 1980, and prior to the date on which such law is adopted or such certification is made.

SEVERABILITY

12 USC 1730g note. SEC. 526. If any provision of this Act or the application of such provision to any person or circumstance shall be held invalid, the remainder of this Act and the application of such provision to any person or circumstance other than that as to which it is held invalid shall not be affected thereby.

DEFINITION

12 USC 1730g note. SEC. 527. For purposes of this title, the term “State” includes the several States, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Trust Territories of the Pacific Islands, the Northern Mariana Islands, and the Virgin Islands, except as provided in section 501(a)(2)(B).

EFFECT ON OTHER LAW

12 USC 1735f-7 note.
93 Stat. 1114. SEC. 528. In any case in which one or more provisions of, or amendments made by, this title, section 529 of the National Housing Act, or any other provision of law, including section 5197 of the Revised Statutes (12U.S.C. 85), apply with respect to the same loan, mortgage, credit sale, or advance, such loan, mortgage, credit sale, or advance may be made at the highest applicable rate.

REPEAL OF EXISTING LAW

93 Stat. 789.
12 USC 85 note.
93 Stat. 1234.
12 USC 85 and note, 86a and note, 371b-1 and note, 1425b, 1730e, 1735f-7 note, 1828, 1831a and note; 15 USC 687. SEC. 529. Effective at the close of March 31, 1980, Public Law 96-104, section 105(a)(2) of Public Law 96-161, and the amendments made by and the provisions of title II of Public Law 96-161 are hereby repealed, except that the provisions of such Public Law, the provisions of such section, the amendments made by such title, and the provisions of such title shall continue to apply to any loan made, any deposit made, or any obligation issued in any State during any period when those provisions or amendments were in effect in such State. [Title index](#)

TITLE VI—TRUTH IN LENDING SIMPLIFICATION

Truth in Lending
Simplification and
Reform Act.

SHORT TITLE

15 USC 1601 note. SEC.601. This title may be cited as the “Truth in Lending Simplification and Reform Act”.

DEFINITIONS

SEC. 602. (a) Section 103(f) of the Truth in Lending Act (15 U.S.C. 1602(f)) is amended—

“Creditor.”

(1) by striking out the first sentence and inserting in lieu thereof the following: “The term ‘creditor’ refers only to a person who both (1) regularly extends, whether in connection with loans, sales of property or services, or otherwise, consumer credit which is payable by agreement in more than four installments or for which the payment of a finance charge is or may be required; and (2) is the person to whom the debt arising from the consumer credit transaction is initially payable on the face of the evidence of indebtedness or, if there is no such evidence of indebtedness, by agreement.

Notwithstanding the previous sentence, a person who regularly arranges for the extension of consumer credit, which is payable in more than four installments or for which the payment of a finance charge is or may be required, from persons who are not creditors is a creditor, and in the case of an open end credit plan involving a credit card, the card issuer and any person who honors the credit card and offers a discount which is a finance charge are creditors.”; and

(2) by redesignating the references to sections 127(a)(6), 127(a)(7), 127(a)(8), 127(b)(9), and 127(b)(11) in the next succeeding sentence as references to sections 127(a)(5), 127(a)(6), 127(a)(7), 127(b)(8), and 127(b)(10), respectively.

(b) The first sentence of section 103(g) of the Truth in Lending Act (15 U.S.C. 1602(g)) is amended to read as follows: “The term ‘credit sale’ refers to any sale in which the seller is a creditor.”.

EXEMPTED TRANSACTIONS

SEC. 603. (a) Section 103(h) of the Truth in Lending Act (15 U.S.C. 1602(h)) is amended by striking out “household, or agricultural” and inserting in lieu thereof “or household”.

(b) Section 103 of the Truth in Lending Act (15 U.S.C. 1602) is amended by redesignating subsections (s) and (t) as subsections (x) and (y), respectively, and by inserting after subsection (r) the following new subsections:

“(s) The term ‘agricultural purposes’ includes the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures those agricultural products, including but not limited to the acquisition of farmland, real property with a farm residence, and personal property and services used primarily in farming.

“Agricultural purposes.”

“Agricultural products.”

“(t) The term ‘agricultural products’ includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.”.

(c) Section 104 of the Truth in Lending Act (15 U.S.C. 1603) is amended—

(1) by amending paragraph (1) to read as follows:

“(1) Credit transactions involving extensions of credit primarily for business, commercial, or agricultural purposes, or to government or governmental agencies or instrumentalities, or to organizations.”;

(2) by amending paragraph (3) to read as follows:

“(3) Credit transactions, other than those in which a security interest is or will be acquired in real property, or in personal property used or expected to be used as the principal dwelling of the consumer, in which the total amount financed exceeds \$25,000.”; and

(3) by striking out paragraph (5).

OPEN END CREDIT PLAN

SEC. 604. Section 103(i) of the Truth in Lending Act (15 U.S.C. 1602(i)) is amended to read as follows:

“(i) The term ‘open end credit plan’ means a plan under which the creditor reasonably contemplates repeated transactions, which prescribes the terms of such transactions, and which provides for a finance charge which may be computed from time to time on the outstanding unpaid balance. A credit plan which is an open end credit plan within the meaning of the preceding sentence is an open end credit plan even if credit information is verified from time to time.”.

MODEL FORMS

SEC. 605. Section 105 of the Truth in Lending Act (15 U.S.C. 1605) is amended by inserting “(a)” before “The”, and by adding at the end thereof the following:

15 USC 1604.

Publication.

“(b) The Board shall publish model disclosure forms and clauses for common transactions to facilitate compliance with the disclosure requirements of this title and to aid the borrower or lessee in understanding the transaction by utilizing readily understandable language to simplify the technical nature of the disclosures. In devising such forms, the Board shall consider the use by creditors or lessors of data processing or similar automated equipment. Nothing in this title may be construed to require a creditor or lessor to use any such model form or clause prescribed by the Board under this section. A creditor or lessor shall be deemed to be in compliance with the disclosure provisions of this title with respect to other than numerical disclosures if the creditor or lessor (1) uses any appropriate model form or clause as published by the Board, or (2) uses any such model form or clause and changes it by (A) deleting any information which is not required by this title, or (B) rearranging the format, if in making such deletion or rearranging the format, the creditor or lessor does not affect the substance, clarity, or meaningful sequence of the disclosure.

Notice in Federal Register.

“(c) Model disclosure forms and clauses shall be adopted by the Board after notice duly given in the Federal Register and an opportunity for public comment in accordance with section 553 of title 5, United States Code.

Effective date.

15 USC 1666 *et seq.*,
1667 *et seq.*

“(d) Any regulation of the Board, or any amendment or interpretation thereof, requiring any disclosure which differs from the disclosures previously required by this chapter, chapter 4, or chapter 5, or by any regulation of the Board promulgated thereunder shall have an effective date of that October 1 which follows by at least six months the date of promulgation, except that the Board may at its discretion take interim action by regulation, amendment, or interpretation to lengthen the period of time permitted for creditors or lessors to adjust their forms to accommodate new requirements or shorten the length of time for creditors or lessors to make such adjustments when it makes a specific finding that such action is necessary to comply with the findings of a court or to prevent unfair or deceptive disclosure practices. Notwithstanding the previous sentence, any creditor or lessor may comply with any such newly promulgated disclosure requirements prior to the effective date of the requirements.”.

COMPONENTS OF FINANCE CHARGE

SEC. 606. (a) Section 106(a) of the Truth in Lending Act (15 U.S.C. 1605(a)) is amended by striking out “, including any of the following types of charges which are applicable” and inserting in lieu thereof the following: “. The finance charge does not include charges of a type payable in a comparable cash transaction. Examples of charges which are included in the finance charge include any of the following types of charges which are applicable”.

(b) Section 106(d) of the Truth in Lending Act (15 U.S.C. 1605(d)) is amended by striking out paragraphs (3) and (4).

ACCURACY OF ANNUAL PERCENTAGE RATE

SEC. 607. (a) Section 107(c) of the Truth in Lending Act (15 U.S.C. 1606(c)) is amended to read as follows:

“(c) The disclosure of an annual percentage rate is accurate for the purpose of this title if the rate disclosed is within a tolerance not greater than one-eighth of 1 per centum more or less than the actual rate or rounded to the nearest one-fourth of 1 per centum. The Board may allow a greater tolerance to simplify compliance where irregular payments are involved.”

(b) Section 107(e) of the Truth in Lending Act (15 U.S.C. 1606(e)) is amended by striking out “(c) or”.

(c) Section 107(f) of the Truth in Lending Act (15 U.S.C. 1606(f)) is hereby repealed.

Repeal.

RESTITUTION

SEC. 608. (a) Section 108 of the Truth in Lending Act (15 U.S.C. 1607) is amended by adding at the end thereof the following:

“(e)(1) In carrying out its enforcement activities under this section, each agency referred to in subsection (a) or (c), in cases where an annual percentage rate or finance charge was inaccurately disclosed, shall notify the creditor of such disclosure error and is authorized in accordance with the provisions of this subsection to require the creditor to make an adjustment to the account of the person to whom credit was extended, to assure that such person will not be required to pay a finance charge in excess of the finance charge actually disclosed or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower. For the purposes of this subsection, except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, in determining whether a disclosure error has occurred and in calculating any adjustment, (A) each agency shall apply (i) with respect to the annual percentage rate, a tolerance of one-quarter of 1 percent more or less than the actual rate, determined without regard to section 107(c) of this title, except in the case of an irregular mortgage lending transaction, and (ii) with respect to the finance charge, a corresponding numerical tolerance as generated by the tolerance provided under this subsection for the annual percentage rate; except that (B) with respect to transactions consummated after two years following the effective date of section 608 of the Truth in Lending Simplification and Reform Act, each agency shall apply (i) for transactions that have a scheduled amortization of ten years or less, with respect to the annual percentage rate, a tolerance not to exceed one-quarter of 1 percent more or less than the actual rate, determined without regard to section 107(c) of this title, but in no event a tolerance of less than the tolerances allowed under section 107(c), (ii) for transactions that have a scheduled amortization of more than ten years, with respect to the annual percentage rate, only such tolerances as are allowed under section 107(c) of this title, and (iii) for all transactions, with respect to the finance charge, a corresponding numerical tolerance as generated by the tolerances provided under this

Ante, p. 170.

Supra.

subsection for the annual percentage rate.

“(2) Each agency shall require such an adjustment when it determines that such disclosure error resulted from (A) a clear and consistent pattern or practice of violations, (B) gross negligence, or (C) a willful violation which was intended to mislead the person to whom the credit was extended. Notwithstanding the preceding sentence, except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, an agency need not require such an adjustment if it determines that such disclosure error—

“(A) resulted from an error involving the disclosure of a fee or charge that would otherwise be excludable in computing the finance charge, including but not limited to violations involving the disclosures described in sections 106(b), (c) and (d) of this title, in which event the agency may require such remedial action as it determines to be equitable, except that for transactions consummated after two years after the effective date of section 608 of the Truth in Lending Simplification and Reform Act, such an adjustment shall be ordered for violations of section 106(b);

Ante, p. 171.
15 USC 1605.

“(B) involved a disclosed amount which was 10 per centum or less of the amount that should have been disclosed and (i) in cases where the error involved a disclosed finance charge, the annual percentage rate was disclosed correctly, and (ii) in cases where the error involved a disclosed annual percentage rate, the finance charge was disclosed correctly; in which event the agency may require such adjustment as it determines to be equitable;

“(C) involved a total failure to disclose either the annual percentage rate or the finance charge, in which event the agency may require such adjustment as it determines to be equitable; or

“(D) resulted from any other unique circumstance involving clearly technical and nonsubstantive disclosure violations that do not adversely affect information provided to the consumer and that have not misled or otherwise deceived the consumer. In the case of other such disclosure errors, each agency may require such an adjustment.

“(3) Notwithstanding paragraph (2), no adjustment shall be ordered (A) if it would have a significantly adverse impact upon the safety or soundness of the creditor, but in any such case, the agency may require a partial adjustment in an amount which does not have such an impact, except that with respect to any transaction consummated after the effective date of section 608 of the Truth in Lending Simplification and Reform Act, the agency shall require the full adjustment, but permit the creditor to make the required adjustment in partial payments over an extended period of time which the agency considers to be reasonable, (B) if the amount of the adjustment would be less than \$1, except that if more than one year has elapsed since the date of the violation, the agency may require that such amount be paid into the Treasury of the United States, or (C) except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, in the case of an open-end credit

Ante, p. 171.

plan, more than two years after the violation, or in the case of any other extension of credit, as follows:

“(i) with respect to creditors that are subject to examination by the agencies referred to in paragraphs (1) through (3) of section 108(a) of this title, except in connection with violations arising from practices identified in the current examination and only in connection with transactions that are consummated after the date of the immediately preceding examination, except that where practices giving rise to violations identified in earlier examinations have not been corrected, adjustments for those violations shall be required in connection with transactions consummated after the date of the examination in which such practices were first identified;

“(ii) with respect to creditors that are not subject to examination by such agencies, except in connection with transactions that are consummated after May 10, 1978; and

“(iii) in no event after the later of (I) the expiration of the life of the credit extension, or (II) two years after the agreement to extend credit was consummated.

“(4)(A) Notwithstanding any other provision of this section, an adjustment under this subsection may be required by an agency referred to in subsection (a) or (c) only by an order issued in accordance with cease and desist procedures provided by the provision of law referred to in such subsections.

“(B) In the case of an agency which is not authorized to conduct cease and desist proceedings, such an order may be issued after an agency hearing on the record conducted at least thirty but not more than sixty days after notice of the alleged violation is served on the creditor. Such a hearing shall be deemed to be a hearing which is subject to the provisions of section 8(h) of the Federal Deposit Insurance Act and shall be subject to judicial review as provided therein.

12 USC 1818.

“(5) Except as otherwise specifically provided in this subsection and notwithstanding any provision of law referred to in subsection (a) or (c), no agency referred to in subsection (a) or (c) may require a creditor to make dollar adjustments for errors in any requirements under this title, except with regard to the requirements of section 165.

Post, p. 184.

“(6) A creditor shall not be subject to an order to make an adjustment, if within sixty days after discovering a disclosure error, whether pursuant to a final written examination report or through the creditor's own procedures, the creditor notifies the person concerned of the error and adjusts the account so as to assure that such person will not be required to pay a finance charge in excess of the finance charge actually disclosed or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower.

“(7) Notwithstanding the second sentence of subsection (e)(1), subsection (e)(3)(C)(i), and subsection (e)(3)(C)(ii), each agency referred to in subsection (a) or (c) shall require an adjustment for an annual percentage rate disclosure error that exceeds a tolerance of one quarter of one percent less than the actual rate, determined without regard to section 107(c) of this title, except in the case of an irregular mortgage lending transaction, with respect to any transaction consummated between January 1, 1977, and the effective date of section 608 of the Truth in Lending Simplification and Reform Act.”.

Ante, p. 170.

Ante, p. 171.

Effective date. (b) This section shall take effect on the date of enactment of the Truth in Lending
15 USC 1607 note. Simplification and Reform Act.

(c) Effective one year after the date of enactment of the Truth in Lending
Simplification and Reform Act, section 108(e)(1)(A)(i) and section 108(e)(7) of the
Ante, p. 168. Truth in Lending Act are amended by striking out “, except in the case of an irregular
15 USC 1607. mortgage lending transaction”.
Ante, p. 171.

EFFECT ON OTHER LAWS

SEC. 609. Section 111(a) of the Truth in Lending Act (15 U.S.C. 1610(a)) is amended to read as follows:

15 USC 1601 *et seq.*, “(a)(1) Chapters 1, 2, and 3 do not annul, alter, or affect the laws of any State relating
1631 *et seq.*, 1661 *et* to the disclosure of information in connection with credit transactions, except to the
seq. extent that those laws are inconsistent with the provisions of this title, and then only to
the extent of the inconsistency. Upon its own motion or upon the request of any
creditor, State, or other interested party which is submitted in accordance with
procedures prescribed in regulations of the Board, the Board shall determine whether
any such inconsistency exists. If the Board determines that a State-required disclosure is
inconsistent, creditors located in that State may not make disclosures using the
inconsistent term or form, and shall incur no liability under the law of that State for
failure to use such term or form, notwithstanding that such determination is
subsequently amended, rescinded, or determined by judicial or other authority to be
invalid for any reason.

“ (2) Upon its own motion or upon the request of any creditor, State, or other interested
party which is submitted in accordance with procedures prescribed in regulations of the
Board, the Board shall determine whether any disclosure required under the law of any
State is substantially the same in meaning as a disclosure required under this title. If the
Board determines that a State-required disclosure is substantially the same in meaning
as a disclosure required by this title, then creditors located in that State may make such
disclosure in compliance with such State law in lieu of the disclosure required by this
title, except that the annual percentage rate and finance charge shall be disclosed as
required by section 122.”

State-required
disclosure.

Post, p. 175.

ANNUAL REPORTS

SEC. 610. (a) Section 114 of the Truth in Lending Act (15 U.S.C. 1613) is amended by striking out “Not later than January 3 of each year after 1969,” and inserting in lieu thereof “Each year”.

(b) Section 18(f)(6) of the Federal Trade Commission Act (15 U.S.C. 57a(f)(6)) is amended by striking out “not later than March 15 of”.

(c) Section 707 of the Equal Credit Opportunity Act (15 U.S.C. 1691f) is amended by striking out “Not later than February 1 of each year after 1976” and inserting in lieu thereof “Each year”.

GENERAL DISCLOSURE REQUIREMENTS

SEC. 611. Sections 121 and 122 of the Truth in Lending Act (15 U.S.C. 1631 and 1632) are amended to read as follows:

“§ 121. General requirement of disclosure

15 USC 1635. “(a) Subject to subsection (b), a creditor or lessor shall disclose to the person who is obligated on a consumer lease or a consumer credit transaction the information required under this title. In a transaction involving more than one obligor, a creditor or lessor, except in a transaction under section 125, need not disclose to more than one of such obligors if the obligor given disclosure is a primary obligor.

Ante, p. 168
15 USC 1667. “(b) If a transaction involves one creditor as defined in section 103(f), or one lessor as defined in section 181(3), such creditor or lessor shall make the disclosures. If a transaction involves more than one creditor or lessor, only one creditor or lessor shall be required to make the disclosures. The Board shall by regulation specify which creditor or lessor shall make the disclosures.

“(c) The Board may provide by regulation that any portion of the information required to be disclosed by this title may be given in the form of estimates where the provider of such information is not in a position to know exact information.

“(d) The Board shall determine whether tolerances for numerical disclosures other than the annual percentage rate are necessary to facilitate compliance with this title, and if it determines that such tolerances are necessary to facilitate compliance, it shall by regulation permit disclosures within such tolerances. The Board shall exercise its authority to permit tolerances for numerical disclosures other than the annual percentage rate so that such tolerances are narrow enough to prevent such tolerances from resulting in misleading disclosures or disclosures that circumvent the purposes of this title.

“§ 122. Form of disclosure; additional information

“(a) Information required by this title shall be disclosed clearly and conspicuously, in accordance with regulations of the Board. The terms ‘annual percentage rate’ and ‘finance charge’ shall be disclosed more conspicuously than other terms, data, or information provided in connection with a transaction, except information relating to the identity of the creditor. Regulations of the Board need not require that disclosures pursuant to this title be made in the order set forth in this title and, except as otherwise provided, may permit the use of terminology different from that employed in this title if it conveys substantially the same meaning.

“Annual percentage rate” and “finance charge.”

“(b) Any creditor or lessor may supply additional information or explanation with any disclosures required under chapters 4 and 5 and, except as provided in section 128(b)(1), under this chapter.”.

15 USC 1666 *et seq.*,
1667 *et seq.*
Post, p. 179.

RESCISSION

SEC. 612. (a)(1) Section 125(a) of the Truth in Lending Act (15 U.S.C. 1635(a)) is amended to read as follows:

“(a) Except as otherwise provided in this section, in the case of any consumer credit transaction (including opening or increasing the credit limit for an open end credit plan) in which a security interest, including any such interest arising by operation of law, is or will be retained or acquired in any property which is used as the principal dwelling of the person to whom credit is extended, the obligor shall have the right to rescind the transaction until midnight of the third business day following the consummation of the transaction or the delivery of the information and rescission forms required under this section together with a statement containing the material disclosures required under this title, whichever is later, by notifying the creditor, in accordance with regulations of the Board, of his intention to do so. The creditor shall clearly and conspicuously disclose, in accordance with regulations of the Board, to any obligor in a transaction subject to this section the rights of the obligor under this section. The creditor shall also provide, in accordance with regulations of the Board, appropriate forms for the obligor to exercise his right to rescind any transaction subject to this section.”.

(2) Section 103 of the Truth in Lending Act (15 U.S.C. 1602), as amended by section 603(b), is amended by adding at the end thereof the following:

Ante, p. 169.

“Material disclosures.”

“(u) The term ‘material disclosures’ means the disclosure, as required by this title, of the annual percentage rate, the method of determining the finance charge and the balance upon which a finance charge will be imposed, the amount of the finance charge, the amount to be financed, the total of payments, the number and amount of payments, and the due dates or periods of payments scheduled to repay the indebtedness.”.

(3) Section 125(b) of the Truth in Lending Act (15 U.S.C. 1635(b)) is amended by striking out “ten days” each place it appears therein and inserting in lieu thereof “20 days”.

(4) Section 125(b) of the Truth in Lending Act (15 U.S.C. 1635(b)) is amended by adding at the end thereof the following new sentence: “The procedures prescribed by this subsection shall apply except when otherwise ordered by a court.”.

(5) Section 125(c) of the Truth in lending Act (15 U.S.C. 1635(c)) is amended by inserting “information, forms, and” after “whom”.

(6) Section 125 of the Truth in Lending Act (15 U.S.C. 1635) is amended by striking out subsections (e) and (f) and inserting in lieu thereof the following:

“(e)(1) This section does not apply to—

“(A) a residential mortgage transaction as defined in section 103(w);

“(B) a transaction which constitutes a refinancing or consolidation (with no new advances) of the principal balance then due and any accrued and unpaid finance charges of an existing extension of credit by the same creditor secured by an interest in the same property;

“(C) a transaction in which an agency of a State is the creditor; or

“(D) advances under a preexisting open end credit plan if a security interest has already been retained or acquired and such advances are in accordance with a previously established credit limit for such plan.

“(2) The provisions of paragraph (1)(D) shall cease to be effective 3 years after the effective date of the Truth in Lending Simplification and Reform Act.

“(f) An obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the sale of the property, whichever occurs first, notwithstanding the fact that the information and forms required under this section or any other disclosures required under this chapter have not been delivered to the obligor, except that if (1) any agency empowered to enforce the provisions of this title institutes a proceeding to enforce the provisions of this section within three years after the date of consummation of the transaction, (2) such agency finds a violation of section 125, and (3) the obligor's right to rescind is based in whole or in part on any matter involved in such proceeding, then the obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the earlier sale of the property, or upon the expiration of one year following the conclusion of the proceeding, or any judicial review or period for judicial review thereof, whichever is later.

Infra.

Ante, p. 168.

15 USC 1635.

“(g) In any action in which it is determined that a creditor has violated this section, in addition to rescission the court may award relief under section 130 for violations of this title not relating to the right to rescind.”.

15 USC 1640.

(b) Section 103 of the Truth in Lending Act (15 U.S.C. 1602) is amended by inserting after subsection (u) the following:

“Dwelling.”

“(v) The term ‘dwelling’ means a residential structure or mobile home which contains one to four family housing units, or individual units of condominiums or cooperatives.

“Residential mortgage transaction.”

“(w) The term ‘residential mortgage transaction’ means a transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained against the consumer’s dwelling to finance the acquisition or initial construction of such dwelling.”.

OPEN END DISCLOSURES

SEC. 613. (a) Section 127(a) of the Truth in Lending Act (15 U.S.C. 1637(a)) is amended—

(1) by adding at the end of paragraph (1) the following new sentence: “If no such time period is provided, the creditor shall disclose such fact.”;

(2) by striking out paragraph (5) and redesignating paragraphs (6), (7), and (8) as paragraphs (5), (6), and (7), respectively; and

(3) by amending paragraphs (5) and (6), as redesignated by paragraph (2), to read as follows:

“(5) Identification of other charges which may be imposed as part of the plan, and their method of computation, in accordance with regulations of the Board.

“(6) In cases where the credit is or will be secured, a statement that a security interest has been or will be taken in (A) the property purchased as part of the credit transaction, or (B) property not purchased as part of the credit transaction identified by item or type.”.

(b) Section 127(b)(2) of the Truth in Lending Act (15 U.S.C. 1637(b)(2)) is amended to read as follows:

“(2) The amount and date of each extension of credit during the period, and a brief identification, on or accompanying the statement of each extension of credit in a form prescribed by the Board sufficient to enable the obligor either to identify the transaction or to relate it to copies of sales vouchers or similar instruments previously furnished, except that a creditor’s failure to disclose such information in accordance with this paragraph shall not be deemed a failure to comply with this chapter or this title if (A) the creditor maintains procedures reasonably adapted to procure and provide such information, and (B) the creditor responds to and treats any inquiry for clarification or documentation as a billing error and an erroneously billed amount under section 161. In lieu of complying with the requirements of the previous sentence, in the case of any transaction in which the creditor and seller are the same person, as defined by the

15 USC 1666.

Board, and such person's open end credit plan has fewer than 15,000 accounts, the creditor may elect to provide only the amount and date of each extension of credit during the period and the seller's name and location where the transaction took place if (A) a brief identification of the transaction has been previously furnished, and (B) the creditor responds to and treats any inquiry for clarification or documentation as a billing error and an erroneously billed amount under section 161.”.

15 USC 1666.

(c) Section 127(b) of the Truth in Lending Act (15 U.S.C. 1637) is amended by striking out paragraph (7) and by redesignating paragraphs (8), (9), (10), and (11) as paragraphs (7), (8), (9), and (10), respectively.

(d) Section 127(a)(7) of the Truth in Lending Act (15 U.S.C. 1637(a)), as redesignated by subsection (a)(2), is amended by striking out “each of two billing cycles per year, at semiannual intervals” and inserting in lieu thereof “one billing cycle per calendar year, at intervals of not less than six months or more than eighteen months”.

Repeal.

(e) Section 127(c) of the Truth in Lending Act (15 U.S.C. 1637(c)) is hereby repealed.

Post, p. 183

(f) Section 143 of the Truth in Lending Act (15 U.S.C. 1663) is amended by striking out “or the appropriate rate determined under section 127(a)(5)”.

Ante, p. 176.

(g) Section 161(a) of the Truth in Lending Act (15 U.S.C. 1666(a)) is amended by redesignating the references to sections 127(b)(11) and 127(a)(8) as references to sections 127(b)(10) and 127(a)(7), respectively.

OTHER THAN OPEN END DISCLOSURES

SEC. 614. (a) Section 128(a) of the Truth in Lending Act (15 U.S.C. 1638(a)) is amended to read as follows:

“(a) For each consumer credit transaction other than under an open end credit plan, the creditor shall disclose each of the following items, to the extent applicable:

“Amount financed.”
Computation
method.

“(1) The identity of the creditor required to make disclosure.

“(2)(A) The ‘amount financed’, using that term, which shall be the amount of credit of which the consumer has actual use. This amount shall be computed as follows, but the computations need not be disclosed and shall not be disclosed with the disclosures conspicuously segregated in accordance with subsection (b)(1):

“(i) take the principal amount of the loan or the cash price less downpayment and trade-in;

“(ii) add any charges which are not part of the finance charge or of the principal amount of the loan and which are financed by the consumer, including the cost of any items excluded from the finance charge pursuant to section 106; and

15 USC 1605.

“(iii) subtract any charges which are part of the finance charge but which will be paid by the consumer before or at the time of the consummation of the transaction, or have been withheld from the proceeds of the credit.

“(B) In conjunction with the disclosure of the amount financed, a creditor shall provide a statement of the consumer’s right to obtain, upon a written request, a written itemization of the amount financed. The statement shall include spaces for a ‘yes’ and ‘no’ indication to be initialed by the consumer to indicate whether the consumer wants a written itemization of the amount financed. Upon receiving an affirmative indication, the creditor shall provide, at the time other disclosures are required to be furnished, a written itemization of the amount financed. For the purposes of this subparagraph, ‘itemization of the amount financed’ means a disclosure of the following items, to the extent applicable:

“Itemization of the amount financed.”

“(i) the amount that is or will be paid directly to the consumer;

“(ii) the amount that is or will be credited to the consumer’s account to discharge obligations owed to the creditor;

“(iii) each amount that is or will be paid to third persons by the creditor on the consumer’s behalf, together with an identification of or reference to the third person; and

“(iv) the total amount of any charges described in the preceding subparagraph (A)(iii).

“(3) The ‘finance charge’, not itemized, using that term.

“(4) The finance charge expressed as an ‘annual percentage rate’, using that term. This shall not be required if the amount financed does not exceed \$75 and the finance charge does not exceed \$5, or if the amount financed exceeds \$75 and the finance charge does not exceed \$7.50.

“(5) The sum of the amount financed and the finance charge, which shall be termed the ‘total of payments’.

“(6) The number, amount, and due dates or period of payments scheduled to repay the total of payments.

“(7) In a sale of property or services in which the seller is the creditor required to disclose pursuant to section 121(b), the ‘total sale price’, using that term, which shall be the total of the cash price of the property or services, additional charges, and the finance charge.

“(8) Descriptive explanations of the terms ‘amount financed’, ‘finance charge’, ‘annual percentage rate’, ‘total of payments’, and ‘total sale price’ as specified by the Board. The descriptive explanation of ‘total sale price’ shall include reference to the amount of the downpayment.

Ante, p. 174.

Secured credit statement.

“(9) Where the credit is secured, a statement that a security interest has been taken in (A) the property which is purchased as part of the credit transaction, or (B) property not purchased as part of the credit transaction identified by item or type.

“(10) Any dollar charge or percentage amount which may be imposed by a creditor solely on account of a late payment, other than a deferral or extension charge.

“(11) A statement indicating whether or not the consumer is entitled to a rebate of any finance charge upon refinancing or prepayment in full pursuant to acceleration or otherwise, if the obligation involves a precomputed finance charge. A statement indicating whether or not a penalty will be imposed in those same circumstances if the obligation involves a finance charge computed from time to time by application of a rate to the unpaid principal balance.

“(12) A statement that the consumer should refer to the appropriate contract document for any information such document provides about nonpayment, default, the right to accelerate the maturity of the debt, and prepayment rebates and penalties.

“(13) In any residential mortgage transaction, a statement indicating whether a subsequent purchaser or assignee of the consumer may assume the debt obligation on its original terms and conditions.”.

(b) Section 128(b) of the Truth in Lending Act (15 U.S.C. 1638(b)) is amended to read as follows:

“(b)(1) Except as otherwise provided in this chapter, the disclosures required under subsection (a) shall be made before the credit is extended. Except for the disclosures required by subsection (a)(1) of this section, all disclosures required under subsection (a) and any disclosure provided for in subsection (b), (c), or (d) of section 106 shall be conspicuously segregated from all other terms, data, or information provided in connection with a transaction, including any computations or itemization.

“(2) In the case of a residential mortgage transaction, as defined in section 103(w), which is also subject to the Real Estate Settlement Procedures Act, good faith estimates of the disclosures required under subsection (a) shall be made in accordance with regulations of the Board under section 121(c) before the credit is extended, or shall be delivered or placed in the mail not later than three business days after the creditor receives the consumer’s written application, whichever is earlier. If the disclosure statement furnished within three days of the written application contains an annual percentage rate which is subsequently rendered inaccurate within the meaning of section 107(c), the creditor shall furnish another statement at the time of settlement or consummation.”.

15 USC 1605.

Ante, p. 176.
12 USC 2601 note.

Ante, p. 174.

Ante, p. 170.

(c) Section 128(c) of the Truth in Lending Act (15 U.S.C. 1638(c)) is amended—

(1) by inserting “(1)” after “(c)”;

(2) by striking out “deferred payment price” and inserting in lieu thereof “total sale price”; and

(3) by adding at the end thereof the following new paragraph:

“(2) If a creditor receives a request for a loan by mail or telephone without personal solicitation and the terms of financing, including the annual percentage rate for representative amounts of credit, are set forth in the creditor's printed material distributed to the public, or in the contract of loan or other printed material delivered to the obligor, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.”.

Repeal.

(d)(1) Section 129 of the Truth in Lending Act (15 U.S.C. 1639) is hereby repealed.

(2) The table of sections at the beginning of chapter 2 of the Truth in Lending Act is amended by striking out the item relating to section 129 and inserting in lieu thereof the following:

“129. [Repealed].”.

Repeal.

(e)(1) Section 126 of the Truth in Lending Act (15 U.S.C. 1636) is hereby repealed.

(2) The table of sections at the beginning of chapter 2 of the Truth in Lending Act is amended by striking out the item relating to section 126 and inserting in lieu thereof the following:

“126. [Repealed].”.

(f)(1) The table of sections at the beginning of chapter 2 of the Truth in Lending Act is amended by striking out the item relating to section 128 and inserting in lieu thereof the following:

“128. Consumer credit not under open end credit plans.”.

(2) The section heading for section 128 of the Truth in Lending Act (15 U.S.C. 1638) is amended by striking out “SALES” and inserting in lieu thereof “CONSUMER CREDIT”.

CIVIL LIABILITY

SEC. 615. (a) Section 130 of the Truth in Lending Act (15 U.S.C. 1640) is amended—

(1) in subsection (a)(2)(B), by striking out “in such action” and inserting in lieu thereof “under this subparagraph in any class action or series of class actions arising out of the same failure to comply by the same creditor”;

- 12 USC 1635. (2) in subsection (a)(3), by inserting “or in any action in which a person is determined to have a right of rescission under section 125” after “liability”;
- (3) by amending subsections (b), (c), and (d) to read as follows:
- 15 USC 1607, 1611. “(b) A creditor or assignee has no liability under this section or section 108 or section
15 USC 1631 *et seq.*,
1667 *et seq.*
Ante, p. 171. 112 for any failure to comply with any requirement imposed under this chapter or chapter 5, if within sixty days after discovering an error, whether pursuant to a final written examination report or notice issued under section 108(e)(1) or through the creditor’s or assignee’s own procedures, and prior to the institution of an action under this section or the receipt of written notice of the error from the obligor, the creditor or assignee notifies the person concerned of the error and makes whatever adjustments in the appropriate account are necessary to assure that the person will not be required to pay an amount in excess of the charge actually disclosed, or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower.
- 15 USC 1635. “(c) A creditor or assignee may not be held liable in any action brought under this section or section 125 for a violation of this title if the creditor or assignee shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error. Examples of a bona fide error include, but are not limited to, clerical, calculation, computer malfunction and programing, and printing errors, except that an error of legal judgment with respect to a person's obligations under this title is not a bona fide error.
- “(d) When there are multiple obligors in a consumer credit transaction or consumer lease, there shall be no more than one recovery of damages under subsection (a)(2) for a violation of this title.”;
- (4) in subsection (e), by adding at the end thereof the following new sentence: “This subsection does not bar a person from asserting a violation of this title in an action to collect the debt which was brought more than one year from the date of the occurrence of the violation as a matter of defense by recoupment or set-off in such action, except as otherwise provided by State law.”;
- 15 USC 1607. (5) in subsection (f), by inserting “, section 108(b), section 108(c), section 108(e),”
Ante, p. 171. after “this section”;
- 15 USC 1635. (6) in subsection (g), by adding at the end thereof the following new sentence: “This subsection does not bar any remedy permitted by section 125.”; and

(7) by amending subsection (h) to read as follows:

“(h) A person may not take any action to offset any amount for which a creditor or assignee is potentially liable to such person under subsection (a)(2) against any amount owed by such person, unless the amount of the creditor’s or assignee’s liability under this title has been determined by judgment of a court of competent jurisdiction in an action of which such person was a party. This subsection does not bar a consumer then in default on the obligation from asserting a violation of this title as an original action, or as a defense or counterclaim to an action to collect amounts owed by the consumer brought by a person liable under this title.”.

(b) Section 130(a) of the Truth in Lending Act (15 U.S.C. 1640(a)) is amended—

(1) by inserting “, including any requirement under section 125,” immediately after “this chapter”; and

(2) by adding at the end thereof the following: “In connection with the disclosures referred to in section 127, a creditor shall have a liability determined under paragraph (2) only for failing to comply with the requirements of section 125, section 127(a), or of paragraph (4), (5), (6), (7), (8), (9), or (10) of section 127(b) or for failing to comply with disclosure requirements under State law for any term or item which the Board has determined to be substantially the same in meaning under section 111(a)(2) as any of the terms or items referred to in section 127(a) or any of those paragraphs of section 127(b). In connection with the disclosures referred to in section 128, a creditor shall have a liability determined under paragraph (2) only for failing to comply with the requirements of section 125 or of paragraph (2) (insofar as it requires a disclosure of the ‘amount financed’), (3), (4), (5), (6), or (9) of section 128(a), or for failing to comply with disclosure requirements under State law for any term which the Board has determined to be substantially the same in meaning under section 111(a)(2) as any of the terms referred to in any of those paragraphs of section 128(a). With respect to any failure to make disclosures required under this chapter or chapter 4 or 5 of this title, liability shall be imposed only upon the creditor required to make disclosure, except as provided in section 131.”.

15 USC 1637.

Ante, p. 176.

Ante, p. 177.

Ante, p. 173.

15 USC 1638.

Ante, p. 178.

15 USC 1631 *et seq.*,
1666 *et seq.*, 1667 *et seq.*

Post, p. 182.

LIABILITY OF ASSIGNEES

SEC. 616. (a) Section 131 of the Truth in Lending Act (15 U.S.C. 1641) is amended to read as follows:

“§ 131. Liability of assignees

15 USC 1607.

“(a) Except as otherwise specifically provided in this title, any civil action for a violation of this title or proceeding under section 108 which may be brought against a creditor may be maintained against any assignee of such creditor only if the violation for which such action or proceeding is brought is apparent on the face of the disclosure statement, except where the assignment was involuntary. For the purpose of this section, a violation apparent on the face of the disclosure statement includes, but is not limited to (1) a disclosure which can be determined to be incomplete or inaccurate from the face of the disclosure statement or other documents assigned, or (2) a disclosure which does not use the terms required to be used by this title.

Ante, p. 176.

“(b) Except as provided in section 125(c), in any action or proceeding by or against any subsequent assignee of the original creditor without knowledge to the contrary by the assignee when he acquires the obligation, written acknowledgement of receipt by a person to whom a statement is required to be given pursuant to this title shall be conclusive proof of the delivery thereof and, except as provided in subsection (a), of compliance with this chapter. This section does not affect the rights of the obligor in any action against the original creditor.

15 USC 1635.

“(c) Any consumer who has the right to rescind a transaction under section 125 may rescind the transaction as against any assignee of the obligation.”.

Repeal.

(b) Section 115 of the Truth in Lending Act (15 U.S.C. 1614) is hereby repealed.

(c)(1) The table of sections at the beginning of chapter 1 of the Truth in Lending Act is amended by striking out the item relating to section 115 and inserting in lieu thereof the following:

“115. [Repealed].”.

(2) The table of sections at the beginning of chapter 2 of the Truth in Lending Act is amended by striking out the item relating to section 131 and inserting in lieu thereof the following:

“131. Liability of assignees.”.

LIABILITY OF CREDIT CARDHOLDER

SEC. 617. Section 133(a) of the Truth in Lending Act (15 U.S.C. 1643(a)) is amended to read as follows:

“(a)(1) A cardholder shall be liable for the unauthorized use of a credit card only if—

“(A) the card is an accepted credit card;

“(B) the liability is not in excess of \$50;

“(C) the card issuer gives adequate notice to the cardholder of the potential liability;

“(D) the card issuer has provided the cardholder with a description of a means by which the card issuer may be notified of loss or theft of the card, which description may be provided on the face or reverse side of the statement required by section 127(b) or on a separate notice accompanying such statement;

“(E) the unauthorized use occurs before the card issuer has been notified that an unauthorized use of the credit card has occurred or may occur as the result of loss, theft, or otherwise; and

“(F) the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it.

“(2) For purposes of this section, a card issuer has been notified when such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information have been taken, whether or not any particular officer, employee, or agent of the card issuer does in fact receive such information.”.

DISSEMINATION OF ANNUAL PERCENTAGE RATES

SEC. 618. (a) Chapter 2 of the Truth in Lending Act (15 U.S.C. 1631 et seq.) is amended by adding at the end thereof the following new section:

15 USC 1646.

“§ 136. Dissemination of annual percentage rates

“(a) The Board shall collect, publish, and disseminate to the public, on a demonstration basis in a number of standard metropolitan statistical areas to be determined by the Board, the annual percentage rates charged for representative types of nonsale credit by creditors in such areas. For the purpose of this section, the Board is authorized to require creditors in such areas to furnish information necessary for the Board to collect, publish, and disseminate such information.

“(b) The Board is authorized to enter into contracts or other arrangements with appropriate persons, organizations, or State agencies to carry out its functions under subsection (a) and to furnish financial assistance in support thereof.”.

(b) The table of sections contained at the beginning of such chapter is amended by adding at the end thereof the following new item:

“136. Dissemination of annual percentage rates.”.

CREDIT ADVERTISING

SEC. 619. (a) Section 143 of the Truth in Lending Act (15 U.S.C. 1662) is amended to read as follows:

15 USC 1663.

“§ 143. Advertising of open end credit plans

“No advertisement to aid, promote, or assist directly or indirectly the extension of consumer credit under an open end credit plan may set forth any of the specific terms of that plan unless it also clearly and conspicuously sets forth all of the following items:

“(1) Any minimum or fixed amount which could be imposed.

“(2) In any case in which periodic rates may be used to compute the finance charge, the periodic rates expressed as annual percentage rates.

“(3) Any other term that the Board may by regulation require to be disclosed.”.

(b) Section 144(d) of the Truth in Lending Act (15 U.S.C. 1664) is amended by striking out paragraphs (1) through (4) thereof, and inserting in lieu thereof the following:

“(1) The downpayment, if any.

“(2) The terms of repayment.

“(3) The rate of the finance charge expressed as an annual percentage rate.”.

CORRECTION OF BILLING ERRORS

SEC. 620. (a) Section 161(B) of the Truth in Lending Act (15 U.S.C. 1666(b)) is amended—

(1) by redesignating paragraph (6) as paragraph (7); and

(2) by inserting after paragraph (5) the following:

“(6) Failure to transmit the statement required under section 127(b) of this Act to the last address of the obligor which has been disclosed to the creditor, unless that address was furnished less than twenty days before the end of the billing cycle for which the statement is required.”.

(b) Section 161(c) of the Truth in Lending Act (15 U.S.C. 1666(c)) is amended by inserting “, which may include finance charges on amounts in dispute,” after “of statements of account”.

CREDIT BALANCES

SEC. 621. (a) Section 165 of the Truth in Lending Act (15 U.S.C. 1666d) is amended to read as follows:

“§ 165. Treatment of credit balances

“Whenever a credit balance in excess of \$1 is created in connection with a consumer credit transaction through (1) transmittal of funds to a creditor in excess of the total balance due on an account, (2) rebates of unearned finance charges or insurance premiums, or (3) amounts otherwise owed to or held for the benefit of an obligor, the creditor shall—

“(A) credit the amount of the credit balance to the consumer’s account;

“(B) refund any part of the amount of the remaining credit balance, upon request of the consumer; and

“(C) make a good faith effort to refund to the consumer by cash, check, or money order any part of the amount of the credit balance remaining in the account for more than six months, except that no further action is required in any case in which the consumer’s current location is not known by the creditor and cannot be traced through the consumer’s last known address or telephone number.”.

(b) The table of sections at the beginning of chapter 4 of the Truth in Lending Act is amended by striking out the item relating to section 165 and inserting in lieu thereof the following:

“165. Treatment of credit balances.”.

GOVERNMENT EXEMPTION

SEC. 622. (a) Section 113 of the Truth in Lending Act (15 U.S.C. 1612) is amended to read as follows:

“§ 113. Effect on governmental agencies

“(a) Any department or agency of the United States which administers a credit program in which it extends, insures, or guarantees consumer credit and in which it provides instruments to a creditor which contain any disclosures required by this title shall, prior to the issuance or continued use of such instruments, consult with the Board to assure that such instruments comply with this title.

“(b) No civil or criminal penalty provided under this title for any violation thereof may be imposed upon the United States or any department or agency thereof, or upon any State or political subdivision thereof, or any agency of any State or political subdivision.

“(c) A creditor participating in a credit program administered, insured, or guaranteed by any department or agency of the United States shall not be held liable for a civil or criminal penalty under this title in any case in which the violation results from the use of an instrument required by any such department or agency.

15 USC 1610.

“(d) A creditor participating in a credit program administered, insured, or guaranteed by any department or agency of the United States shall not be held liable for a civil or criminal penalty under the laws of any State (other than laws determined under section 111 to be inconsistent with this title) for any technical or procedural failure, such as a failure to use a specific form, to make information available at a specific place on an instrument, or to use a specific typeface, as required by State law, which is caused by the use of an instrument required to be used by such department or agency.”.

(b) The table of sections at the beginning of chapter 1 of the Truth in Lending Act is amended by striking out the item relating to section 118 and inserting in lieu thereof the following:

“113. Effect on governmental agencies.”.

ORAL DISCLOSURES

SEC. 623. (a) Section 146 of the Truth in Lending Act (15 U.S.C. 1665a) is amended to read as follows:

“§146. Use of annual percentage rate in oral disclosures

“In responding orally to any inquiry about the cost of credit, a creditor, regardless of the method used to compute finance charges, shall state rates only in terms of the annual percentage rate, except that in the case of an open end credit plan, the periodic rate also may be stated and, in the case of an other than open end credit plan where a major component of the finance charge consists of interest computed at a simple annual rate, the simple annual rate also may be stated. The Board may, by regulation, modify the requirements of this section or provide an exception from this section for a transaction or class of transactions for which the creditor cannot determine in advance the applicable annual percentage rate.”.

(b) The table of sections at the beginning of chapter 3 of the Truth in Lending Act is amended by striking out the item relating to section 146 and inserting in lieu thereof the following:

“146. Use of annual percentage rate in oral disclosures.”.

CONSUMER LEASING

SEC. 624. Section 185(b) of the Truth in Lending Act (15 U.S.C. 1667d(b)) is amended by striking out “sections 115, 130, and 131” and inserting in lieu thereof “sections 130 and 131”.

15 USC 1640;
Ante, p. 182

EFFECTIVE DATE

15 USC 1602 note.
Ante, p. 171.

SEC. 625. (a) Except as provided in section 608(b), the amendments made by this title shall take effect upon the expiration of two years after the date of enactment of this title.

(b) All regulations, forms, and clauses required to be prescribed under the amendments made by this title shall be promulgated at least one year prior to such effective date.

(c) Notwithstanding subsections (a) and (b), any creditor may comply with the amendments made by this title, in accordance with the regulations, forms, and clauses prescribed by the Board, prior to such effective date. [Title index](#)

TITLE VII—AMENDMENTS TO THE NATIONAL BANKING LAWS

PART A—NATIONAL BANKING LAWS

POWER TO HOLD REAL PROPERTY OR INTERESTS IN REAL PROPERTY

SEC. 701. (a) Section 5137 of the Revised Statutes (12 U.S.C. 29) is amended—

(1) by inserting before the period at the end of the last Paragraph thereof the following: “except as otherwise provided this section”; and

(2) by adding at the end thereof the following new paragraph:

“For real estate in the possession of a national banking association upon application by the association, the Comptroller of the Currency may approve the possession of any such real estate by such association for a period longer than five years, but not to exceed an additional five years, if (1) the association has made a good faith attempt to dispose of the real estate within the five-year period, or (2) disposal within the five-year period would be detrimental to the association. Upon notification by the association to the Comptroller of the Currency that such conditions exist that require the expenditure of funds for the development and improvement of such real estate, and subject to such conditions and limitations as the Comptroller of the Currency shall prescribe, the association may expend such funds as are needed to enable such association to recover its total investment.”.

(b) Section 4(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(a)) is amended by adding at the end thereof the following: “Notwithstanding any other provision of this Act, the period ending December 31, 1980, referred to in paragraph (2) above, may be extended by the Board of Governors to December 31, 1982, but only for the divestiture by a bank holding company of real estate or interests in real estate lawfully acquired for investment or development. In making its decision whether to grant such extension, the Board shall consider whether the company has made a good faith effort to divest such interests and whether such extension is necessary to avert substantial loss to the company.”.

DIVIDENDS ON PREFERRED STOCK

SEC. 702. The first sentence of subsection (a) of section 302 of the Act entitled “An Act to provide relief in the existing national emergency in banking, and for other purposes”, approved March 9, 1933 (12 U.S.C. 51b), is amended by striking out “at a rate not exceeding 6 per centum per annum”.

CONSIDERATION OF PREFERRED STOCK IN DETERMINING IMPAIRMENT OF CAPITAL

SEC. 703. The third sentence of section 345 of the Banking Act of 1935 (12 U.S.C. 51b-1) is amended by striking out “at a rate not exceeding six per centum per annum”.

REVOCATION OF TRUST POWERS

SEC. 704. The first section of the Act of September 28, 1962 (76 Stat. 668; 12 U.S.C. 92a), is amended by adding at the end thereof the following new subsection:

“(k)(1) In addition to the authority conferred by other law, if, in the opinion of the Comptroller of the Currency, a national banking association is unlawfully or unsoundly exercising, or has unlawfully or unsoundly exercised, or has failed for a period of five consecutive years to exercise, the powers granted by this section or otherwise fails or has failed to comply with the requirements of this section, the Comptroller may issue and serve upon the association a notice of intent to revoke the authority of the association to exercise the powers granted by this section. The notice shall contain a statement of the facts constituting the alleged unlawful or unsound exercise of powers, or failure to exercise powers, or failure to comply, and shall fix a time and place at which a hearing will be held to determine whether an order revoking authority to exercise such powers should issue against the association.

“(2) Such hearing shall be conducted in accordance with the provisions of subsection (h) of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818(h)), and subject to judicial review as provided in such section, and shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless an earlier or later date is set by the Comptroller at the request of any association so served.

“(3) Unless the association so served shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the revocation order. In the event of such consent, or if upon the record made at any such hearing, the Comptroller shall find that any allegation specified in the notice of charges has been established, the Comptroller may issue and serve upon the association an order prohibiting it from accepting any new or additional trust accounts and revoking authority to exercise any and all powers granted by this section, except that such order shall permit the association to continue to service all previously accepted trust accounts pending their expeditious divestiture or termination.

Notice of intent.

Hearing.

Judicial review.

Revocation orders,
effective date.

“(4) A revocation order shall become effective not earlier than the expiration of thirty days after service of such order upon the association so served (except in the case of a revocation order issued upon consent, which shall become effective at the time specified therein), and shall remain effective and enforceable, except to such extent as it is stayed, modified, terminated, or set aside by action of the Comptroller or a reviewing court.”.

EMERGENCY LIMITATIONS AND RESTRICTIONS ON BUSINESS OF MEMBER BANKS

SEC. 705. Section 4 of the Act of March 9, 1933 (48 Stat. 2; 12 U.S.C. 95), is amended—

- (1) by inserting “(a)” after “SEC. 4.”; and
- (2) by adding at the end thereof the following:

Legal holidays,
designation.

“(b)(1) In the event of natural calamity, riot, insurrection, war, or other emergency conditions occurring in any State whether caused by acts of nature or of man, the Comptroller of the Currency may designate by proclamation any day a legal holiday for the national banking associations located in that State. In the event that the emergency conditions affect only part of a State, the Comptroller of the Currency may designate the part so affected and may proclaim a legal holiday for the national banking associations located in that affected part. In the event that a State or a State official authorized by law designates any day as a legal holiday for either emergency or ceremonial reasons for all banks chartered by that State to do business within that State, that same day shall be a legal holiday for all national banking associations chartered to do business within that State unless the Comptroller of the Currency shall by written order permit all national banking associations located in that State to remain open.

“State.”

“(2) For the purpose of this subsection, the term ‘State’ means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Northern Mariana Islands, Guam, the Virgin Islands, American Samoa, the Trust Territory of the Pacific Islands, or any other territory or possession of the United States.”.

PROCEDURE FOR CONVERSION, MERGER, OR CONSOLIDATION

SEC. 706. The second sentence of subsection (b) of section 2 of the Act of August 17, 1950 (64 Stat. 456; 12 U.S.C. 214a(b)), is amended by striking out “unanimous” and inserting in lieu thereof “majority”.

DELEGATION OF AUTHORITY

SEC. 707. (a) Chapter 9 of title VII of the Revised Statutes (12 U.S.C. 1 et seq.) is amended by inserting after section 327 the following new section:

12 USC 4a. “SEC. 327A. The Comptroller of the Currency may delegate to any duly authorized employee, representative, or agent any power vested in the office by law.”

(b) The table of contents contained at the beginning of chapter 9 of title VII of the Revised Statutes is amended by inserting after the item relating to section 327 the following new item:

“327A. Delegation of authority.”.

AUTHORITY TO PRESCRIBE REGULATIONS

SEC. 708. Chapter 4 of title LXII of the Revised Statutes (12 U.S.C. 21 et seq.) is amended by inserting immediately following section 5239 a new section 5239A to read as follows:

12 USC 93a. “SEC. 5239A. Except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to another regulatory agency, the Comptroller of the Currency is authorized to prescribe rules and regulations to carry out the responsibilities of the office, except that the authority conferred by this section does not apply to section 5155 of the Revised Statutes or to securities activities of National Banks under the Act commonly known as the ‘Glass-Steagall Act’.”

12 USC 36.

EXAMINATION OF NATIONAL BANKING ASSOCIATIONS

SEC. 709. (a) Section 5240 of the Revised Statutes (12 U.S.C. 481) is amended by striking out the first two sentences and inserting in lieu thereof the following: “The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every national bank as often as the Comptroller of the Currency shall deem necessary.”.

Foreign operations. (b) Section 5240 of the Revised Statutes (12 U.S.C. 481) is amended by adding at the end thereof the following new sentence: “The Comptroller of the Currency, upon the request of the Board of Governors of the Federal Reserve System, is authorized to assign examiners appointed under this section to examine foreign operations of State banks which are members of the Federal Reserve System.”.

OWNERSHIP INTEREST OF DIRECTORS OF NATIONAL BANKS

SEC. 710. The second sentence of section 5146 of the Revised Statutes (12 U.S.C. 72) is amended by striking out the second sentence and inserting in lieu thereof the following: “Every director must own in his or her own right either shares of the capital stock of the association of which he or she is a director the aggregate par value of which is not less than \$1,000, or an equivalent interest, as determined by the Comptroller of the Currency, in any company which has control over such association within the meaning of section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841). If the capital of the bank does not exceed \$25,000, every director must own in his or her own right either shares of such capital stock the aggregate par value of which is not less than \$500, or an equivalent interest, as determined by the Comptroller of the Currency, in any company which has control over such association within the meaning of section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841).”.

PURCHASE OF STOCK IN BANKERS’ BANKS

SEC. 711. The paragraph numbered “Seventh” of section 5136 of the Revised Statutes (12 U.S.C. 24(7)) is amended by inserting before the period at the end thereof the following: “: *Provided further*, That, notwithstanding any other provision of this paragraph, the association may purchase for its own account shares of stock of a bank insured by the Federal Deposit Insurance Corporation if the stock of such bank is owned exclusively by other banks (except to the extent State law requires directors qualifying shares) and if such bank is engaged exclusively in providing banking services for other banks and their officers, directors, or employees, but in no event shall the total amount of such stock held by the association exceed at any time 10 per centum of its capital stock and paid in and unimpaired surplus, and in no event shall the purchase of such stock result in the association’s acquiring more than 5 per centum of any class of voting securities of such bank”.

INTERSTATE TRUST OPERATIONS

SEC. 712. (a) Section 5169 of the Revised Statutes (12 U.S.C. 27) is amended by adding at the end thereof the following: “Notwithstanding the provisions of the preceding sentence, a national banking association the operations of which are limited as provided in the preceding sentence shall be deemed an additional bank within the contemplation of section 3 of the Bank Holding Company Act of 1956.”.

12 USC 1842.

(b) Section 3(d) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(d)) is amended by inserting “(1)” after “(d)” and by adding at the end thereof the following:

“(2)(A) Except as provided in subparagraph (B), the restrictions contained in paragraph (1) regarding the acquisition of shares or assets of, or interests in, an additional bank shall apply to the acquisition of shares or assets of, or interests in, a trust company.

“(B) Subparagraph (A) shall not apply with respect to the acquisition of shares or assets of, or interests in, a trust company if such acquisition was approved by the Board on or before March 5, 1980, and if such trust company opened for business and was operating on or before March 5, 1980.

“Trust company.”

“(C) For the purpose of this paragraph, the term ‘trust company’ means any company whose powers are limited to the powers specified in subsection (a) of the first section of the Act entitled ‘An Act to place authority over the trust powers of national banks in the Comptroller of the Currency’, approved September 28, 1962 (12 U.S.C. 92a), for a national bank located in the same State in which such trust company is located.”.

Termination date.

(c) The amendments made by this section are hereby repealed on October 1, 1981.

LOANS FOR THE FORMATION OF A ONE-BANK HOLDING COMPANY

SEC. 713. Section 3(c) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(c)) is amended by adding at the end thereof the following: “Notwithstanding any other provision of law, the Board shall not follow any practice or policy in the consideration of any application for the formation of a one-bank holding company if following such practice or policy would result in the rejection of such application solely because the transaction to form such one-bank holding company involves a bank stock loan which is for a period of not more than twenty-five years. The previous sentence shall not be construed to prohibit the Board from rejecting any application solely because the other financial arrangements are considered unsatisfactory. The Board shall consider transactions involving bank stock loans for the formation of a one-bank holding company having a maturity of twelve years or more on a case by case basis and no such transaction shall be approved if the Board believes the safety or soundness of the bank may be jeopardized.”.

PART B—TERMINATION OF NATIONAL BANK CLOSED RECEIVERSHIP FUND

PURPOSE

12 USC 191 note.

SEC. 721. The purpose of this part is to terminate the closed receivership fund by—

- (1) providing final notice of availability of liquidating dividends to creditors of national banks closed on or before January 22, 1934;
- (2) barring rights of creditors to collect liquidating dividends from the Comptroller of the Currency after a reasonable period of time following such final notice; and
- (3) refunding to the Comptroller the principal amount of such fund and any income earned thereon.

DEFINITIONS

12 USC 191 note.

SEC. 722. For purposes of this part—

- (1) the term “closed receivership fund” means the aggregation of undisbursed liquidating dividends from national banks closed on or before January 22, 1934, held by the Comptroller in his capacity as successor to receivers of those banks;
- (2) the term “Comptroller” means the Comptroller of the Currency;
- (3) the term “claimant” means a depositor or other creditor who asserts a claim against a closed national bank for a liquidating dividend; and
- (4) the term “liquidating dividend” means an amount of money in the closed receivership fund determined by a receiver of a closed national bank or by the Comptroller to be owed by that bank to a depositor or other creditor.

TERMINATION OF CLOSED RECEIVERSHIP FUND

Notice, publication
in Federal Register.
12 USC 191 note.

SEC. 723. (a) The Comptroller shall publish notice once a week for four weeks in the Federal Register that all rights of depositors and other creditors of closed national banks to collect liquidating dividends from the closed receivership fund shall be barred after twelve months following the last date of publication of such notice.

(b) The Comptroller shall pay the principal amount of a liquidating dividend, exclusive of any income earned thereon, to a claimant presenting a valid claim, if the claimant applies to collect within twelve months following the last date notice is published.

(c) If a creditor shall fail to apply to collect a liquidating dividend within twelve months after the last date notice is published, all rights of the claimant against the closed receivership fund with respect to the liquidating dividend shall be barred.

(d) The principal amount of any liquidating dividends (1) for which claims have not been asserted within twelve months following the last date notice is published or (2) for which the Comptroller has determined a valid claim has not been submitted shall, together with any income earned on liquidating dividends and other moneys, if any, remaining in the closed receivership fund, be covered into the general funds of the Comptroller. [Title index](#)

TITLE VIII—REGULATORY SIMPLIFICATION

Financial Regulation
Simplification Act of
1980.

SHORT TITLE

12 USC 3501 note. SEC. 801. This title may be cited as the “Financial Regulation Simplification Act of 1980”.

FINDINGS

12 USC 3521. SEC. 802. The Congress hereby finds that many regulations issued by the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Home Loan Bank Board, and the National Credit Union Administration Board (hereinafter in this title referred to as the “Federal financial regulatory agencies”) often impose costly, duplicative, and unnecessary burdens on both financial institutions and consumers. Regulations should be simple and clearly written. Regulations should achieve legislative goals effectively and efficiently. Regulations should not impose unnecessary costs and paperwork burdens on the economy, on financial institutions, or on consumers.

“Federal financial
regulatory agencies.”

POLICY

12 USC 3522. SEC. 803. Any regulation issued by the Federal financial regulatory agencies shall, to the maximum extent practicable, insure that—

- (1) the need for and purpose of such regulation is established clearly;
- (2) meaningful alternatives to the promulgation of such regulation are considered before such regulation is issued;
- (3) compliance costs, paperwork, and other burdens on the financial institutions, consumers, and public are minimized;
- (4) conflicts, duplication, and inconsistencies between the regulations issued by the Federal financial regulatory agencies are to be avoided to the extent possible taking into account differences in statutory responsibilities, the classes of financial institutions’ regulation and methods of implementation of statutory or policy objectives;
- (5) timely participation and comment by other Federal agencies, appropriate State and local agencies, financial institutions, and consumers are available; and
- (6) any regulation issued shall be as simple and clearly written as possible and understandable by those who are subject to such regulation.

REVIEW OF EXISTING REGULATIONS

12 USC 3523.

SEC. 804. The Federal financial regulatory agencies shall establish a program which assures periodic review of existing regulations to determine whether those regulations achieve the policies stated in section 803. Those regulations which are not in keeping with such policies shall be revised accordingly.

REPORTING

Report to congressional committees.

12 USC 3524.

SEC. 805. Not later than six months after the date of enactment of this title and in subsequent annual reports, each Federal financial regulatory agency shall submit a report of its progress in implementing this title to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.

TERMINATION DATE

12 USC 3521 note.

SEC. 806. This title is hereby repealed five years after the date of enactment of this title. [Title index](#)

TITLE IX—FOREIGN CONTROL OF UNITED STATES FINANCIAL INSTITUTIONS

DEFINITIONS

12 USC 3101 note.

SEC. 901. For purposes of this title—

(1) the term “domestic financial institution” means any bank, mutual savings bank, or savings and loan association organized under the laws of any State or of the United States;

(2) the term “foreign person” means any foreign organization or any individual resident in a foreign country or any organization or individual owned or controlled by such an organization or individual; and

(3) the term “takeover” means any acquisition of the stock or assets of any domestic financial institution if, after such acquisition, the amount of stock or assets held is 5 per centum or more of the institution’s stock or assets.

MORATORIUM

12 USC 3101 note.

SEC. 902. The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board may not approve any application relating to the takeover of any domestic financial institution by a foreign person until July 1, 1980, unless—

(1) such takeover is necessary to prevent the bankruptcy or insolvency of the domestic financial institution involved;

(2) the application was initially submitted for filing on or before March 5, 1980;

(3) the domestic financial institution has deposits of less than \$100,000,000;

(4) the application relates to a takeover of shares or assets pursuant to a foreign person's intrafirm reorganization of its interests in a domestic financial institution, including specifically any application to establish a bank holding company pursuant to such reorganization;

(5) the application relates to a takeover of the assets or shares of a domestic financial institution if such assets or shares are owned or controlled by a foreign person; or

(6) the application relates to the takeover of a domestic financial institution which is a subsidiary of a bank holding company under an order to divest by December 31, 1980.

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Approved March 31, 1980.

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MODERN MONEY MECHANICS

A Workbook on Bank Reserves and Deposit Expansion

[Federal Reserve Bank of Chicago](#)

This complete booklet is available in printed form free of charge from:

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Introduction

The purpose of this booklet is to describe the basic process of money creation in a "fractional reserve" banking system. The approach taken illustrates the changes in bank balance sheets that occur when deposits in banks change as a result of monetary action by the Federal Reserve System - the central bank of the United States. The relationships shown are based on simplifying assumptions. For the sake of simplicity, the relationships are shown as if they were mechanical, but they are not, as is described later in the booklet. Thus, they should not be interpreted to imply a close and predictable relationship between a specific central bank transaction and the quantity of money.

The introductory pages contain a brief general description of the characteristics of money and how the U.S. money system works. The illustrations in the following two sections describe two processes: first, how bank deposits expand or contract in response to changes in the amount of reserves supplied by the central bank; and second, how those reserves are affected by both Federal Reserve actions and other factors. A final section deals with some of the elements that modify, at least in the short run, the simple mechanical relationship between bank reserves and deposit money.

Money is such a routine part of everyday living that its existence and acceptance ordinarily are taken for granted. A user may sense that money must come into being either automatically as a result of economic activity or as an outgrowth of some government operation. But just *how* this happens all too often remains a mystery.

What is Money?

If money is viewed simply as a tool used to facilitate transactions, only those media that are readily accepted in exchange for goods, services, and other assets need to be considered. Many things - from stones to baseball cards - have served this monetary function through the ages. Today, in the United

States, money used in transactions is mainly of three kinds - currency (paper money and coins in the pockets and purses of the public); demand deposits (non-interest bearing checking accounts in banks); and other checkable deposits, such as negotiable order of withdrawal (NOW) accounts, at all depository institutions, including commercial and savings banks, savings and loan associations, and credit unions. Travelers checks also are included in the definition of transactions money. Since \$1 in currency and \$1 in checkable deposits are freely convertible into each other and both can be used directly for expenditures, they are money in equal degree. However, only the cash and balances held by the nonbank public are counted in the money supply. Deposits of the U.S. Treasury, depository institutions, foreign banks and official institutions, as well as vault cash in depository institutions are excluded.

This transactions concept of money is the one designated as M1 in the Federal Reserve's money stock statistics. Broader concepts of money (M2 and M3) include M1 as well as certain other financial assets (such as savings and time deposits at depository institutions and shares in money market mutual funds) which are relatively liquid but believed to represent principally investments to their holders rather than media of exchange. While funds can be shifted fairly easily between transaction balances and these other liquid assets, the money-creation process takes place principally through transaction accounts. In the remainder of this booklet, "money" means M1.

The distribution between the currency and deposit components of money depends largely on the preferences of the public. When a depositor cashes a check or makes a cash withdrawal through an automatic teller machine, he or she reduces the amount of deposits and increases the amount of currency held by the public. Conversely, when people have more currency than is needed, some is returned to banks in exchange for deposits.

While currency is used for a great variety of small transactions, most of the dollar amount of money payments in our economy are made by check or by electronic transfer between deposit accounts. Moreover, currency is a relatively small part of the money stock. About 69 percent, or \$623 billion, of the \$898 billion total stock in December 1991, was in the form of transaction deposits, of which \$290 billion were demand and \$333 billion were other checkable deposits.

What Makes Money Valuable?

In the United States neither paper currency nor deposits have value as commodities. Intrinsically, a dollar bill is just a piece of paper, deposits merely book entries. Coins do have some intrinsic value as metal, but generally far less than their face value.

What, then, makes these instruments - checks, paper money, and coins - acceptable at face value in payment of all debts and for other monetary uses? Mainly, it is the confidence people have that they will be able to exchange such money for other financial assets and for real goods and services whenever they choose to do so.

Money, like anything else, derives its value from its *scarcity* in relation to its usefulness. Commodities or services are more or less valuable because there are more or less of them relative to the amounts people

want. Money's usefulness is its unique ability to command other goods and services and to permit a holder to be constantly ready to do so. How much money is demanded depends on several factors, such as the total volume of transactions in the economy at any given time, the payments habits of the society, the amount of money that individuals and businesses want to keep on hand to take care of unexpected transactions, and the forgone earnings of holding financial assets in the form of money rather than some other asset.

Control of the *quantity* of money is essential if its value is to be kept stable. Money's real value can be measured only in terms of what it will buy. Therefore, its value varies inversely with the general level of prices. Assuming a constant rate of use, if the volume of money grows more rapidly than the rate at which the output of real goods and services increases, prices will rise. This will happen because there will be more money than there will be goods and services to spend it on at prevailing prices. But if, on the other hand, growth in the supply of money does not keep pace with the economy's current production, then prices will fall, the nation's labor force, factories, and other production facilities will not be fully employed, or both.

Just how large the stock of money needs to be in order to handle the transactions of the economy without exerting undue influence on the price level depends on how intensively money is being used. Every transaction deposit balance and every dollar bill is part of somebody's spendable funds at any given time, ready to move to other owners as transactions take place. Some holders spend money quickly after they get it, making these funds available for other uses. Others, however, hold money for longer periods. Obviously, when some money remains idle, a larger total is needed to accomplish any given volume of transactions.

Who Creates Money?

Changes in the quantity of money may originate with actions of the Federal Reserve System (the central bank), depository institutions (principally commercial banks), or the public. The major control, however, rests with the central bank.

The actual process of money creation takes place primarily in banks.⁽¹⁾ As noted earlier, checkable liabilities of banks are money. These liabilities are customers' accounts. They increase when customers deposit currency and checks and when the proceeds of loans made by the banks are credited to borrowers' accounts.

In the absence of legal reserve requirements, banks can build up deposits by increasing loans and investments so long as they keep enough currency on hand to redeem whatever amounts the holders of deposits want to convert into currency. This unique attribute of the banking business was discovered many centuries ago.

It started with goldsmiths. As early bankers, they initially provided safekeeping services, making a profit from vault storage fees for gold and coins deposited with them. People would redeem their "deposit receipts" whenever they needed gold or coins to purchase something, and physically take the gold or coins

to the seller who, in turn, would deposit them for safekeeping, often with the same banker. Everyone soon found that it was a lot easier simply to use the deposit receipts directly as a means of payment. These receipts, which became known as notes, were acceptable as money since whoever held them could go to the banker and exchange them for metallic money.

Then, bankers discovered that they could make loans merely by giving their promises to pay, or bank notes, to borrowers. In this way, banks began to create money. More notes could be issued than the gold and coin on hand because only a portion of the notes outstanding would be presented for payment at any one time. Enough metallic money had to be kept on hand, of course, to redeem whatever volume of notes was presented for payment.

Transaction deposits are the modern counterpart of bank notes. It was a small step from printing notes to making book entries crediting deposits of borrowers, which the borrowers in turn could "spend" by writing checks, thereby "printing" their own money.

What Limits the Amount of Money Banks Can Create?

If deposit money can be created so easily, what is to prevent banks from making too much - more than sufficient to keep the nation's productive resources fully employed without price inflation? Like its predecessor, the modern bank must keep available, to make payment on demand, a considerable amount of currency and funds on deposit with the central bank. The bank must be prepared to convert deposit money into currency for those depositors who request currency. It must make remittance on checks written by depositors and presented for payment by other banks (settle adverse clearings). Finally, it must maintain legally required reserves, in the form of vault cash and/or balances at its Federal Reserve Bank, equal to a prescribed percentage of its deposits.

The public's demand for currency varies greatly, but generally follows a seasonal pattern that is quite predictable. The effects on bank funds of these variations in the amount of currency held by the public usually are offset by the central bank, which replaces the reserves absorbed by currency withdrawals from banks. (Just how this is done will be explained later.) For all banks taken together, there is no net drain of funds through clearings. A check drawn on one bank normally will be deposited to the credit of another account, if not in the same bank, then in some other bank.

These operating needs influence the minimum amount of reserves an individual bank will hold voluntarily. However, as long as this minimum amount is less than what is legally required, operating needs are of relatively minor importance as a restraint on aggregate deposit expansion in the banking system. Such expansion cannot continue beyond the point where the amount of reserves that all banks have is just sufficient to satisfy legal requirements under our "fractional reserve" system. For example, if reserves of 20 percent were required, deposits could expand only until they were five times as large as reserves. Reserves of \$10 million could support deposits of \$50 million. The lower the percentage requirement, the greater the deposit expansion that can be supported by each additional reserve dollar. Thus, the legal reserve ratio together with the dollar amount of bank reserves are the factors that set the upper limit to money creation.

What Are Bank Reserves?

Currency held in bank vaults may be counted as legal reserves as well as deposits (reserve balances) at the Federal Reserve Banks. Both are equally acceptable in satisfaction of reserve requirements. A bank can always obtain reserve balances by sending currency to its Reserve Bank and can obtain currency by drawing on its reserve balance. Because either can be used to support a much larger volume of deposit liabilities of banks, currency in circulation and reserve balances together are often referred to as "high-powered money" or the "monetary base." Reserve balances and vault cash in banks, however, are not counted as part of the money stock held by the public.

For individual banks, reserve accounts also serve as working balances.⁽²⁾ Banks may increase the balances in their reserve accounts by depositing checks and proceeds from electronic funds transfers as well as currency. Or they may draw down these balances by writing checks on them or by authorizing a debit to them in payment for currency, customers' checks, or other funds transfers.

Although reserve accounts are used as working balances, each bank must maintain, on the average for the relevant reserve maintenance period, reserve balances at their Reserve Bank and vault cash which together are equal to its required reserves, as determined by the amount of its deposits in the reserve computation period.

Where Do Bank Reserves Come From?

Increases or decreases in bank reserves can result from a number of factors discussed later in this booklet. From the standpoint of money creation, however, the essential point is that the reserves of banks are, for the most part, liabilities of the Federal Reserve Banks, and net changes in them are largely determined by actions of the Federal Reserve System. Thus, the Federal Reserve, through its ability to vary both the total volume of reserves and the required ratio of reserves to deposit liabilities, influences banks' decisions with respect to their assets and deposits. One of the major responsibilities of the Federal Reserve System is to provide the total amount of reserves consistent with the monetary needs of the economy at reasonably stable prices. Such actions take into consideration, of course, any changes in the pace at which money is being used and changes in the public's demand for cash balances.

The reader should be mindful that deposits and reserves tend to expand simultaneously and that the Federal Reserve's control often is exerted through the market place as individual banks find it either cheaper or more expensive to obtain their required reserves, depending on the willingness of the Fed to support the current rate of credit and deposit expansion.

While an individual bank can obtain reserves by bidding them away from other banks, this cannot be done by the banking system as a whole. Except for reserves borrowed temporarily from the Federal Reserve's discount window, as is shown later, the supply of reserves in the banking system is controlled by the Federal Reserve.

Moreover, a given increase in bank reserves is not necessarily accompanied by an expansion in money equal to the theoretical potential based on the required ratio of reserves to deposits. What happens to the quantity of money will vary, depending upon the reactions of the banks and the public. A number of slippages may occur. What amount of reserves will be drained into the public's currency holdings? To what extent will the increase in total reserves remain unused as excess reserves? How much will be absorbed by deposits or other liabilities not defined as money but against which banks might also have to hold reserves? How sensitive are the banks to policy actions of the central bank? The significance of these questions will be discussed later in this booklet. The answers indicate why changes in the money supply may be different than expected or may respond to policy action only after considerable time has elapsed.

In the succeeding pages, the effects of various transactions on the quantity of money are described and illustrated. The basic working tool is the "T" account, which provides a simple means of tracing, step by step, the effects of these transactions on both the asset and liability sides of bank balance sheets. Changes in asset items are entered on the left half of the "T" and changes in liabilities on the right half. For any one transaction, of course, there must be at least two entries in order to maintain the equality of assets and liabilities.

¹In order to describe the money-creation process as simply as possible, the term "bank" used in this booklet should be understood to encompass all depository institutions. Since the Depository Institutions Deregulation and Monetary Control Act of 1980, all depository institutions have been permitted to offer interest bearing transaction accounts to certain customers. Transaction accounts (interest bearing as well as demand deposits on which payment of interest is still legally prohibited) at all depository institutions are subject to the reserve requirements set by the Federal Reserve. Thus all such institutions, not just commercial banks, have the potential for creating money. [back](#)

²Part of an individual bank's reserve account may represent its reserve balance used to meet its reserve requirements while another part may be its required clearing balance on which earnings credits are generated to pay for Federal Reserve Bank services. [back](#)

Bank Deposits - How They Expand or Contract

Let us assume that expansion in the money stock is desired by the Federal Reserve to achieve its policy objectives. One way the central bank can initiate such an expansion is through purchases of securities in the open market. Payment for the securities adds to bank reserves. Such purchases (and sales) are called "open market operations."

How do open market purchases add to bank reserves and deposits? Suppose the Federal Reserve System, through its trading desk at the Federal Reserve Bank of New York, buys \$10,000 of Treasury bills from a dealer in U. S. government securities.⁽³⁾ In today's world of computerized financial transactions, the Federal Reserve Bank pays for the securities with an "telectronic" check drawn on itself.⁽⁴⁾ Via its "Fedwire" transfer network, the Federal Reserve notifies the dealer's designated bank (Bank A) that

payment for the securities should be credited to (deposited in) the dealer's account at Bank A. At the same time, Bank A's reserve account at the Federal Reserve is credited for the amount of the securities purchase. The Federal Reserve System has added \$10,000 of securities to its assets, which it has paid for, in effect, by *creating* a liability on itself in the form of bank reserve balances. These reserves on Bank A's books are matched by \$10,000 of the dealer's deposits that did not exist before. See [illustration 1](#).

How the Multiple Expansion Process Works

If the process ended here, there would be no "multiple" expansion, i.e., deposits and bank reserves would have changed by the same amount. However, banks are required to maintain reserves equal to only a fraction of their deposits. Reserves in excess of this amount may be used to increase earning assets - loans and investments. Unused or excess reserves earn no interest. Under current regulations, the reserve requirement against most transaction accounts is 10 percent.⁽⁵⁾ Assuming, for simplicity, a uniform 10 percent reserve requirement against all transaction deposits, and further assuming that all banks attempt to remain fully invested, we can now trace the process of expansion in deposits which can take place on the basis of the additional reserves provided by the Federal Reserve System's purchase of U. S. government securities.

The expansion process may or may not begin with Bank A, depending on what the dealer does with the money received from the sale of securities. If the dealer immediately writes checks for \$10,000 and all of them are deposited in other banks, Bank A loses both deposits and reserves and shows no net change as a result of the System's open market purchase. However, other banks have received them. Most likely, a part of the initial deposit will remain with Bank A, and a part will be shifted to other banks as the dealer's checks clear.

It does not really matter where this money is at any given time. The important fact is that *these deposits do not disappear*. They are in some deposit accounts at all times. All banks together have \$10,000 of deposits and reserves that they did not have before. However, they are not required to keep \$10,000 of reserves against the \$10,000 of deposits. All they need to retain, under a 10 percent reserve requirement, is \$1000. The remaining \$9,000 is "excess reserves." This amount can be loaned or invested. See [illustration 2](#).

If business is active, the banks with excess reserves probably will have opportunities to loan the \$9,000. Of course, they do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts. Loans (assets) and deposits (liabilities) both rise by \$9,000. Reserves are unchanged by the loan transactions. But the deposit credits constitute new additions to the total deposits of the banking system. See [illustration 3](#).

³Dollar amounts used in the various illustrations do not necessarily bear any resemblance to actual transactions. For example, open market operations typically are conducted with many dealers and in amounts totaling several billion dollars. [back](#)

4 Indeed, many transactions today are accomplished through an electronic transfer of funds between accounts rather than through issuance of a paper check. Apart from the time of posting, the accounting entries are the same whether a transfer is made with a paper check or electronically. The term "check," therefore, is used for both types of transfers. [back](#)

5 For each bank, the reserve requirement is 3 percent on a specified base amount of transaction accounts and 10 percent on the amount above this base. Initially, the Monetary Control Act set this base amount - called the "low reserve tranche" - at \$25 million, and provided for it to change annually in line with the growth in transaction deposits nationally. The low reserve tranche was \$41.1 million in 1991 and \$42.2 million in 1992. The Garn-St. Germain Act of 1982 further modified these requirements by exempting the first \$2 million of reservable liabilities from reserve requirements. Like the low reserve tranche, the exempt level is adjusted each year to reflect growth in reservable liabilities. The exempt level was \$3.4 million in 1991 and \$3.6 million in 1992. [back](#)

Deposit Expansion

1. When the Federal Reserve Bank purchases government securities, bank reserves increase. This happens because the seller of the securities receives payment through a credit to a designated deposit account at a bank (Bank A) which the Federal Reserve effects by crediting the reserve account of Bank A.

FR BANK		BANK A	
Assets	Liabilities	Assets	Liabilities
US govt securities.. +10,000	Reserve acct. Bank A.. +10,000	Reserves with FR Banks.. +10,000	Customer deposit.. +10,000

The customer deposit at Bank A likely will be transferred, in part, to other banks and quickly loses its identity amid the huge interbank flow of deposits. [back](#)

2. As a result, all banks taken together now have "excess" reserves on which deposit expansion can take place.

Total reserves gained from new deposits.....10,000
 less: required against new deposits (at 10%)... 1,000
 equals: Excess reserves 9,000

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Expansion - Stage 1

3. Expansion takes place only if the banks that hold these excess reserves (Stage 1 banks) increase their loans or investments. Loans are made by crediting the borrower's account, i.e., by creating additional deposit money. [back](#)

STAGE 1 BANKS	
Assets	Liabilities
Loans..... +9,000	Borrower deposits.... +9,000

This is the beginning of the deposit expansion process. In the first stage of the process, total loans and deposits of the banks rise by an amount equal to the excess reserves existing before any loans were made (90 percent of the initial deposit increase). At the end of Stage 1, deposits have risen a total of \$19,000 (the initial \$10,000 provided by the Federal Reserve's action plus the \$9,000 in deposits created by Stage 1 banks). See [illustration 4](#). However, only \$900 (10 percent of \$9000) of excess reserves have been absorbed by the additional deposit growth at Stage 1 banks. See [illustration 5](#).

The lending banks, however, do not expect to retain the deposits they create through their loan operations. Borrowers write checks that probably will be deposited in other banks. As these checks move through the collection process, the Federal Reserve Banks debit the reserve accounts of the paying banks (Stage 1 banks) and credit those of the receiving banks. See [illustration 6](#).

Whether Stage 1 banks actually do lose the deposits to *other* banks or whether any or all of the borrowers' checks are redeposited in these *same* banks makes no difference in the expansion process. If the lending banks *expect* to lose these deposits - and an equal amount of reserves - as the borrowers' checks are paid, they will not lend more than their excess reserves. Like the original \$10,000 deposit, the loan-credited deposits may be transferred to other banks, but they remain somewhere in the banking system. Whichever banks receive them also acquire equal amounts of reserves, of which all but 10 percent will be "excess."

Assuming that the banks holding the \$9,000 of deposits created in Stage 1 in turn make loans equal to their excess reserves, then loans and deposits will rise by a further \$8,100 in the second stage of expansion. This process can continue until deposits have risen to the point where all the reserves provided by the initial purchase of government securities by the Federal Reserve System are just sufficient to satisfy reserve requirements against the newly created deposits. (See [pages 10 and 11](#).)

The individual bank, of course, is not concerned as to the stages of expansion in which it may be participating. Inflows and outflows of deposits occur continuously. Any deposit received is new money, regardless of its ultimate source. But if bank policy is to make loans and investments equal to whatever reserves are in excess of legal requirements, the expansion process will be carried on.

How Much Can Deposits Expand in the Banking System?

The total amount of expansion that can take place is illustrated on page 11. Carried through to theoretical limits, the initial \$10,000 of reserves distributed within the banking system gives rise to an expansion of \$90,000 in bank credit (loans and investments) and supports a total of \$100,000 in new deposits under a 10 percent reserve requirement. The deposit expansion factor for a given amount of new reserves is thus the reciprocal of the required reserve percentage ($1/.10 = 10$). Loan expansion will be less by the amount of the initial injection. The multiple expansion is possible because the banks as a group are like one large bank in which checks drawn against borrowers' deposits result in credits to accounts of other depositors, with no net change in the total reserves.

Expansion through Bank Investments

Deposit expansion can proceed from investments as well as loans. Suppose that the demand for loans at some Stage 1 banks is slack. These banks would then probably purchase securities. If the sellers of the securities were customers, the banks would make payment by crediting the customers' transaction accounts, deposit liabilities would rise just as if loans had been made. More likely, these banks would purchase the securities through dealers, paying for them with checks on themselves or on their reserve accounts. These checks would be deposited in the sellers' banks. In either case, the net effects on the banking system are identical with those resulting from loan operations.

4 As a result of the process so far, total assets and total liabilities of all banks together have risen 19,000. [back](#)

ALL BANKS	
Assets	Liabilities
Reserves with F. R. Banks...+10,000	Deposits: Initial. . . .+10,000
Loans + 9,000	Stage 1 + 9,000
Total +19,000	Total +19,000

5 Excess reserves have been reduced by the amount required against the deposits created by the loans made in Stage 1. [back](#)

Total reserves gained from initial deposits. . . 10,000
less: Required against initial deposits -1,000
less: Required against Stage 1 requirements -900
equals: Excess reserves. 8,100

Why do these banks stop increasing their loans and deposits when they still have excess reserves?

6 ...because borrowers write checks on their accounts at the lending banks. As these checks are deposited in the payees' banks and cleared, the deposits created by Stage 1 loans and an equal amount of reserves may be transferred to other banks. [back](#)

STAGE 1 BANKS	
Assets	Liabilities
Reserves with F. R. Banks . -9000 (matched under FR bank liabilities)	Borrower deposits . . . -9,000 (shown as additions to other bank deposits)
FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserve accounts: Stage 1 banks . -9,000 Other banks. +9,000
OTHER BANKS	
Assets	Liabilities
Reserves with F. R. Banks . +9,000	Deposits +9,000

Deposit expansion has just begun!

7 Expansion continues as the banks that have excess reserves increase their loans by that amount, crediting borrowers' deposit accounts in the process, thus creating still more money.

STAGE 2 BANKS	
Assets	Liabilities
Loans + 8100	Borrower deposits . . . +8,100

8 Now the banking system's assets and liabilities have risen by 27,100.

ALL BANKS	
Assets	Liabilities
Reserves with F. R. Banks . +10,000	Deposits: Initial +10,000
Loans: Stage 1 + 9,000	Stage 1 +9,000
Stage 2 + 8,100	Stage 2 +8,100
Total +27,000	Total +27,000

9 But there are still 7,290 of excess reserves in the banking system.

Total reserves gained from initial deposits 10,000
 less: Required against initial deposits . -1,000
 less: Required against Stage 1 deposits . -900
 less: Required against Stage 2 deposits . -810 . . . 2,710
 equals: Excess reserves 7,290 --> to Stage 3 banks

10 As borrowers make payments, these reserves will be further dispersed, and the process can continue through many more stages, in progressively smaller increments, until the entire 10,000 of reserves have been absorbed by deposit growth. As is apparent from the summary table on page 11, more than two-thirds of the deposit expansion potential is reached after the first ten stages.

It should be understood that the stages of expansion occur neither simultaneously nor in the sequence described above. Some banks use their reserves incompletely or only after a considerable time lag, while others expand assets on the basis of expected reserve growth. The process is, in fact, continuous and may never reach its theoretical limits.

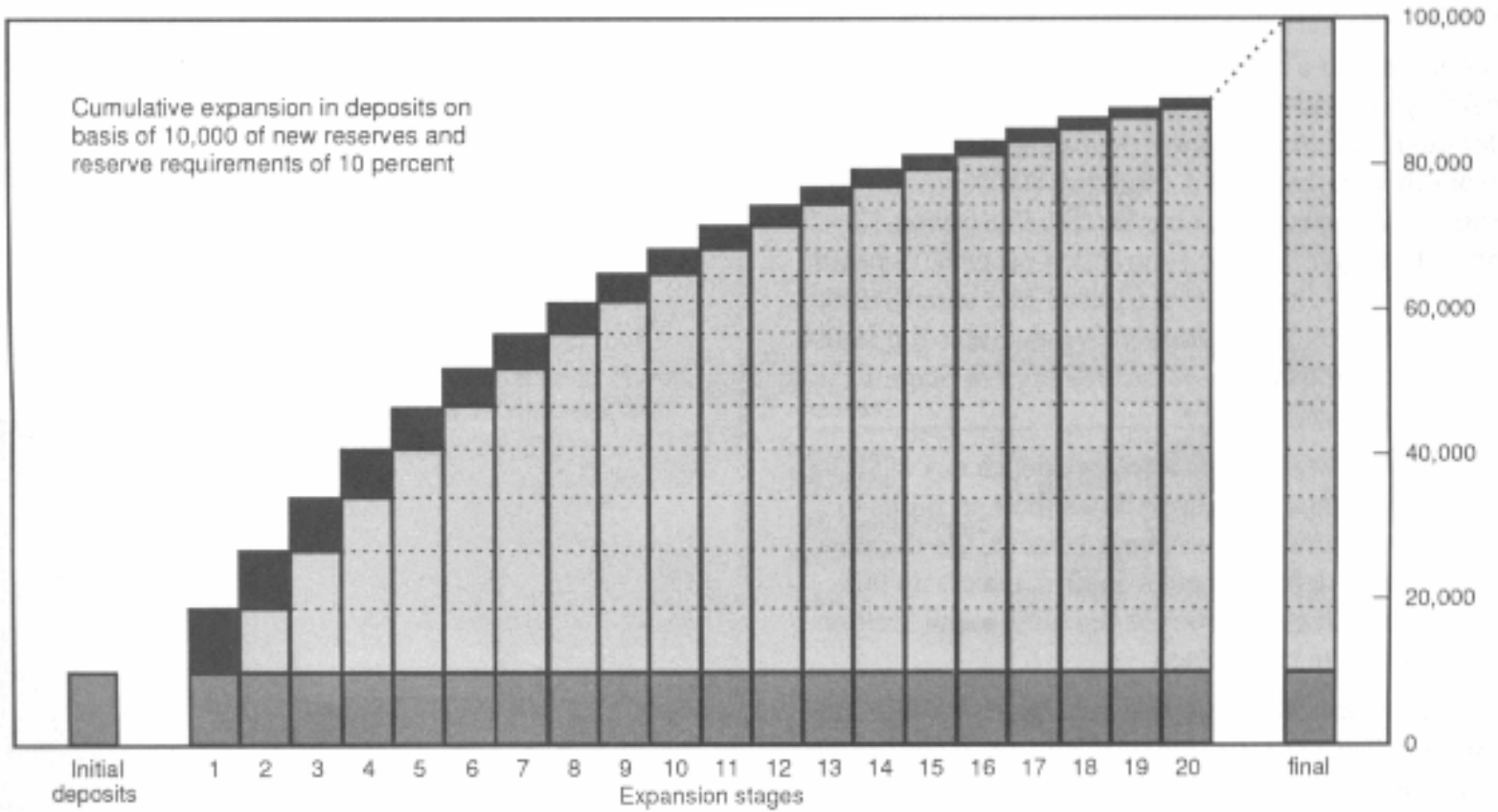
End page 10. [back](#)

Thus through stage after stage of expansion,

"money" can grow to a total of 10 times the new reserves supplied to the banking system....

Assets				Liabilities	
	[Reserves]				
	Total	(Required)	(Excess)	Loans and Investments	Deposits
Reserves provided	10,000	1,000	9,000	-	10,000
Exp. Stage 1	10,000	1,900	8,100	9,000	19,000
Stage 2	10,000	2,710	7,290	17,100	27,100
Stage 3	10,000	3,439	6,561	24,390	34,390
Stage 4	10,000	4,095	5,905	30,951	40,951
Stage 5	10,000	4,686	5,314	36,856	46,856
Stage 6	10,000	5,217	4,783	42,170	52,170
Stage 7	10,000	5,695	4,305	46,953	56,953
Stage 8	10,000	6,126	3,874	51,258	61,258
Stage 9	10,000	6,513	3,487	55,132	65,132
Stage 10	10,000	6,862	3,138	58,619	68,619
...
...
...
Stage 20	10,000	8,906	1,094	79,058	89,058
...
...
...
Final Stage	10,000	10,000	0	90,000	100,000

...as the new deposits created by loans at each stage are added to those created at all earlier stages and those supplied by the initial reserve-creating action.



End page 11. [back](#)

Page 12.

How Open Market Sales Reduce bank Reserves and Deposits

Now suppose some reduction in the amount of money is desired. Normally this would reflect temporary or seasonal reductions in activity to be financed since, on a year-to-year basis, a growing economy needs at least some monetary expansion. Just as purchases of government securities by the Federal Reserve System can provide the basis for deposit expansion by adding to bank reserves, sales of securities by the Federal Reserve System reduce the money stock by absorbing bank reserves. The process is essentially the reverse of the expansion steps just described.

Suppose the Federal Reserve System sells \$10,000 of Treasury bills to a U.S. government securities dealer and receives in payment an "electronic" check drawn on Bank A. As this payment is made, Bank A's reserve account at a Federal Reserve Bank is reduced by \$10,000. As a result, the Federal Reserve System's holdings of securities and the reserve accounts of banks are both reduced \$10,000. The \$10,000 reduction in Bank A's deposit liabilities constitutes a decline in the money stock. See [illustration 11](#).

Contraction Also Is a Cumulative Process

While Bank A may have regained part of the initial reduction in deposits from other banks as a result of interbank deposit flows, all banks taken together have \$10,000 less in both deposits and reserves than they had before the Federal Reserve's sales of securities. The amount of reserves freed by the decline in deposits, however, is only \$1,000 (10 percent of \$10,000). Unless the banks that lose the reserves and deposits had excess reserves, they are left with a reserve deficiency of \$9,000. *See [illustration 12](#).*

Although they may borrow from the Federal Reserve Banks to cover this deficiency temporarily, sooner or later the banks will have to obtain the necessary reserves in some other way or reduce their needs for reserves.

One way for a bank to obtain the reserves it needs is by selling securities. But, as the buyers of the securities pay for them with funds in their deposit accounts in the same or other banks, the net result is a \$9,000 decline in securities and deposits at all banks. *See [illustration 13](#).* At the end of Stage 1 of the contraction process, deposits have been reduced by a total of \$19,000 (the initial \$10,000 resulting from the Federal Reserve's action plus the \$9,000 in deposits extinguished by securities sales of Stage 1 banks). *See [illustration 14](#).*

However, there is now a reserve deficiency of \$8,100 at banks whose depositors drew down their accounts to purchase the securities from Stage 1 banks. As the new group of reserve-deficient banks, in turn, makes up this deficiency by selling securities or reducing loans, further deposit contraction takes place.

Thus, contraction proceeds through reductions in deposits and loans or investments in one stage after another until total deposits have been reduced to the point where the smaller volume of reserves is adequate to support them. The contraction multiple is the same as that which applies in the case of expansion. Under a 10 percent reserve requirement, a \$10,000 reduction in reserves would ultimately entail reductions of \$100,000 in deposits and \$90,000 in loans and investments.

As in the case of deposit expansion, contraction of bank deposits may take place as a result of either sales of securities or reductions of loans. While some adjustments of both kinds undoubtedly would be made, the initial impact probably would be reflected in sales of government securities. Most types of outstanding loans cannot be called for payment prior to their due dates. But the bank may cease to make new loans or refuse to renew outstanding ones to replace those currently maturing. Thus, deposits built up by borrowers for the purpose of loan retirement would be extinguished as loans were repaid.

There is one important difference between the expansion and contraction processes. When the Federal Reserve System adds to bank reserves, expansion of credit and deposits *may* take place up to the limits permitted by the minimum reserve ratio that banks are required to maintain. But when the System acts to reduce the amount of bank reserves, contraction of credit and deposits *must* take place (except to the extent that existing excess reserve balances and/or surplus vault cash are utilized) to the point where the required ratio of reserves to deposits is restored. But the significance of this difference should not be overemphasized. Because excess reserve balances do not earn interest, there is a strong incentive to convert them into earning assets (loans and investments).

Deposit Contraction

11 When the Federal Reserve Bank sells government securities, bank reserves decline. This happens because the buyer of the securities makes payment through a debit to a designated deposit account at a bank (Bank A), with the transfer of funds being effected by a debit to Bank A's reserve account at the Federal Reserve Bank. [back](#)

FEDERAL RESERVE BANK		BANK A	
Assets	Liabilities	Assets	Liabilities
U.S govt securities.....-10,000	Reserve Accts. Bank A.....-10,000	Reserves with F.R. Banks.....-10,000	Customer deposits.....-10,000

This reduction in the customer deposit at Bank A may be spread among a number of banks through interbank deposit flows.

12 The loss of reserves means that all banks taken together now have a reserve deficiency. [back](#)

Total reserves lost from deposit withdrawal 10,000
less: Reserves freed by deposit decline(10%). 1,000
equals: Deficiency in reserves against remaining deposits . . 9,000

Contraction - Stage 1

13 The banks with the reserve deficiencies (Stage 1 banks) can sell government securities to acquire reserves, but this causes a decline in the deposits and reserves of the buyers' banks. [back](#)

STAGE 1 BANKS

Assets	Liabilities
U.S. government securities...-9,000	
Reserves with F.R. Banks..+9,000	
FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserve Accounts:
	Stage 1 banks.....+9,000
	Other banks.....-9,000
OTHER BANKS	
Assets	Liabilities
Reserves with F.R. Banks . . -9,000	Deposits -9,000

14 As a result of the process so far, assets and total deposits of all banks together have declined 19,000. Stage 1 contraction has freed 900 of reserves, but there is still a reserve deficiency of 8,100. [back](#)

ALL BANKS	
Assets	Liabilities
Reserves with F.R. Banks . . -10,000	Deposits:
U.S. government securities . . -9,000	Initial -10,000
Total -19,000	Stage 1 -9,000
	Total -19,000

Further contraction must take place!

End of page 13. [forward](#)

Bank Reserves - How They Change

Money has been defined as the sum of transaction accounts in depository institutions, and currency and travelers checks in the hands of the public. Currency is something almost everyone uses every day. Therefore, when most people think of money, they think of currency. Contrary to this popular impression, however, *transaction deposits* are the most significant part of the money stock. People keep enough currency on hand to effect small face-to-face transactions, but they write checks to cover most large

expenditures. Most businesses probably hold even smaller amounts of currency in relation to their total transactions than do individuals.

Since the most important component of money is transaction deposits, and since these deposits must be supported by reserves, the central bank's influence over money hinges on its control over the total amount of reserves and the conditions under which banks can obtain them.

The preceding illustrations of the expansion and contraction processes have demonstrated how the central bank, by purchasing and selling government securities, can deliberately change aggregate bank reserves in order to affect deposits. But open market operations are only one of a number of kinds of transactions or developments that cause changes in reserves. Some changes originate from actions taken by the public, by the Treasury Department, by the banks, or by foreign and international institutions. Other changes arise from the service functions and operating needs of the Reserve Banks themselves.

The various factors that provide and absorb bank reserve balances, together with symbols indicating the effects of these developments, are listed on the opposite [page](#). This tabulation also indicates the nature of the balancing entries on the Federal Reserve's books. (To the extent that the impact is absorbed by changes in banks' vault cash, the Federal Reserve's books are unaffected.)

Independent Factors Versus Policy Action

It is apparent that bank reserves are affected in several ways that are independent of the control of the central bank. Most of these "independent" elements are changing more or less continually. Sometimes their effects may last only a day or two before being reversed automatically. This happens, for instance, when bad weather slows up the check collection process, giving rise to an automatic increase in Federal Reserve credit in the form of "float." Other influences, such as changes in the public's currency holdings, may persist for longer periods of time.

Still other variations in bank reserves result solely from the mechanics of institutional arrangements among the Treasury, the Federal Reserve Banks, and the depository institutions. The Treasury, for example, keeps part of its operating cash balance on deposit with banks. But virtually all disbursements are made from its balance in the Reserve Banks. As is shown later, any buildup in balances at the Reserve Banks prior to expenditure by the Treasury causes a dollar-for-dollar drain on bank reserves.

In contrast to these independent elements that affect reserves are the policy actions taken by the Federal Reserve System. The way System open market purchases and sales of securities affect reserves has already been described. In addition, there are two other ways in which the System can affect bank reserves and potential deposit volume directly; first, through loans to depository institutions, and second, through changes in reserve requirement percentages. A change in the required reserve ratio, of course, does not alter the dollar volume of reserves directly but does change the amount of deposits that a given amount of reserves can support.

Any change in reserves, regardless of its origin, has the same potential to affect deposits. Therefore, in order to achieve the net reserve effects consistent with its monetary policy objectives, the Federal Reserve System continuously must take account of what the independent factors are doing to reserves and then, using its policy tools, offset or supplement them as the situation may require.

By far the largest number and amount of the System's gross open market transactions are undertaken to offset drains from or additions to bank reserves from non-Federal Reserve sources that might otherwise cause abrupt changes in credit availability. In addition, Federal Reserve purchases and/or sales of securities are made to provide the reserves needed to support the rate of money growth consistent with monetary policy objectives.

In this section of the booklet, several kinds of transactions that can have important week-to-week effects on bank reserves are traced in detail. Other factors that normally have only a small influence are described briefly on page 35.

Factors Changing Reserve Balances - Independent and Policy Actions

	FEDERAL RESERVE BANKS		
	Assets	Liabilities	
		Reserve balances	Other
Public actions			
Increase in currency holdings.....		-	+
Decrease in currency holdings.....		+	-
Treasury, bank, and foreign actions			
Increase in Treasury deposits in F.R. Banks.....		-	+
Decrease in Treasury deposits in F.R. Banks.....		+	-
Gold purchases (inflow) or increase in official valuation*..		+	-
Gold sales (outflows)*.....		-	+
Increase in SDR certificates issued*.....		+	-
Decrease in SDR certificates issued*.....		-	+
Increase in Treasury currency outstanding*.....		+	-
Decrease in Treasury currency outstanding*.....		-	+
Increase in Treasury cash holdings*.....		-	+

Decrease in Treasury cash holdings*.....		+	-
Increase in service-related balances/adjustments.....		-	+
Decrease in service-related balances/adjustments.....		+	-
Increase in foreign and other deposits in F.R. Banks.....		-	+
Decrease in foreign and other deposits in F.R. Banks....		+	-
Federal Reserve actions			
<i>Purchases of securities</i>	+	+	
<i>Sales of securities</i>	-	-	
<i>Loans to depository institutions</i>	+	+	
<i>Repayment of loans to depository institutions</i>	-	-	
Increase in Federal Reserve float.....	+	+	
Decrease in Federal Reserve float.....	-	-	
Increase in assets denominated in foreign currency	+	+	
Decrease in assets denominated in foreign currency	-	-	
Increase in other assets**	+	+	
Decrease in other assets**	-	-	
Increase in other liabilities**		-	+
Decrease in other liabilities**		+	-
Increase in capital accounts**		-	+
Decrease in capital accounts**		+	-
<i>Increase in reserve requirements</i>		-***	
<i>Decrease in reserve requirements</i>		+***	

* These factors represent assets and liabilities of the Treasury. Changes in them typically affect reserve balances through a related change in the Federal Reserve Banks' liability "Treasury deposits."

** Included in "Other Federal Reserve accounts" as described on page 35.

*** Effect on excess reserves. Total reserves are unchanged.

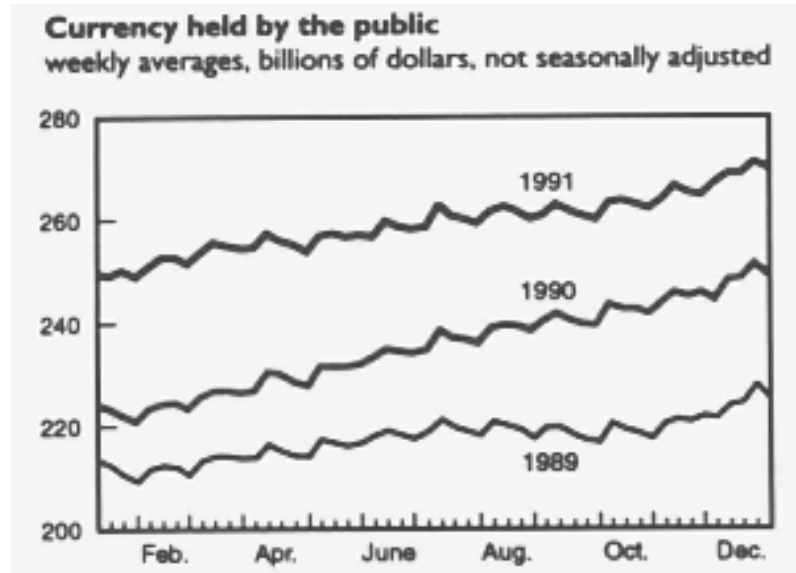
Note: To the extent that reserve changes are in the form of vault cash, Federal Reserve accounts are not affected. [back](#)

[Forward](#)

Changes in the Amount of Currency Held by the Public

Changes in the amount of currency held by the public typically follow a fairly regular intramonthly pattern. Major changes also occur over holiday periods and during the Christmas shopping season - times when people find it convenient to keep more pocket money on hand. (See chart.) The public acquires currency from banks by cashing checks.

(6) When deposits, which are fractional reserve money, are exchanged for currency, which is 100 percent reserve money, the banking system experiences a net reserve drain. Under the assumed 10 percent reserve requirement, a given amount of bank reserves can support deposits ten times as great, but when drawn upon to meet currency demand, the exchange is one to one. A \$1 increase in currency uses up \$1 of reserves.



Suppose a bank customer cashed a \$100 check to obtain currency needed for a weekend holiday. Bank deposits decline \$100 because the customer pays for the currency with a check on his or her transaction deposit; and the bank's currency (vault cash reserves) is also reduced \$100. See [illustration 15](#).

Now the bank has less currency. It may replenish its vault cash by ordering currency from its Federal Reserve Bank - making payment by authorizing a charge to its reserve account. On the Reserve Bank's books, the charge against the bank's reserve account is offset by an increase in the liability item "Federal Reserve notes." See [illustration 16](#). The reserve Bank shipment to the bank might consist, at least in part, of U.S. coins rather than Federal Reserve notes. All coins, as well as a small amount of paper currency still outstanding but no longer issued, are obligations of the Treasury. To the extent that shipments of cash to banks are in the form of coin, the offsetting entry on the Reserve Bank's books is a decline in its asset item "coin."

The public now has the same volume of money as before, except that more is in the form of currency and less is in the form of transaction deposits. Under a 10 percent reserve requirement, the amount of reserves required against the \$100 of deposits was only \$10, while a full \$100 of reserves have been drained away by the disbursement of \$100 in currency. Thus, if the bank had no excess reserves, the \$100 withdrawal in currency causes a reserve deficiency of \$90. Unless new reserves are provided from some other source, bank assets and deposits will have to be reduced (according to the contraction process described on pages [12](#) and [13](#)) by an additional \$900. At that point, the reserve deficiency caused by the cash withdrawal would be eliminated.

When Currency Returns to Banks, Reserves Rise

After holiday periods, currency returns to the banks. The customer who cashed a check to cover anticipated cash expenditures may later redeposit any currency still held that's beyond normal pocket

money needs. Most of it probably will have changed hands, and it will be deposited by operators of motels, gasoline stations, restaurants, and retail stores. This process is exactly the reverse of the currency drain, except that the banks to which currency is returned may not be the same banks that paid it out. But in the aggregate, the banks gain reserves as 100 percent reserve money is converted back into fractional reserve money.

When \$100 of currency is returned to the banks, deposits and vault cash are increased. See [illustration 17](#). The banks can keep the currency as vault cash, which also counts as reserves. More likely, the currency will be shipped to the Reserve Banks. The Reserve Banks credit bank reserve accounts and reduce Federal Reserve note liabilities. See [illustration 18](#). Since only \$10 must be held against the new \$100 in deposits, \$90 is excess reserves and can give rise to \$900 of additional deposits([7](#)).

To avoid multiple contraction or expansion of deposit money merely because the public wishes to change the composition of its money holdings, the effects of changes in the public's currency holdings on bank reserves normally are offset by System open market operations.

⁶The same balance sheet entries apply whether the individual physically cashes a paper check or obtains currency by withdrawing cash through an automatic teller machine. [back](#)

⁷Under current reserve accounting regulations, vault cash reserves are used to satisfy reserve requirements in a future maintenance period while reserve balances satisfy requirements in the current period. As a result, the impact on a bank's current reserve position may differ from that shown unless the bank restores its vault cash position in the current period via changes in its reserve balance. [back](#)

15 When a depositor cashes a check, both deposits and vault cash reserves decline. [back](#)

BANK A	
Assets	Liabilities
Vault cash reserves . . -100	Deposits -100
<i>(Required . . -10)</i>	
<i>(Deficit 90)</i>	

16 If the bank replenishes its vault cash, its account at the Reserve Bank is drawn down in exchange for notes issued by the Federal Reserve. [back](#)

FEDERAL RESERVE BANK

Assets

Liabilities

Reserve accounts: Bank A . . . -100
F.R. notes . . . +100

BANK A

Assets

Liabilities

Vault cash +100
Reserves with F.R. Banks . -100

17 When currency comes back to the banks, both deposits and vault cash reserves rise. [back](#)

BANK A

Assets

Liabilities

Vault cash reserves . . +100	Deposits +100
<i>(Required . . . +10)</i>	
<i>(Excess +90)</i>	

18 If the currency is returned to the Federal reserve, reserve accounts are credited and Federal Reserve notes are taken out of circulation. [back](#)

FEDERAL RESERVE BANK

Assets

Liabilities

Reserve accounts: Bank A . . +100
F.R. notes -100

BANK A

Assets

Liabilities

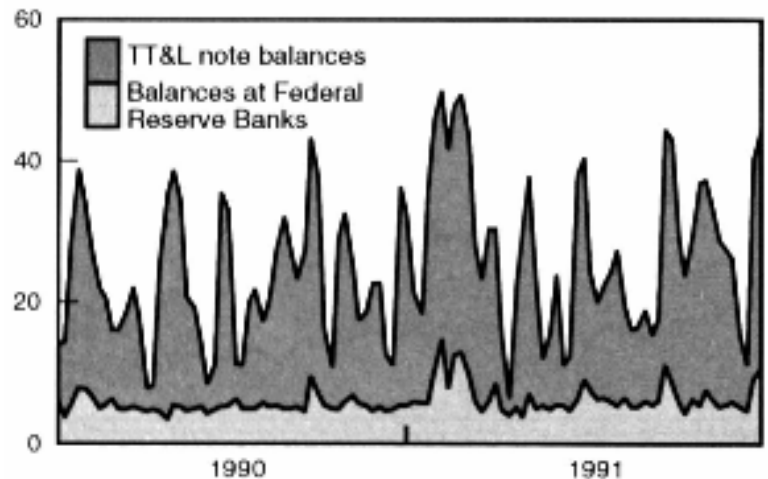
Vault cash -100
Reserves with F.R. Banks . . . +100

Changes in U.S. Treasury Deposits in Federal Reserve Banks

Reserve accounts of depository institutions constitute the bulk of the deposit liabilities of the Federal Reserve System. Other institutions, however, also maintain balances in the Federal Reserve Banks - mainly the U.S. Treasury, foreign central banks, and international financial institutions. In general, when these balances rise, bank reserves fall, and vice versa. This occurs because the funds used by these agencies to build up their deposits in the Reserve Banks ultimately come from deposits in banks. Conversely, recipients of payments from these agencies normally deposit the funds in banks. Through the collection process these banks receive credit to their reserve accounts.

The most important nonbank depositor is the U.S. Treasury. Part of the Treasury's operating cash balance is kept in the Federal Reserve Banks; the rest is held in depository institutions all over the country, in so-called "Treasury tax and loan" (TT&L) note accounts. (*See chart.*) Disbursements by the Treasury, however, are made against its balances at the Federal Reserve. Thus, transfers from banks to Federal Reserve Banks are made through regularly scheduled "calls" on TT&L balances to assure that sufficient funds are available to cover Treasury checks as they are presented for payment. (8)

Operating cash balance of the U.S. Treasury
weekly averages, billions of dollars, not seasonally adjusted



Bank Reserves Decline as the Treasury's Deposits at the Reserve Banks Increase

Calls on TT&L note accounts drain reserves from the banks by the full amount of the transfer as funds move from the TT&L balances (via charges to bank reserve accounts) to Treasury balances at the Reserve Banks. Because reserves are not required against TT&L note accounts, these transfers do not reduce required reserves. (9)

Suppose a Treasury call payable by Bank A amounts to \$1,000. The Federal Reserve Banks are authorized to transfer the amount of the Treasury call from Bank A's reserve account at the Federal Reserve to the account of the U.S. Treasury at the Federal Reserve. As a result of the transfer, both reserves and TT&L note balances of the bank are reduced. On the books of the Reserve Bank, bank reserves decline and Treasury deposits rise. *See illustration 19.* This withdrawal of Treasury funds will cause a reserve deficiency of \$1,000 since no reserves are released by the decline in TT&L note accounts at depository institutions.

Bank Reserves Rise as the Treasury's Deposits at the Reserve Banks Decline

As the Treasury makes expenditures, checks drawn on its balances in the Reserve Banks are paid to the public, and these funds find their way back to banks in the form of deposits. The banks receive reserve credit equal to the full amount of these deposits although the corresponding increase in their required reserves is only 10 percent of this amount.

Suppose a government employee deposits a \$1,000 expense check in Bank A. The bank sends the check to its Federal Reserve Bank for collection. The Reserve Bank then credits Bank A's reserve account and charges the Treasury's account. As a result, the bank gains both reserves and deposits. While there is no change in the assets or total liabilities of the Reserve Banks, the funds drawn away from the Treasury's balances have been shifted to bank reserve accounts. See [illustration 20](#).

One of the objectives of the TT&L note program, which requires depository institutions that want to hold Treasury funds for more than one day to pay interest on them, is to allow the Treasury to hold its balance at the Reserve Banks to the minimum consistent with current payment needs. By maintaining a fairly constant balance, large drains from or additions to bank reserves from wide swings in the Treasury's balance that would require extensive offsetting open market operations can be avoided. Nevertheless, there are still periods when these fluctuations have large reserve effects. In 1991, for example, week-to-week changes in Treasury deposits at the Reserve Banks averaged only \$56 million, but ranged from -\$4.15 billion to +\$8.57 billion.

⁸When the Treasury's balance at the Federal Reserve rises above expected payment needs, the Treasury may place the excess funds in TT&L note accounts through a "direct investment." The accounting entries are the same, but of opposite signs, as those shown when funds are transferred from TT&L note accounts to Treasury deposits at the Fed. [back](#)

⁹Tax payments received by institutions designated as Federal tax depositories initially are credited to reservable demand deposits due to the U.S. government. Because such tax payments typically come from reservable transaction accounts, required reserves are not materially affected on this day. On the next business day, however, when these funds are placed either in a nonreservable note account or remitted to the Federal Reserve for credit to the Treasury's balance at the Fed, required reserves decline. [back](#)

End page 18. [forward](#)

Page 19.

19 When the Treasury builds up its deposits at the Federal Reserve through "calls" on TT&L note

balances, reserve accounts are reduced. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserve accounts: Bank A . . -1,000
	U.S. Treasury deposits . . +1,000
BANK A	
Assets	Liabilities
Reserves with F.R. Banks . . -1,000	Treasury tax and loan note account
	. . -1,000
<i>(Required 0)</i>	
<i>(Deficit . . 1,000)</i>	

20 Checks written on the Treasury's account at the Federal Reserve Bank are deposited in banks. As these are collected, banks receive credit to their reserve accounts at the Federal Reserve Banks. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserve accounts: Bank A . . +1,000
	U.S. Treasury deposits . . . -1,000
BANK A	
Assets	Liabilities
Reserves with F.R. Banks . . +1,000	Private deposits . . +1,000
<i>(Required . . . +100)</i>	
<i>(Excess +900)</i>	

End of page 19. [forward](#)

Changes in Federal Reserve Float

A large proportion of checks drawn on banks and deposited in other banks is cleared (collected) through

the Federal Reserve Banks. Some of these checks are credited immediately to the reserve accounts of the depositing banks and are collected the same day by debiting the reserve accounts of the banks on which the checks are drawn. All checks are credited to the accounts of the depositing banks according to availability schedules related to the time it normally takes the Federal Reserve to collect the checks, but rarely more than two business days after they are received at the Reserve Banks, even though they may not yet have been collected due to processing, transportation, or other delays.

The reserve credit given for checks not yet collected is included in Federal Reserve "float."⁽¹⁰⁾ On the books of the Federal Reserve Banks, balance sheet float, or statement float as it is sometimes called, is the difference between the asset account "items in process of collection," and the liability account "deferred credit items." Statement float is usually positive since it is more often the case that reserve credit is given before the checks are actually collected than the other way around.

Published data on Federal Reserve float are based on a "reserves-factor" framework rather than a balance sheet accounting framework. As published, Federal Reserve float includes statement float, as defined above, as well as float-related "as-of" adjustments.⁽¹¹⁾ These adjustments represent corrections for errors that arise in processing transactions related to Federal Reserve priced services. As-of adjustments do not change the balance sheets of either the Federal Reserve Banks or an individual bank. Rather they are corrections to the bank's reserve position, thereby affecting the calculation of whether or not the bank meets its reserve requirements.

An Increase in Federal Reserve Float Increases Bank Reserves

As float rises, total bank reserves rise by the same amount. For example, suppose Bank A receives checks totaling \$100 drawn on Banks B, C, and D, all in distant cities. Bank A increases the accounts of its depositors \$100, and sends the items to a Federal Reserve Bank for collection. Upon receipt of the checks, the Reserve Bank increases its own asset account "items in process of collection," and increases its liability account "deferred credit items" (checks and other items not yet credited to the sending bank's reserve accounts). As long as these two accounts move together, there is no change in float or in total reserves from this source. See [illustration 21](#).

On the next business day (assuming Banks B, C, and D are one-day deferred availability points), the Reserve Bank pays Bank A. The Reserve Bank's "deferred credit items" account is reduced, and Bank A's reserve account is increased \$100. If these items actually take more than one business day to collect so that "items in process of collection" are not reduced that day, the credit to Bank A represents an addition to total bank reserves since the reserve accounts of Banks B, C, and D will not have been commensurately reduced.⁽¹²⁾ See [illustration 22](#).

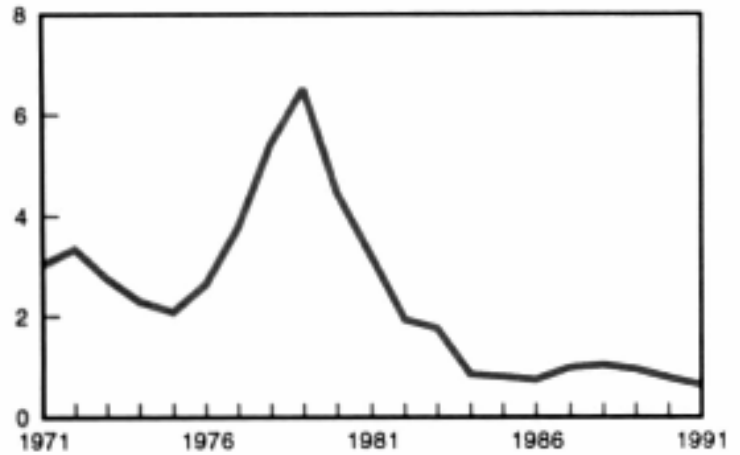
A Decline in Federal Reserve Float Reduces Bank Reserves

Only when the checks are actually collected from Banks B, C, and D does the float involved in the above example disappear - "items in process of collection" of the Reserve Bank decline as the reserve accounts

of Banks B, C, and D are reduced. See [illustration 23](#).

On an annual average basis, Federal Reserve float declined dramatically from 1979 through 1984, in part reflecting actions taken to implement provisions of the Monetary Control Act that directed the Federal Reserve to reduce and price float. (See chart.) Since 1984, Federal Reserve float has been fairly stable on an annual average basis, but often fluctuates sharply over short periods. From the standpoint of the effect on bank reserves, the significant aspect of float is not that it exists but that its volume changes in a difficult-to-predict way. Float can increase unexpectedly, for example, if weather conditions ground planes transporting checks to paying banks for collection. However, such periods typically are followed by ones where actual collections exceed new items being received for collection. Thus, reserves gained from float expansion usually are quite temporary.

Federal Reserve float (including as-of adjustments) annual averages, billions of dollars



10 Federal Reserve float also arises from other funds transfer services provided by the Fed, and automatic clearinghouse transfers. [back](#)

11 As-of adjustments also are used as one means of pricing float, as discussed on [page 22](#), and for nonfloat related corrections, as discussed on [page 35](#). [back](#)

12 If the checks received from Bank A had been erroneously assigned a two-day deferred availability, then neither statement float nor reserves would increase, although both should. Bank A's reserve position and published Federal Reserve float data are corrected for this and similar errors through as-of adjustments. [back](#)

21 When a bank receives deposits in the form of checks drawn on other banks, it can send them to the Federal Reserve Bank for collection. (Required reserves are not affected immediately because requirements apply to *net* transaction accounts, i.e., total transaction accounts minus both cash items in process of collection and deposits due from domestic depository institutions.) [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Items in process of collection . . +100	Deferred credit items . . +100

BANK A	
Assets	Liabilities
Cash items in process of collection . . +100	Deposits +100

22 If the reserve account of the payee bank is credited before the reserve accounts of the paying banks are debited, total reserves increase. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
	Deferred credit items . . -100
	Reserve account: Bank A . . +100

BANK A	
Assets	Liabilities
Cash items in process of collection . . -100	
Reserves with F.R. Banks . . . +100	
	<i>(Required +10)</i>
	<i>(Excess. +90)</i>

23 But upon actual collection of the items, accounts of the paying banks are charged, and total reserves decline. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Items in process of collection -100	Reserve accounts: Banks B, C, and D -100

BANK B, C, and D	
Assets	Liabilities
Reserves with F.R.Banks . . -100	Deposits -100
	<i>(Required . . . -10)</i>
	<i>(Deficit 90)</i>

Changes in Service-Related Balances and Adjustments

In order to foster a safe and efficient payments system, the Federal Reserve offers banks a variety of payments services. Prior to passage of the Monetary Control Act in 1980, the Federal Reserve offered its services free, but only to banks that were members of the Federal Reserve System. The Monetary Control Act directed the Federal Reserve to offer its services to all depository institutions, to charge for these services, and to reduce and price Federal Reserve float.⁽¹³⁾ Except for float, all services covered by the Act were priced by the end of 1982. Implementation of float pricing essentially was completed in 1983.

The advent of Federal reserve priced services led to several changes that affect the use of funds in banks' reserve accounts. As a result, only part of the total balances in bank reserve accounts is identified as "reserve balances" available to meet reserve requirements. Other balances held in reserve accounts represent "service-related balances and adjustments (to compensate for float)." Service-related balances are "required clearing balances" held by banks that use Federal Reserve services while "adjustments" represent balances held by banks that pay for float with as-of adjustments.

An Increase in Required Clearing Balances Reduces Reserve Balances

Procedures for establishing and maintaining clearing balances were approved by the Board of Governors of the Federal Reserve System in February of 1981. A bank may be required to hold a clearing balance if it has no required reserve balance or if its required reserve balance (held to satisfy reserve requirements) is not large enough to handle its volume of clearings. Typically a bank holds both reserve balances and required clearing balances in the same reserve account. Thus, as required clearing balances are established or increased, the amount of funds in reserve accounts identified as reserve balances declines.

Suppose Bank A wants to use Federal Reserve services but has a reserve balance requirement that is less than its expected operating needs. With its Reserve Bank, it is determined that Bank A must maintain a required clearing balance of \$1,000. If Bank A has no excess reserve balance, it will have to obtain funds from some other source. Bank A could sell \$1,000 of securities, but this will reduce the amount of total bank reserve balances and deposits. See [illustration 24](#).

Banks are billed each month for the Federal Reserve services they have used with payment collected on a specified day the following month. All required clearing balances held generate "earnings credits" which can be used only to offset charges for Federal Reserve services.⁽¹⁴⁾ Alternatively, banks can pay for services through a direct charge to their reserve accounts. If accrued earnings credits are used to pay for services, then reserve balances are unaffected. On the other hand, if payment for services takes the form of a direct charge to the bank's reserve account, then reserve balances decline. See [illustration 25](#).

Float Pricing As-Of Adjustments Reduce Reserve Balances

In 1983, the Federal Reserve began pricing explicitly for float,⁽¹⁵⁾ specifically "interterritory" check float, i.e., float generated by checks deposited by a bank served by one Reserve Bank but drawn on a bank served by another Reserve Bank. The depositing bank has three options in paying for interterritory check float it generates. It can use its earnings credits, authorize a direct charge to its reserve account, or pay for the float with an as-of adjustment. If either of the first two options is chosen, the accounting entries are the same as paying for other priced services. If the as-of adjustment option is chosen, however, the balance sheets of the Reserve Banks and the bank are not directly affected. In effect what happens is that part of the total balances held in the bank's reserve account is identified as being held to compensate the Federal Reserve for float. This part, then, cannot be used to satisfy either reserve requirements or clearing balance requirements. Float pricing as-of adjustments are applied two weeks after the related float is generated. Thus, an individual bank has sufficient time to obtain funds from other sources in order to avoid any reserve deficiencies that might result from float pricing as-of adjustments. If all banks together have no excess reserves, however, the float pricing as-of adjustments lead to a decline in total bank reserve balances.

Week-to-week changes in service-related balances and adjustments can be volatile, primarily reflecting adjustments to compensate for float. (See chart.) Since these changes are known in advance, any undesired impact on reserve balances can be offset easily through open market operations.

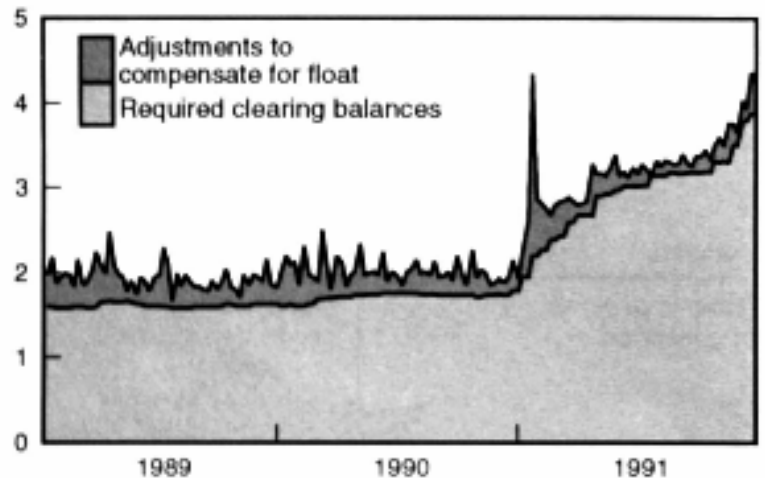
¹³The Act specified that fee schedules cover services such as check clearing and collection, wire transfer, automated clearinghouse, settlement, securities safekeeping, noncash collection, Federal Reserve float, and any new services offered. [back](#)

¹⁴"Earnings credits" are calculated by multiplying the actual average clearing balance held over a maintenance period, up to that required plus the clearing balance band, times a rate based on the average federal funds rate. The clearing balance band is 2 percent of the required clearing balance or \$25,000, whichever amount is larger. [back](#)

¹⁵While some types of float are priced directly, the Federal Reserve prices other types of float indirectly, for example, by including the cost of float in the per-item fees for the priced service. [back](#)

End of page 22. [back](#)

Service-related balances and adjustments
weekly averages, billions of dollars, not seasonally adjusted



24 When Bank A establishes a required clearing balance at a Federal Reserve Bank by selling securities, the reserve balances and deposits of other banks decline. [back](#)

BANK A	
Assets	Liabilities
U.S. government securities . . -1,000	
Reserve account with F.R. Banks:	
Required clearing balance . . +1000	
FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserve accounts:
	Required clearing
	balances Bank A +1000
	Reserve balances:
	Other banks -1000
OTHER BANKS	
Assets	Liabilities
Reserve accounts with F.R. Banks:	
Reserve balances -1,000	Deposits -1,000
<i>(Required . . . -100)</i>	
<i>(Deficit 900)</i>	

25 When Bank A is billed monthly for Federal Reserve services used, it can pay for these services by having earnings credits applied and/or by authorizing a direct charge to its reserve account. Suppose Bank A has accrued earnings credits of \$100 but incurs fees of \$125. Then both methods would be used. On the Federal Reserve Bank's books, the liability account "earnings credits due to depository institutions" declines by \$100 and Bank A's reserve account is reduced by \$25. Offsetting these entries is a reduction in the Fed's (other) asset account "accrued service income." On Bank A's books, the accounting entries might be a \$100 reduction to its asset account "earnings credit due from Federal Reserve Banks" and a \$25 reduction in its reserve account, which are offset by a \$125 decline in its liability "accounts payable." While an individual bank may use different accounting entries, the net effect on reserves is a reduction of \$25, the amount of billed fees that were paid through a direct charge to Bank A's reserve account. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Accrued service income -125	Earnings credits due to depository
	institutions -100
	Reserve accounts: Bank A . . -25

have increased by \$100. However, if reserves are insufficient to support the higher deposits, Bank A will have a \$10 reserve deficiency, assuming requirements of 10 percent. See [illustration 26](#). Bank A may temporarily borrow the \$10 from its Federal Reserve Bank, which makes a loan by increasing its asset item "loans to depository institutions" and crediting Bank A's reserve account. Bank A gains reserves and a corresponding liability "borrowings from Federal Reserve Banks." See [illustration 27](#).

To repay borrowing, a bank must gain reserves through either deposit growth or asset liquidation. See [illustration 28](#). A bank makes payment by authorizing a debit to its reserve account at the Federal Reserve Bank. Repayment of borrowing, therefore, reduces both reserves and "borrowings from Federal Reserve Banks." See [illustration 29](#).

Unlike loans made under the seasonal and extended credit programs, adjustment credit loans to banks generally must be repaid within a short time since such loans are made primarily to cover needs created by temporary fluctuations in deposits and loans relative to usual patterns. Adjustments, such as sales of securities, made by some banks to "get out of the window" tend to transfer reserve shortages to other banks and may force these other banks to borrow, especially in periods of heavy credit demands. Even at times when the total volume of adjustment credit borrowing is rising, some individual banks are repaying loans while others are borrowing. In the aggregate, adjustment credit borrowing usually increases in periods of rising business activity when the public's demands for credit are rising more rapidly than nonborrowed reserves are being provided by System open market operations.

Discount Window as a Tool of Monetary Policy

Although reserve expansion through borrowing is initiated by banks, the amount of reserves that banks can acquire in this way ordinarily is limited by the Federal Reserve's administration of the discount window and by its control of the rate charged banks for adjustment credit loans - the discount rate.⁽¹⁷⁾ Loans are made only for approved purposes, and other reasonably available sources of funds must have been fully used. Moreover, banks are discouraged from borrowing adjustment credit too frequently or for extended time periods. Raising the discount rate tends to restrain borrowing by increasing its cost relative to the cost of alternative sources of reserves.

Discount window administration is an important adjunct to the other Federal Reserve tools of monetary policy. While the privilege of borrowing offers a "safety valve" to temporarily relieve severe strains on the reserve positions of individual banks, there is generally a strong incentive for a bank to repay borrowing before adding further to its loans and investments.

¹⁶Adjustment credit is short-term credit available to meet temporary needs for funds. Seasonal credit is available for longer periods to smaller institutions having regular seasonal needs for funds. Extended credit may be made available to an institution or group of institutions experiencing sustained liquidity pressures. The reserves provided through extended credit borrowing typically are offset by open market operations. [back](#)

¹⁷Flexible discount rates related to rates on money market sources of funds currently are charged for seasonal credit and for extended credit outstanding more than 30 days. [back](#)

26 A bank may incur a reserve deficiency if it makes loans when it has no excess reserves. [back](#)

BANK A	
Assets	Liabilities
Loans +100	Deposits +100
Reserves with F. R. Banks . . no change (Required +10) (Deficit 10)	

27 Borrowing from a Federal Reserve Bank to cover such a deficit is accompanied by a direct credit to the bank's reserve account. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Loans to depository institution: Bank A +10	Reserve accounts: Bank A . . +10

BANK A	
Assets	Liabilities
Reserves with F.R. Banks . . +10	Borrowings from F.R.Banks . . +10

No further expansion can take place on the new reserves because they are all needed against the deposits created in (26).

28 Before a bank can repay borrowings, it must gain reserves from some other source. [back](#)

BANK A	
Assets	Liabilities
Securities -10	

Reserves with F.R. Banks . . . +10

29 Repayment of borrowings from the Federal Reserve Bank reduces reserves. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Loans to depository institutions: Bank A -10	Reserve accounts: Bank A . . . -10

BANK A	
Assets	Liabilities
Reserves with F.R. Bank . . -10	Borrowings from F.R. Bank . . -10

Changes in Reserve Requirements

Thus far we have described transactions that affect the volume of bank reserves and the impact these transactions have upon the capacity of the banks to expand their assets and deposits. It is also possible to influence deposit expansion or contraction by changing the required minimum ratio of reserves to deposits.

The authority to vary required reserve percentages for banks that were members of the Federal Reserve System (member banks) was first granted by Congress to the Federal Reserve Board of Governors in 1933. The ranges within which this authority can be exercised have been changed several times, most recently in the Monetary Control Act of 1980, which provided for the establishment of reserve requirements that apply uniformly to all depository institutions. The 1980 statute established the following limits:

- On transaction accounts*
 - first \$25 million 3%*
 - above \$25 million 8% to 14%*

- On nonpersonal time deposits 0% to 9%*

The 1980 law initially set the requirement against transaction accounts over \$25 million at 12 percent and that against nonpersonal time deposits at 3 percent. The initial \$25 million "low reserve tranche" was indexed to change each year in line with 80 percent of the growth in transaction accounts at all depository institutions. (For example, the low reserve tranche was increased from \$41.1 million for 1991 to \$42.2

million for 1992.) In addition, reserve requirements can be imposed on certain nondeposit sources of funds, such as Eurocurrency liabilities.[\(18\)](#) (Initially the Board set a 3 percent requirement on Eurocurrency liabilities.)

The Garn-St. Germain Act of 1982 modified these provisions somewhat by exempting from reserve requirements the first \$2 million of total reservable liabilities at each depository institution. Similar to the low reserve tranche adjustment for transaction accounts, the \$2 million "reservable liabilities exemption amount" was indexed to 80 percent of annual increases in total reservable liabilities. (For example, the exemption amount was increased from \$3.4 million for 1991 to \$3.6 million for 1992.)

The Federal Reserve Board is authorized to change, at its discretion, the percentage requirements on transaction accounts above the low reserve tranche and on nonpersonal time deposits within the ranges indicated above. In addition, the Board may impose differing reserve requirements on nonpersonal time deposits based on the maturity of the deposit. (The Board initially imposed the 3 percent nonpersonal time deposit requirement only on such deposits with original maturities of under four years.)

During the phase-in period, which ended in 1984 for most member banks and in 1987 for most nonmember institutions, requirements changed according to a predetermined schedule, without any action by the Federal Reserve Board. Apart from these legally prescribed changes, once the Monetary Control Act provisions were implemented in late 1980, the Board did not change any reserve requirement ratios until late 1990. (The original maturity break for requirements on nonpersonal time deposits was shortened several times, once in 1982, and twice in 1983, in connection with actions taken to deregulate rates paid on deposits.) In December 1990, the Board reduced reserve requirements against nonpersonal time deposits and Eurocurrency liabilities from 3 percent to zero. Effective in April 1992, the reserve requirement on transaction accounts above the low reserve tranche was lowered from 12 percent to 10 percent.

When reserve requirements are lowered, a portion of banks' existing holdings of required reserves becomes excess reserves and may be loaned or invested. For example, with a requirement of 10 percent, \$10 of reserves would be required to support \$100 of deposits. *See [illustration 30](#)*. But a reduction in the legal requirement to 8 percent would tie up only \$8, freeing \$2 out of each \$10 of reserves for use in creating additional bank credit and deposits. *See [illustration 31](#)*.

An increase in reserve requirements, on the other hand, absorbs additional reserve funds, and banks which have no excess reserves must acquire reserves or reduce loans or investments to avoid a reserve deficiency. Thus an increase in the requirement from 10 percent to 12 percent would boost required reserves to \$12 for each \$100 of deposits. Assuming banks have no excess reserves, this would force them to liquidate assets until the reserve deficiency was eliminated, at which point deposits would be one-sixth less than before. *See [illustration 32](#)*.

Reserve Requirements and Monetary Policy

The power to change reserve requirements, like purchases and sales of securities by the Federal Reserve, is an instrument of monetary policy. Even a small change in requirements - say, one-half of one percentage point - can have a large and widespread impact. Other instruments of monetary policy have sometimes been used to cushion the initial impact of a reserve requirement change. Thus, the System may sell securities (or purchase less than otherwise would be appropriate) to absorb part of the reserves released by a cut in requirements.

It should be noted that in addition to their initial impact on excess reserves, changes in requirements alter the expansion power of every reserve dollar. Thus, such changes affect the leverage of all subsequent increases or decreases in reserves from any source. For this reason, changes in the total volume of bank reserves actually held between points in time when requirements differ do not provide an accurate indication of the Federal Reserve's policy actions.

Both reserve balances and vault cash are eligible to satisfy reserve requirements. To the extent some institutions normally hold vault cash to meet operating needs in amounts exceeding their required reserves, they are unlikely to be affected by any change in requirements.

¹⁸The 1980 statute also provides that "under extraordinary circumstances" reserve requirements can be imposed at any level on any liability of depository institutions for as long as six months; and, if essential for the conduct of monetary policy, supplemental requirements up to 4 percent of transaction accounts can be imposed. [back](#)

30 Under a 10 percent reserve requirement, \$10 of reserves are needed to support each \$100 of deposits. [back](#)

BANK A	
Assets	Liabilities
Loans and investments . . . 90	Deposits 100
Reserves 10	
<i>(Required 10)</i>	
<i>(Excess. 0)</i>	

31 With a reduction in requirements from 10 percent to 8 percent, fewer reserves are required against the same volume of deposits so that excess reserves are created. These can be loaned or invested. [back](#)

BANK A	
Assets	Liabilities

Loans and investments	90	Deposits	100
Reserves	10		
<i>(Required)</i>	<i>8</i>		
<i>(Excess)</i>	<i>2</i>		

FEDERAL RESERVE BANK	
----------------------	--

Assets	Liabilities
No change	No change

There is no change in the total amount of reserves.

32 With an increase in requirements from 10 percent to 12 percent, more reserves are required against the same volume of deposits. The resulting deficiencies must be covered by liquidation of loans or investments... [back](#)

BANK A	
--------	--

Assets	Liabilities
Loans and investments	Deposits
90	100
Reserves	
10	
<i>(Required)</i>	
<i>(Deficit)</i>	
2	

FEDERAL RESERVE BANK	
----------------------	--

Assets	Liabilities
No change	No change

...because the total amount of bank reserves remains unchanged.

Changes in Foreign-Related Factors

The Federal Reserve has engaged in foreign currency operations for its own account since 1962. In addition, it acts as the agent for foreign currency transactions of the U.S. Treasury, and since the 1950s has executed transactions for customers such as foreign central banks. Perhaps the most publicized type of foreign currency transaction undertaken by the Federal Reserve is intervention in foreign exchange

markets. Intervention, however, is only one of several foreign-related transactions that have the potential for increasing or decreasing reserves of banks, thereby affecting money and credit growth.

Several foreign-related transactions and their effects on U.S. bank reserves are described in the next few pages. Included are some but not all of the types of transactions used. The key point to remember, however, is that the Federal Reserve routinely offsets any undesired change in U.S. bank reserves resulting from foreign-related transactions. As a result, such transactions do not affect money and credit growth in the United States.

Foreign Exchange Intervention for the Federal Reserve's Own Account

When the Federal Reserve intervenes in foreign exchange markets to sell dollars for its own account,[\(19\)](#) it acquires foreign currency assets and reserves of U.S. banks initially rise. In contrast, when the Fed intervenes to buy dollars for its own account, it uses foreign currency assets to pay for the dollars purchased and reserves of U.S. banks initially fall.

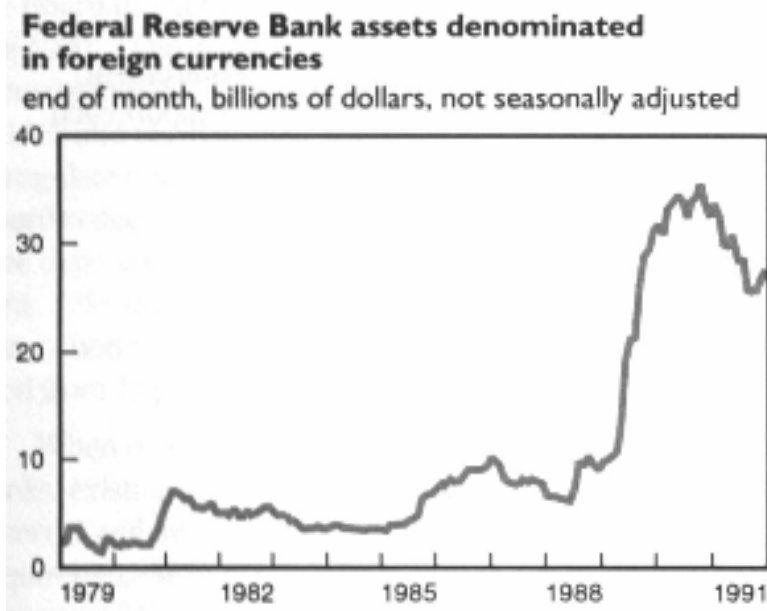
Consider the example where the Federal Reserve intervenes in the foreign exchange markets to sell \$100 of U.S. dollars for its own account. In this transaction, the Federal Reserve buys a foreign-currency-denominated deposit of a U.S. bank held at a foreign commercial bank,[\(20\)](#) and pays for this foreign currency deposit by crediting \$100 to the U.S. bank's reserve account at the Fed. The Federal Reserve deposits the foreign currency proceeds in its account at a Foreign Central Bank, and as this transaction clears, the foreign bank's reserves at the Foreign Central Bank decline. See [illustration 33](#). Initially, then, the Fed's intervention sale of dollars in this example leads to an increase in Federal Reserve Bank assets denominated in foreign currencies and an increase in reserves of U.S. banks.

Suppose instead that the Federal Reserve intervenes in the foreign exchange markets to buy \$100 of U.S. dollars, again for its own account. The Federal Reserve purchases a dollar-denominated deposit of a foreign bank held at a U.S. bank, and pays for this dollar deposit by drawing on its foreign currency deposit at a Foreign Central Bank. (The Federal Reserve might have to sell some of its foreign currency investments to build up its deposits at the Foreign Central Bank, but this would not affect U.S. bank reserves.) As the Federal Reserve's account at the Foreign Central Bank is charged, the foreign bank's reserves at the Foreign Central Bank increase. In turn, the dollar deposit of the foreign bank at the U.S. bank declines as the U.S. bank transfers ownership of those dollars to the Federal Reserve via a \$100 charge to its reserve account at the Federal Reserve. See [illustration 34](#). Initially, then, the Fed's intervention purchase of dollars in this example leads to a decrease in Federal Reserve Bank assets denominated in foreign currencies and a decrease in reserves of U.S. banks.

As noted earlier, the Federal Reserve offsets or "sterilizes" any undesired change in U.S. bank reserves stemming from foreign exchange intervention sales or purchases of dollars. For example, Federal Reserve Bank assets denominated in foreign currencies rose dramatically in 1989, in part due to significant U.S. intervention sales of dollars. (See chart.) Total reserves of U.S. banks, however, declined slightly in 1989 as open market operations were used to "sterilize" the initial intervention-induced increase in reserves.

Monthly Revaluation of Foreign Currency Assets

Another set of accounting transactions that affects Federal Reserve Bank assets denominated in foreign currencies is the monthly revaluation of such assets. Two business days prior to the end of the month, the Fed's foreign currency assets are increased if their market value has appreciated or decreased if their value has depreciated. The offsetting accounting entry on the Fed's balance sheet is to the "exchange-translation account" included in "other F.R. liabilities." These changes in the Fed's balance sheet do not alter bank reserves directly. However, since the Federal Reserve turns over its net earnings to the Treasury each week, the revaluation affects the amount of the Fed's payment to the Treasury, which in turn influences the size of TT&L calls and bank reserves. (See explanation on pages [18](#) and [19](#).)



Foreign-Related Transactions for the Treasury

U.S. intervention in foreign exchange markets by the Federal Reserve usually is divided between its own account and the Treasury's Exchange Stabilization Fund (ESF) account. The impact on U.S. bank reserves from the intervention transaction is the same for both - sales of dollars add to reserves while purchases of dollars drain reserves. See [illustration 35](#). Depending upon how the Treasury pays for, or finances, its part of the intervention, however, the Federal Reserve may not need to conduct offsetting open market operations.

The Treasury typically keeps only minimal balances in the ESF's account at the Federal Reserve. Therefore, the Treasury generally has to convert some ESF assets into dollar or foreign currency deposits in order to pay for its part of an intervention transaction. Likewise, the dollar or foreign currency deposits acquired by the ESF in the intervention typically are drawn down when the ESF invests the proceeds in earning assets.

For example, to finance an intervention sale of dollars (such as that shown in illustration 35), the Treasury might redeem some of the U.S. government securities issued to the ESF, resulting in a transfer of funds from the Treasury's (general account) balances at the Federal Reserve to the ESF's account at the Fed. (On

the Federal Reserve's balance sheet, the ESF's account is included in the liability category "other deposits.") The Treasury, however, would need to replenish its Fed balances to desired levels, perhaps by increasing the size of TT&L calls - a transaction that drains U.S. bank reserves. The intervention and financing transactions essentially occur simultaneously. As a result, U.S. bank reserves added in the intervention sale of dollars are offset by the drain in U.S. bank reserves from the TT&L call. *See illustrations 35 and 36.* Thus, no Federal Reserve offsetting actions would be needed if the Treasury financed the intervention sale of dollars through a TT&L call on banks.

Offsetting actions by the Federal Reserve would be needed, however, if the Treasury restored deposits affected by foreign-related transactions through a number of transactions involving the Federal Reserve. These include the Treasury's issuance of SDR or gold certificates to the Federal Reserve and the "warehousing" of foreign currencies by the Federal Reserve.

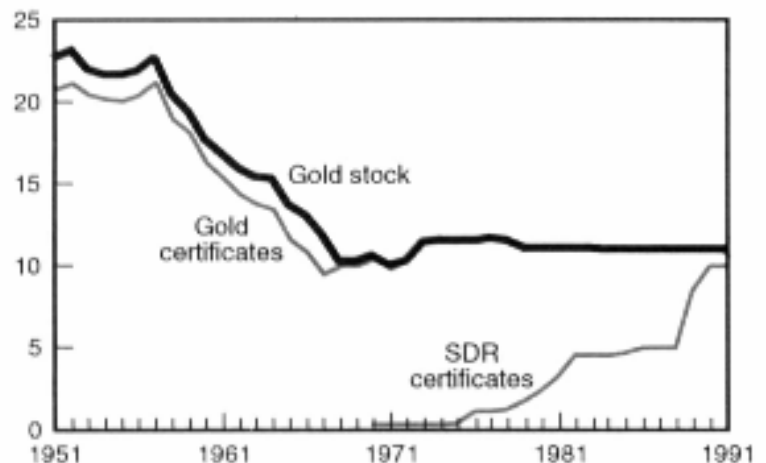
SDR certificates. Occasionally the Treasury acquires dollar deposits for the ESF's account by issuing certificates to the Federal Reserve against allocations of Special Drawing Rights (SDRs) received from the International Monetary Fund.⁽²¹⁾ For example, \$3.5 billion of SDR certificates were issued in 1989, and another \$1.5 billion in 1990. This "monetization" of SDRs is reflected on the Federal Reserve's balance sheet as an increase in its asset "SDR certificate account" and an increase in its liability "other deposits (ESF account)."

If the ESF uses these dollar deposits directly in an intervention sale of dollars, then the intervention-induced increase in U.S. bank reserves is not altered. *See illustrations 35 and 37.* If not needed immediately for an intervention transaction, the ESF might use the dollar deposits from issuance of SDR certificates to buy securities from the Treasury, resulting in a transfer of funds from the ESF's account at the Federal Reserve to the Treasury's account at the Fed. U.S. bank reserves would then increase as the Treasury spent the funds or transferred them to banks through a direct investment to TT&L note accounts.

Gold stock and gold certificates. Changes in the U.S. monetary gold stock used to be an important factor affecting bank reserves. However, the gold stock and gold certificates issued to the Federal Reserve in "monetizing" gold, have not changed significantly since the early 1970s. (*See chart.*)

Prior to August 1971, the Treasury bought and sold gold for a fixed price in terms of U.S. dollars, mainly at the initiative of foreign central banks and governments. Gold purchases by the Treasury were added to the U.S. monetary gold stock, and paid for from its account at the Federal Reserve. As the sellers deposited the Treasury's checks in banks, reserves increased. To replenish its balance at the Fed, the Treasury issued gold certificates to the Federal Reserve and received a credit to its deposit balance.

U.S. gold stock, gold certificates and SDR certificates
end of year, billions of dollars



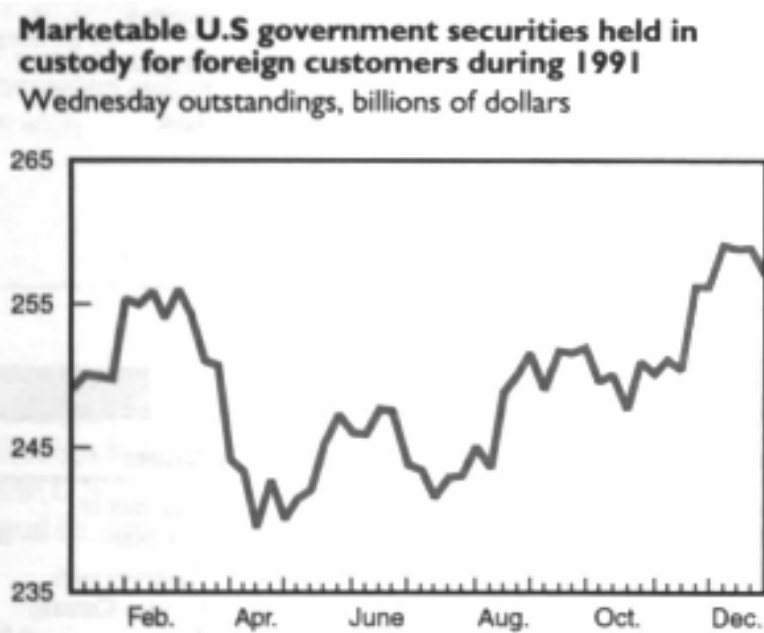
Treasury sales of gold have the opposite effect. Buyers' checks are credited to the Treasury's account and reserves decline. Because the official U.S. gold stock is now fully "monetized," the Treasury currently has to use its deposits to retire gold certificates issued to the Federal Reserve whenever gold is sold. However, the value of gold certificates retired, as well as the net contraction in bank reserves, is based on the official gold price. Proceeds from a gold sale at the market price to meet demands of domestic buyers likely would be greater. The difference represents the Treasury's profit, which, when spent, restores deposits and bank reserves by a like amount.

While the Treasury no longer purchases gold and sales of gold have been limited, increases in the official price of gold have added to the value of the gold stock. (The official gold price was last raised from \$38.00 to \$42.22 per troy ounce, in 1973.)

Warehousing. The Treasury sometimes acquires dollar deposits at the Federal Reserve by "warehousing" foreign currencies with the Fed. (For example, \$7 billion of foreign currencies were warehoused in 1989.) The Treasury or ESF acquires foreign currency assets as a result of transactions such as intervention sales of dollars or sales of U.S. government securities denominated in foreign currencies. When the Federal Reserve warehouses foreign currencies for the Treasury, [\(22\)](#) "Federal Reserve Banks assets denominated in foreign currencies" increase as do Treasury deposits at the Fed. As these deposits are spent, reserves of U.S. banks rise. In contrast, the Treasury likely will have to increase the size of TT&L calls - a transaction that drains reserves - when it repurchases warehoused foreign currencies from the Federal Reserve. (In 1991, \$2.5 billion of warehoused foreign currencies were repurchased.) The repurchase transaction is reflected on the Fed's balance sheet as declines in both Treasury deposits at the Federal Reserve and Federal Reserve Bank assets denominated in foreign currencies.

Transactions for Foreign Customers

Many foreign central banks and governments maintain deposits at the Federal Reserve to facilitate dollar-denominated transactions. These "foreign deposits" on the liability side of the Fed's balance sheet typically are held at minimal levels that vary little from week to week. For example, foreign deposits at the Federal Reserve averaged only \$237 million in 1991, ranging from \$178 million to \$319 million on a weekly average basis. Changes in foreign deposits are small because foreign customers "manage" their Federal Reserve balances to desired levels daily by buying and selling U.S. government securities. The extent of these foreign customer "cash management" transactions is reflected, in part, by large and frequent changes in marketable U.S. government securities held in custody by the Federal Reserve for



foreign customers. (*See chart.*) The net effect of foreign customers' cash management transactions usually is to leave U.S. bank reserves unchanged.

Managing foreign deposits through sales of securities. Foreign customers of the Federal Reserve make dollar-denominated payments, including those for intervention sales of dollars by foreign central banks, by drawing down their deposits at the Federal Reserve. As these funds are deposited in U.S. banks and cleared, reserves of U.S. banks rise. *See illustration 38.* However, if payments from their accounts at the Federal Reserve lower balances to below desired levels, foreign customers will replenish their Federal Reserve deposits by selling U.S. government securities. Acting as their agent, the Federal Reserve usually executes foreign customers' sell orders in the market. As buyers pay for the securities by drawing down deposits at U.S. banks, reserves of U.S. banks fall and offset the increase in reserves from the disbursement transactions. The net effect is to leave U.S. bank reserves unchanged when U.S. government securities of customers are sold in the market. *See illustrations 38 and 39.* Occasionally, however, the Federal Reserve executes foreign customers' sell orders with the System's account. When this is done, the rise in reserves from the foreign customers' disbursement of funds remains in place. *See illustration 38 and 40.* The Federal reserve might choose to execute sell orders with the System's account if an increase in reserves is desired for domestic policy reasons.

Managing foreign deposits through purchases of securities. Foreign customers of the Federal Reserve also receive a variety of dollar denominated payments, including proceeds from intervention purchases of dollars by foreign central banks, that are drawn on U.S. banks. As these funds are credited to foreign deposits at the Federal Reserve, reserves of U.S. banks decline. But if receipts of dollar-denominated payments raise their deposits at the Federal Reserve to levels higher than desired, foreign customers will buy U.S. government securities. The net effect generally is to leave U.S. bank reserves unchanged when the U.S. government securities are purchased in the market.

Using the swap network. Occasionally, foreign central banks acquire dollar deposits by activating the "swap" network, which consists of reciprocal short-term credit arrangements between the Federal Reserve and certain foreign central banks. When a foreign central bank draws on its swap line at the Federal Reserve, it immediately obtains a dollar deposit at the Fed in exchange for foreign currencies, and agrees to reverse the exchange sometime in the future. On the Federal Reserve's balance sheet, activation of the swap network is reflected as an increase in Federal Reserve Bank assets denominated in foreign currencies and an increase in the liability category "foreign deposits." When the swap line is repaid, both of these accounts decline. Reserves of U.S. banks will rise when the foreign central bank spends its dollar proceeds from the swap drawing. *See illustration 41.* In contrast, reserves of U.S. banks will fall as the foreign central bank rebuilds its deposits at the Federal Reserve in order to repay a swap drawing.

The accounting entries and impact of U.S. bank reserves are the same if the Federal Reserve uses the swap network to borrow and repay foreign currencies. However, the Federal Reserve has not activated the swap network in recent years.

19 Overall responsibility for U.S. intervention in foreign exchange markets rests with the U.S Treasury. Foreign exchange transactions for the Federal Reserve's account are carried out under directives issued by the Federal Reserve's Open Market Committee within the general framework of exchange rate policy established by the U.S. Treasury in consultation with the Fed. They are implemented at the Federal Reserve Bank of New York, typically at the same time that similar transactions are executed for the Treasury's Exchange Stabilization Fund. [back](#)

20 Americans traveling to foreign countries engage in "foreign exchange" transactions whenever they obtain foreign coins and paper currency in exchange for U.S. coins and currency. However, most foreign exchange transactions do not involve the physical exchange of coins and currency. Rather, most of these transactions represent the buying and selling of foreign currencies by exchanging one bank deposit denominated in one currency for another bank deposit denominated in another currency. For ease of exposition, the examples assume that U.S. banks and foreign banks are the market participants in the intervention transactions, but the impact on reserves would be the same if the U.S. or foreign public were involved. [back](#)

21 SDRs were created in 1970 for use by governments in official balance of payments transactions. [back](#)

22 Technically, warehousing consists of two parts: the Federal Reserve's agreement to purchase foreign currency assets from the Treasury or ESF for dollar deposits now, and the Treasury's agreement to repurchase the foreign currencies sometime in the future. [back](#)

33 When the Federal Reserve intervenes to sell dollars for its own account, it pays for a foreign-currency-denominated deposit of a U.S. bank at a foreign commercial bank by crediting the reserve account of the U.S. bank, and acquires a foreign currency asset in the form of a deposit at a Foreign Central Bank. The Federal Reserve, however, will offset the increase in U.S. bank reserves if it is inconsistent with domestic policy objectives. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Deposits at Foreign Central Bank . . +100	Reserves: U.S. bank . . +100

U. S. BANK	
Assets	Liabilities
Reserves with F.R. Bank . . +100	
Deposits at foreign bank . . -100	

FOREIGN BANK	
Assets	Liabilities
Reserves with	
Foreign Central Bank . . -100	Deposits of U.S. bank . . -100

FOREIGN CENTRAL BANK	
Assets	Liabilities

Deposits of F.R. Banks . . . +100
 Reserves of foreign bank . . . -100

34 When the Federal Reserve intervenes to buy dollars for its own account, it draws down its foreign currency deposits at a foreign Central Bank to pay for a dollar-denominated deposit of a foreign bank at a U.S. bank, which leads to a contraction in reserves of the U.S. bank. This reduction in reserves will be offset by the Federal Reserve if it is inconsistent with domestic policy objectives. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
Deposits at Foreign Central Bank . -100	Reserves: U. S. bank . . -100

U. S. BANK	
Assets	Liabilities
Reserves with F.R. Bank . . -100	Deposits of foreign bank . . -100

FOREIGN BANK	
Assets	Liabilities
deposits at U.S. bank . . . -100	
Reserves with Foreign Central Bank . +100	

FOREIGN CENTRAL BANK	
Assets	Liabilities
	Deposits of F.R. Banks . . -100
	Reserves of foreign bank . . +100

35 In an intervention sale of dollars for the U.S. Treasury, deposits of the ESF at the Federal Reserve are used to pay for a foreign currency deposit of a U.S. bank at a foreign bank, and the foreign currency proceeds are deposited in an account at a Foreign Central Bank. U.S. bank reserves increase as a result of this intervention transaction. [back](#)

ESF	
Assets	Liabilities
Deposits at F.R. Bank -100	

Deposits at Foreign Central Bank . . +100

U. S. Treasury

Assets	Liabilities
No change	No change

FEDERAL RESERVE BANK

Assets	Liabilities
	Reserves: U.S. bank . . . +100
	Other deposits: ESF . . . -100

U. S. BANK

Assets	Liabilities
Reserves with F.R. Bank . . . +100	
Deposits at foreign bank . . . -100	

FOREIGN BANK

Assets	Liabilities
Reserves with Foreign Central Bank . -100	Deposits of U.S. bank . -100

FOREIGN CENTRAL BANK

Assets	Liabilities
	Deposits of ESF . . . +100
	Reserves of foreign bank . . -100

36 Concurrently, the Treasury must finance the intervention transaction in (35). The Treasury might build up deposits in the ESF's account at the Federal Reserve by redeeming securities issued to the ESF, and replenish its own (general account) deposits at the Federal Reserve to desired levels by issuing a call on TT&L note accounts. This set of transactions drains reserves of U.S. banks by the same amount as the intervention in (35) added to U.S. bank reserves. [back](#)

ESF

Assets	Liabilities
U.S govt. securities . . . -100	
Deposits at F.R. Banks . . +100	

U. S. Treasury

Assets	Liabilities
---------------	--------------------

TT&L accts -100	Securities issued ESF . . . -100
Deposits at F.R. Banks . . . net 0	
<i>(from U.S. bank . . +100)</i>	
<i>(to ESF -100)</i>	

FEDERAL RESERVE BANK	
----------------------	--

Assets	Liabilities
	Reserves: U.S. bank . . . -100
	Treas. deps: net 0
	<i>(from U.S. bank . +100)</i>
	<i>(to ESF -100)</i>
	Other deposits: ESF +100

U. S. BANK	
------------	--

Assets	Liabilities
Reserves with F.R. Bank . . -100	TT&L accts -100

37 Alternatively, the Treasury might finance the intervention in (35) by issuing SDR certificates to the Federal Reserve, a transaction that would not disturb the addition of U.S. bank reserves in intervention (35). The Federal Reserve, however, would offset any undesired change in U.S. bank reserves. [back](#)

ESF	
-----	--

Assets	Liabilities
Deposits at F.R. Banks . . +100	SDR certificates issued to
	F.R. Banks +100

U. S. Treasury	
----------------	--

Assets	Liabilities
No change	No change

FEDERAL RESERVE BANK	
----------------------	--

Assets	Liabilities
SDR certificate account . . +100	Other deposits: ESF . . . +100

U. S. BANK	
------------	--

Assets	Liabilities
No change	No change

38 When a Foreign Central Bank makes a dollar-denominated payment from its account at the Federal Reserve, the recipient deposits the funds in a U.S. bank. As the payment order clears, U.S. bank reserves rise. [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserves: U.S. bank . . . +100
	Foreign deposits -100

U. S. BANK	
Assets	Liabilities
Reserves with F.R. Banks . . +100	Deposits +100

FOREIGN CENTRAL BANK	
Assets	Liabilities
Deposits at F.R. Banks -100	Accounts payable -100

39 If a decline in its deposits at the Federal Reserve lowers the balance below desired levels, the Foreign Central Bank will request that the Federal Reserve sell U.S. government securities for it. If the sell order is executed in the market, reserves of U.S. banks will fall by the same amount as reserves were increased in (38). [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
	Reserves: U.S. bank -100
	Foreign deposits +100

U. S. BANK	
Assets	Liabilities
Reserves with F.R. Banks . . . -100	Deposits of securities buyer . . -100

FOREIGN CENTRAL BANK	
Assets	Liabilities
Deposits at F.R. Banks . . +100	
U.S. govt. securities . . -100	

40 If the sell order is executed with the Federal Reserve's account, however, the increase in reserves from (38) will remain in place. The Federal Reserve might choose to execute the foreign customer's sell order with the System's account if an increase in reserves is desired for domestic policy reasons.

FEDERAL RESERVE BANK	
Assets	Liabilities
U.S. govt. securities +100	Foreign deposits +100

U. S. Bank	
Assets	Liabilities
No change	No change

FOREIGN CENTRAL BANK	
Assets	Liabilities
Deposits at F.R. Banks . . . +100	
U.S. govt. securities -100	

41 When a Foreign Central Bank draws on a "swap" line, it receives a credit to its dollar deposits at the Federal Reserve in exchange for a foreign currency deposit credited to the Federal Reserve's account. Reserves of U.S. banks are not affected by the swap drawing transaction, but will increase as the Foreign Central Bank uses the funds as in (38). [back](#)

FEDERAL RESERVE BANK	
Assets	Liabilities
deposits at Foreign Central Bank . . +100	Foreign deposits +100

U. S. Bank	
Assets	Liabilities
No change	No change

FOREIGN CENTRAL BANK	
Assets	Liabilities
Deposits at F.R. Banks . . . +100	Deposits of F.R. Banks . . . +100

Federal Reserve Actions Affecting Its Holdings of U. S. Government Securities

In discussing various factors that affect reserves, it was often indicated that the Federal Reserve offsets undesired changes in reserves through open market operations, that is, by buying and selling U.S. government securities in the market. However, outright purchases and sales of securities by the Federal Reserve in the market occur infrequently, and typically are conducted when an increase or decrease in another factor is expected to persist for some time. Most market actions taken to implement changes in monetary policy or to offset changes in other factors are accomplished through the use of transactions that change reserves temporarily. In addition, there are off-market transactions the Federal Reserve sometimes uses to change its holdings of U.S. government securities and affect reserves. (Recall the example in illustrations 38 and 40.) The impact on reserves of various Federal Reserve transactions in U.S. government and federal agency securities is explained below. (See [table](#) for a summary.)

Outright transactions. Ownership of securities is transferred permanently to the buyer in an outright transaction, and the funds used in the transaction are transferred permanently to the seller. As a result, an outright purchase of securities by the Federal Reserve from a dealer in the market adds reserves permanently while an outright sale of securities to a dealer drains reserves permanently. The Federal Reserve can achieve the same net effect on reserves through off-market transactions where it executes outright sell and purchase orders from customers internally with the System account. In contrast, there is no impact on reserves if the Federal Reserve fills customers' outright sell and purchase orders in the market.

Temporary transactions. Repurchase agreements (RPs), and associated matched sale-purchase agreements (MSPs), transfer ownership of securities and use of funds temporarily. In an RP transaction, one party sells securities to another and agrees to buy them back on a specified future date. In an MSP transaction, one party buys securities from another and agrees to sell them back on a specified future date. In essence, then, an RP for one party in the transaction works like an MSP for the other party.

When the Federal Reserve executes what is referred to as a "System RP," it acquires securities in the market from dealers who agree to buy them back on a specified future date 1 to 15 days later. Both the System's portfolio of securities and bank reserves are increased during the term of the RP, but decline again when the dealers repurchase the securities. Thus System RPs increase reserves only temporarily. Reserves are drained temporarily when the Fed executes what is known as a "System MSP." A System MSP works like a System RP, only in the opposite directions. In a system MSP, the Fed sells securities to dealers in the market and agrees to buy them back on a specified day. The System's holdings of securities and bank reserves are reduced during the term of the MSP, but both increase when the Federal Reserve buys back the securities.

Impact on reserves of Federal Reserve transactions in U.S. government and federal agency securities

Federal Reserve Transactions	Reserve Impact
Outright purchase of Securities	
- From dealer in market	Permanent increase
- To fill customer sell orders	Permanent increase
(If customer buy orders filled in market)	(No impact)
Outright Sales of Securities	
- To dealer in market	Permanent decrease
- To fill customer buy orders internally	Permanent decrease
(If customer buy orders filled in market)	(No impact)
Repurchase Agreements (RPs)	
- With dealer in market in System RP	Temporary increase
Matched Sale-Purchase Agreements (MSPs)	
- With dealer in market in a system MSP	Temporary decrease
- To fill customer RP orders internally	No impact*
(If customer RP orders passed to market as customer related RPs)	(Temporary increase*)
Redemption of Maturing Securities	
- Replace total amount maturing	No impact
- Redeem part of amount maturing	Permanent decrease
- Buy more than amount maturing**	Permanent increase**

*Impact based on assumption that the amount of RP orders done internally is the same as on the prior day.

**The Federal Reserve currently is prohibited by law from buying securities directly from the Treasury, except to replace maturing issues.

The Federal Reserve also uses MSPs to fill foreign customers' RP orders internally with the System account. Considered in isolation, a Federal Reserve MSP transaction with customers would drain reserves temporarily. However, these transactions occur every day, with the total amount of RP orders being fairly stable from day to day. Thus, on any given day, the Fed both buys back securities from customers to fulfill the prior day's MSP, and sells them about the same amount of securities to satisfy that day's agreement. As a result, there generally is little or no impact on reserves when the Fed uses MSPs to fill customer RP orders internally with the System account. Sometimes, however, the Federal Reserve fills some of the RP orders internally and the rest in the market. The part that is passed on to the market is known as a

"customer-related RP." The Fed ends up repurchasing more securities from customers to complete the prior day's MSP than it sells to them in that day's MSP. As a result, customer-related RPs add reserves temporarily.

Maturing securities. As securities held by the Federal Reserve mature, they are exchanged for new securities. Usually the total amount maturing is replaced so that there is no impact on reserves since the Fed's total holdings remain the same. Occasionally, however, the Federal Reserve will exchange only part of the amount maturing. Treasury deposits decline as payment for the redeemed securities is made, and reserves fall as the Treasury replenishes its deposits at the Fed through TT&L calls. The reserve drain is permanent. If the Fed were to buy more than the amount of securities maturing directly from the Treasury, then reserves would increase permanently. However, the Federal Reserve currently is prohibited by law from buying securities directly from the Treasury, except to replace maturing issues.

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Miscellaneous Factors Affecting Bank Reserves

The factors described below normally have negligible effects on bank reserves because changes in them either occur very slowly or tend to be balanced by concurrent changes in other factors. But at times they may require offsetting action.

Treasury Currency Outstanding

Treasury currency outstanding consists of coins, silver certificates and U.S. notes originally issued by the Treasury, and other currency originally issued by commercial banks and by Federal Reserve Banks before July 1929 but for which the Treasury has redemption responsibility. Short-run changes are small, and their effects on bank reserves are indirect.

The amount of Treasury currency outstanding currently increases only through issuance of new coin. The Treasury ships new coin to the Federal Reserve Banks for credit to Treasury deposits there. These deposits will be drawn down again, however, as the Treasury makes expenditures. Checks issued against these deposits are paid out to the public. As individuals deposit these checks in banks, reserves increase. (See explanation on pages 18 and 19.)

When any type of Treasury currency is retired, bank reserves decline. As banks turn in Treasury currency for redemption, they receive Federal Reserve notes or coin in exchange or a credit to their reserve accounts, leaving their total reserves (reserve balances and vault cash) initially unchanged. However, the Treasury's deposits in the Reserve Banks are charged when Treasury currency is retired. Transfers from TT&L balances in banks to the Reserve Banks replenish these deposits. Such transfers absorb reserves.

Treasury Cash Holdings

In addition to accounts in depository institutions and Federal Reserve Banks, the Treasury holds some currency in its own vaults. Changes in these holdings affect bank reserves just like changes in the Treasury's deposit account at the Reserve Banks. When Treasury holdings of currency increase, they do so at the expense of deposits in banks. As cash holdings of the Treasury decline, on the other hand, these funds move into bank deposits and increase bank reserves.

Other Deposits in Reserve Banks

Besides U.S. banks, the U.S. Treasury, and foreign central banks and governments, there are some international organizations and certain U.S. government agencies that keep funds on deposit in the Federal Reserve Banks. In general, balances are built up through transfers of deposits held at U.S. banks. Such transfers may take place either directly, where these customers also have deposits in U.S. banks, or indirectly by the deposit of funds acquired from others who do have accounts at U.S. banks. Such transfers into "other deposits" drain reserves.

When these customers draw on their Federal Reserve balances (say, to purchase securities), these funds are paid to the public and deposited in U.S. banks, thus increasing bank reserves. Just like foreign customers, these "other" customers manage their balances at the Federal Reserve closely so that changes in their deposits tend to be small and have minimal net impact on reserves.

Nonfloat-Related Adjustments

Certain adjustments are incorporated into published data on reserve balances to reflect nonfloat-related corrections. Such a correction might be made, for example, if an individual bank had mistakenly reported fewer reservable deposits than actually existed and had held smaller reserve balances than necessary in some past period. To correct for this error, a nonfloat-related as-of adjustment will be applied to the bank's reserve position. This essentially results in the bank having to hold higher balances in its reserve account in the current and/or future periods than would be needed to satisfy reserve requirements in those periods. Nonfloat-related as-of adjustments affect the allocation of funds in bank reserve accounts but not the total amount in these accounts as reflected on Federal Reserve Bank and individual bank balance sheets. Published data on reserve balances, however, are adjusted to show only those reserve balances held to meet the current and/or future period reserve requirements.

Other Federal Reserve Accounts

Earlier sections of this booklet described the way in which bank reserves increase when the Federal Reserve purchases securities and decline when the Fed sells securities. The same results follow from any Federal Reserve expenditure or receipt. Every payment made by the Reserve Banks, in meeting expenses or acquiring any assets, affects deposits and bank reserves in the same way as does payment to a dealer for

government securities. Similarly, Reserve Bank receipts of interest on loans and securities and increases in paid-in capital absorb reserves.

End of page 35. [back](#)

The Reserve Multiplier - Why It Varies

The deposit expansion and contraction associated with a given change in bank reserves, as illustrated earlier in this booklet, assumed a fixed reserve-to-deposit multiplier. That multiplier was determined by a uniform percentage reserve requirement specified for transaction accounts. Such an assumption is an oversimplification of the actual relationship between changes in reserves and changes in money, especially in the short-run. For a number of reasons, as discussed in this section, the quantity of reserves associated with a given quantity of transaction deposits is constantly changing.

One slippage affecting the reserve multiplier is variation in the amount of excess reserves. In the real world, reserves are not always fully utilized. There are always some excess reserves in the banking system, reflecting frictions and lags as funds flow among thousands of individual banks.

Excess reserves present a problem for monetary policy implementation only because the amount changes. To the extent that new reserves supplied are offset by rising excess reserves, actual money growth falls short of the theoretical maximum. Conversely, a reduction in excess reserves by the banking system has the same effect on monetary expansion as the injection of an equal amount of new reserves.

Slippages also arise from reserve requirements being imposed on liabilities not included in money as well as differing reserve ratios being applied to transaction deposits according to the size of the bank. From 1980 through 1990, reserve requirements were imposed on certain nontransaction liabilities of all depository institutions, and before then on all deposits of member banks. The reserve multiplier was affected by flows of funds between institutions subject to differing reserve requirements as well as by shifts of funds between transaction deposits and other liabilities subject to reserve requirements. The extension of reserve requirements to all depository institutions in 1980 and the elimination of reserve requirements against nonpersonal time deposits and Eurocurrency liabilities in late 1990 reduced, but did not eliminate, this source of instability in the reserve multiplier. The deposit expansion potential of a given volume of reserves still is affected by shifts of transaction deposits between larger institutions and those either exempt from reserve requirements or whose transaction deposits are within the tranche subject to a 3 percent reserve requirement.

In addition, the reserve multiplier is affected by conversions of deposits into currency or vice versa. This factor was important in the 1980s as the public's desired currency holdings relative to transaction deposits in money shifted considerably. Also affecting the multiplier are shifts between transaction deposits

included in money and other transaction accounts that also are reservable but not included in money, such as demand deposits due to depository institutions, the U.S. government, and foreign banks and official institutions. In the aggregate, these non-money transaction deposits are relatively small in comparison to total transaction accounts, but can vary significantly from week to week.

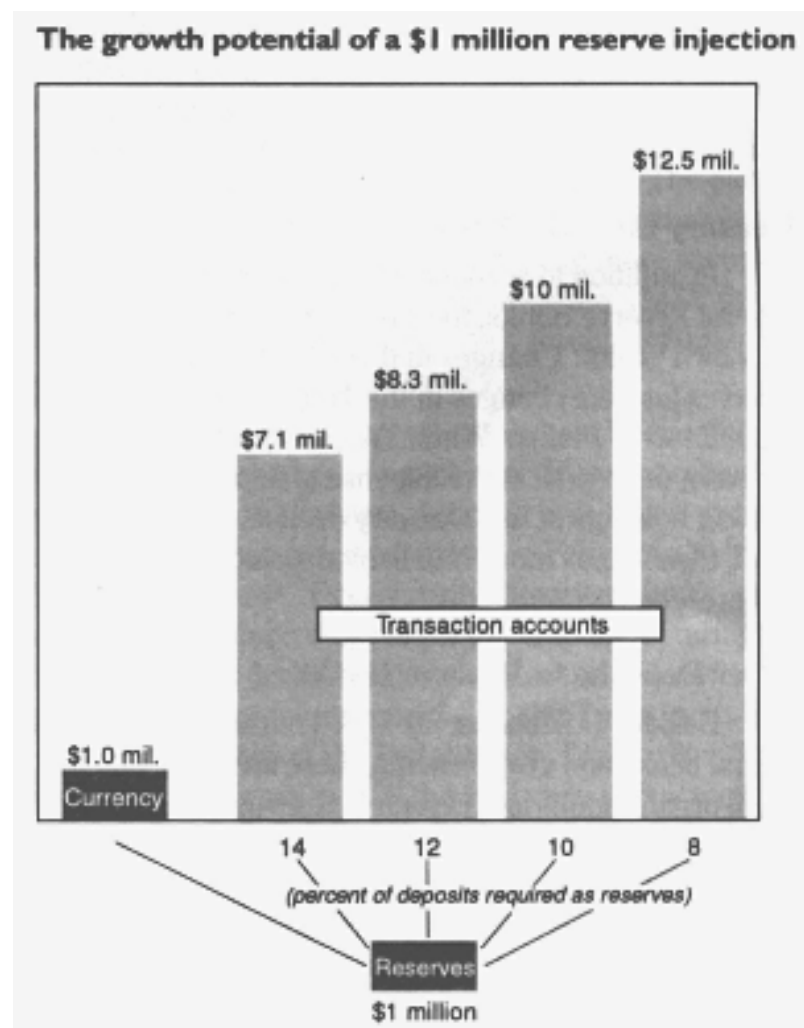
A net injection of reserves has widely different effects depending on how it is absorbed. Only a dollar-for-dollar increase in the money supply would result if the new reserves were paid out in currency to the public. With a uniform 10 percent reserve requirement, a \$1 increase in reserves would support \$10 of additional transaction accounts. An even larger amount would be supported under the graduated system where smaller institutions are subject to reserve requirements below 10 percent. But, \$1 of new reserves also would support an additional \$10 of certain reservable transaction accounts that are not counted as money. (See chart below.) Normally, an increase in reserves would be absorbed by some combination of these currency and transaction deposit changes.

All of these factors are to some extent predictable and are taken into account in decisions as to the amount of reserves that need to be supplied to achieve the desired rate of monetary expansion. They help explain why short-run fluctuations in bank reserves often are disproportionate to, and sometimes in the opposite direction from, changes in the deposit component of money.

Money Creation and Reserve Management

Another reason for short-run variation in the amount of reserves supplied is that credit expansion - and thus deposit creation - is variable, reflecting uneven timing of credit demands. Although bank loan policies normally take account of the general availability of funds, the size and timing of loans and investments made under those policies depend largely on customers' credit needs.

In the real world, a bank's lending is not normally constrained by the amount of excess reserves it has at any given moment. Rather, loans are made, or not made, depending on the bank's credit policies and its expectations about its ability to obtain the funds necessary to pay its customers' checks and maintain required reserves in a timely fashion. In fact, because Federal Reserve regulations in effect from 1968 through early 1984 specified that average required reserves for a given week should be based on average deposit levels two weeks earlier ("lagged" reserve accounting), deposit creation actually preceded the



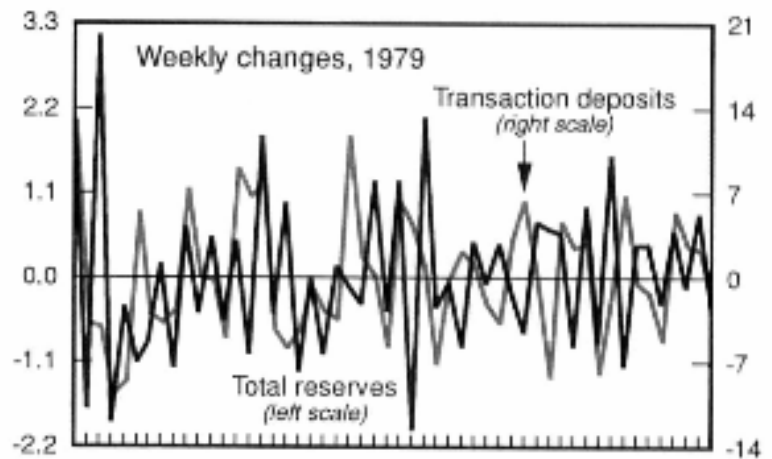
provision of supporting reserves. In early 1984, a more "contemporaneous" reserve accounting system was implemented in order to improve monetary control.

In February 1984, banks shifted to maintaining average reserves over a two-week reserve maintenance period ending Wednesday against average transaction deposits held over the two-week computation period ending only two days earlier. Under this rule, actual transaction deposit expansion was expected to more closely approximate the process explained at the beginning of this booklet. However, some slippages still exist because of short-run uncertainties about the level of both reserves and transaction deposits near the close of reserve maintenance periods. Moreover, not all banks must maintain reserves according to the contemporaneous accounting system. Smaller institutions are either exempt completely or only have to maintain reserves quarterly against average deposits in one week of the prior quarterly period.

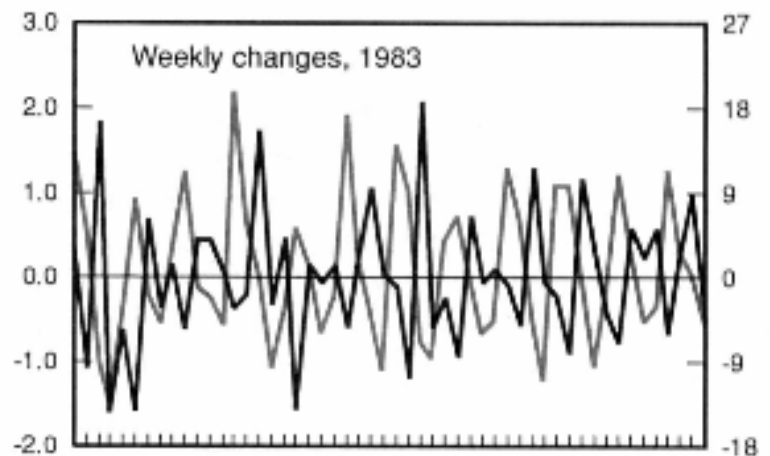
On balance, however, variability in the reserve multiplier has been reduced by the extension of reserve requirements to all institutions in 1980, by the adoption of contemporaneous reserve accounting in 1984, and by the removal of reserve requirements against nontransaction deposits and liabilities in late 1990. As a result, short-term changes in total reserves and transaction deposits in money are more closely related now than they were before. (See charts on this page.) The lowering of the reserve requirement against transaction accounts above the 3 percent tranche in April 1992 also should contribute to stabilizing the multiplier, at least in theory.

Ironically, these modifications contributing to a less variable relationship between changes in reserves and changes in transaction deposits occurred as the relationship between transactions money (M1) and the economy deteriorated. Because the M1 measure of money has become less useful as a guide for policy, somewhat greater attention has shifted to the

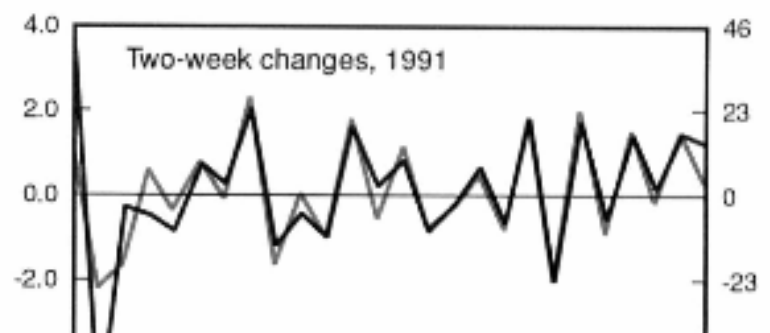
The relationship between short-term changes in reserves and transaction deposits was quite volatile before the Monetary Control Act of 1980 . . .



. . . and before adoption of contemporaneous reserve accounting in 1984 . . .



. . . but less variable afterward.



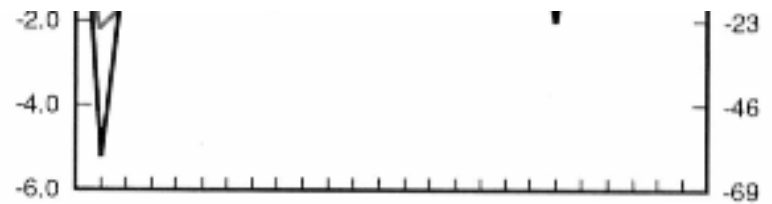
broader measures M2 and M3. However, reserve multiplier relationships for the broader monetary measures are far more variable than that for M1.

Although every bank must operate within the system where the total amount of reserves is controlled by the Federal Reserve, its response to policy action is indirect. The individual bank does not know today precisely what its reserve position

will be at the time the proceeds of today's loans are paid out. Nor does it know when new reserves are being supplied to the banking system. Reserves are distributed among thousands of banks, and the individual banker cannot distinguish between inflows originating from additions to reserves through Federal reserve action and shifts of funds from other banks that occur in the normal course of business.

To equate short-run reserve needs with available funds, therefore, many banks turn to the money market - borrowing funds to cover deficits or lending temporary surpluses. When the demand for reserves is strong relative to the supply, funds obtained from money market sources to cover deficits tend to become more expensive and harder to obtain, which, in turn, may induce banks to adopt more restrictive loan policies and thus slow the rate of deposit growth.

Federal Reserve open market operations exert control over the creation of deposits mainly through their impact on the availability and cost of funds in the money market. When the total amount of reserves supplied to the banking system through open market operations falls short of the amount required, some banks are forced to borrow at the Federal Reserve discount window. Because such borrowing is restricted to short periods, the need to repay it tends to induce restraint on further deposit expansion by the borrowing bank. Conversely, when there are excess reserves in the banking system, individual banks find it easy and relatively inexpensive to acquire reserves, and expansion in loans, investments, and deposits is encouraged.



Note: All data are in billions of dollars, not seasonally adjusted. Scaling approximately reflects each year's average ratio of transaction deposits to total reserves.

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Chap. XV.—*An Act establishing a Mint, and regulating the Coins of the United States.* [\(a\)](#)

April 2, 1792

Mint established at the seat of government.

SECTION 1. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, and it is hereby enacted and declared, That a mint for the purpose of a national coinage be, and the same is established; to be situate and carried on at the seat of the government of the United States, for the time being: And that for the well conducting of the business of the said mint, there shall be the following officers and persons, namely,—a Director, an Assayer, a Chief Coiner, an Engraver, a Treasurer.*

Director to employ workmen, etc.

SEC. 2. *And be it further enacted, That the Director of the mint shall employ as many clerks, workmen and servants, as he shall from time to time find necessary, subject to the approbation of the President of the United States.*

Duty of the officers.

SEC. 3. *And be it further enacted, That the respective functions and duties of the officers above mentioned shall be as follows: The Director of the mint shall have the chief management of the business thereof, and shall superintend all other officers and persons who shall be employed therein. The Assayer shall receive and give receipts for all metals which may lawfully be brought to the mint to be coined; shall assay all such of them as may require it, and shall deliver them to the Chief Coiner to be coined. The Chief Coiner shall cause to be coined all metals which shall be received by him for that purpose, according to such regulations as shall be prescribed by this or any future law. The Engraver shall sink and prepare the necessary dies for such coinage, with the proper devices and inscriptions, but it shall be lawful for the functions and duties of Chief Coiner and Engraver to be performed by one person. The Treasurer shall receive from the Chief Coiner all the coins which shall have been struck, and shall pay or deliver them to the persons respectively to whom the same ought to be paid or delivered: he shall moreover receive and safely keep all monies which shall be for the use, maintenance and support of the mint, and shall disburse the same upon warrants signed by the Director.*

Assayer.

Chief Coiner.
Engraver.

Treasurer.

To take oath.

SEC. 4. *And be it further enacted, That every officer and clerk of the said mint shall, before he enters upon the execution of his office, take an oath or affirmation before some judge of the United States faithfully and diligently to perform the duties thereof.*

And give bond.

SEC. 5. *And be it further enacted, That the said assayer, chief coiner and treasurer, previously to entering upon the execution of their respective offices, shall each become bound to the United States of America, with one or more sureties to the satisfaction of the Secretary of the Treasury, in the sum of ten thousand dollars, with condition for the faithful and diligent performance of the duties of his office.*

S-EC. 6. *And be it further enacted,* That there shall be allowed and paid as compensations for their respective services—To the said director, a yearly salary of two thousand dollars, to the said assayer, a yearly salary of one thousand five hundred dollars, to the said chief coiner, a yearly salary of one thousand five hundred dollars, to the said engraver, a yearly salary of one thousand two hundred dollars, to the said treasurer, a yearly salary of one thousand two hundred dollars, to each clerk who may be employed, a yearly salary not exceeding five hundred dollars, and to the several subordinate workmen and servants, such wages and allowances as are customary and reasonable, according to their respective stations and occupations.

Salaries.

SEC. 7. *And be it further enacted,* That the accounts of the officers and persons employed in and about the said mint and for services performed in relation thereto, and all other accounts concerning the business and administration thereof, shall be adjusted and settled in the treasury department of the United States, and a quarter yearly account of the receipts and disbursements of the said mint shall be rendered at the said treasury for settlement according to such forms and regulations as shall have been prescribed by that department; and that once in each year a report of the transactions of the said mint, accompanied by an abstract of the settlements which shall have been from time to time made, duly certified by the comptroller of the treasury, shall be laid before Congress for their information.

Accounts how and where to be settled.

SEC. 8. *And be it further enacted,* That in addition to the authority vested in the President of the United States by a resolution of the last session, touching the engaging of artists and the procuring of apparatus for the said mint, the President be authorized, and he is hereby authorized to cause to be provided and put in proper condition such buildings, and in such manner as shall appear to him requisite for the purpose of carrying on the business of the said mint; and that as well the expenses which shall have been incurred pursuant to the said resolution as those which may be incurred in providing and preparing the said buildings, and all other expenses which may hereafter accrue for the maintenance and support of the said mint, and in carrying on the business thereof, over and above the sums which may be received by reason of the rate per centum for coinage herein after mentioned, shall be defrayed from the treasury of the United States, out of any monies which from time to time shall be therein, not otherwise appropriated.

President of U. S. to cause buildings to be provided.

Expense how to be defrayed.

SEC. 9. *And be it further enacted,* That there shall be from time to time struck and coined at the said mint, coins of gold, silver, and copper, of the following denomination, values and descriptions, viz. Eagles—each to be of the value of ten dollars or units, and to contain two hundred and forty-seven grains and four eighths of a grain of pure, or two hundred and seventy grains of standard gold. Half Eagles—each to be of the value of five dollars, and to contain one hundred and twenty-three grains and six eighths of a grain of pure, or one hundred and thirty-five grains of standard gold. Quarter

Species of the coins to be struck.
Eagles.

Half Eagles.

Quarter Eagles. Eagles—each to be of the value of two dollars and a half dollar, and to contain sixty-one grains and seven eighths of a grain of pure, or sixty-seven grains and four eighths of a grain of standard gold. Dollars or Units—each to be of the value of a Spanish milled dollar as the same is now current, and to contain three hundred and seventy-one grains and four sixteenths parts of a grain of pure, or four hundred and sixteen grains of standard silver. Half Dollars—each to be of half the value of the dollar or unit, and to contain one hundred and eighty-five grains and ten sixteenth parts of a grain of pure, or two hundred and eight grains of standard silver. Quarter Dollars—each to be of one fourth the value of the dollar or unit, and to contain ninety-two grains and thirteen sixteenth parts of a grain of pure, or one hundred and four grains of standard silver. Dimes. Dimes—each to be of the value of one tenth of a dollar or unit, and to contain thirty-seven grains and two sixteenth parts of a grain of pure, or forty-one grains and three fifths parts of a grain of standard silver. Half Dimes. Half Dimes—each to be of the value of one twentieth of a dollar, and to contain eighteen grains and nine sixteenths parts of a grain of pure, or twenty grains and four fifths parts of a grain of standard silver. Cents. Cents—each to be of the value of one hundredth part of a dollar, and to contain eleven penny-weights of copper. Half Cents—each to be of the value of half a cent, and to contain five penny-weights and a half a penny-weight of copper.

Of what devices.

SEC. 10. *And be it further enacted,* That, upon the said coins respectively, there shall be the following devices and legends, namely: Upon one side of each of the said coins there shall be an impression emblematic of liberty, with an inscription of the word Liberty, and the year of the coinage; an upon the reverse of each of the gold and silver coins there shall be the figure or representation of an eagle, with this inscription, "United States of America" and upon the reverse of each of the copper coins, there shall be an inscription which shall express the denomination of the piece, namely, cent or half cent, as the case may require.

Proportional value of gold and silver.

SEC. 11. *And be it further enacted,* That the proportional value of gold to silver in all coins which shall by law be current as money within the United States, shall be as fifteen to one, according to quantity in weight, of pure gold or pure silver; that is to say, every fifteen pounds weight of pure silver shall be of equal value in all payments, with one pound weight of pure gold, and so in proportion as to any greater or less quantities of the respective metals.

Standard for gold coins, and alloy how to be regulated.
[31 USC 5112](#)

SEC. 12. *And be it further enacted,* That the standard for all gold coins of the United States shall be eleven parts fine to one part alloy; and accordingly that eleven parts in twelve of the entire weight of each of the said coins shall consist of pure gold, and the remaining one twelfth part of alloy; and the said alloy shall be composed of silver and copper, in such proportions not exceeding one half silver as shall be found convenient; to be regulated by the director of the mint, for the time being, with the approbation of the President of the United States, until further provisions shall be made by law. And to the end that the necessary information may be had in order to the making of such further

provision, it shall be the duty of the director of the mint, at the expiration of a year after commencing the operations of the said mint, to report to Congress the practice thereof during the said year, touching the composition of the alloy of the said gold coins, the reasons for such practice, and the experiments and observations which shall have been made concerning the effects of different proportions of silver and copper in the said alloy.

Director to report the practice of the mint touching the alloy of gold coins.

Standard for silver coins—alloy how to be regulated.

Alloy.

SEC. 13. *And be it further enacted,* That the standard for all silver coins of the United States, shall be one thousand four hundred and eighty-five parts fine to one hundred and seventy-nine parts alloy; and accordingly that one thousand four hundred and eighty-five parts in one thousand six hundred and sixty-four parts of the entire weight of each of the said coins shall consist of pure silver, and the remaining one hundred and seventy-nine parts of alloy; which alloy shall be wholly of copper.

Persons may bring gold and silver bullion, to be coined free of expense;

how the director may exchange coins therefor, deducting half percent.

Duty of the Secretary of Treasury herein.

The half per cent. to constitute a fund, etc.

SEC. 14. *And be it further enacted,* That it shall be lawful for any person or persons to bring to the said mint gold and silver bullion, in order to their being coined; and that the bullion so brought shall be there assayed and coined as speedily as may be after the receipt thereof, and that free of expense to the person or persons by whom the same shall have been brought. And as soon as the said bullion shall have been coined, the person or persons by whom the same shall have been delivered, shall upon demand receive in lieu thereof coins of the same species of bullion which shall have been so delivered, weight for weight, of the pure gold or silver therein contained: *Provided nevertheless,* That it shall be at the mutual option of the party or parties bringing such bullion, and of the director of the said mint, to make an immediate exchange of coins for standard bullion, with a deduction of one half per cent. from the weight of the pure gold, or pure silver contained in the said bullion, as an indemnification to the mint for the time which will necessarily be required for coining the said bullion, and for the advance which shall have been so made in coins. And it shall be the duty of the Secretary of the Treasury to furnish the said mint from time to time whenever the state of the treasury will admit thereof, with such sums as may be necessary for effecting the said exchanges, to be replaced as speedily as may be out of the coins which shall have been made of the bullion for which the monies so furnished shall have been exchanged; and the said deduction of one half per cent. shall constitute a fund towards defraying the expenses of the said mint.

SEC. 15. *And be it further enacted,* That the bullion which shall be brought as aforesaid to the mint to be coined, shall be coined, and the equivalent thereof in coins rendered, if demanded, in the order in which the said bullion shall have been brought or delivered, giving priority according to priority of delivery only, and without preference to any person or persons; and if any preference shall be given contrary to the direction aforesaid, the officer by whom such undue preference shall be given, shall in each case forfeit and pay one thousand dollars; to be recovered with costs of suit. And to the end that it may be known if such preference shall at any time be given, the assayer or officer to whom the said bullion shall be delivered to be coined, shall give to the person or persons bringing the same, a memorandum in writing under his hand, denoting the weight, fineness and value thereof, together with the day and order of its delivery into the mint.

Order of delivering coins to persons bringing bullion, and penalty on giving undue preference.

SEC. 16. *And be it further enacted,* That all the gold and silver coins which shall have been struck at, and issued from the said mint, shall be a lawful tender in all payments whatsoever, those of full weight according to the respective values herein before declared, and those of less than full weight at values proportional to their respective weights.

Coins made a lawful tender,
[31 USC 5103](#)

SEC. 17. *And be it further enacted,* That it shall be the duty of the respective officers of the said mint, carefully and faithfully to use their best endeavours that all the gold and silver coins which shall be struck at the said mint shall be, as nearly as may be, conformable to the several standards and weights aforesaid, and that the copper whereof the cents and half cents aforesaid may be composed, shall be of good quality.

and to be made conformable to the standard weights, etc.

SEC. 18. And the better to secure a due conformity of the said gold and silver coins to their respective standards, *Be it further enacted,* That from every separate mass of standard gold or silver, which shall be made into coins at the said mint, there shall be taken, set apart by the treasurer and reserved in his custody a certain number of pieces, not less than three, and that once in every year the pieces so set apart and reserved, shall be assayed under the inspection of the Chief Justice of the United States, the Secretary and Comptroller of the Treasury, the Secretary for the department of State, and the Attorney General of the United States, (who are hereby required to attend for that purpose at the said mint, on the last Monday in July in each year,) or under the inspection of any three of them, in such manner as they or a majority of them shall direct, and in the presence of the director, assayer and chief coiner of the said mint; and if it shall be found that the gold and silver so assayed, shall not be inferior to their respective standards herein before declared more than one part in one hundred and forty-four parts, the officer or officers of the said mint whom it may concern shall be held excusable; but if any greater inferiority shall appear, it shall be certified to the President of the United States, and the said officer or officers shall be deemed disqualified to hold their respective offices.

The Treasurer to reserve not less than three pieces of each coin to be assayed;

when and by whom.

SEC. 19. *And be it further enacted,* That if any of the gold or silver coins which shall be struck or coined at the said mint shall be debased or made worse as to the proportion of fine gold or fine silver therein contained, or shall be of less weight or value than the same ought to be pursuant to the directions of this act, through the default or with the connivance of any of the officers or persons who shall be employed at the said mint, for the purpose of profit or gain, or otherwise with a fraudulent intent, and if any of the said officers or persons shall embezzle any of the metals which shall at any time be committed to their charge for the purpose of being coined, or any of the coins which shall be struck or coined at the said mint, every such officer or person who shall commit any or either of the said offences, shall be deemed guilty of felony, and shall suffer death.

Penalty on debasing the coins.

SEC. 20. *And be it further enacted,* That the money of account of the United States shall be expressed in dollars or units, dismes or tenths, cents or hundredths, and milles or thousandths, a disme being the tenth part of a dollar, a cent the hundredth part of a dollar, a mille the thousandth part of a dollar, and that all accounts in the public offices and all proceedings in the courts of the United States shall be kept and had in conformity to this regulation.

Money of account to be expressed in dollars, etc.

[31 USC 5101](#)

APPROVED, April 2, 1792.

(a). The acts establishing and regulating the mint of the United States, and for regulating coins, have been: An act establishing a mint and regulating the coins of the United States passed April 2, 1792, chap. 16, an act regulating foreign coins, and for other purposes, February 9, 1793, chap. 5; an act in alteration of the act establishing a mint and regulating the coins of the United States, March 3, 1794, chap. 4; an act supplementary to the act entitled, "An act to establish a mint and regulating the coins of the United States," passed March 3, 1795, chap. 47; an act respecting the mint, May 27, 1796, chap. 33; an act respecting the mint, April 24, 1800, chap. 34; an act concerning the mint, March 3, 1801, chap. 21; an act to prolong the continuance of the mint at Philadelphia, January 14, 1818, chap. 4; an act further to prolong the mint at Philadelphia, March 3, 1823, chap. 42; an act to continue the mint at the city of Philadelphia, and for other purposes, May 19, 1828, chap. 67; an act concerning the gold coins of the United States, and for other purposes, June 28, 1834, chap. 95; an act to establish branches of the mint of the United States, March 3, 1835, chap. 37; an act supplementary to an act entitled, "An act establishing a mint and regulating the coins of the United States," January 18, 1837, chap. 3; an act to amend an act entitled, "An act to establish branches of the mint of the United States," February 13, 1837, chap. 14; an act amendatory of an act establishing the branch mint at Danlonega, Georgia, and defining the duties of the assayer and coiner, February 27, 1843, chap. 46. [return to \(a\)](#). [Go to Title 31 USC for complete, current money and finance laws.](#)

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THE SECOND BANK OF THE UNITED STATES

April 10, 1816.
[Expired]

CHAP. XLIV.—*An Act to incorporate the subscribers to the Bank of the United States.* (a)

Act of March 3,
1819, ch. 73.

A bank of the United
States with a capital
of 35,000,000
dollars, &c.

Be it enacted by the Senate and House of Representatives of the United States of America, in Congress assembled, That a bank of the United States of America shall be established, with a capital of thirty-five millions of dollars, divided into three hundred and fifty thousand shares, of one hundred dollars each share. Seventy thousand shares, amounting to the sum of seven millions of dollars, part of the capital of the said bank, shall be subscribed and paid for by the United States, in the manner hereinafter specified; and two hundred and eighty thousand shares, amounting to the sum of twenty-eight millions of dollars, shall be subscribed and paid for by individuals, companies, or corporations, in the manner hereinafter specified.

SEC. 2. *And be it further enacted,* That subscriptions for the sum of twenty-eight millions of dollars, towards constituting the capital of the said bank, shall be opened on the first Monday in July next, at the following places: that is to say, at Portland, in the District of Maine; at Portsmouth, in the state of New Hampshire; at Boston, in the state of Massachusetts; at Providence, in the state of Rhode Island; at Middletown, in the state of Connecticut; at Burlington, in the state of Vermont; at New York, in the state of New York; at New Brunswick, in the state of New Jersey; at Philadelphia, in the state of Pennsylvania; at Wilmington, in the state of Delaware; at Baltimore, in the state of Maryland; at Richmond, in the state of Virginia; at Lexington, in the state of Kentucky; at Cincinnati, in the state of Ohio; at Raleigh, in the state of North Carolina; at Nashville, in the state of Tennessee; at Charleston, in the state of South Carolina; at Augusta, in the state of Georgia; at New Orleans, in the state of Louisiana; and at Washington, in the District of Columbia. And the said subscriptions shall be opened under the superintendence of five commissioners at Philadelphia, and of three commissioners at each of the other places aforesaid, to be appointed by the President of the United States, who is hereby authorized to make such appointments, and shall continue open every day, from the time of opening the same, between the hours of ten o'clock in the forenoon and four o'clock in the afternoon, for the term of twenty days, exclusive of Sundays, when the same shall be closed, and immediately thereafter the commissioners, or any two of them, at the respective places aforesaid, shall cause two transcripts or copies of such subscriptions to be made, one of which they shall send to the Secretary of the Treasury, one they shall retain, and the original they shall transmit, within seven days from the closing of the subscriptions as aforesaid, to the commissioners at Philadelphia aforesaid. And on the receipt of the said original subscriptions, or of either of the said copies thereof, if the original be lost, mislaid, or detained, the commissioners at Philadelphia aforesaid, or a majority of them, shall immediately thereafter convene, and proceed to take an account of the said subscriptions. And if more than the amount of twenty-eight millions of dollars shall

Places, &c. for
receiving
subscriptions.

have been subscribed, then the said last mentioned commissioners shall deduct the amount of such excess from the largest subscriptions, in such manner as that no subscription shall be reduced in amount, while any one remains larger; *Provided*, That if the subscriptions taken at either of the places aforesaid shall not exceed three thousand shares, there shall be no reduction of such subscriptions, nor shall, in any case, the subscriptions taken at either of the places aforesaid be reduced below that amount. And in case the aggregate amount of the said subscriptions shall exceed twenty-eight millions of dollars, the said last mentioned commissioners, after having apportioned the same as aforesaid, shall cause lists of the said apportioned subscriptions, to be made out, including in each list the apportioned subscription for the place where the original subscription was made, one of which lists they shall transmit to the commissioners or one of them, under whose superintendence such subscriptions were originally made, that the subscribers may thereby ascertain the number of shares to them respectively apportioned as aforesaid. And in case the aggregate amount of the said subscriptions made during the period aforesaid, shall not amount to twenty-eight millions of dollars, the subscriptions to complete the said sum shall be and remain open at Philadelphia aforesaid, under the superintendence of the commisssioners appointed for that place; and the subscriptions may be then made by any individual, company, or corporation, for any number of shares, not exceeding, in the whole, the amount required to complete the said sum of twenty-eight millions of dollars.

SEC. 3. *And be it further enacted*, That it shall be lawful for any individual, company, corporation, or state, when the subscriptions shall be opened as herein before directed, to subscribe for any number of shares of the capital of the said bank, not exceeding three thousand shares, and the sums so subscribed shall be payable, and paid, in the manner following; that is to say, seven millions of dollars thereof in gold or silver coin of the United States, or in gold coin of Spain, or the dominions of Spain, at the rate of one hundred cents for every twenty-eight grains and sixty hundredths of a grain of the actual weight thereof, or in other foreign gold or silver coin at the several rates prescribed by the first section of an act regulating the currency of foreign coins in the United States, passed tenth day of April, one thousand eight hundred and six, and twenty-one millions of dollars thereof in like gold or silver coin, or in the funded debt of the United States contracted at the time of the subscriptions respectively. And the payments made in the funded debt of the United States, shall be paid and received at the following rates: that is to say, the funded debt bearing an interest of six per centum per annum, at the nominal or par value thereof; the funded debt bearing an interest of three per centum per annum, at the rate of sixty-five dollars for every sum of one hundred dollars of the nominal amount thereof; and the funded debt bearing an interest of seven per centum per annum, at the rate of one hundred and six dollars and fifty-one cents, for every sum of one hundred dollars of the nominal amount thereof; together with the amount of the interest accrued on the said several denominations of funded debt, to be computed and allowed to the time of subscribing the same to the capital of the said bank as aforesaid. And the payments of the said subscriptions shall be made and completed

Regulations
concerning
subscriptions and
payments on them,
&c.

April 10, 1806, ch.
22.

Regulations concerning subscriptions and payments on them, &c;.

by the subscribers, respectively, at the times and in the manner following; that is to say, at the time of subscribing there shall be paid five dollars on each share, in gold or silver coin as aforesaid, and twenty-five dollars more in coin as aforesaid, or in funded debt as aforesaid; at the expiration of six calendar months after the time of subscribing, there shall be paid the further sum of ten dollars on each share, in gold or silver coin as aforesaid, and twenty-five dollars more in coin as aforesaid, or in funded debt as aforesaid; at the expiration of twelve calendar months from the time of subscribing, there shall be paid the further sum of ten dollars on each share, in gold or silver coin as aforesaid, and twenty-five dollars more, in coin as aforesaid, or in funded debt as aforesaid.

SEC. 4. *And be it further enacted,* That at the time of subscribing to the capital of the said bank as aforesaid, each and every subscriber shall deliver to the commissioners, at the place of subscribing, as well the amount of their subscriptions respectively in coin as aforesaid, as the certificates of funded debt, for the funded debt proportions of their respective subscriptions, together with a power of attorney, authorizing the said commissioners, or a majority of them, to transfer the said stock in due form of law to "the president, directors, and company, of the bank of the United States," as soon as the said bank shall be organized. *Provided always,* That if, in consequence of the apportionment of the shares in the capital of the said bank among the subscribers, in the case, and in the manner, herein before provided, any subscriber shall have delivered to the commissioners, at the time of subscribing, a greater amount of gold or silver coin and funded debt than shall be necessary to complete the payments for the share or shares to such subscribers, apportioned as aforesaid, the commissioners shall only retain so much of the said gold or silver coin, and funded debt, as shall be necessary to complete such payments, and shall, forthwith, return the surplus thereof, on application for the same, to the subscribers lawfully entitled thereto. And the commissioners, respectively, shall deposit the gold and silver coin, and certificates of public debt by them respectively received as aforesaid from the subscribers to the capital of the said bank, in some place of secure and safe keeping, so that the same may and shall be specifically delivered and transferred, as the same were by them respectively received, to the president, directors, and company, of the bank of the United States, or to their order, as soon as shall be required after the organization of the said bank. And the commissioners appointed to superintend the subscriptions to the capital of the said bank as aforesaid, shall receive a reasonable compensation for their services respectively, and shall be allowed all reasonable charges and expenses incurred in the execution of their trust, to be paid by the president, directors, and company, of the bank, out of the funds thereof.

Reasonable compensation to the commissioners.

The United States may redeem the funded debt, &c. and the bank may sell for gold and silver, &c.

SEC. 5. *And be it further enacted,* That it shall be lawful for the United States to pay and redeem the funded debt subscribed to the capital of the said bank at the rates aforesaid, in such sums, and at such times, as shall be deemed expedient, any thing in any act or acts of Congress to the contrary thereof notwithstanding. And it shall also be lawful for the president, directors, and company, of the said bank, to sell and transfer for gold and silver coin, or bullion, the funded debt subscribed to the capital of the said bank as aforesaid: *Provided always,* That they shall not sell more thereof than the sum of two millions of dollars in any one year; nor sell any part thereof at any time within the United States, without previously giving notice of their intention to the Secretary of the Treasury, and offering the same to the United States for the period of fifteen days, at least, at the current price, not exceeding the rates aforesaid.

The Secretary of the Treasury to subscribe on behalf of the United States, &c.

SEC. 6. *And be it further enacted,* That at the opening of the subscriptions to the capital stock of the said bank, the Secretary of the Treasury shall subscribe, or cause to be subscribed, on behalf of the United States, the said number of seventy thousand shares, amounting to seven millions of dollars as aforesaid, to be paid in gold or silver coin, or in stock of the United States, bearing interest at the rate of five per centum per annum; and if payment thereof, or of any part thereof, be made in public stock, bearing interest as aforesaid, the said interest shall be payable quarterly, to commence from the time of making such payment on account of the said subscription, and the principal of the said stock shall be redeemable in any sums, and at any periods, which the government shall deem fit. And the Secretary of the Treasury shall cause the certificates of such public stock to be prepared, and made in the usual form, and shall pay and deliver the same to the president, directors, and company, of the said bank on the first day of January, one thousand eight hundred and seventeen, which said stock it shall be lawful for the said president, directors, and company, to sell and transfer for gold and silver coin or bullion at their discretion: *Provided,* They shall not sell more than two millions of dollars in any one year.

The subscribers to the bank incorporated, &c.

SEC. 7. *And be it further enacted,* That the subscribers to the said bank of the United States of America, their successors and assigns, shall be, and are hereby, created a corporation and body politic, by the name and style of "The President, directors, and company, of the bank of the United States," and shall so continue until the third day of March, in the year one thousand eight hundred and thirty-six, and by that name shall be, and are hereby, made able and capable, in law, to have, purchase, receive, possess, enjoy, and retain, to them and their successors, lands, rents, tenements, hereditaments, goods, chattels and effects, of whatsoever kind, nature, and quality, to an amount not exceeding, in the whole, fifty-five millions of dollars, including the amount of the capital stock aforesaid; and the same to sell, grant, demise, alien or dispose of; to sue and be sued, plead and be impleaded, answer and be answered, defend and be defended, in all state courts having competent jurisdiction, and in any circuit court of the United States: and also to make, have, and use, a common seal, and the same to break, alter, and renew, at their pleasure: and also to ordain, establish, and put in execution, such by-laws, and ordinances, and regulations, as they shall deem necessary and convenient for

the government of the said corporation, not being contrary to the Constitution thereof, or to the laws of the United States; and generally to do and execute all and singular the acts, matters, and things, which to them it shall or may appertain to do; subject, nevertheless, to rules, regulations, restrictions, limitations, and provisions, hereinafter prescribed and declared.

Twenty-five directors; five to be appointed by the President, &c.

SEC. 8. *And be it further enacted,* That for the management of the affairs of the said corporation, there shall be twenty-five directors, five of whom, being stockholders, shall be annually appointed by the President of the United States, by and with the advice and consent of the Senate, not more than three of whom shall be residents of any one state; and twenty of whom shall be annually elected at the banking house in the city of Philadelphia, on the first Monday of January, in each year, by the qualified stockholders of the capital of the said bank, other than the United States, and by a plurality of votes then and there actually given, according to the scale of voting hereinafter prescribed: *Provided always,* That no person, being a director in the bank of the United States, or any of its branches, shall be a director of any other bank; and should any such director act as a director in any other bank, it shall forthwith vacate his appointment in the direction of the bank of the United States. And the directors, so duly appointed and elected, shall be capable of serving, by virtue of such appointment and choice, from the first Monday in the month of January of each year, until the end and expiration of the first Monday in the month of January of the year next ensuing the time of each annual election to be held by the stockholders as aforesaid. And the board of directors, annually, at the first meeting after their election in each and every year, shall proceed to elect one of the directors to be president of the corporation, who shall hold the said office during the same period for which directors are appointed and elected as aforesaid: *Provided also,* That the first appointment and election of the directors and president of the said bank shall be at the time and for the period hereinafter declared: *And provided also,* That in case it should at any time happen that an appointment or election of directors, or an election of the president of the said bank, should not be so made as to take effect on any day when, in pursuance of this act, they ought to take effect, the said corporation shall not, for that cause, be deemed to be dissolved; but it shall be lawful at any other time to make such appointments, and to hold such elections, (as the case may be,) and the manner of holding the elections shall be regulated by the by-laws and ordinances of the said corporation: and until such appointments or elections be made, the directors and president of the said bank, for the time being, shall continue in office: *And provided also,* That in case of the death, resignation, or removal of the president of the said corporation, the directors shall proceed to elect another president from the directors as aforesaid: and in case of the death, resignation, or absence, from the United States, or removal of a director from office, the vacancy shall be supplied by the President of the United States, or by the stockholders, as the case may be. But the President of the United States alone shall have power to remove any of the directors appointed by him as aforesaid.

Regulations concerning the direction of the bank, &c.

Manner and time of
the banks going into
operation, &c.

SEC. 9. *And be it further enacted,* That as soon as the sum of eight millions four hundred thousand dollars in gold and silver coin, and in the public debt, shall have been actually received on account of the subscriptions to the capital of the said bank (exclusively of the subscription aforesaid, on the part of the United States) notice thereof shall be given by the persons under whose superintendence the subscriptions shall have been made at the city of Philadelphia, in at least two newspapers printed in each of the places, (if so many be printed in such places respectively,) where subscriptions shall have been made, and the said persons shall, at the same time, and in like manner, notify a time and place within the said city of Philadelphia, at the distance of at least thirty days from the time of such notification, for proceeding to the election of twenty directors as aforesaid, and it shall be lawful for such election to be then and there made. And the President of the United States is hereby authorized, during the present session of Congress, to nominate, and, by and with the advice and consent of the Senate, to appoint, five directors of the said bank, though not stockholders, any thing in the provisions of this act to the contrary notwithstanding; and the persons who shall be elected and appointed as aforesaid, shall be the first directors of the said bank, and shall proceed to elect one of the directors to be President of the said bank; and the directors and president of the said bank so appointed and elected as aforesaid, shall be capable of serving in their respective office, by virtue thereof, until the end and expiration of the first Monday of the month of January next ensuing the said appointments and elections; and they shall then and thenceforth commence, and continue the operations of the said bank, at the city of Philadelphia.

The directors
empowered to
appoint officers,
clerks, servants, &c.

SEC. 10. *And be it further enacted,* That the directors, for the time being shall have power to appoint such officers, clerks, and servants, under them as shall be necessary for executing the business of the said corporation, and to allow them such compensation for their services, respectively, as shall be reasonable; and shall be capable of exercising such other powers and authorities for the well governing and ordering of the officers of the said corporation, as shall be prescribed, fixed, and determined, by the laws, regulations, and ordinances, of the same.

Fundamental
articles, &c.

SEC. 11. *And be it further enacted,* That the following rules, restrictions, limitations, and provisions, shall form and be fundamental articles of the constitution of the said corporation, to wit:

Rules concerning voting for directors.

1. The number of votes to which the stockholders shall be entitled, in voting for directors, shall be according to the number of shares he, she, or they, respectively, shall hold, in the proportions following, that is to say: for one share and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote; but no person, co-partnership, or body politic, shall be entitled to a greater number than thirty votes; and after the first election, no share or shares shall confer a right of voting, which shall not have been holden three calendar months previous to the day of election. And stockholders actually resident within the United States, and none other, may vote in elections by proxy.

A part of the directors appointed by the stockholders and president, alone eligible a second year, successively. President always eligible

Second. Not more than three-fourths of the directors elected by the stockholders, and not more than four-fifths of the directors appointed by the President of the United States, who shall be in office at the time of an annual election, shall be elected or appointed for the next succeeding year; and no director shall hold his office more than three years out of four in succession: but the director who shall be the president at the time of an election may always be re-appointed, or re-elected, as the case may be.

Stockholders, citizens, may be only appointed directors. Directors to have no compensation, other than the president.

Third. None but a stockholder, resident citizen of the United States, shall be a director; nor shall a director be entitled to any emoluments; but the directors may make such compensation to the president for his extraordinary attendance at the bank, as shall appear to them reasonable.

Seven directors, including the president, may constitute a board.

Fourth. Not less than seven directors shall constitute a board for the transaction of business, of whom the president shall always be one, except in case of sickness or necessary absence: in which case his place may be supplied by any other director whom he, by writing, under his hand, shall depute for that purpose. And the director so deputed may do and transact all the necessary business, belonging to the office of the president of the said corporation, during the continuance of the sickness or necessary absence of the president.

How his place is supplied in case of absence or sickness.

General meetings of the stockholders—how to be called.

Fifth. A number of stockholders, not less than sixty, who, together, shall be proprietors of one thousand shares or upwards, shall have power at any time to call a general meeting of the stockholders, for purposes relative to the institution, giving at least ten weeks' notice in two public newspapers of the place where the bank is seated, and specifying in such notice the object or objects of such meeting.

Cashier to give bonds and security.

Sixth. Each cashier or treasurer, before he enters upon the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than fifty thousand dollars, with a condition for his good behaviour, and the faithful performance of his duties to the corporation.

Limitation concerning, and a description of the real estate which may be held by the corporation.

Seventh. The lands, tenements, and hereditaments, which it shall be lawful for the said corporation to hold, shall be only such as shall be requisite for its immediate accommodation in relation to the convenient transacting of its business, and such as shall have been *bona fide* mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales, upon judgments which shall have been obtained for such debts.

Maximum of debts which the corporation may at one time contract.

Eighth. The total amount of debts which the said corporation shall at any time owe, whether by bond, bill, note, or other contract, over and above the debt or debts due for money deposited in the bank, shall not exceed the sum of thirty-five millions of dollars, unless the contracting of any greater debt shall have been previously authorized by law of the United States. In case of excess, the directors under whose administration it shall happen, shall be liable for the same in their natural and private capacities: and an action of debt may in such case be brought against them, or any of them, their or any of their heirs, executors, or administrators, in any court of record of the United States, or either of them, by any creditor or creditors of the said corporation, and may be prosecuted to judgment and execution, any condition, covenant, or agreement to the contrary notwithstanding. But this provision shall not be construed to exempt the said corporation or the lands, tenements, goods, or chattels of the same from being also liable for, and chargeable with, the said excess.

Remedy against the directors under whose administration an excess of debt shall be created.

Such of the said directors, who may have been absent when the said excess was contracted or created, or who may have dissented from the resolution or act whereby the same was so contracted or created, may respectively exonerate themselves from being so liable, by forthwith giving notice of the fact, and of their absence or dissent, to the President of the United States, and to the stockholders, at a general meeting, which they shall have power to call for that purpose.

Directors absent or dissenting exempted.

Ninth. The said corporation shall not, directly or indirectly, deal or trade in any thing except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time, or goods which shall be the proceeds of its lands. It shall not be at liberty to purchase any public debt whatsoever, nor shall it take more than at the rate of six per centum per annum for or upon its loans or discounts.

In what the corporation may transact business and trade.

Tenth. No loan shall be made by the said corporation, for the use or on account of the government of the United States, to an amount exceeding five hundred thousand dollars, or of any particular state, to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

Loans exceeding certain sums not to be made the U. S. or particular states, or foreign states, but by acts of Congress.

Eleventh. The stock of the said corporation shall be assignable and transferable, according to such rules as shall be instituted in that behalf, by the laws and ordinances of the same.

Rules to be prescribed for making the stock assignable.

The bills, obligatory and of credit, under the seal of the corporation; how assignable.

Twelfth. The bills, obligatory and of credit, under the seal of the said corporation, which shall be made to any person or persons, shall be assignable by endorsement thereupon, under the hand or hands of such person or persons, and his, her, or their executors or administrators, and his, her or their assignee or assignees, and so as absolutely to transfer and vest the property thereof in each and every assignee or assignees successively, and to enable such assignee or assignees, and his, her or their executors or administrators, to maintain an action thereupon, in his, her, or their own name or names: *Provided,* That said corporation shall not make any bill obligatory, or of credit, or other obligation under its seal for the payment of a sum less than five thousand dollars. And the bills or notes which may be issued by order of the said corporation, signed by the president, and countersigned by the principal cashier or treasurer thereof, promising the payment of money to any person or persons, his, her or their order, or to bearer, although not under the seal of the said corporation, shall be binding and obligatory upon the same, in like manner, and with like force and effect, as upon any private person or persons, if issued by him, her or them, in his, her or their private or natural capacity or capacities, and shall be assignable and negotiable in like manner as if they were so issued by such private person or persons; that is to say, those which shall be payable to any person or persons, his, her or their order, shall be assignable by endorsement, in like manner, and with the like effect as foreign bills of exchange now are; and those which are payable to bearer shall be assignable and negotiable by delivery only: *Provided,* That all bills or notes, so to be issued by said corporation, shall be made payable on demand, other than bills or notes for the payment of a sum not less than one hundred dollars each, and payable to the order of some person or persons, which bills or notes it shall be lawful for said corporation to make payable at any time not exceeding sixty days from the date thereof.

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Half yearly dividends to be made.

Thirteenth. Half yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable; and once in every three years the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid after the expiration of the original credit, for a period of treble the term of that credit, and of the surplus of the profits, if any, after deducting losses and dividends. If there shall be a failure in the payment of any part of any sum subscribed to the capital of the said bank, by any person, co-partnership or body politic, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment, and during the delay of the same.

A statement of the affairs of the company to be laid before the stockholders

Delinquent subscribers to lose the benefit of dividends.

Offices to be established in the District of Columbia and the several states when authorized and required by law.

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Fourteenth. The directors of the said corporation shall establish a competent office of discount and deposit in the District of Columbia, whenever any law of the United States shall require such an establishment; also one such office of discount and deposit in any state in which two thousand shares shall have been subscribed or may be held, whenever, upon application of the legislature of such state, Congress may, by law, require the same: *Provided*, the directors aforesaid shall not be bound to establish such office before the whole of the capital of the bank shall have been paid up. And it shall be lawful for the directors of the said corporation to establish offices of discount and deposit, wheresoever they shall think fit, within the United States or the territories thereof, and to commit the management of the said offices, and the business thereof, respectively to such persons, and under such regulations as they shall deem proper, not being contrary to law or the constitution of the bank. Or instead of establishing such offices, it shall be lawful for the directors of the said corporation, from time to time, to employ any other bank or banks, to be first approved by the Secretary of the Treasury, at any place or places that they may deem safe and proper, to manage and transact the business proposed as aforesaid, other than for the purposes of discount, to be managed and transacted by such offices, under such agreements, and subject to such regulations, as they shall deem just and proper. Not more than thirteen nor less than seven managers or directors, of every office established as aforesaid, shall be annually appointed by the directors of the bank, to serve one year; they shall choose a president from their own number; each of them shall be a citizen of the United States, and a resident of the state, territory or district, wherein such office is established; and not more than three-fourths of the said managers or directors, in office at the time of an annual appointment, shall be re-appointed for the next succeeding year; and no director shall hold his office more than three years out of four, in succession; but the president may be always re-appointed.

Secretary of the Treasury authorized to call upon the bank for a statement, not exceeding a weekly one, of its concerns.

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Fifteenth. The officer at the head of the Treasury Department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the said corporation and of the debts due to the same; of the moneys deposited therein; of the notes in circulation, and of the specie in hand; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statement: *Provided*, That this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

No stockholder but a citizen of the United States may vote in the choice of directors.

Sixteenth. No stockholder, unless he be a citizen of the United States, shall vote in the choice of directors.

No smaller notes than five dollars to be issued.

Seventeenth. No note shall be issued of less amount than five dollars.

Penalties for dealing in a way or in articles interdicted.

SEC. 12. *And be it further enacted,* That if said corporation, or any person or persons, for or to the use of the same, shall deal or trade in buying or selling goods, wares, merchandise, or commodities whatsoever, contrary to the provisions of this act, all and every person and persons by whom any order or direction for so dealing or trading shall have been given; and all and every person and persons who shall have been concerned as parties or agents therein, shall forfeit and lose treble the value of the goods, wares, merchandise and commodities in which such dealing and trade shall have been, one half thereof to the use of the informer, and the other half thereof; to the use of the United States, to be recovered in any action of law with costs of suit.

Penalties for making unlawful loans to the United States or particular states or to foreign governments.

SEC. 13. *And be it further enacted,* That if the said corporation shall advance or lend any sum of money for the use or on account of the government of the United States, to an amount exceeding five hundred thousand dollars; or of any particular state, to an amount exceeding fifty thousand dollars; or of any foreign prince or state, (unless previously authorized thereto by a law of the United States,) all and every person and persons, by and with whose order, agreement, consent, approbation and connivance, such unlawful advance or loan shall have been made, upon conviction thereof shall forfeit and pay, for every such offense, treble the value or amount of the sum or sums which have been so unlawfully advanced or lent; one fifth thereof to the use of the informer, and the residue thereof to the use of the United States.

Notes of the bank, unless specially prohibited by law, receivable in payments of all dues to United States.

SEC. 14. *And be it further enacted,* That the bills or notes of the said corporation originally made payable, or which shall have become payable on demand, shall be receivable in all payments to the United States, unless otherwise directed by act of Congress.

The bank to give the necessary facilities without any charge, for transferring the funds of the United States to different quarters.

SEC. 15. *And be it further enacted,* That during the continuance of this act, and whenever required by the Secretary of the Treasury, the said corporation shall give the necessary facilities for transferring the public funds from place to place, within the United States, or the territories thereof, and for distributing the same in payment of the public creditors, without charging commissions or claiming allowance on account of difference of exchange, and shall also do and perform the several and respective duties of the commissioners of loans for the several states, or of any one or more of them, whenever required by law.

Deposits of the public moneys to be made in the bank or its branches, or the reasons to be laid before Congress by the Secretary of the Treasury for its not being done.

SEC. 16. *And be it further enacted,* That the deposits of the money of the United States, in places in which the said bank and branches thereof may be established, shall be made in said bank or branches thereof, unless the Secretary of the Treasury shall at any time otherwise order and direct; in which case the Secretary of the Treasury shall immediately lay before Congress, if in session, and if not, immediately after the commencement of the next session, the reasons of such order or direction.

Corporation prohibited from suspending payments in specie, by being made chargeable with the payment of interest at the rate of 12 per centum per annum.

SEC. 17. *And be it further enacted,* That the said corporation shall not at any time suspend or refuse payment in gold and silver, of any of its notes, bills or obligations; nor of any moneys received upon deposit in said bank, or in any of its offices of discount and deposit. And if the said corporation shall at any time refuse or neglect to pay on demand any bill, note or obligation issued by the corporation, according to the contract, promise or undertaking therein expressed; or shall neglect or refuse to pay on demand any moneys received in said bank, or in any of its offices aforesaid, on deposit, to the person or persons entitled to receive the same, then, and in every such case, the holder of any such note, bill, or obligation, or the person or persons entitled to demand and receive such moneys as aforesaid, shall respectively be entitled to receive and recover interest on the said bills, notes, obligations or moneys, until the same shall be fully paid and satisfied, at the rate of twelve per centum per annum from the time of such demand as aforesaid: *Provided,* That Congress may at any time hereafter enact laws enforcing and regulating the recovery of the amount of the notes, bills, obligations or other debts, of which payment shall have been refused as aforesaid, with the rate of interest above mentioned, vesting jurisdiction for that purpose in any courts, either of law or equity, or the courts of the United States, or territories thereof, or of the several states, as they may deem expedient.

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SEC. 18. *And be it further enacted,* That if any person shall falsely make, forge or counterfeit, or cause or procure to be falsely made, forged or counterfeited, or willingly aid or assist in falsely making, forging or counterfeiting any bill or note in imitation of or purporting to be a bill or note issued by order of the president, directors and company of the said bank, or any order or check on the said bank or corporation, or any cashier thereof; or shall falsely alter, or cause or procure to be falsely altered, or willingly aid or assist in falsely altering any bill or note issued by order of the president, directors and company of the said bank, or any order or check on the said bank or corporation, or any cashier thereof; or shall pass, utter or publish, or attempt to pass, utter or publish as true, any false, forged or counterfeited bill or note purporting to be a bill or note issued by order of the president, directors and company of the said bank, or any false, forged or counterfeited order or check upon the said bank or corporation, or any cashier thereof, knowing the same to be falsely forged or counterfeited; or shall pass, utter or publish, or attempt to pass, utter or publish as true, any falsely altered bill or note issued by order of the president, directors, and company of the said bank, or any falsely altered order or check on the said bank or corporation, or any cashier thereof, knowing the same to be falsely altered with intention to defraud the said corporation or any other body politic or person; or shall sell, utter or deliver, or cause to be sold, uttered or delivered, any forged or counterfeit note or bill in imitation, or purporting to be a bill or note issued by order of the president and directors of the said bank, knowing the same to be false, forged, or counterfeited; every such person shall be deemed and adjudged guilty of felony, and being thereof convicted by due course of law, shall be sentenced to be imprisoned and kept to hard labour for not less than three years, nor more than ten years, or shall be imprisoned not exceeding ten years, and fined not exceeding five thousand dollars.

Penalties for forging, counterfeiting, &c.

Provided, That nothing herein contained shall be construed to deprive the courts of the individual states, of a jurisdiction under the laws of the several states, over any offence declared punishable by this act.

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For engraving after the similitude of the plates used for the bank, any plates, &c.

SEC. 19. *And be it further enacted*, That if any person shall make or engrave, or cause, or procure to be made or engraved, or shall have in his custody or possession, any metallic plate, engraved after the similitude of any plate from which any notes or bills, issued by the said corporation, shall have been printed, with intent to use such plate, or to cause, or suffer the same to be used in forging or counterfeiting any of the notes or bills issued by the said corporation; or shall have in his custody or possession, any blank note or notes, bill or bills, engraved and printed after the similitude of any notes or bills issued by said corporation, with intent to use such blanks, or cause, or suffer the same to be used in forging or counterfeiting any of the notes or bills issued by the said corporation; or shall have in his custody or possession, any paper adapted to the making of bank notes or bills, and similar to the paper upon which any notes or bills of the said corporation shall have been issued, with intent to use such paper, or cause, or suffer the same to be used in forging or counterfeiting any of the notes or bills issued by the said corporation, every such person, being thereof convicted, by due course of law, shall be sentenced to be imprisoned, and kept to hard labour, for a term not exceeding five years, or shall be imprisoned for a term not exceeding five years, and fined in a sum not exceeding one thousand dollars.

Punishment.

Bonus to be paid to the United States for this charter.

SEC. 20. *And be it further enacted*, That in consideration of the exclusive privileges and benefits conferred by this act, upon the said bank, the president, directors, and company thereof, shall pay to the United States, out of the corporate funds thereof, the sum of one million and five hundred thousand dollars, in three equal payments; that is to say: five hundred thousand dollars at the expiration of two years; five hundred thousand dollars at the expiration of three years; and five hundred thousand dollars at the expiration of four years after the said bank shall be organized, and commence its operations in the manner herein before provided.

Congress to establish no other bank except in the District of Columbia.

SEC. 21. *And be it further enacted*, That no other bank shall be established by any future law of the United States during the continuance of the corporation hereby created, for which the faith of the United States is hereby pledged. *Provided*, Congress may renew existing charters for banks in the District of Columbia, not increasing the capital thereof, and may also establish any other bank or banks in said district, with capitals not exceeding, in the whole, six millions of dollars, if they shall deem it expedient. And, notwithstanding the expiration of the term for which the said

corporation is created, it shall be lawful to use the corporate name, style, and capacity, for the purpose of suits for the final settlement and liquidation of the affairs and accounts of the corporation, and for the sale and disposition of their estate, real, personal, and mixed: but not for any other purpose, or in any other manner whatsoever, nor for a period exceeding two years after the expiration of the said term of corporation.

Authority to use the name of the corporation, &c, for two years after the charter shall expire.

Limitation of time prescribed for the bank's going into operation.

SEC. 22. *And be it further enacted*, That if the subscriptions and payments to said bank shall not be made and completed so as to enable the same to commence its operations, or if the said bank shall not commence its operations on or before the first Monday in April next, then, and, in that case, Congress, may, at any time, within twelve months thereafter, declare, by law, this act null and void.

Committees of either house of Congress may inspect the books, &c. of the bank.

SEC. 23. *And be it further enacted*, That it shall, at all times, be lawful, for a committee of either house of Congress, appointed for that purpose, to inspect the books, and to examine into the proceedings of the corporation hereby created, and to report whether the provisions of this charter have been, by the same, violated or not; and whenever any committee, as aforesaid, shall find and report, or the President of the United States shall have reason to believe that the charter has been violated, it may be lawful for Congress to direct, or the President to order a scire facias to be sued out of the circuit court of the district of Pennsylvania, in the name of the United States, (which shall be executed upon the president of the corporation for the time being, at least fifteen days before the commencement of the term of said court,) calling on the said corporation to show cause wherefore the charter hereby granted, shall not be declared forfeited; and it shall be lawful for the said court, upon the return of the scire facias, to examine into the truth of the alleged violation, and if such violation be made appear, then to pronounce and adjudge that the said charter is forfeited and annulled. *Provided, however*, Every issue of fact which may be joined between the United States and the corporation aforesaid, shall be tried by jury. And it shall be lawful for the court aforesaid to require the production of such books of the corporation as it may deem necessary for the ascertainment of the controverted facts: and the final judgment of the court aforesaid, shall be examinable in the Supreme Court of the United States, by writ of error, and may be there reversed or affirmed, according to the usages of law.

For what purpose.

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APPROVED, April 10, 1816.

(a) For the act incorporating the [first Bank of the United States](#), see vol. i. 191.

Notes of decisions on the acts incorporating the Bank of the United States, vol. i. 192. [return](#)

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THE BALANCED BUDGET SCAM

Common sense tells us that the United States federal budget can be balanced by an infinite variation of taxes and spending. So, why does the Congress and President not balance the budget? Do they know something that we do not know?

Two ways of balancing the budget are to cut spending to match taxes or raising taxes to match spending.

One, cuts in government spending, whether by reduction of purchases or reduction of personnel, result in unemployment. Reduced purchasing would force government suppliers to lay off people. Lay-off of government workers likewise increases unemployment, obviously. More unemployment means less incomes to tax and more demands for government services such as unemployment compensation, food stamps, medicaid, etc. Cutting welfare spending likewise reduces sales for food, medical service, rent, etc. Politicians risk re-election by visiting such hurt on the people.

Two, the political unpopularity of raising taxes is self-evident. However, the economic effects of raising taxes may be less evident. Increased taxation, particularly federal taxes, takes money from local communities. Government economists may argue that the government spends the money back into the economy so there is not a net loss in the general economy. At least two things mitigate against economists' theories. One is that money spent to maintain the huge federal establishment in Washington, D. C. does not circulate back to local communities. Another is that the theory contains no time factor for how long it takes for the money to return, if, indeed, it can be shown to return at all. Sending taxes to Washington and expecting them back is like giving oneself a blood transfusion from the right arm to the left and spilling half of it on the floor. No credible argument can be made that federal taxes are not a burden on individuals and local communities.

The two extremes of budget balancing strategy covers the whole range of possibilities. Balancing the budget by either method, or any combination, would

result in hardship on the people. The endless, mind numbing arguments about what to tax and what to cut do not address the simple, demonstrated reasons for neither method or combination being satisfactory alternatives.

How can this be?

Is it possible that unbalanced budgets are a symptom of a more insidious problem that is not being addressed? Yes, as will be shown.

Let us be clear that this tract is not intended to advocate either a balanced or unbalanced federal budget. It is intended to show that neither are acceptable alternatives.

The first government of the United States under the Articles of Confederation did not have full monetary and taxation authority. The government found it difficult to sustain itself. A convention called to rectify the situation turned into the Constitutional Convention which drastically re-organized the federal government. The new Constitution bestowed full monetary power and somewhat limited taxation power on the Congress.

Two Constitutional clauses relevant to money are Article I, Section 8, clauses 2 and 5. Clause two endows Congress with the power to borrow money. Clause 5 endows Congress with the power to coin money. The two clauses seem somewhat contradictory. Why would the Congress need the power to borrow money when it has the power to coin money? Or why would Congress need to tax to raise money as endowed by other Constitutional sections? The Constitution is unequivocal in its content whether the cited clauses appear to mitigate against each other. Congress has all three powers. The power to borrow, the power to coin money, and the power to tax. The Congress has complete monetary power to serve the needs of all the people.

The new Constitutional government inherited a debt of about \$75 million. The Congress chartered a bank in 1791 to monetize the debt. Monetizing debt is modern vernacular, but that is what they did. They did not coin money to pay the

debt. They did not tax to pay the debt. They sold the debt to rich investors and taxed to pay the interest. This specious policy has been maintained to the present day with some minor exceptions such as greenbacks and some nearly insignificant coinage.

Today the debt accumulated by the [Treasury](#) is more than \$5 trillion. Additional debt issued by other federal government agencies increases the total federal debt to more than \$6 trillion.

Consistently, the federal government defaulted to banks the *de facto* power to create the nations money supply until 1913. In 1913 the Federal Reserve Banking System was created and assigned monetary policy authority *de jure*. Since 1913, the Congress has continued to give more authority and control of the money supply to a private banking monopoly which it mislabeled Federal Reserve. This is why private bankers have power over and control of the economy.

The major problem with giving monetary policy authority to private bankers is that banks create money as debt at interest. Banks do not create money to pay interest, so banks create more debt than money. Since there is never enough money to pay the debt, money is chronically scarce. The result is exponentially increasing debt throughout the entire U. S. economy caused by necessary additional borrowing to pay interest. One measure of economy-wide debt is Total Credit Market Debt that exceeds \$20 trillion through the first quarter of 1997. Historical research of Credit Market Debt will show the exponential growth of debt. Historical research of Flow of Funds Liabilities will show exponential growth, also. As will historical research of the money supply. These statistics are available in various governmental publications including [Statistical Abstract of the United States](#). Files are in pdf format.

The major fallacy of conventional economic belief is that the economy can be expanded to compensate for the exponential growth of debt. The fallacy is best shown by the fact that there is no limit to numbers while there is a finite limit to the planet and its resources.

Politicians keep promising more jobs, a balanced budget, and more welfare. All three are mutually exclusive in a debt money system.

The economy during the administration of Ronald Reagan is a good lesson in the practical effects of the fallacy applied. Credit Market Debt expanded at nearly 15% annually at the height of the Reagan folly. The rich got richer, the poor got poorer. None of the social pathologies such as poverty, crime, homelessness, illegal drug business, family disintegration, etc., were improved.

When Alan Greenspan took over as Chairman of the Federal Reserve Board of Governors, he announced he was going to slow down the economy. He called it a "soft landing." Alan Greenspan's soft landing was the 1990 recession. He slowed Credit Market Debt growth to under 6%. Social pathologies were not improved by that action, either; and debt continued to grow.

As shown, neither rapid debt expansion by deficit spending nor slowing growth of debt are acceptable alternatives.

The Federal Reserve creates money by buying federal debt. If the government stopped selling debt by balancing the budget, the Federal Reserve would be severely restricted in creating money. If the government tried to pay off debt, the money supply would be destroyed. As we saw above, rapid increase in debt during the Reagan administration did not solve social, financial, political and environmental problems. When Alan Greenspan reduced debt growth, the economy went into recession.

Since WWII there have been eight balanced budgets in five time periods. A recession accompanied each of those balanced budget periods.

Because of the exponential increase of debt in a debt money system, an increase in deficits, which is another way of saying that debt must increase, is necessary. The possibility of a balanced budget becomes more and more remote as the consequences to the economy become more and more severe.

Beyond the intellectual fallacy can be seen the social, financial, political, and environmental chaos created by a system in which the rich get richer and the poor get poorer.

At the present time there is technology and energy available to serve human needs with minimum human labor. At the same time both mothers and fathers are abandoning their children to daycare and public schools so they can spend their time and energy "working" to get money. Exhausted by their efforts outside the home, they have no time, opportunity, or energy to properly raise their own children. So they "work harder" to get money to afford daycare and education which results in further isolation and depletion of energy. Since most of their earnings will be spent on taxes and interest, they attempt to "work harder" yet.

The chronic shortage of money and competition for scarce money is a major contributor to careless plundering of natural resources and pollution.

The stress of poverty is a known contributor to crime rates.

The chronic shortage of money prevents medical research for cancer and AIDS. It also prevents universal medical care.

The chronic shortage of money prevents other scientific research and construction of a linear accelerator.

Economic competition is a root cause of war.

What's wrong with the above picture? The answer is so short it is banal. It is the debt money system.

It is the debt money system of bankers that is the problem.

The vacuous confrontational arguments of liberals versus conservatives do not address the problem. Throughout history humans have tended to argue obsolete ideas. Liberals and conservatives are not different. Both are trying to back into the future.

Politicians who promise to balance the budget within the debt money system as a way out of social, financial, political, and environmental chaos are uninformed, misinformed, self-deceived, or lying.

Part of the disingenuity of current political rhetoric is the misuse of the word deficit. Deficit as used in current political rhetoric is a fictional number created by smoke and mirror bookkeeping. Deficit by strict definition would be the difference between expense and revenue when expense exceeds revenue. It should represent the annual increase in government debt, but the current rhetorical claim that the budget is balanced is contradicted by the growth of [debt](#). The Clinton administration has not only continued the plundering of so-called trust funds such as Social Security as practiced by previous administrations, but the Secretary of the Treasury has changed capital accounting procedures. Based on smoke and mirror bookkeeping the budget will not be balanced as it is now, October 1998, claimed to be balanced.

The growth of debt has been slowed; and as in other periods when government growth of debt was reduced, the economy is going into recession. As of October of 1998, the Fed has already made two symbolic reductions in interest rates.

The debt money system must be reformed before there is a possibility of solving money dependent problems.

Perhaps money is an obsolete idea.

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BELIEF

For the purposes of this discussion belief is defined as mental acceptance of a premise, image, or thought as being true or real without evidence, in spite of contrary evidence, or after repeated failure. Belief, in this limited definition, is purely a function of the human mind. It enables humans to *know* what is demonstrably false, not knowable, and what is not known by anyone else.

There is a large area between belief and knowing where a great deal is accepted on faith. It is not necessary for every human to re-prove that Newton's motion formulas are accurate in macro physics, that the earth is not the center of the solar system, or that the city of Tokyo exists. The truth and accuracy of those premises have been proven and established in the body of recorded human knowledge. While most humans do not know these things are true based on personal experience, these things are knowable and known by others. That is the slipperiest of slippery slopes. It leads to faith in experts, authorities, and gurus.

Faith in experts, authorities, and gurus that presumably *know* leaves humans vulnerable to manipulation and exploitation. Modest attention to the doublespeak of *expert* Alan Greenspan should be enough to reveal to any person of reasonable intelligence and linguistic competence that Greenspan is incompetent; self-deceived; or a willful, knowing liar. The economic exploitation that results from Greenspan's folly are equally obvious in statistical growth of debt published by the Federal Reserve System itself.

The quarreling exaggerations of environmental *experts* passing themselves off as scientists prevent accurate evaluation and making of rational policy on environmental issues.

Faith in authority has resulted in more mass murder and destruction of property over millennia than could be documented in a nominally sized encyclopaedia. Super murderers from Alexander and Qin Shihuangdi to Stalin, Hitler, Roosevelt, Truman, and Mao could not happen without participation in or acquiescence to their authoritarian madnnesses. When authority is combined with the guru

phenomena one gets Pharoahs, Popes, Jim Jones, and David Koresh, none of whom would have had any influence without the support of self-deceived believers.

Two sources of beliefs are environment and imagination.

The first and primary source of belief is environment with parents playing the pre-eminent role. There is a high statistical probability that children will acquire the beliefs of their parents and maintain them for a lifetime. Church is another source of belief. Education another. Dictionaries define educate as to persuade to feel, act, and *believe* in a desired way. *Whose* desired way? Perhaps, the greatest source of belief outside family is entertainment/information media, commercial institutions with nothing other than their own economic self-interest to guide actions.

Both truth and bullshit can arise from imaginative processes. With imagination you get science, mathematics, and technology. With imagination you also get religious, economic, and political bullshit. You get art and literature, too, which can represent either truth or bullshit; but often represents bullshit. Today, what is produced as art and literature is almost wholly commercial product.

The problem that confronts every human individual is to discriminate between what is real or true and imaginative bullshit.

Scientific processes provide ways of acquiring knowledge of the world in the venue of time, space, material, and energy. Once obtained, verified, and published, knowledge is available to everyone. Anyone and everyone can use accumulated knowledge to assemble functioning electrical circuits, for example, anytime and all the time. The circuits will work practically anywhere and everywhere. No amount of belief in magic or other form of imaginative non-knowledge can make an electrical circuit function or malfunction.

Scientific processes have no validity outside the venue of time, space, material, and energy because scientific processes are about measurement, prediction, and

repeatability. No proof exists that there is any other venue except in human imagination, but uncounted venues exist in human imagination. What can be measured, predicted, and repeated in imagined venues? Nothing. How does one measure a dream?

Whether other venues exist is a matter of faith or belief. Other venues, so far, cannot be proven to exist or not to exist.

Money creation and resulting economic effects are matters to be considered in the time, space, energy and material venue even though money itself is an abstract or imaginary concept. By using scientific procedures of data collection and testing, the scientific ideal of measurement, prediction, and repeatability can become an attainable goal.

Consider the matter of inflation. Inflation has been a constant since the founding of the Federal Reserve as can be determined by data published by the Federal Reserve. The Federal Reserve Chairman of the Board of Governors, Alan Greenspan, continuously verbigerates anti-inflation rhetorical dogma. He pretends and appears to believe that he is fighting inflation by monetary policy. The result has been inflation, not only in his tenure; but also, during the tenure of every Chairman since the inception of the Federal Reserve. Alan Greenspan fits the definition of a true believer. He continues to believe in his monetary policy after 84 years of failed Fed inflation-fighting policy.

Greenspan mumbles a few words and the stock market shakes. Greenspan demonstrates the folly of believing in authoritarian gurus as surely as Jim Jones.

Thousands of gurus are spouting diverse imagined solutions to human problems in diverse imagined venues. Imagined venues are often called spiritual. If there are solutions to social problems exacerbated by monetary policy and resulting economic chaos, they can only be found in the proper venue. The only venue that matters is the here and now venue of time, space, matter, and energy where data can be collected, measured, and evaluated, informed policy instituted and revised as needed, and solutions obtained.

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BELIEF PART 2

Brain scientists, medical doctors, psychiatrists, and psychologists cannot tell us how the brain works. They cannot tell us why humans believe what they believe without evidence, in spite of contrary evidence, and after repeated failure of beliefs to coincide with reality.

It may be that the brain makes physical connections that "wire" the brain so that to some extent it works like a computer and can only do what it is wired to do. New wiring occurs from life experience in the existing culture. If the culture is erroneous, the wiring will be erroneous.[\(1\)](#) If that attribute of the brain is true, it would help explain the difficulty of unlearning a belief. Whether true or not, there is no question about the ability of a human to learn contradictory new things when necessary conscious effort is made to do so.

When a human experiences something that contradicts previously established beliefs, a mental condition of cognitive dissonance arises that is uncomfortable. The discomfort apparently arises when brain chemistry is altered.

When some of the brain chemicals generally called endorphins were isolated and injected into rats, the chemicals were found to be many times more addictive than morphine. This raises the question whether the phenomenon of addiction plays a role in belief. If so, it would also help explain the difficulty of unlearning a belief. Observing an addict attempting to withdraw from addictive drugs suggests great difficulty both physically and psychologically for the addict. However difficult, many addicts have recovered from their addiction. It is also possible for a human to transcend cognitive dissonance and learn contradictory new things. Conscious effort is a way to learn new things.

Some beliefs appear to arise from wishful thinking. A reason research was conducted into brain chemicals was the anesthetic effect reported by victims of serious injury, especially involving terror. (A survivor of a mountain lion attack reported he could hear his bones breaking but did not feel it.) The possibility of an endogenous anesthetic chemical excited the research. The wishful thinking

was that an endogenous drug would be non-addictive. Dreams of billions to be gotten by marketing a non-addictive pain reliever and Nobel-itis pushed scientists, and chemicals were found. Testing showed the chemicals to be extremely addictive when injected as an exogenous drug. Faced with contrary evidence, the scientists gave up their wishful thinking as good scientists must do when faced with contrary evidence. A Nobel Prize was awarded, but billions could not be gotten from a non-addictive pain reliever.

Economics is a field that is dominated by beliefs. Beliefs that do not lend themselves to the simple to state general procedure, find the chemicals and test them, used by scientists in the case of brain chemicals and their possible use as pain relievers. Economics is a field that contains so many variables that economists resort to generalized theories that cannot be proven scientifically. Economists have no control over real events. They cannot test their theories in the real world. Economics is psuedo-science.

The psuedo-science or nescience of economics is like religion. The foundation of economics rests on dogma, doctrine, and faith. Dogma and doctrine preached by guru economists to the faithful. Dogma and doctrines that are based on doublethink and contradiction. For intellectual corruption, economists have no peers.

Economists have rented themselves in service to ruling classes whose practice is confiscation of maximum wealth and property. This practice of ruling classes goes on in every society without regard to nominative labels. The practice does not change whether the label is socialist, communist, capitalist, mercantilist, monarchy, theocracy, junta, or democracy.

To maximize their profit and security, ruling classes must exercise social control. Social control is easiest when controllees subscribe to the same belief systems as their controllers. Controllees are less likely to notice being controlled and rebel against their controllers. They may even blame themselves when they recognize that they are disadvantaged. If the belief system fails, the ruling class is prepared to wield all necessary force through the mechanism of the state and its police and

armies. [CONTROL OF SOCIETIES AND ECONOMIES](#)

A major mechanism that transfers unearned wealth and maintains social and political control in modern society is money—the power to issue money. This power is given to banks in nearly every country of the world. Banks issue money as interest bearing debt. They also determine how much money is issued.

Economists provide a major service to rulers by initiating economic theory that protects the interests of rulers. These theories are sometimes promoted as economic "laws." Journalists join economists in repeating the theories until they infect human minds like a virus or meme being passed from one mind to the other. [\(2\)](#) The theories become controlling beliefs and part of social culture. These theories keep the wealth flowing away from producers to non-producers.

1. A general theory among some brain scientists is that the structure of the brain is genetically determined, and learning is a process of using certain neural pathways to effect memory. But there are unproven arguments for all sorts of theories. No one, presently, knows how the brain works. [return](#)

2. The brain is an energy intense organ. An extant theory is that due to its structure, there is a tendency for the brain to accept the most parsimonious route to interpretation of sensual inputs. Jumping to conclusions on little or no valid information or accepting the interpretations of experts, gurus, and authorities is to be expected. [return](#)

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COMMON BELIEFS ABOUT MONEY

1. Banks lend money that has been deposited with them. The belief is false. Banks create new money when they make loans. (See [Modern Money Mechanics](#) published by Federal Reserve Bank of Chicago, page 6. "Of course, they [banks] do not really pay out loans from the money they receive as deposits. If they did this, **no additional money would be created.**") (emphasis added.) Money that is deposited in savings accounts is dormant itself, not in circulation, but is money that was originally created as a loan. Reserves are lent as checks or deposit entries which enables an expansion of the money supply as a multiple of reserves—currently, about fourteen times the reserves. When loans are repaid, money is extinguished. (See *Modern Money Mechanics* for full details of the expansion and contraction process.)

Money on deposit in savings accounts is money that was created as a loan. As it lies dormant in a savings account, interest on the loan that created the money, or other money that was created by a second loan that was used to pay off the first loan, draws compound interest. The result is exponentially increasing debt in all sectors of the economy that can never be paid off without radical monetary reform.

That banks lend depositors' money is a myth, but the belief that they do is one of the most common and intellectually pernicious economics myths. The myth is constantly repeated by ignorant or deceptive journalists, academicians, and politicians. The myth is supported by ignorance, [doublethink](#), and denial.

2. The government prints money. The belief is a half-truth. The Bureau of Printing and Engraving prints Federal Reserve Notes for the Federal Reserve. The Federal Reserve pays a price for the notes, owns the notes, and issues them to member commercial banks for the convenience of bank customers who want them. Federal Reserve Notes are symbols of debt created out of nothing by the Federal Reserve when it purchased government securities. That is why they are called notes—they are debt banknotes, but they have been declared legal tender

by [statute law](#). Federal Reserve Notes account for only a tiny fraction of the legal, transactional U. S. economy. The government currently prints no money for itself. (See 4. below.)

3. The Federal Reserve is an agency of government. This belief is a half-truth. The Federal Reserve is certainly a creation of U. S. [statute](#) law passed by Congress and signed by Presidents. Congress and the President have full Constitutional authority to alter or abolish the Federal Reserve. However, in operation, the Federal Reserve has been given autonomous authority and power over monetary policy. This situation is a classic example of doublethink and [doublespeak](#). Somehow, it is believed that the Federal Reserve is an agency of government while retaining its autonomy.

4. Inflation is caused by the government printing too much money. The belief is false because the U. S. Government currently issues no printed money. All money, with the exception of coins and a few existing U. S. Notes, is issued by banks, and the vast majority is not printed as bank notes. The Federal Reserve is limited, by law, to how many Federal Reserve Notes it can print and issue. By law, the Federal Reserve has full autonomy to create as much money as the Fed gurus decide by policy to create as deposits. The money exists as numbers in deposit accounts. Ninety percent, or more, of deposit money is created by the lending activities of commercial banks. The amount of money so created is regulated by Federal Reserve policy, but neither the Federal Reserve Banks nor the government create ninety percent, or more, of the money in deposit accounts. If the quantity of money is a reason for inflation, as commonly believed, (See 5. below) then ninety percent, or more, of inflation is caused by commercial banks. Printing press contribution to inflation is practically nil. (See 1. above and 5. below.)

5. Inflation is caused by too much money chasing too few goods. This myth would be funny if not for the pathological [doublethink](#) required to believe such an obviously false "sound bite." Supermarkets, department stores, and malls are full of unsold merchandise. The entire media industry is built on advertising that begs

people to purchase more. At the same time, consumer debt has ratcheted up to more than \$1 trillion of purchased and not yet paid for goods. Plainly visible facts are that there is a shortage of money relative to consumer goods. Yet, Federal Reserve guru Alan Greenspan *fights* inflation harder than a Baptist preacher fights the devil. The self-serving reason for fighting inflation by restricting the amount of money should be self-evident. It enables banks to charge high interest.

That the quantity of money is the cause of inflation or deflation is an economic dogma that is not scientifically proven to be true. All of economics is pseudo-science because economists cannot conform to the requirements of measurability, predictability, and repeatability of science. One does not have to be a scientist to observe the falsehood of too much money chasing too few goods in the United States. One merely needs to open one's eyes.

That an increase in the money supply would result in price increases seems intuitively logical, but intuitive logic has been proven false so many times that intuitive logic must always be questioned. Intuitive logic would lead one to believe that heavier objects fall faster than lighter objects.

Arguments exist that prices drive up the quantity of money rather than money driving up prices, but both are just unproven arguments. However, in a debt money system, that prices drive up the quantity of money is the more logical argument. In order to get money to purchase or invest, it has to be borrowed. (This is not to deny that money can be acquired, saved, and spent or invested by wages, business, or investment return, but it must be remembered that all money was borrowed into circulation originally.) Loans create principle but do not create money to pay interest. More money must be borrowed to pay interest. Additional borrowing creates additional interest debt that requires more borrowing. Money acquired and saved requires even more borrowing because the saved money is not available to pay off the debt that originally created it. The ultimate result is the exponential increase of debt in all economic sectors, including consumer debt, that we see documented in Federal Reserve statistics. Increase in debt increases interest costs. Increased costs push up prices, so prices drive the quantity of money needed to liquidate them. However logical, this argument is not proven;

and the two arguments put against each other are somewhat chicken and egg arguments. The best conclusion is that the debt money system is inherently inflationary.

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LEXICON OF DOUBLESPEAK

Eric Blair, aka George Orwell, popularized doublethink, doublespeak, newspeak ideas in his book *Nineteen Eighty-four*. More recently, William Lutz has re-introduced the ideas in *Doublespeak* and *New Doublespeak*. A casual observation of history and literature will indicate to any person of modest linguistic competence that the ideas of political and religious manipulation have relied heavily on doublethink and doublespeak for at least as long as any historical records have been kept. The intention here is to call attention to mass acceptance of currently popular doublespeak in news media, academia, and politics. This is what is meant here by doublethink and doublespeak:

DOUBLETHINK

The ability to hold at least two contradictory ideas in the mind without experiencing cognitive dissonance.

DOUBLESPEAK

The ability to speak or write two or more contradictory ideas without the speaker or writer being consciously aware of the contradiction. Doublespeak may be, and probably is, consciously used to deceive.

SENATORIAL DOUBLESPEAK

The following excerpt is from an interview by Cokie Roberts with Senator Robert Byrd, Democrat, West Virginia, on ABC-TV *This Week with Cokie Roberts and Sam Donaldson*, February 7, 1999, relative to the impeachment trial of President William Jefferson Clinton:

Senator Robert Byrd: Well, lets..., let's look at it this way. He has..., his actions hurt..., me, you, all the institutions of government. Hurt the President, Presidency, the executive branch, the House of Representatives, the Senate, and the judiciary

to some extent. Nobody has gotten off scott-free. The question is: Does this rise to the level of high crimes and misdemeanors? I say yes. No doubt about it in my mind, but..., the issue is: Should the President be removed? Should this President be removed? Uh..., that's the issue. And the Constitution requires that if he is convicted, he is automatically removed. Immediately. There's no second chance. So it comes down to the question, comes down to the issue: To remove, or not to remove? That is the question.

RB: All institutions have been injured. A bad..., precedent has been set. A nightmare. We've all experienced a nightmare, here. But in the interest of the future, and he has been hurt. He will not escape the judgment of history. He won't be getting off scott-free. People a hundred years from today will talk about this. I am not going to be at all light in my excoriation of William Jefferson Clinton. What he did was deplorable. Inexcusable. A bad example. It undermined the system of justice when he gave false testimony under oath. He lied under oath. But, I can close that chapter. I can work with the President.

On February 12, 1999, Senator Robert Byrd voted to acquit on both articles of impeachment.

Further doublespeak from the same interview:

Cokie Roberts: And what in the end do you think it means for the Senate?

RB: (sigh)Oh..., that's a tough question. I think that history when it looks back from the viewpoint of twenty years, ten years, or thirty, or fifty, or a hundred years will say that the Senate, under all these circumstances, did pretty well. And in the fi..., the final judgment..., the final judgment will be, I believe, as history looks back on it, that the Senate in a very, very difficult situation, the most..., the most heart wrenching of any vote that any Senator will ever be called on to make is the vote to convict or to acquit. It will be very difficult to stand and say not guilty, very difficult. Who's kidding whom here? I have to live with myself. I have to live with my conscience. And I have to live with the Constitution. And that Constitution is just like the Bible, you can't write it over.

The Constitution has been amended 26 times, and the Bible has been written over many times.

Caveat: Some of the following definitions offered here may not seem like doublespeak to some readers.

Noted examples of doublethink and doublespeak may be e-mailed to monques@i-link-2.net.

Belief: Denial of reality.

Competition: Creation of losers.

Congressional investigation: Cover-up by partisan polarization.

Constitution, U. S.: A quaint, outdated document defining U. S. Government. It is subject to alteration by legislation, regulation, police mis-conduct and judicial (in)discretion.

Constitutional right: Privilege granted by Constitution as interpreted by judicial (in)discretion and journalistic misinformation.

Creditor: One of a tribe of savages dwelling beyond the Financial Straits and dreaded for their desolating incursions.

Crime: Any act or thought deemed by Statists to conflict with State interest. (See justice, State, and Statist.)

Debtor: One captured by the desolating incursion of a Creditor.

Debt: Money.

Defense: Imperialistic aggression.

Democracy: American imperialism. Also, any form of government, preferably dictatorship established by controlled elections, that operates in the interest of

international finance. Parliamentary forms of government composed of elected or appointed agents of finance are also included. Agents are commonly controlled by election campaign finance. A primary characteristic of democracies is that they consist of multitudinous, conflicting factions of powerless people who are impotent to challenge financial rulers.

Democrat Party: Left wing of political power monopoly in the U. S. A.

Economics: Financial mythology. Arguably the best evidence of academic corruption.

Economist: Pathological doublethinker and doublespeaker.

Federal Reserve: Private, non-federal banking monopoly of the U. S. A.

Freedom: Voluntary compliance. Also, lack of restraint of international finance to exploit all resources including people by any means including mass murder.

Free Trade: Coerced and restrained trade operated exclusively through debt medium of exchange in the interest of international finance. (See freedom and trade.)

Gold standard: Financial trick that fools naive people into believing that gold actually backs money in such a way as to make the two synonymous and convertible.

History: Blend of both myth and selected facts alterable for political purposes. History is arguably second best to economics as evidence of academic corruption.

Journalist: Pathological doublethinker and doublespeaker. Media prostitute of misinformation and disinformation. (See news.)

Justice: Court verification of Statist beliefs expressed as law. Also, criminal or civil prosecution of any act or idea deemed by Statists to conflict with State interest.

Justice system: Injustice system. Enforcement of Statist belief by police power.

Law: Statutes, written by Statist thieves and murderers, defining acts and ideas as crimes. (See politician.)

Military: Any group of organized mercenaries who carry out mass murder and plunder on a large scale in the interest of international finance.

Money: Debt.

National interest: The interest of international finance which protects its self-interest by control of governments through political parties and Presidential appointments; leveraged ownership of press, entertainment, and industry; and military through government. (See democracy and freedom.)

News: Misinformation industry operated for the first purpose of commercial advertisement. Advertisement requires audience for revenue purposes which leads to sensationalism, prurience, and avoidance of truth. It often entertains as it misinforms. Secondary purposes include political and financial propaganda that support the political establishment that protects media and industrial owners who are financiers. The secondary purposes require complete subversion of journalistic ideology for the purpose of assisting official cover-up, making of false history, and distortion of truth by selectivity.

Politician: Pathological doublethinker and doublespeaker. Also, any combination of liar, thief, or murderer who uses doublethink and doublespeak to rationalize such activity as being in the public interest.

Reality: Reified mental constructs of journalists, politicians, and academics. (See reify, news, history, and economics.)

Reify: To believe that a belief is reality. Pathological ability of the human mind to substitute mentally created illusions for reality.

Republican Party: Right wing of political power monopoly in the U. S. A.

Revenue enhancement: Tax. (See tax.)

Right: When not a direction, a term used to express a mental figment, sometimes modified by other figments such as natural, legal, Constitutional, and civil, that implies a privilege of acting or believing in prescribed ways.

Sports: Industrial exploitation of competitive athletics.

State: A mythical entity that usually includes a geographical area bounded by mythical, arbitrary boundaries usually constructed and always protected by military force. States are normally believed to be larger than their constituent parts and transcendant over all else, including human life, within its territory.

Statist: One who believes The State is a real, transcendant thing. (See State.)

Sustainable development: Popular oxymoron.

Tax: Armed robbery by Statists.

Trade: Exchange of goods and services through exclusive medium of debt.

War: Mass murder and destruction performed by military organizations in the interest of international financial control of natural and human resources. Wars are variously reported by journalists as defense of national interest, defending or establishing democracy, or criminal terrorism depending on who hires them. (See military and journalist)

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ON THE CANCER STAGE OF CAPITALISM AND ITS CURE

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by John McMurtry
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Susan George correctly emphasises in her review of my book, *The Cancer Stage of Capitalism* (Pluto Press, 1999), "The cancer stage of capitalism is not a metaphor. It is a rigorous description of where we are." The current financial stripping of economies and environments across the world exhibits, in fact, all the hallmark characteristics of a carcinogenic invasion. As on the cellular level, an uncontrolled rogue sequence of reproduction invades and self-multiplies across social borders with no committed function to life-hosts. As on the cellular level, the cancer advances by not being recognised by surrounding life communities.

The depredatory effects of mutant money sequences proliferating their demand on life systems without inhibition or control are now systemically evident across the world. Societies and environments in Latin America, Africa, Russia and the former "miracle economies" of Asia have already been hollowed out. The cancer has metastasised and is advancing. But the IMF responds to it as a nodal system that has itself been occupied. Everywhere it compounds the rogue sequences of hot money by stripping barriers to their unregulated movement even further, as we have seen in earlier issues of *ER*.

Meanwhile governments across the planet allow their powers of money creation,

interest-rate control and public investment to be controlled by private bankers and financial institutions. The decoupling of the money economy from the life economy has accordingly pursued mutant sequences never before seen—continuous tidal currency speculations, derivative leveraging, disemploying mergers, usurious bleedings of entire countries and continents, military spending with no relationship to defence, and conversion of the natural world into waste sinks and looted resources. Even in Europe, the public finances of the world's most developed nations have passed into the control of a EU Central Bank whose master principle is to serve borderless stockholders propelled by the single goal of multiplying their monetised demand in ever greater volumes and velocities.

As with a cellular cancer, the problem comes back to the failure of host social bodies to recognise the uncontrolled growth of what feeds on them. The carcinogenic sequences are masked as "necessary sacrifices" and "free capital flows" and so the surrounding life community does not *recognise* them. The result is that mutated metabolisms with no committed function to any life organisation consume human and environmental resources with no limit to their deregulations, privatisations and restructurings.

Many people are now awakening to the systemic invasion. Even the currency speculator, George Soros, calls for international regulation of money markets. Soros is divided between the destructive program he carries as a life-decoupled speculator and his place as a conscious member of the larger life community. This schizoid split is occurring within individuals and societies across the planet.

The good news is that this is a sign that the wider social immune system is beginning to identify the disease pattern. On the other hand, there are so many levels of invasion and consequence of the predatory money circuits that one can get lost in a daze at their overwhelming assault. They are hitting everywhere—at ecological carrying capacities, at the real economy, at social infrastructures, at productive workers and younger generations, at public regulatory agencies, at electoral processes and at public health and education foundations. The effects are consuming and despoiling the very conditions of life itself—the atmosphere, the

oceans and aquifers, the soil covers and the forest lungs of the world. Everywhere behind the degradations and breakdowns of the biosphere uncontrolled money sequences are at work.

Soros thinks "the change must come from above." But political and business leaderships only begin to talk reform in general when the range of political possibility is opened up by a fightback from below. Despite all the social meltdowns and ecological catastrophes, the CEO's of transnational corporations and their government and academic minions even now continue the carnie-barking slogans of "globalisation" and "free markets," quite ridiculous terms for the secretive corporate privatisation and oligopolisation that is in fact going on. As on the cellular level, the proliferation of the cancer circuits are masked so that the surrounding life community does not recognise them.

What is very striking about Soros is that he has recognised the disorder from within the very front end of the carcinogenic advance—the financial syndicates of currency attackers who now strip the transactive metabolism of entire societies for their private money sequence multiplications. Soros is like a voice from within the tumour formations calling stop. This is the human possibility of cancer at the social level of life-organisation, and it is what make it curable.

The ground of such recognition and response is what I call "the civil commons." The civil commons is what societies construct and individuals internalise to ensure their members access to vital life goods and to defend them against collective threats and dangers. The civil commons is what private financial circuits have confiscated and consumed in Russia, Mexico and Indonesia. And the civil commons is what is now fought for in any society that hopes to survive—France and Norway, for example, and other countries that are awaking to the rogue money-sequence occupation.

The collapse of the civil commons begins when people believe that the monetised market *is* society, and that the public interest is one with the market's latest demands. This conceptual meltdown precedes the economic meltdowns which follow. The problem is ultimately one of a kind of mental collapse which is

promulgated by transnational corporations and their mass media vehicles.

Most of the required levers of public monetary authority are already available to achieve effective intervention in the carcinogenic money-sequences. Reclamation of established sovereign rights of money creation and the application of already formed frameworks of international law are in place to ground defence against the decoupled financial system now predating social environmental life-hosts. The immune resources need to be triggered into response, however, before they can function.

Anyone in business who is not programmed by the rogue money code can agree. But how does one tell here who *is* in fact a disease agent and who is not? One can tell whether one is part of the problem or part of the solution by a simple test. Does your economic activity have or not have a committed function to the social or environmental life-host? If it does not, it passes the first diagnostic test of the carcinogenic agent. If it has a function of enabling the reproduction and growth of life, then it is ruled out as a disease agent. If it is propelled to maximise money-demand as an end in itself, then it is a disease agent. But whether a person or an organisation is or is not a bearer of the pathogenic code is a pattern of behaviour that admits of choice. That is what being human means.

The solution begins with recognition of the disease pattern. It becomes evident once the masking slogans of "free capital movement," "painful market restructurings" and so on are seen through. We must follow them to the life-depredating consequences their prescriptions effect. The disorder deepens expanding because the corporate market system has disconnected consequences from cause. This is possible because there are no coordinates in the market paradigm to recognise life-destructive effects.

In social life systems as well as cellular ones, cancers only advance by not being marked. Once their markers are displayed, the surrounding cell community goes to work in complex and time-tested ways—clearly marking, exposing and perforating the predatory sequences of multiplication.

The violent side of the advancing cancer is most evident in former colonies. Across Africa, Latin America and now Asia, entire nations have been reduced to debt-slave societies by compounding interest charges, corporate looting of natural resources, and concentration-camp conditions of pervasive armed force, lifeless surroundings and starvation wages. But the civil commons in even the most dispossessed societies fights against the occupation. At the most courageous, it forms into the Zapatista uprising of Mexico's southern state of Chiapas since 1995. Or in this new year, the Kaiama Declaration of All Ijaw Youths of the Niger delta next to the Ogoni. These are uprisings for the defence of the shared lifeground of peoples. You can tell they are the social immune systems of the civil commons because they join across tribal and cultural divisions to defend the lifeground seized from them.

Pressure is mounting in the civil commons across the first world as well. In Europe, for example, it is people fighting for their social infrastructures—from income and employment security to ecological protections. The battle for life is now planetary and at many levels. It is not a question of having an optimistic or a pessimistic view. The question in the end is whether societies which host the invasion remain in a state of denial, or respond.

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DISCUSSION

Article I, Section 8, clause 5 of the U. S. Constitution empowers Congress to coin money. Consequently, it has never been necessary for the federal government to borrow money; but the government has engaged in the specious practice of borrowing from its beginning.

The first government under the Constitution inherited a debt of **\$75** million that was borrowed by the government under the Articles of Confederation. Instead of coining money to pay off the debt, the Congress chartered the first central bank, sold the debt to private investors, and relied on taxes to pay the interest. In a little over 200 years, this practice has resulted in **\$5.9** trillion of [Treasury](#) debt.

In 1913 the Congress authorized the fourth central bank (officially, the third central bank) known as the Federal Reserve Banking System. The Fed is a privately owned banking cartel upon whom the Congress has bestowed monetary policy authority. Monetary policy is the creation and regulation of the nation's money supply.

As indicated in the [INFORMATION](#) section, the Fed creates money out of nothing to lend the government by purchasing government debt securities (such as bonds). This is how the Fed creates basic bank reserves. Commercial banks create the rest of the money supply by making loans to government and private sector entities. Nearly the entire money supply of the U. S. is debt. Hence, the U. S. has a debt-money system.

When banks create money as loans, they create no money to pay the interest. Consequently, banks create more debt than money. The result is an exponential increase in debt.

Not only is the federal government deep in debt; but also, local governments, corporations, and individuals are deep in debt. The total as measured by Total Credit Market Debt is more than **\$21** trillion as of March, 1998. At present rate of increase, it will double to **\$42** trillion in about twelve years.

The claim is often made that money is not backed by anything. This is misleading. Almost all debt is backed by collateral, but it is also backed by something more important: **YOU!** Yes, you. Money is backed by the government's lethal power to collect tax from **YOU** and enforce debt contracts.

Politicians keep talking about balancing the budget and paying off debt as if it could be done. Balancing the budget under the present system will have serious negative consequences of money contraction. Paying off the debt would be a disaster without monetary reform first.

With the power to make its own money, there is no reason for the government to tax for revenue. Taxes should be adjusted to cancel money as necessary to keep the economy running in a stable condition.

With such a rational money system, balanced budgets have no relevance. Health care, the end of poverty, space exploration, national defence, first class infrastructure, or anything that is physically possible and socially acceptable can be done as long as there is willingness to do it.

The solution to debt money is simple in principle, but difficult to achieve. The established power structure must be persuaded.

Failure to recognize the defects in the money system guarantees the continuing deterioration of society.

There are many parallels between the United States and Rome. Rotting on the inside and expending its blood and treasure for empire.

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INFORMATION

WARNING: What you learn here may disturb your beliefs.

Money influences every human in developed countries from birth to death. It is the one subject that transcends age, race, sex, religion, politics, or any other devisive human influence. Yet, far too few people understand the origin of money or the influence money has over their lives. How much time is devoted to getting money? How many family "values" are subverted such as abandonment of children to day care so parents can spend their time getting money?

There is an enormous amount of literature devoted to getting money. The getting of money is usually expressed as "making money." As we shall see, "making money" is a semantic and literal fallacy.

Various information media through financial journalism and advertising offer advice about how to "make money."

Where does the money that is the subject of so much advice on how to "make" come from? How is it actually made so that it is available to "make"? From here on the word create will be used to distinguish the actual making, that is the creation of money, from the semantic fallacy, "making money."

What are the effects of how money is created?

Where can one find out?

Information presented here will help answer the above questions.

MONEY CREATION BY DEPOSIT EXPANSION

Money is created by the loan making activity of banks. Original bank reserves are created and uncreated by actions of the Federal Reserve by buying and selling, primarily, U. S. Treasury Securities in the open market. The Federal Reserve does

not use its own money or anyone else's money to purchase securities. The Fed creates a deposit by check or computer entry that is credited in a commercial bank deposit account. At the same time, the Fed credits the commercial bank's reserve account with the same amount. In short, it creates the money out of its legally endowed power of doing so.

Commercial banks use the reserve deposit as the basis on which they make loans. The commercial banks expand reserve deposit money by a procedure known as fractional reserve deposit expansion. By this procedure, commercial banks may expand original reserves by ten times or more. The following is an excerpt from [FEDPOINT45](#):

Reserve Requirements and Money Creation

Reserve requirements affect the potential of the banking system to create transaction deposits. If the reserve requirement is 10%, for example, a bank that receives a \$100 deposit may lend out \$90 of that deposit. If the borrower then deposits the \$90, the bank receiving that deposit can lend out \$81. As the process continues, the banking system can expand the initial deposit of \$100 into a maximum of \$1,000 of money ($\$100 + \$90 + 81 + \$72.90 + \dots = \$1,000$). In contrast, with a 20% reserve requirement, the banking system would be able to expand the initial \$100 deposit into a maximum of \$500 ($\$100 + \$80 + \$64 + \$51.20 + \dots = \500). Thus, higher reserve requirements should result in reduced money creation and, in turn, reduced economic activity.

MONEY CONTRACTION BY DEPOSIT CONTRACTION

The Fed uncreates money by selling securities and canceling previously created deposits. Commercial banks must follow and contract their deposit expansion.

The total of money in circulation is the sum of this complex activity.

A detailed explanation of deposit creation and expansion can be found in a thirty-eight page booklet, [Modern Money Mechanics](#), obtainable from the Federal Reserve Bank of Chicago. The booklet is free and can be ordered from FRB of

Chicago Public Information Center, P. O. Box 834, Chicago, Il 60690-0834.

Money is put in circulation when banks make loans, and money is taken out of circulation when loans are repaid.

Some money is coined by the U. S. Treasury and deposited for credit in Federal Reserve banks. Federal Reserve banks issue Federal Reserve Notes (paper money) to commercial banks for the convenience of bank customers who prefer paper notes to paper checks. Coins and notes account for a minor part of economic exchange.

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ECONOMIC INSANITY

Insanity:

Dictionary definition:

- 1. Persistent mental disorder or derangement.
- 2. Law. **a.** Unsoundness of mind sufficient in the judgment of a civil court to render a person unfit to maintain a contractual or other legal relationship or to warrant commitment to a mental health facility. **b.** In most criminal jurisdictions, a degree of mental malfunctioning sufficient to relieve the accused of legal responsibility for the act committed.
- 3. **a.** Extreme foolishness; folly. **b.** Something that is extremely foolish [~ economics].

Layman's definition:

- 1. Doing the same thing over and over expecting a different outcome [~ economics].
- 2. Self-deception [~ economists].

From 56 BC:

...But meanwhile, before the empire of Rome became coextensive with Alexander's, the most immediate and decisive effect of the universal enthusiasm was to impel men to incur the most impossible obligations. Nearly every one was at once both creditor and debtor; men lent one another any little money they possessed, and borrowed again whenever they were in difficulties. Italian society had become an inextricable labyrinth of debit and credit, through the system of *Syngraphae* or letters of credit, which were negotiated in the same way as securities and bills of exchange today, because the scarcity of capital and the frequent oscillations in prices would have made it ruinous for them to be redeemed too frequently. Those who were in need of money attempted to sell to some financier the claims they had on other persons, and the financier would give cash payment, of course with a proportionate discount according to the prospects of the debt, the needs of the creditor and the condition of the money market... *The Greatness and Decline of Rome*, Guglielmo Ferrero, Vol. II, pg. 57.

The short excerpt above describes the financial condition of the world today. It has been reported that international currency gambling speculations vary from \$1 trillion to \$1.5 trillions per day. Annualized, this is more than ten times the total production of the planet in real goods and services. As much as \$2 billion in corporate stocks change hands daily in U. S. markets alone. These cycles of financial gambling in debt have plagued humanity since well before the Roman

follies reported above. Solon, as reported by some historians, confronted the same problem in early 6th Century BC Attica. Historically, there are many more examples of bubble and bust economies. So, we are doing the same thing and expecting a different outcome. What better explanation is there than insanity?

They [bankers] viewed national interests from the windows of the bank parlour. From their point of view, industry, commerce, agriculture, wages, employment, were but counters in the skilled game of international finance. They must be regulated to fit in with the monetary scheme. The monetary scheme must not be regulated to fit in with the needs and necessities of the world. *The Money Revolution* by Sir Charles Morgan-Webb, 1935.

It was reported in a fund-raising letter from 50 Years Is Enough that "Michel Camdessus, Managing Director of the IMF, in fact, told a group of U. S. religious leaders that he was willing to 'sacrifice a generation' in order to realize the so-called benefits of the macro-economic model."

That the fund-raising letter is credible is demonstrated by Camdessus's Structural Adjustment Program for Indonesia. First, a fifty per cent devaluation of currency which means Indonesians will pay a doubled price for imported goods; and second, a sixty per cent decrease in wages for Indonesian workers which will give them sixty percent less money to pay the doubled prices. Typical SAPs also require reduced government employment and reduced public services which creates unemployment, limiting medical, safety net, and educational services, and divestment of government run enterprises. Other requirements may be removal of any restrictions on capital movement in and out of the country and conversion of local life sustaining industry such as agriculture to cash crops for export to earn foreign currency to pay interest on debt. Food is then imported at high prices. The suffering visited upon the people sets off riots and violence which increases suffering and death.

Psychopaths such as "Jack the Ripper," John Wayne Gacy, Ted Bundy, and the current "Railway Killer," June '99, excite a great deal of repulsion and enmity. Police are activated by the hundreds to hunt them down and remove them from society. Michel Camdessus is afforded the status and deference of royalty where ever he goes. Michel Camdessus and his supporting cast of financiers,

economists, and political sycophants will cause more death and destruction than all the psychotic, serial killers in all of human history combined. Camdessus and company are remote from the results of their actions taken for the sake of financial and economic abstractions. They are as immune from recognition of the tragedy they visit upon people as any psychotic, serial killer.

It has been estimated that 50 million people were sacrificed by the combined activity of Adolph Hitler, Joseph Stalin, Franklin Roosevelt, Winston Churchill, Benito Mussolini, and Emperor Hirohito. Given the conditions around the world and already quantifiable results such as Rwanda, Somalia, Malaysia, Indonesia, Viet Nam, Brazil, Peru, Russia, Bosnia, Kosovo, Korea, and Mexico, Camdessus and company may achieve, if they have not already, total death and destruction that will exceed World War II. Even such lunatics as Alexander the Great, Qin Shihuangdi, Caesar Augustus, and Crusaders pale in comparison.

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ECONOMICS: THE NEW RELIGION

Never in human history has there been such opportunity for humans to experience the joy of life and freedom. Never has such opportunity been squandered for the sake of obscene wealth and power of the few. Why? The reason is a new religion that is not usually recognized as such—economics.

Economics is replete with a priesthood, sycophants, dogma, ritual, cant, symbolism, mysticism, and make-believe.

The high priests of economic bunkum are bankers who create money, the means of exchange, as interest bearing debt. Their sycophants are the politicians, academicians, and journalists they buy. The Chairman of the Board of Governors of the Federal Reserve recites dogma and cant as he performs his ritual testimony to the sycophantic Congress.

"Free Market" is currently a dominant theme of mystical cant. "Free Market" trade is doublespeak for trade invariably limited and restrained by pounds of documentation of restrictions and sanctions.

It is believed that through some magical, unknowable process "the market" is the best arbiter of economic exchange. Magic, make-believe, and doublespeak supplant human rationality. Magic, make-believe, and doublespeak provide cover for an altogether anti-human, anti-social, and anti-libertarian agenda.

Technology, particularly as applied to the use of energy, has made it possible to produce life sustaining wealth far in excess of human needs with minimal human labor. Yet, our culture incorporates an unquestioned dogma of jobs for everyone. Let us question it. Jobs doing what?

A casual observation reveals that most human labor expended on "jobs" produces no life sustaining wealth—none at all. What, then, is the purpose of all these jobs?

The answer for the worker is easy. It is to get money.

A worker may spend up to three hours per day getting to and from his place of employment. He spends another eight to twelve hours at his job. To get money. What does he do with the money?

Up to one half of the worker's wage or salary may be deducted before he gets the remains. Of the remains, he may spend more than half of that on interest for money that he has borrowed to "enjoy" a house in a good neighborhood, a good car, and the latest gadgetry of home entertainment. The "enjoyment" of this high standard of living may require that a spouse participate in the same quest for money. Most of his or their wages or salaries is expended for benefit other than his or their own. This is how the vast majority of workers, who produce nothing, are supported.

Government, at all levels in the U. S., is the largest employer employing over half of all workers. Retailing is the next largest employment industry. Advertising, entertainment media, banking, and gambling including investment banking, insurance, and the stock market as well as casinos are other industries that produce no life sustaining wealth.

It is easy to anticipate that human agents of the above institutions and industries will justify their employment as providing a "service." In some cases the service may be useful; in other cases, the service may be destructive. Tobacco is a destructive industry. Arguments are made that much of the entertainment media output is anti-social when it glamorizes smoking and violence.

Other arguments say that much of government programs designed to address problems are self-defeating; actually making the problems worse. The arguments have more than a little credibility; but, for the most part, the arguments are too narrow and ignoring of total context.

Of all human activities, the making of war is the most obscenely anti-social, destructive, and wasteful. Yet, human agents of this colossal mass murder and

infrastructure destruction are accorded hero status. No one personifies this lunatic element of culture more than two "heroes" of Desert Storm, Colin Powell and Norman Swartzkof.

But war is good business. Production of war material and maintenance of war bases provides employment and pays wages for pure waste. Government borrows bankers' money to pay for war. Taxes are raised to pay the debt and interest. After the destruction of war, banks lend money that provides employment for rebuilding. Good business!

What are wars about in the first place? Partisan propaganda aside, wars are about getting or maintaining power over and control of wealth and people. It is the jungle mentality at its worst.

The ultimate cause of such behavior as war can only be a subject of speculation. One such speculation is that war appeals to or is a function of the human brain that developed in a jungle culture. Jungle culture is survival at all costs—competitive and brutal. The human brain has not yet adapted to conditions of technology that make brutish competition a danger to human survival.

Sometime it was discovered that cooperation could enhance competition. Humans began to form organized groups to enhance competition for food and the space that provided it. Organization required rules and leadership to prevent internecine competition and enforce cooperation. Eventually tribes formed led by lying, manipulating egomaniacs and psychotics. Tribes evolved into nations led by the same types.

It is also an observable attribute of the human brain that it is vulnerable to simple, often mystical or superstitious explanations for unknown causes of visible effects. Gods were a convenient explanation for any unknown. Lying manipulators found a powerful abstraction with which to manipulate ignorant masses of people.

Sacrificing and tithing later adopted by secular manipulators as taxes became a way of fleecing the productive people for the benefit of parasitic, elite priests and

kings.

As science developed and advanced human knowledge of the physical world and made storage and rapid dissemination of knowledge possible, scepticism of god mysticism and magic developed. It also became possible to produce more life sustaining wealth than could be used.

In order to maintain power and control, manipulators needed newer and more sophisticated abstractions. Today, it is economics mysticism based on money. Economics is the new god. Money is the tool of control.

Cui bono?

Do mothers who abandon their children to participate in the quest for money benefit? Do their children who become anti-social monsters and carry guns to school and shoot their peers and teachers benefit?

Who benefits are the creators of money who use the remainder of society as their wealth farm. They are such a small fraction of the population that they must maintain layers of protective sycophantic government agents, irrational economists, and thugs willing and able to use force when necessary to protect them. The nonproductive sycophants benefit, too.

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ETHNOCIDE AND THE IMF

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by John McMurtry, Professor of Philosophy
University of Guelph.

The restructuring of societies by the transnational market program operates in two themal ways—first, by "free trade" and its prescriptions of "open borders and comparative advantage" and, secondly, by "structural adjustment programs" which re-engineer societies to pay unmanageable interest charges on past debt to foreign financial institutions. These instruments combine over time to vastly enrich transnational banks and corporations, and to reduce host societies to ruin.

An illustration of this process is the case of Peru. (Here and throughout this analysis, I depend on documentation provided by Michel Chossudovsky's superb study, *The Globalisation of Poverty*).[\(1\)](#)

In a series of Structural Adjustment Programs from 1975 on, Peru's average wages were more than halved by devaluation, food consumption was reduced by an estimated 25 percent, bread and bean prices escalated by over 1000 percent, wages in the public sector were slashed by two-thirds, infant mortality and population malnourishment rose to new levels, and the life of the vast majority were in effect, attacked more virulently than by an occupying army. In the words

of the day, there were "necessary shock treatments" to ensure that Peru and other societies paid enough and on time to transnational financial institutions.

Understandably, human life resists. In the case of Peru, armed movements of the poor arose. This resistance was thunderously denounced as "terrorist," and a prolonged "dirty war" was waged against all suspected insurgents. This dirty war was consummated by the Fujimori government in 1997 with a long-awaited massacre, an event which was duly heralded in the mass media as a heroic success, while screening out all of its causes. These included the sentencing of hundreds of people by hooded judges to prison without legal process prior to the occupation of the Japanese Embassy on December 17, 1996.[\(2\)](#) The media preferred to attend to the prolonged high-tech military operation to kill the mostly teenaged and mixed-gender occupiers with their hands up.

The epistemic problem of the global market is that the dominant economic paradigm of understanding cannot recognize the fatal inner logic at work here. As it leads a process of unraveling life fabrics in accordance with its "bottom line" of money gains, it drives the wheels of increasingly catastrophic effects. These effects are never connected back to their cause, but are attributed to "human nature," "terrorism," "ethnic hatreds," or whatever else sells news while obscuring the reality of people's lives.

Another current flight from reality in the global market community's saturated fervour for "free capital flows" is the case of Rwanda. Before 1990, Rwanda's food production was protected by public subsidies to the 70 percent of the rural population who grew it, and by restrictions of foreign imports. But when coffee prices predictably plummeted due to overloading of tropical markets with "comparative advantage" exports, Rwanda's export earnings dropped by 50 percent. A structural adjustment to sustain the succubus of real-interest monies flowing to foreign financial institutions was therefore imposed. The International Monetary Fund prescribed a 50 percent devaluation of the currency, six weeks after a Tutsi-led rebel army from Uganda entered the country. The collapse of real earnings triggered steep price increases in basic foodstuffs and fuel, public services collapsed from lack of revenues, malaria and child malnutrition rapidly

spread, famine struck the south of the country, and farming families desperately chopped down 300,000 coffee trees to return to the non-export farming by which they had traditionally lived.

A second devaluation was then ordered by the IMF, at the height of civil war in 1992. Privatizations of gas and telecommunications followed, and public investment projects were halved in such life-serving projects as inland swamp reclamation to meet the country's increasingly severe shortage of arable land. The money disbursed to the government from the new loans on the basis of devaluation and "cost savings" was then diverted to purchase Milan and Apila missiles and a Falcon jet from France along with other killing commodities, and to increase the army by eight-fold with mostly unemployed youths.⁽³⁾ It was then that the massacre of hundreds of thousands of people began.

Again, all was reported in the corporate media with no connection back to the IMF prescriptions which had step by step engendered the social pathology.

We may conclude here with an autopsy of these principles which propel the world-wide reduction of societies to various forms of ruin. They are the pathogenic sequence of "structural adjustment programs" prescribed by the IMF, which in turn is the collective agent of the world's transnational financial institutions. Underneath all the claims and counter claims, justifications and accusations about IMF and its Bretton-Woods sister, the World Bank, a set of underlying principles regulate these life-attacking operations across the globe. They are the deep pathogenic code of the current world crisis.

(1) National and government debts are not to be repaid, but the compound interest payments are to be ensured in orderly increase;

(2) Devaluation of currencies is the counterbalance to these parasitic appropriations, offsetting their inflationary effect by decreasing the real value of wages and salaries;

(3) Food or other commodities for export are demanded to ensure that hard

currency is continuously paid to international debt holders;

(4) Local investment by government or the maintenance of self-employed co-operatives to provide means of life for domestic populations are selected against at every turn to ensure dependency on imported commodities as well as exports of foodstuffs for more foreign currency to pay debt charges;

(5) No unpriced good of food, shelter, public education, healthcare assistance, or any other basic life need is to be left in the public sphere so that market mechanisms of price and profit replace them;

(6) Voluntary schools and clinics—called "safety nets"—are to stand in for public funding of healthcare and education, while returning high fees to financial advisers for dismantling social sectors;

(7) The public resources of the environment and other economic sectors are to be opened up to foreign access, exploitation and ownership so as to ensure hard currency for interest payments, reduction of cost inputs, and replacement of local economies by transnational control;

(8) All of the above must be agreed to as a condition of any further loans or investment into the region.

These are the underlying principles which regulate structural adjustment programs across the world. If there is resistance to any prescription of the overall global market program, as with Mayans of Chiapas who resisted the "death sentence of NAFTA," the financial community demands eliminative order to "restore stability." The following words are from a press release by the Chase Manhattan Bank, a Rockefeller corporation which knows the connections between the money sequences of oil, weapons and compound interest. Death is promised for those [who] fight back:

"While Chiapas, in our opinion, does not pose a fundamental threat to Mexican political stability, it is perceived to do so by many in the investment community.

The government will need to eliminate the Zapatistas."(4)

In the end, the emergent global market crisis poses a social choice: Either civil society defends its life against this pathological program, or nations and provinces across the world will continue to be stripped by transnational banks and corporations.

1. Michel Chossudovsky, *The Globalization of Poverty*, Penang, Malaysia: Third World Books, 1997, pp. 193-205. [return](#)
2. Jane Diaz-Limaco in Lima, "Hint of Hope for Hostages in Peru," *Guardian Weekly*, January 5, 1997, p. 1. [return](#)
3. This account is drawn from Chossudovsky, *The Globalization of Poverty*, pp. 111-20.[return](#)
4. "Caught in the Middle in Chiapas," *The Globe and Mail*, March 24, 1995, p. A7. [return](#)

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FEDERAL RESERVE SYSTEM: ITS PURPOSES AND FUNCTIONS

As indicated below, this booklet was published in 1939. The Federal Reserve System's operations have not been substantially altered although the scope of regulatory powers has been expanded by the [Depository Institutions Deregulation and Monetary Control Act of 1980](#). For a more detailed analysis of the central bank's power over the money supply and economy see [Modern Money Mechanics](#). Charts and graphs have been omitted because the statistical data of 1939 is so far out of date as to be irrelevant.

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Foreword

This book is intended primarily for students, bankers, business men, and others who desire an authoritative statement of the purposes and functions of the Federal Reserve System. It is neither a primer, nor is it an exhaustive treatise. The aim has

been to have it cover the middle ground between those extremes and to make it clear and readable without neglect of essentials.

The Federal Reserve System is 25 years old this year. Its operations have become a factor of greatest importance in American economic life. While they chiefly concern banks and the Government, their effects extend into all forms of economic activity and are felt indirectly by everyone.

It is desirable, therefore, that the Federal Reserve System be as fully understood as possible by the public in whose interest it was established and in whose interest it is administered.

The text of the book has been prepared by Bray Hammond and the staff of the Board of Governors of the Federal Reserve System.

The Board of Governors of The Federal Reserve System

Washington, D. C.

May 1, 1939.

CHAPTER I

A General Outline of the Federal Reserve System

The Federal Reserve System comprises the Board of Governors, the Federal Open Market Committee, the Federal Advisory Council, and the member banks; the System's functions lie in the field of money, credit, and banking.

The Federal Reserve System was organized in 1914. As now constituted, the System comprises the following:

1. The Board of Governors.
2. The twelve Reserve Banks.
3. The Federal Open Market Committee.
4. The Federal Advisory Council.
5. The member banks (14,537).

Responsibility for the Federal Reserve policy and decisions rests on the first three of

the above. In some matters the law puts primary responsibility on the Board, in some on the Reserve Banks, and in some on the Committee, though in practice there is close coordination of action. Accordingly, for the sake of simplicity, the term "Federal Reserve authorities" is frequently used when it is unnecessary to indicate which of the three is responsible for action or to what extent the responsibility is shared.

1. The Board Of Governors is composed of seven members. Their appointments are made by the President of the United States and confirmed by the Senate. Members are appointed for terms of fourteen years, so arranged that one term expires every two years. The Board's responsibilities lie in the field of money and banking. Their object in a broad sense is to maintain sound banking conditions and an adequate supply of credit at reasonable cost for use in commerce, industry, and agriculture. The Board supervises the operations of the twelve Federal Reserve Banks. Its offices are in Washington, D. C.

2. Each Federal Reserve Bank serves a district comprising several states or parts of states. The Federal Reserve districts, and the location of the Federal Reserve Banks and their branches are shown on map [omitted]. They are as follows:

District No. 1.

Federal Reserve Bank of Boston.

District No. 2.

Federal Reserve Bank of N. Y.

Branch at Buffalo, N. Y.

District No. 3.

Federal Reserve Bank of Phila.

District No. 4.

Federal Reserve Bank of Cleveland

Branches: Cincinnati, Ohio.

Pittsburgh, Penna.

District No. 5.

Federal Reserve Bank of Richmond

Branches: Baltimore, Maryland.

Charlotte, N. C.

District No. 6.

Federal Reserve Bank of Atlanta

Branches: Birmingham, Ala.

Jacksonville, Florida

Nashville, Tennessee

New Orleans, Louisiana

Agency at Savannah, Georgia

District No. 7.

Federal Reserve Bank of Chicago

Branch: Detroit Michigan

District No. 8.

Federal Reserve Bank of St. Louis

Branches: Little Rock, Arkansas

Louisville, Kentucky

Memphis, Tennessee

District No. 9

Federal Reserve Bank of Minneapolis

Branch at Helena, Montana

District No. 10.

Federal Reserve Bank of Kansas City

Branches: Denver, Colorado

Oklahoma City, Okla.

Omaha, Nebraska

District No. 11.

Federal Reserve Bank of Dallas

Branches: El Paso, Texas

Houston, Texas

San Antonio, Texas

District No. 12.

Federal Reserve Bank of San Fran.

Branches: Los Angeles, Calif.

Portland, Oregon

Salt Lake City, Utah

Seattle. Washington

Each of the twelve Federal Reserve Banks is a corporation, organized and operated in the public service. The Federal Reserve Banks differ essentially from privately managed banks in that they are not operated for profit, and their stockholders, which are the member banks, do not have the powers and privileges that customarily belong to stockholders of privately managed corporations.

Each Federal Reserve Bank has nine directors, three of whom are known as class A directors, three as Class B directors, and three as Class C directors. These nine directors are not chosen the way directors of business corporations are usually chosen. Class A and Class B directors are elected by member banks, one director of each class being elected by small banks, one each by banks of medium size, and one of each class by large banks. The three Class A directors may be bankers. The three Class B directors must be actively engaged in the district in commerce, agriculture, or some other industrial pursuit, and must not be officers, directors, or employees of any bank. The three Class C directors are designated by the Board of Governors of the Federal Reserve System. They must not be officers, directors, employees, or stockholders of any bank. One of them is designated by the Board of Governors as chairman of the Reserve Bank's board of directors. Under this arrangement, business men other than bankers constitute a majority of the directors of each Reserve Bank. The directors are responsible for the conduct, of the affairs of the Reserve Bank, subject to the supervision of the Board of Governors. They choose the Reserve Bank officers, but the law requires that their choice of president and of the first vice-president be approved by the Board of Governors. The salaries of all officers and employees are also subject to the approval of the Board of Governors. Each branch of a Federal Reserve Bank has its own board of directors, a majority of whom are selected by the Reserve Bank—the remainder by the Board of Governors. These

conditions with which the law circumscribes the selection of Reserve Bank directors and the management of the Reserve Banks, indicate the public nature of the Reserve Banks. Decentralization is an important characteristic of the Federal Reserve System. Each Reserve Bank and each branch office is a regional and local institution as well as a part of a nationwide system. Its officers and employees are residents of the district, and its transactions are with regional and local banks. It gives effective representation to the views and interests of the particular region to which it belongs and at the same time helps to administer nation-wide policies.

The Federal Reserve Banks derive an income from their operations which has been sufficient to cover expenses, to pay dividends limited to 6 per cent per annum, cumulative, to pay a substantial amount to the United States Treasury, and to make additions to our surplus. This surplus, if the Federal Reserve Banks were to be liquidated, would belong to the United States Government.

3. The Federal Open Market Committee comprises the seven members of the Board of Governors and five representatives of the Federal Reserve Banks. The committee directs the open market operations of the Federal Reserve Banks, that is, the purchases and sales of United States Government securities and other obligations in the open market. The purpose of these operations is to maintain a basis for bank credit ample to meet the business needs of the country.

4. The Federal Advisory Council consists of twelve members, one selected annually by each Federal Reserve Bank through its board of directors. The Council meets in Washington at least four times a year. It confers with the Board of Governors on general business conditions and makes recommendations regarding the affairs of the Federal Reserve System. Its recommendations are purely advisory.

5. Member banks include all national banks in the continental United States, and such State banks and trust companies as apply for membership, meet the requirements, and are admitted. On December 31, 1938, the membership comprised 5,224 National banks and 1,114 State banks. There were over 8,000 other State banks and trust companies (exclusive of mutual savings banks) that did not belong to the System; these were mostly small banks, their aggregate deposits being about 17 per cent of the total deposits of all commercial banks.

Each member bank, as required by law, holds stock, equal to 3 per cent of its own capital and surplus, acquired directly from the Federal Reserve Bank; it can not be sold, transferred, or hypothecated, and can be disposed of only by being surrendered to the Federal Reserve Bank.

Each member bank also is required to maintain its legal reserves on deposit with the Federal Reserve Bank of its district. These legal reserves are proportionate to the member bank's own deposits, the proportion varying according to the location of the member bank and the character of its deposits. Higher reserves are required against demand deposits than against time deposits, and banks in large cities, generally speaking, are subject to higher reserve requirements than banks in smaller cities and rural regions. No interest is paid on these reserves.

Member banks may and do maintain reserves in excess of requirements. On December 31, 1938, their reserve balances amounted in the aggregate to about nine billion dollars, of which about three billion were excess reserves.

The Monetary and Credit Functions of the Federal Reserve System

The monetary and credit functions of the Federal Reserve System mean much more than merely the issuance of paper currency and coin. Currency is actually used for only a small part of the Country's total volume of payments, the greater part being effected by the use of bank checks. Whenever business is so active that additional means of payment are required, the additional amounts may, to some extent, be called for in the form of currency, in which event the Federal Reserve Banks have facilities for furnishing promptly all that is required. Or the addition may be wanted in the form of bank deposits transferable by check, in which event member banks lend the required amounts. In case member banks have any difficulty in making the loans that are asked for, because their own funds are inadequate, it is possible for them to borrow additional funds from their Federal Reserve Bank and possible for the Federal Reserve authorities on their own initiative to supply additional funds through open market purchases of securities.

Before the establishment of the Federal Reserve System, the banks maintained the reserves required to be held against their deposits partly in the form of cash in their

vaults and partly in the form of deposits in other banks. In general, banks in smaller cities and rural regions maintained the bulk of their reserve balances with banks in larger cities. A very large volume of these reserve balances was maintained in New York City and Chicago. These two cities and St. Louis were designated as central reserve cities, and National banks therein had to maintain all their legal reserves in the form of cash in their own vaults.

Under these circumstances, when banks throughout the country needed to draw down their reserve balances, the demand necessarily converged on a few banks situated in the financial centers. In ordinary times the demand was not excessive, for while some country banks would be drawing down their balances, others would be building theirs up. Now and then, however, the demand became widespread and intense. Banks all over the country would call on the Chicago and New York banks for currency, which the city banks were to supply and charge to the reserve balances of the country banks. In such circumstances, it might be difficult for the city banks to meet this demand, because the currency constituted their own reserves and there was no source on which they could rely for additional reserve funds. The efforts of these banks to protect their reserves frequently involved the sale of securities and the refusal to make loans and renewals, with the result that securities prices would fall, interest rates would rise, borrowing would become difficult, and loans would have to be liquidated.

Panics and crises like this were apt to occur every few years, and in 1907 there was one of unusual severity. Congress appointed a National Monetary Commission shortly thereafter for the purpose of determining what should be done. There was active and thorough consideration of the question for several years, and though Congress greatly modified the plan recommended by the Commission, it eventually adopted legislation embodying the results of the study both by the Commission and other authorities inside and outside of Congress. This legislation is the Federal Reserve Act. It became law December 23, 1913.

The Federal Reserve Act directed that the Federal Reserve Banks be established, required that reserves of member banks be deposited with the Federal Reserve Banks; it empowered Federal Reserve authorities to discount paper for the member banks, to engage in open market operations, and to issue Federal Reserve notes.

The member banks use the reserve accounts that they maintain with the Federal Reserve Banks in very much the same way that a bank depositor uses his checking account. On the one hand they may deposit in the reserve accounts the checks on the other banks from their customers; and on the other hand, they may draw on the reserve accounts for various purposes, especially to procure currency and to pay the checks drawn against them by their customers and deposited in other banks.

The volume of reserves required by law is much greater, ordinarily, than these uses would make necessary. The reason for this is that the required reserves have an additional purpose: they are the means through which the Federal Reserve authorities influence the lending and investing activities of banks. As long as a bank has reserves in excess of requirements, it is in a position to enlarge its extensions of credit, assuming a demand. As long as it is without reserves in excess of requirements, it is not in a position to enlarge its extensions of credit and may be impelled to borrow additional funds. Since the Federal Reserve authorities have the power to increase or decrease the supply of reserve funds and within limits to increase or decrease reserve requirements, they are able to exercise considerable influence over the amount of credit, in the aggregate, that banks may be in a position to extend.

These functions of the Federal Reserve authorities are sometimes called "central banking" functions. Practically every modern country has an institution for the performance of such functions. In Canada, it is the Bank of Canada; in England, it is the Bank of England; in France, it is the Bank of France. In the United States, however, there are twelve Federal Reserve Banks embraced in a regional system, and the coordination of their activities is effected through the Board of Governors in Washington.

The duties of the reserve authorities fall into two main groups. One group includes duties which relate primarily to the maintenance of monetary and credit conditions favorable to sound business activities in all fields—agriculture, industrial, commercial. They call for policy decisions from time to time rather than routine activity. They involve lending to member banks, open market operations, fixing reserve requirements, establishing discount rates and issuance of regulations relating to these other functions.

The other group includes duties which relate primarily to the maintenance of regular services for the member banks of the Federal Reserve System, the United States Government, and the public. These services are principally the following: holding member bank reserve balances; furnishing currency for circulation; facilitating the clearance and collection of checks; supervising member banks and obtaining reports of condition from them; acting as fiscal agents, custodians, and depositaries for the United States Government.

These regular services engage by far the greater part of the time and attention of the officers and employees of the twelve Federal Reserve Banks. They will be described with more detail in the chapter immediately following. In later chapters the monetary and credit functions of the Federal Reserve authorities will be discussed.

CHAPTER II

The Service Functions of the Federal Reserve Banks

The twelve Federal Reserve Banks hold the legal reserves of member banks, furnish currency for circulation, facilitate the collection and clearance of checks, exercise supervisory duties with respect to member banks, and are fiscal agents of the United States Government.

One of the primary functions of the Federal Reserve Banks is to hold the legal reserves of member banks. The member banks do not normally let these reserves lie idle awaiting an emergency but keep them in active use. This use entails a heavy amount of continuous work for the Federal Reserve Banks: furnishing the member banks coin and paper money of all denominations; receiving and sorting deposits of currency; and receiving, sorting, collecting and clearing checks.

Furnishing Currency for Circulation

On December 31, 1938, the amount of United States money in circulation—that is, the amount of currency outside the vaults of the Treasury and the Federal Reserve Banks—was \$6,856,000,000. It was made up of the following classes:

Reserve Notes ...	\$4,405,000,000
Treasury Currency:	
Silver certificates...	1,339,000,000
Silver dollars...	42,000,000
Subsidiary silver...	357,000,000
Minor coin...	151,000,000
U. S. Notes...	257,000,000
Currency in process of Retirement:	
National bank notes...	\$201,000,000
Gold certificates ...	75,000,000
Reserve Bank Notes...	28,000,000
Treasury notes of 1890...	1,000,000
	\$6,856,000,000

Federal Reserve notes are liabilities of the Federal Reserve Banks. They are a prior lien on the assets of the Federal Reserve Banks and are specifically secured by the pledge of collateral of at least equal amount. They are obligations of the United States Government. As of December 31, 1938, the collateral pledged by the Federal Reserve Banks against the Federal Reserve Notes in circulation comprised \$4,888,000,000 of gold certificates (new form) and \$3,000,000 of promisory notes and other obligations discounted by the Federal Reserve Banks, or \$4,891,000,000 in all.

Treasury currency comprising silver certificates, silver dollars, subsidiary silver, minor coin and United States notes, is issued by the Treasury itself, but it is placed in circulation for the most part through the Federal Reserve Banks.

The kinds of currency in process of retirement, comprising national bank notes, gold certificates (old form), Federal Reserve Bank notes, and Treasury notes of 1890, are being replaced by other types of currency—mainly Federal Reserve notes and silver certificates. Their retirement does not mean that the amount of money in circulation is being reduced but that fewer kinds of money are now being issued.

All of the kinds of currency listed above are legal tender for all debts, public and private, public charges, taxes, duties and dues.

All United States paper currency is printed at the Bureau of Engraving and Printing at Washington, D.C., and all United States coins are made at the Philadelphia, Denver, and San Francisco mints. The Bureau of Engraving and printing and the mints are operated by the United States Treasury. Federal Reserve notes are printed by the Bureau at the expense of the Federal Reserve Banks.

The total amount of paper money and coin in circulation—which as indicated above, is about \$6,856,000,000—fluctuates relatively little. The new currency being constantly produced by the Bureau of Engraving and Printing and by the mints for the most part merely takes the place of old currency that has been soiled, mutilated, or worn so that it is no longer fit to use.

How Currency Is Distributed

There are two principal ways by which an individual gets paper money and coin. Either he draws it out of his bank and has it charged to his account; or he is paid for his labor, his services, or his merchandise with money that has been drawn out of a bank by some one else.

Practically all money, therefore, passes into and out of banks at one time or another. There are times when banks are called on to pay out more cash than they receive and there are times when they receive more than they pay out. The demand varies from season to season, from place to place, and from bank to bank. A heavy demand for currency at Christmas time is practically universal. In agricultural regions there is a heavy demand for cash when crops are being harvested; in cities there is a heavy demand for cash at certain times in the summer, particularly around the Fourth of July and Labor Day, when people withdraw money for their vacations. Moreover, the demand varies for different kinds of cash. Some communities use more coin than others and less paper money, and some use more of certain denominations than others do.

In accordance with this demand, banks provide themselves with the amount and

kinds of cash that the people in their communities want. Member banks depend upon the Federal Reserve Banks for replenishment of their supply ordering what they require and having it charged to their reserve accounts. Non-member banks generally get their supplies from member banks.

The twelve Federal Reserve Banks in turn keep a large stock of paper money and coin on hand to meet this demand. This includes both Federal Reserve notes, which are their own liabilities, and coin, silver certificates, and United States notes, which they obtain from the Treasury, giving the Treasury credit in its checking account for the amount obtained.

Until the Federal Reserve Banks were established in 1914, the means of furnishing currency for circulation were unsatisfactory. A gap existed between the Treasury and the banking system, and demand for increased circulation could not always be met promptly. This was the case in the panic of 1907, and as already indicated, the experience of that year was one of the things that led to formation of the Federal Reserve system.

The currency mechanism provided under the Federal Reserve Act has worked satisfactorily—money moves into and out of circulation automatically in response to increase or decrease in the public demand. The Treasury, the twelve Federal Reserve Banks, and the thousands of local banks throughout the country form a system of currency distribution that reaches the community, that enables cash (bills and coins) to be furnished promptly where it is needed, and that also enables surplus cash to be retired from circulation at times when the public demand subsides.

Collections, Clearances, and Transfers of Funds

Currency and coin are indispensable, yet they are used only for the smaller transactions of present-day economic life. A hundred years ago they were used much more generally. Use of bank deposits has increased to such an extent that payments made by check are now many times greater than payments made with currency and coin.

The use of checks is facilitated by the service of the Federal Reserve Banks in clearing and collecting them through the reserve accounts of member banks. For

example, suppose that a manufacturer in Hartford, Connecticut, sells \$1,000 worth of electrical equipment to a dealer in Sacramento, California, and receives in payment a check on a bank in Sacramento. The check is an order on the Sacramento bank to pay the Hartford manufacturer \$1,000. Obviously, the Hartford manufacturer does not want to make a trip to California to collect the \$1,000 in cash, nor does he want to pay postage and insurance on a shipment of currency. He does not ordinarily want cash at all. What he wants is to have \$1,000 placed to his credit in his checking account. Accordingly he deposits the check in his Hartford bank. The Hartford bank does not require cash for the check; it wants credit in its reserve account at the Federal Reserve Bank of Boston. Accordingly, it sends the check to the Federal Reserve Bank of Boston. The Federal Reserve Bank of Boston sends it to the Federal Reserve Bank of San Francisco. The Federal Reserve Bank of San Francisco sends it to the bank in Sacramento. The bank in Sacramento charges the check to the account of the depositor who wrote it, and either remits the amount to the Federal Reserve Bank of San Francisco or authorizes the San Francisco Reserve bank to charge the amount to its reserve account. The Federal Reserve Bank of Boston in turn credits the account of the Hartford bank. Thus the check effects the transfer through the Federal Reserve Banks of \$1,000 of deposit credit from the checking account of the dealer in Sacramento to the checking account of the manufacturer in Hartford.

Even though a bank is not a member of the Federal Reserve System, it may nevertheless arrange to maintain with the Federal Reserve Bank what is called a "clearing balance." Checks drawn on other banks which are received by the nonmember bank and forwarded by it to the Reserve Bank may be credited to this clearing balance, and checks drawn against the nonmember bank and deposited in other banks may be paid with funds from the balance. Checks which are collected and cleared through the Federal Reserve banks must be paid in full by the banks on which they are drawn, without deduction of a fee charge. That is, they must be paid "at par." The Federal Reserve Banks have greatly shortened and simplified the process of clearing and collecting checks. By doing so, they have improved the means by which goods and services are paid for and by which monetary obligations are settled; they have also reduced the cost to the public of making payments and transferring funds. The Federal Reserve Banks also handle other items for collection besides checks, such as drafts, promisory notes, and bond coupons.

In order to make transfers and payments as promptly and efficiently as possible, the twelve Federal Reserve Banks maintain a fund in Washington called the Interdistrict Settlement Fund, in which each Reserve Bank has a share. Through this fund money is constantly being transferred by telegraphic order from the account of one Reserve Bank to that of another. Many millions of dollars of transfers and payments are made every day, including large transfers for member banks and for the United States Treasury.

The relative importance of currency and of checks is indicated roughly by the following figures: in the year 1938 the twelve Federal Reserve Banks handled about five billion separate pieces of coin and paper money, the total value of which was \$9,000,000,000. In the same period they handled a billion checks, the value of which was \$232,000,000,000. In other words, the number of pieces of coin and paper money was five times as great as the number of checks, but the monetary value of the checks was over twenty-five times as great as the amount of currency and coin.

Supervisory Functions

According to the preamble to the Federal Reserve Act, one of the purposes of the Act was "to establish a more effective supervision of banking in the United States." However, specific duties, of supervision are entrusted by law to other agencies as well as to the Federal Reserve authorities. The examination and supervision of all national banks, which comprise the majority of banks belonging to the Federal Reserve System, are conducted by the Comptroller of the Currency. Examination reports made by his examiners as the condition of banks are available to the proper Reserve authorities. The other banks which belong to the system—all of them State banks—are supervised by State authorities and examined by them with the cooperation of the Federal Reserve banks. Information is available to Reserve authorities not only from the reports of examiners but also from periodic reports of conditions submitted by the member banks themselves. Banks that are not members of the Federal Reserve System, but have deposit insurance in the Federal Insurance Corporation, are examined by the Corporation and by State authorities. Each of the Federal Reserve Banks has an examining staff for the examination of banks in its district. The Federal Reserve Banks themselves are examined by the examining staff which the Board of Governors in Washington maintains.

Among other supervisory powers exercised by the Federal Reserve authorities, the most important are:

1. The power to fix the maximum rate of interest which member banks may pay upon time and savings deposits. The main purpose of this power is to prevent banks from paying such high rates, in competition for deposits, as to weaken their condition.
2. The power to take disciplinary action including the following: to remove officers and directors of member banks—after citation in the case of national banks by the Comptroller of the Currency and in the case of State member banks by the Federal Reserve Agent—for continued violation of banking law or for continued unsafe or unsound banking practices; and to suspend member banks from recourse to the credit facilities of the Federal Reserve System if it is found that they are making undue use of bank credit for speculation in securities, real estate, or commodities.
3. The power to grant permits to national banks to exercise trust powers.
4. The power to grant permission to holding companies so that they may vote stock of member banks controlled by them. Such companies are usually corporations which own all or a majority of the stock of one or more member banks.
5. The power to grant permits to member banks to establish branches in foreign countries. Under this authority seven large banks situated in New York, Boston, and San Francisco maintain foreign branches, about a hundred in all, situated in twenty-three different countries.

Fiscal Agency Functions

The twelve Federal Reserve Banks carry the principal checking accounts of the United States Treasury, handle much of the work entailed in issuing and redeeming Government obligations, and performing numerous other important fiscal duties of the United States Government.

The Government has an enormous amount of banking business to do. It is

continuously receiving funds in all parts of the United States and spending them in all parts. Its receipts come mainly from taxpayers and purchasers of Government securities and are deposited in the Federal Reserve Banks to the credit of the Treasury. Its funds are disbursed by check, and these checks are paid by the Federal Reserve Banks and charged to the Treasury's account. The Federal Reserve Banks also perform important services for the Treasury in connection with the public debt. When a new issue of Government securities is sold by the Treasury, the Reserve Banks receive the applications of banks, dealers, and others who wish to buy, make allotments of securities in accordance with instructions from the Treasury, deliver the securities to the purchasers, receive payment for them, and credit the amount received to the Treasury's checking account. The Reserve Banks also redeem securities as they mature, making exchanges of denominations or kinds, handle transfers and conversions, pay interest coupons, and do a number of other things involved in servicing the Government debt. They issue and redeem United States savings bonds and upon request hold them in safekeeping for the owners. For the convenience of the Treasury and also for the convenience of investors in Government securities, it is necessary that there be facilities in various parts of the country to handle such transactions, and the Federal Reserve Banks furnish these facilities. Since the Federal Reserve authorities are constantly in touch with the money and investment markets, the Treasury follows the practice of consulting them for their advice as to terms and conditions that will affect the sale and the refunding of Government obligations.

In connection with the lending and other financial activities of such Governmental agencies as the Reconstruction Finance Corporation, and the Commodity Credit Corporation, and the Home Owner's Loan Corporation, the Federal Reserve Banks act as custodians of collateral and securities. This not only involves safekeeping but disbursement of funds upon receipt of proper documents and maintenance of accurate records of large quantities of securities, warehouse receipts for commodities, and other valuable papers which are constantly in process of being received, transferred and returned, as loans are granted, as partial payments are made and as maturing obligations are paid off or renewed.

The Federal Reserve Banks are reimbursed by the United States Treasury, and other Government agencies for much of the expense incurred in the performance of fiscal

agency functions.

Because of its situation in one of the principal financial centers of the world, the Federal Reserve Bank of New York acts as the agent of the United States Treasury in the foreign exchange operations of the Treasury's Stabilizing Fund. The Federal Reserve Bank of New York also has occasion to receive deposits of foreign central banks and to perform certain incidental services as correspondent of such banks. The Board of Governors exercises special supervision over all relations and transactions of Federal Reserve Banks with foreign banks. Such relationships are confined almost wholly to the Federal Reserve Bank of New York, which in these matters generally acts as agent for the other Federal Reserve Banks.

The service functions that have been described absorb the attention and time of the greater part of the Federal Reserve personnel. The fiscal agency and related activities alone occupy the full time of about 2,500 employees out of a total of about 11,000. These functions differ greatly in this respect from the task of determining and administering monetary and credit policy. Decisions as to discount rates, reserve requirements, and open market operations may need to be made by the Reserve authorities only occasionally. Yet, though they may take, on the whole, less time than functions that must be performed daily through the year, they may have more far-reaching effects upon the country's economic life.

CHAPTER III

The Function of Bank Reserves⁽¹⁾

The amount of reserves held in relation to legal requirements is a controlling factor in the lending policy of banks.

The aggregate deposits in the banking system as a whole represent mainly funds lent by banks or paid by banks for securities, mortgages, and other forms of investment obligations. It may seem that it ought to be the other way round—that bank loans and investments would be derived from bank deposits instead of bank deposits being derived from loans and investments; and it is true that deposits would not grow out of loans if currency were used by the public for monetary payments to the exclusion

of bank deposits transferable by check. But as it is, the public in general prefers to have its monetary funds—including what it borrows—on deposit in banks rather than in the form of currency in its own possession. The result of this preference is that the proceeds of loans go on deposit to be disbursed by check, and aggregate deposits are increased.

Suppose, for example, that a man borrows \$1,000 from a bank and took his loan in currency. The bank would have \$1,000 less currency than before and in its place a promissory note for \$1,000. Its deposits would remain untouched and unchanged. But suppose that the borrower, preferring not to take currency, asked for \$1,000 deposit credit instead. In that case the bank's currency would remain unchanged, it would have the promissory note, and it would have \$1,000 more deposits on its books. The loan instead of decreasing the bank's cash holdings would have increased its deposits.

Or suppose that the bank purchases a \$1,000 Government bond from one of its customers. The customer does not want payment in currency—he wants payment in deposit credit. Accordingly, the bank acquires a \$1,000 bond and its deposits increase by \$1,000. The bank's currency is not involved in the transaction and remains what it was.[\(2\)](#)

It does not follow that bank deposits can be enlarged without limit by increased bank loans and investments. When banks give deposit credit to their customers, they assume an obligation to pay the customers' checks. Consequently, they must have funds on hand for the purpose; though ordinarily the amount need not be more than a fraction of the total deposit liability.

How much it must be depends largely on circumstances. But its amount relative to deposit liabilities limits the ability of banks to lend and to invest.

The fact that banks can not increase their loans and investments unless adequate funds are available to them makes bank reserves of key importance. Upon the adequacy of reserves hinges the power of banks to expand loans and investments and therewith to expand deposits. Upon reserves also hinges the power of the Federal Reserve authorities to influence the credit policy of the member banks.

Bank reserves need to be understood from both the operating and the legal point of view. From the operating point of view, they may be described as that portion of a bank's assets which the bank has not lent or invested but holds in cash [or] other forms readily available for use. In the early years of banking, reserves consisted of gold and other coin kept by each bank in its own chests; later on, reserves included also the funds which a bank might keep on deposit with another bank—usually with a larger one situated in an important financial center. The more conservative a banker was the larger and more liquid the reserves he was inclined to maintain. Such reserves usually meant a sacrifice of income, but they also meant protection in time of emergency.

Although sound banking practice called for the maintenance of adequate reserves, there were banks that failed to observe sound banking practices. Consequently, about a hundred years ago, legislatures began to adopt legal standards, which might require, for example, that a bank's reserves be not less than 10 per cent of its note and deposit liabilities. But, while a legal requirement made certain that reserves be maintained, it also might interfere with their availability, since occasions would arise when a bank could not make the necessary use of its reserves without reducing them below the legal minimum. Just at a time when it was especially desirable, in the public interest, for banks to lend, they might be impelled to stop lending in order to avoid depleting the reserves which the law required them to maintain. Accordingly, it became clear after long and painful experience that to require reserves to be maintained in certain volume was not enough—there should also be means whereby banks could obtain additional reserve funds when needed.

This need was met by the establishment of the Federal Reserve Banks and the organization of the Federal Reserve System; member banks were required to maintain reserves of a certain volume with the Federal Reserve Banks, and at the same time the Federal Reserve Banks were given power to advance additional reserve funds to them either by lending to them directly or by purchasing securities and other forms of obligations in the open market.

Since it became possible under its power for the earning assets of banks to be converted readily into cash and reserve funds, the maintenance of large liquid reserves by individual banks became less necessary. Banks were put in a more secure

position than they'd been in when no means existed for enlarging their reserves. In addition, the Federal Reserve authorities were directed to use their power not merely so as to assure ample credit for the legitimate monetary needs of commerce, industry and agriculture, but so as to curb the use of credit in speculation. Under these circumstances, reserve requirements took on a new significance. They became important as a means of giving effectiveness to the regulatory powers to be exercised directly with respect to volume of bank reserves and indirectly with respect to the extension of credit by banks.

Reserve Requirements

As stated in the Federal Reserve Act, the reserve balance that must be maintained by member banks with their Federal Reserve Banks are as follows:

For member banks in central reserve cities (New York City and Chicago), not less than 13 per cent of demand deposits (checking account) and 3 per cent of their time deposits (including savings).

For member banks in reserve cities (sixty other cities of lesser size), not less than 10 per cent of their demand deposits and 3 per cent of their time deposits.

For member banks in reserve cities called "country banks", not less than 7 per cent of their demand deposits and 3 percent of their time deposits. The greatest number of banks fall in this third classification, but the total volume of their deposits is smaller than that of either of the other classes.

The law permits the foregoing requirements to be changed by the Board of Governors of the Federal Reserve System, "in order to prevent injurious credit expansion and contraction." It limits the possible range however; requirements may not be made lower than those stated in the law nor more than twice as high.

The following table shows the reserve requirements that have been in effect at different periods since 1917:

Classes of deposits and banks	June 21, 1917- Aug. 15, 1936	Aug. 16, 1936- Feb. 28, 1937	Mar. 1, 1937- Apr. 30, 1937	May 1, 1937- Apr. 15, 1938	Apr. 16, 1938 and after
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On net demand deposits:					
Central reserve city banks	13	19½	22¾	26	22¾
Reserve city banks	10	15	17½	20	17½
Country banks	7	10½	12¼	14	12
On time deposits:					
All member banks	3	4½	5¼	6	5

In practice, these requirements relate to balances maintained on the average over a period (semi-weekly, weekly, or semi-monthly depending on the bank's location) and do not imply that the funds are to be left untouched. While maintaining his average reserve balance at or above the required minimum, a banker may make constant and active use of his reserve account. From day to day he may have credits to the account for checks on other banks received from his depositors; and from day to day he may have charges to the account for checks that have been drawn on him and deposited in other banks. He may also from time to time withdraw currency and have it charged to the account, and when he has more currency than he needs, he may deposit it at the Reserve Bank to be credited to his account. These current uses of his reserve account will not necessarily reduce his average balance below the requirement.

Since reserve requirements govern the ratio between reserves and deposits, it is apparent that they may be regarded as limiting either the extent to which reserves may be allowed to shrink in relation to a given volume of deposits or the extent to which deposits may be allowed to expand on the basis of a given volume of reserves. Sometimes an increase or decrease in deposits results in a simultaneous increase or decrease in reserves, but this is not necessarily so. Suppose, for example, that a given bank has \$2,000,000 of deposits, is required to have reserves of 10 per cent, and has exactly that amount, namely \$200,000. If a customer deposits an additional \$100,000, either in cash or in the form of a check on another bank, the first bank not only has its deposits increased by that amount, but also is put in position to increase its reserves equally by depositing the currency or check in the Federal Reserve Bank.

But suppose that instead of depositing \$100,000 in cash, the customer borrowed that amount from the bank and deposited it in his account; in that case the bank's deposits would be increased, but the deposit would bring no currency or check with which the bank's reserves might be increased. Furthermore, the \$100,000 which the customer borrowed might be checked out, in which case the bank's reserves would be reduced

by half, while its original deposits would remain unchanged.

In brief, when borrowed funds are checked out, the result is a decrease in reserves; and when they remain on deposit, the result is an increase in deposits without an increase in reserves. In either event, lending has an immediate reaction upon the ratio of reserves to deposits. And, as a corollary, the amount of reserves held in relation to legal requirements is a controlling factor in the lending policy of a bank.

CHAPTER IV

The Expansion and Contraction of Bank Reserves

The ability of member banks to lend is largely dependent upon the volume of their reserves; they are required to keep their reserves on deposit with the Federal Reserve Banks; and the Federal Reserve authorities are empowered to extend Federal Reserve Bank credit for the expansion of these reserves. Therefore, the Federal Reserve authorities, through the medium of bank reserves, are able to influence the extension of member bank credit.

There are three prominent factors that, in the absence of operations by the Federal Reserve authorities, may render bank reserves inadequate in amount. One is an increased demand for borrowed funds, which, as banks increase their loans and investments in response to it, result in an expansion of bank deposits without a corresponding expansion of reserves. The second is an increased demand by the public for circulation currency; as the currency is withdrawn, it reduces both the reserves and the deposits of banks by the same amount, but the reduction in reserves is relatively greater than the reduction in deposits, since reserves are smaller than deposits. The third is a drain of gold out of the country, a condition which, like withdrawals of currency, effects a reduction of reserves relatively greater than the reduction it effects in deposits. Payment of federal taxes by the public and purchases by the public of new issues of Government securities also tend temporarily to reduce bank reserves, but these reductions are soon offset, when the Government disburses the funds it has received.

When any of the factors renders member bank reserves insufficient, an occasion arises for Federal Reserve Bank credit—that is, for funds which the Federal Reserve

authorities are empowered to supply for the specific purpose of replenishing or increasing member bank reserves. This need may be confined to relatively few banks or it may affect banks in general. It may be met through loans to individual banks or through open market purchases, depending on prevailing credit conditions and policies.

Discounts and Advances for Member Banks

The loans which individual member banks may obtain from the Federal Reserve Banks are of two main classes: (1) the discount of so-called eligible paper; and (2) advances.

Eligible paper consists principally of notes, drafts, and bills of exchange used to finance payments for agricultural and industrial products. Such obligations are eligible for discount if their maturities at the time of discount are not more than ninety days in the case of commercial or industrial paper and not more than nine months; in the case of agricultural paper. A member bank owning such obligations may transfer them by endorsement to the Federal Reserve Bank, which will credit the proceeds thereof to the member bank's reserves after deducting a discount or interest charge at the established rate.

Advances may be made by a Federal Reserve Bank to a member bank on the latter's promisory note secured by collateral. An advance secured of not more than ninety days and is subject to the same discounts or interest charges as eligible paper itself. An advance secured by other collateral satisfactory to the Federal Reserve Bank may have a maturity of not more than four months and is subject to a rate of interest not less than one-half of one per cent per annum above the current discount rate on eligible paper.

Under the two foregoing provisions a Federal Reserve Bank may supply a member bank with any amount of additional reserves the member bank needs, the only limitation being the amount of good assets the member bank may offer the Federal Reserve Bank as security.

Discount Rates

Although the discount or interest rate which the Federal Reserve Banks charge their member banks is generally lower than the rate which commercial banks charge their customers, banks do not make it a practice to borrow from the Federal Reserve Banks for the purpose of gaining a profit by lending at a higher rate, nor has it been the policy of the Federal Reserve authorities to encourage borrowing for such purpose. When member banks borrow, it is for the immediate reason that they need to in order to avoid a deficiency in their reserves. The Federal Reserve authorities may raise or lower the discount rate from time to time, accordingly as it seems advisable to impose restraint upon the lending activities of banks or to encourage such activities.

During the earlier period of the System's operation—that is, until very recent years—member banks had no excess reserves and in the aggregate were substantially in debt to the Reserve Banks. Under such circumstances, changes in the discount rates, which made this indebtedness either more or less expensive, were the principal instrument by which the Federal Reserve authorities gave effect to credit policy. In recent years, however, banks have had a large volume of excess reserves, there has been little occasion for them to borrow from the Federal Reserve Banks, and the discount rates have not had the importance they formerly had. Since 1934 they have been maintained at a low level. Throughout the entire year 1938 discount rates on eligible paper were 1 per cent at the Federal Reserve Bank of New York and 1½ per cent at the other eleven Federal Reserve Banks, whereas in the 1920's they varied from 3 per cent to 7 per cent at different Federal Reserve Banks at different times.

The Federal Reserve Bank discount rates are more closely related to the so-called open market rates than to rates on the loans that banks make to their customers. Open market rates include the rates on commercial paper, bankers' acceptances, Treasury bills, stock market call loans, and other forms of obligations that may be bought and sold in the open market or called without regard to the borrowers' convenience. Open market rates are more sensitive to Federal Reserve credit policy or to market developments than are the rates banks charge their customers, because it is open market paper that banks usually purchase first when they have an excess of funds and dispose of first when they need funds.

The relationship between open market rates and Federal Reserve Bank discount rates

tends to be close when banks are borrowing and less close when they are not borrowing.

Open Market Operations

The second method of supplying banks with additional reserve funds is through open market purchases of Government securities and other obligations. These purchases are undertaken at the initiative of the Federal Reserve authorities and not of individual member banks. They do not have particular banks in view, but the aggregate reserves of the banking system as a whole.

Securities purchased by the Federal Reserve authorities in the open market come out of the portfolios either of banks themselves or of investors and corporations that are the customers of banks. If they come out of the portfolios of investors and corporations, the checks given in payment by the Federal Reserve authorities are deposited by the investors and corporations in their respective banks, and as a result bank deposits are increased. The banks in turn deposit the checks in their accounts at the Federal Reserve Bank, so that bank reserves also are increased, if the securities come out of the portfolios of banks, however, there is no resulting increase in bank deposits, because the funds paid for the securities are received directly by the banks themselves—not through their customers. There is a resulting increase in bank reserves however, for funds received by banks are deposited by them in their reserve accounts at the Federal Reserve Bank.

Open market purchases of securities always increase the reserves of banks, therefore, but whether they increase deposits as well depends on whether the securities purchased come out of the portfolios of banks themselves or of bank depositors.

To the extent that open market purchases increase bank reserves relative to bank deposits, they tend to furnish member banks a larger basis for credit expansion, because expansion is limited by the excess of reserves over the ratio required by law to be held against deposits. Thus if \$100,000,000 of securities purchased by the Federal Reserve authorities came from the portfolios of investors, with the result that bank deposits as well as reserves were increased by that amount, a portion of the reserves—say \$20,000,000—would be required as reserves against the \$100,000,000

of new deposits, and only the portion remaining—in this case, \$80,000,000—would be available for credit expansion. If, however, the \$100,000,000 of securities came from the portfolios of the banks themselves, the whole amount, when received by the banks and added to their reserves would be available as a basis for credit expansion.

The funds paid for securities by the Federal Reserve authorities do not necessarily remain with the banks that happened to receive them first. Demand will determine to what particular banks the funds will go, in what volume, or how long they'll stay with certain banks before being transferred to others. No matter what bank happens at any time to have possession of the funds, however, they continue to be a part of the aggregate reserves of the banking system as a whole.

The reverse of the process described in preceding paragraphs occur when the Federal Reserve authorities sell, rather than buy, securities. If the securities are purchased by investors and corporations—that is by the customers of banks—there will be a reduction not only in bank reserves but also in bank deposits. If they are purchased by banks, the reduction will be in bank reserves only. In either event the reduction in reserves tends to diminish the amount of credit that banks can extend, but a reduction in reserves without a reduction of deposits tends to diminish it more rapidly, because there is no accompanying reduction in the amount of reserves required.

Open market operations have different objectives at different times. At times their purpose may be to expand reserves, in which case securities are purchased. At other times their purpose may be to reduce reserves, in which case securities are sold. This (of course) does not mean that open market operations are a mechanical process by which any desired result may be obtained at will. On the contrary their efficacy is dependent upon a variety of conditions. In recent years, with reserves at a high and rising level chiefly because of the gold inflow, but with business recovery still incomplete, the policy of the Federal Reserve authorities has been to maintain the existing portfolio in substantially unchanged volume. This policy has reflected the purpose of the Federal Reserve authorities to contribute to the maintenance of monetary conditions that would encourage recovery of commerce, industry, and agriculture.

The accompanying chart (Federal Reserve Bank Credit) [omitted] shows the amount

of Federal Reserve Bank credit year by year for the period the Federal Reserve Banks have been in operation. It reflects the fact that in the 1920's Federal Reserve Bank credit was principally in the form of discounts for member banks, whereas in recent years it has been in the form of United States Government securities purchased in the open market.

Federal Reserve Bank Credit and Member Bank Credit

Loans and purchase of securities by the Federal Reserve authorities are one of the important sources of member bank reserves; member bank reserves in turn are the basis of member bank credit—that is, of the loans and investments of member banks. And member bank credit is a source of the bank deposits transferable by check wherewith business men and other persons make the bulk of their monetary payments. Member bank reserves function, therefore, as a link between Federal Reserve policy and member bank policy.

Thus, for example, when there is an active demand for goods, there is a corresponding need for means of payment wherewith the purchasers may settle their obligations to the sellers. This need is reflected in part in a demand for member bank credit—that is, they lend the funds—only if they have adequate reserves. But additional reserve funds are always available to them in the form of Federal Reserve Bank credit, which they may get either as the proceeds of loans made to them by the Federal Reserve Banks or as proceeds of purchases of securities by the Federal Reserve Banks.

In other words, member bank credit is used chiefly in the form of member bank deposits subject to check; Federal Reserve Bank credit is used chiefly in the form of member bank reserves held on deposit with the Reserve Banks; and the volume of member bank reserves—deriving in greater or less degree from Federal Reserve Bank credit—determines the ability of member banks to meet the demands of their borrowers for member bank credit.

It is important to note, however, that Federal Reserve Bank credit and member bank credit are not the equivalent to each other, dollar for dollar. Member bank reserves do not have to be increased by \$500,000,000 of Federal Reserve Bank credit in order

to make possible an increase of \$500,000,000 in member bank credit. The additional Federal Reserve Bank credit needed will be only a fraction of the additional member bank credit to be extended. The explanation of this goes back to the fact that an increase in member bank credit brings about an increase in bank deposits, because the funds that banks' customers borrow commonly go on deposit; and the fact that reserves which member banks are required to maintain are only a fraction of their deposits.

Suppose that banks were required to maintain reserves of 20 per cent and that they had just 20 per cent and no more. Then if their deposits were to be increased by \$500,000,000 they would have to increase their reserves by but \$100,000,000. Accordingly \$100,000,000 of Federal Reserve Bank credit obtained by borrowing or by the sale of securities to the Federal Reserve Bank would increase their reserves sufficiently to enable them to expand their own credit by \$500,000,000. Under varying circumstances, depending on what the reserve requirements are at the time and on the character of the deposits, the expansion of deposits may be as much as ten times the expansion of required reserves. In recent years the possible expansion of deposits would be considerably less than ten times the expansion of reserves. But, however the ratio may vary, the fact remains that when the Federal Reserve authorities have occasion to provide the amount of reserves necessary to facilitate a given expansion of member bank credit and member bank deposits, the amount of Federal Reserve Bank credit that they may need to supply is only a fraction of such expansion.

This situation is different when a deficiency of member bank reserves arise from withdrawals of currency by the public for circulation or from shipments of gold abroad. Whatever the deficiency, it must be made up in full, and the Federal Reserve authorities may in such circumstances have to supply their member banks with Federal Reserve Bank credit to the whole amount of currency or gold withdrawn.

Since the ability of member banks to lend is largely dependent upon the volume of their reserves, since they are required to keep their reserves on deposit with the Federal Reserve Banks, and since the Federal Reserve authorities are empowered to extend Federal Reserve Bank credit for the expansion of those reserves, it follows that the Federal Reserve authorities by the extension of Federal Reserve Bank credit,

may influence very considerably the extension of member bank credit. By enlarging the volume of member bank reserve funds they can make it possible for the latter to meet almost any conceivable volume of demand by borrowers; and by reducing the volume of reserve funds they can apply restraints to an over-extension of member bank credit.

Yet, while Federal Reserve authorities have very great powers, they are also very much limited in the exercise of these powers. They can expand member bank reserves and to the extent that they do so, they can subsequently contract reserves. But they have no power to compel an extension of member bank credit. The initiative must be taken by business men and others who wish to borrow. The member banks may extend credit as long as they may have adequate reserves; when their reserves become inadequate, Federal Reserve Bank credit is available with which to replenish these reserves; to the extent that their enlarged reserves permit, the member banks can expand their loans as long as there is sufficient demand. Thus, the Federal Reserve Bank credit can not insure a demand for member bank credit; it can and does insure the availability of ample member bank credit when and if a demand exists.

CHAPTER V

The Composition of Bank Reserves

Federal Reserve Bank credit and gold are the two main sources of bank reserves; checks are the principal means by which reserves are transferred from bank to bank.

From the point of view of member banks taken collectively, reserves are derived chiefly from the following sources:

Federal Reserve Bank Credit, in the form of loans by the Federal Reserve Banks and purchases by them of bills and securities.

Gold, either produced from domestic sources or received from other countries.

From the point of view of the individual banker, the funds with which he currently maintains his reserves are:

Checks and other bank currency.

Although the principal sources of bank reserves are Federal Reserve bank credit and gold, this does not mean that every individual bank, in order to have reserves, must have borrowed from its Federal Reserve Bank or have come into possession of gold. On the contrary, gold may be and actually is the basis of reserves of banks that have not possessed it, and Reserve Bank credit may be and actually is the basis of reserves of banks that have not borrowed.

How Reserve Funds Move from Bank to Bank

When the Federal Reserve Bank receives a deposit of gold⁽³⁾ or when it makes a loan or a purchase of securities, and the resulting credits are entered on the reserve accounts of the member banks concerned, the additional reserve funds resulting from the transaction immediately lose their connection with the transaction. They become simply reserve funds, indistinguishable from other reserve funds and transferable to other banks, regardless of how they originated. Like water circulating through connecting chambers, what is introduced at one point mingles with the rest and flows freely throughout the system.

Suppose, for example, a gold mining company has produced \$100,000 worth of gold, has sold it to the United States Treasury, and has received a check in payment for it from the Treasury. The company deposits the check with the X National Bank, and receives credit for \$100,000 in its checking account. The bank then deposits the check with the Federal Reserve Bank and receives credit for \$100,000 in its reserve account. The mining company buys equipment, pays salaries, and distributes profits; in the process it issues checks aggregating \$100,000 which are deposited by their recipients in other banks. These banks having given their depositors credit for their checks, send them to the Reserve Bank and receive credit for them in their reserve accounts. At the same time the checks are paid out of the reserve balances of the X National Bank. Thereby, the reserve funds derived from the original sale of gold become the reserve funds of banks which never heard of the gold. The other banks know only that checks drawn on the X National Bank were deposited by them in the Reserve Bank and that their reserve accounts have been credited accordingly. It is

gold imports rather than domestic mining that has produced the great increase in our gold stock since 1933: but gold from whatever source gives rise to bank deposits and bank reserves substantially as just described.

The same is true of Reserve Bank credit. If the X National Bank borrows \$100,000 at the Reserve Bank or receives funds paid for securities purchased by the Federal Reserve Bank, its reserve account is increased by a corresponding amount.

It uses these additional funds incorporated in its reserves to pay checks drawn against it by its customers, and in the process the funds leave its account and become credited to the reserve accounts of other banks. The funds are part of the total reserves dispersed in hundreds of thousands of reserve accounts and constantly circulating in and out of each. No connection remains between them and the particular transaction which called them into being.

Although comparatively few banks receive gold and Federal Reserve Bank credit directly, yet all banks are daily receiving checks on one another. About a billion such checks were handled by the Federal Reserve Bank in 1938; no doubt many times that number cleared locally and through banks in financial centers, never reached a Federal Reserve Bank. But, by whatever means they are cleared, checks deposited in banks other than those on which they are drawn maintain a constant flow of reserve funds from bank to bank.

The Flow of Funds and the Volume of Funds

Sometimes a banker receives larger check payments from other banks than they receive from him. When that is the case, he gains reserves. Sometimes other banks receive more from him than he receives from them. In that case he loses reserves. It is obvious, however, that when a check is deposited in the reserve account of one bank and charged to the reserve account of another, the total volume of reserves, taking all banks together, is not increased or decreased at all. One bank loses what another bank gains.

But the gold is deposited and the reserve balance of a given bank is increased thereby, there is no corresponding charge to the reserve balance of any other bank, for the gold came either from abroad or out of an American mine. In this case,

consequently, not merely the reserve balance of one bank but the total volume of reserves held by all banks taken together is increased. The same is true if the Reserve Bank makes a loan or buys securities; resulting increase in reserves of the banks directly affected is not offset by a charge to the reserves of other banks. Instead, total reserves are increased. In both cases, the total remains at the higher level regardless of stream of checks by which funds are transferred from one reserve account to another. It remains at a higher level until any one of these things happens: (1) Federal Reserve sells securities; (2) loans by Federal Reserve are paid; or, (3) currency or gold is withdrawn. When any one of these things occurs, and is not offset by a factor of opposite effect, there occurs a decrease in the aggregate amount of reserves. It comes about because the securities sold by the Reserve Bank are paid for by a charge against the reserves of the bankers by whom or by whose customers the securities were purchased; or because the loans are repaid by a charge against the reserves of the bankers that borrowed; or because the currency, account or gold when withdrawn is charged to the reserve account of the bankers by whom it was withdrawn; and because the charges to these reserve balances are not offset by any corresponding credits to other reserve balances.[\(4\)](#)

From the individual bank's point of view, therefore, reserves are principally maintained by the deposit of checks on other banks; and from the point of view of all banks as a whole, reserves consist fundamentally of Federal Reserve Bank credit and gold. In other words, Federal Reserve Bank credit and gold are the two important basic factors in which bank reserves originate, and checks are the principal means by which reserves come to be transferred and distributed among all banks. Every banker has daily experience of the transfer of reserve funds resulting from check transactions and of his own consequent gain or loss of reserves; but experience of the origination and extinction of reserve funds resulting from gold transactions, open market operations, and Reserve Bank loans, is far less common. Very few banks outside those cities where gold shipments are received or government obligations are bought and sold in large amounts ever have any direct experience of gold transactions and open market operations; and borrowings from the Reserve Bank, while not common, are never a matter of daily routine as checking transactions are.

Other Factors

Other factors affect the aggregate volume of bank reserves, but mostly in a minor or transitory way as compared with gold or Federal Reserve Bank credit. Acquisition of silver by the Treasury has the same effect on member bank reserves as the acquisition of gold, but the dollar amount of silver is less than gold. Chief among the transitory factors affecting the aggregate volume of reserves are receipts and expenditures by the United States Treasury. When Federal taxes are paid, the effect is to reduce the reserve balances of banks and to enlarge the cash balances of the Treasury. The same is true when banks use current funds to pay for new Government obligations issued by the Treasury. When the funds are disbursed by the Treasury the effect is to reduce the Treasury's cash balances and restore the reserve balances of the banks. The Treasury's transactions are in this way constantly producing large fluctuations which in the long run cancel each other. Similarly, fluctuations in the volume of currency in circulation affect the volume of reserves, but mostly in a temporary way. Currency on going into circulation is charged to member bank reserves and reduces them, and on retirement from circulation it is credited to reserves again and increases them. While these factors are of importance in explaining current fluctuations in the volume of reserves, they do not alter the fact that the basic constituents of reserves are gold and Federal Reserve Bank credit.

The Relation Between Federal Reserve Bank Credit and Gold

Before the Federal Reserve Banks were established, the basic reserves of the banking system consisted almost exclusively of gold, silver, and currency. There was no Federal Reserve Bank credit, nor any institution whose purpose it was to supply additional reserve funds. Banks could borrow from one another, but that meant merely the use of existing reserve funds, not the creation of new ones. Moreover, with banks holding one another's reserves and advancing reserves to one another, the aggregate bank reserves shown on the books of banks always included duplication, and exceeded the amount of gold and other currency that could be counted as reserves. Reserves shown in excess of this amount, however, were fictitious. In times of stringency it always developed that reserves were actually less than they appeared to be. With the establishment of the Federal Reserve Banks these faults were corrected. Existing reserves were transferred to the Federal Reserve Banks and the Reserve Banks were empowered to create additional reserve funds. The result is that the aggregate volume of reserves became a definitely known figure, without

duplication; and the Reserve authorities can create the necessary additional funds, either by lending to individual banks or by purchasing securities in the open market.

Since the establishment of the twelve Federal Reserve Banks, therefore, bank reserves have consisted basically of gold, the amount of which is not readily subject to control, and of Reserve Bank credit, the amount of which is wholly subject to control. Neither is fixed either in amount or in relation to the other. At times Reserve Bank credit has been a more decisive factor and at times gold. The two tend to displace each other; that is, the more gold there is coming into the country the less need there tends to be for Reserve Bank credit, and the less gold there is coming in or the more gold there is going out the more need there tends to be for Reserve Bank credit. The movement of gold is largely independent of control; although under certain conditions an increase in the volume of Reserve Bank credit may tend to drive gold out of the country by bringing about lower money rates, and a decrease in its volume may tend to draw gold into the country by bringing about higher money rates.

If, for example, there were a reversal of the gold movement of recent years, and gold, because of altered international conditions, began to be exported in large volume, the Reserve authorities, by lending or by the purchase of government securities and other obligations, could furnish funds which would add to member bank reserves as fast as the gold withdrawals subtracted from them. The Reserve authorities could by this action prevent the banks of the country from suffering such a depletion of reserves as would force them to make drastic reductions in their loans and investments.

CHAPTER VI

Reserves of the Individual Bank and of the Banking System as a Whole

Additional reserve funds that enable the individual bank to enlarge its own loans by an almost equal amount, enable the banking system as a whole to enlarge the aggregate of loans by several times as much.

Bank deposits result chiefly from loans and other extensions of credit by banks. This does not mean, though, that an individual banker can increase his deposits to any desired extent simply by lending. He can not do that, because when his customers

borrow they use the money they borrow; they pay it to others by whom most or all of it will be deposited in other banks. The banker has to part with most of what he lends and must be prepared for reduction of his reserves accordingly. When he makes a loan and the funds are credited to the deposit account of the borrower and then checked out, the funds sooner or later leave his bank and go on deposit in another bank. Under the circumstances, his loan increases another bank's deposits, if the other banker is also lending, then the deposits of both will increase still further. Each gets a part of most of what the other lends. So, in fact, the individual banker normally has more money to lend when other bankers are lending than he has when they are not lending. It is only when this process of lending is general and simultaneous on the part of many bankers that it can cause a rapid growth of bank deposits. No one banker has control of such a process. He has no means of making other bankers lend—no means of making customers start borrowing. He has to feel his way, constantly watching the volume of his reserves. Unless his reserves are adequate, he will not wish to lend and run the risk of having them depleted. Accordingly, the requirement that he maintain a certain ratio between his reserves and his deposits is in effect a limitation on his power to lend.

Assuming There Were Only One Bank

Suppose there were only one bank instead of several thousand, and that this one bank did all the commercial banking business in the country. Suppose further that this bank were required by law to have reserves equal to at least 20 per cent of its deposits. Thus if it had deposits of \$5,000,000,000, its reserve balance with the Reserve Bank would have to be at least \$1,000,000,000.

Suppose that it had just exactly that—\$5,000,000,000 of deposits and \$1,000,000,000 of reserves, with \$4,000,000,000 of loans and investments. In such case, if it were to lend a single additional dollar it would reduce its reserves below the legal requirement, because if it did make a loan, the borrower would be given credit for it in his checking account, the bank's deposits would go up, its reserve balance would not go up, and in consequence the reserve balance would be less than 20 per cent of the bank's deposits.

The borrower, of course, would write a check for the amount he wanted to use, and

so his deposit balance would be reduced; but the money would not necessarily leave the bank, or if it did it would come right back. For if the check were deposited by its recipient it would merely transfer a certain amount of deposit credit from the borrower's account to the recipient's account. Or if it were cashed by his bank, the currency would sooner or later be deposited, and the funds which went out of the bank through one account would come back in through another. The bank's deposits would be increased by the loan in any event, except only if the money were kept in circulation, sent out of the country, or permanently lost, destroyed, or hidden. There would be no other bank for it to go to.

Realizing that any additional loans it made would increase its deposits out of proportion to its reserves, the commercial bank might stop making new loans. Suppose, however, that the Reserve authorities were of the opinion that more loans might advantageously be made and that the bank should be provided with additional reserves so that it could make them. Suppose they therefore purchased \$20,000,000 of securities in the open market. The sellers of the securities would deposit in the commercial bank the money they received in payment. The commercial bank in turn would deposit it in its reserve account at the Reserve Bank. Having these additional reserves of \$20,000,000, the commercial bank, by making loans, could increase its deposits to five times as much, or \$100,000,000—the \$20,000,000 being the 20 per cent reserves required against deposits of \$100,000,000.

Another possibility is that the commercial bank might borrow the \$20,000,000 from the Reserve Bank. But whether the commercial bank took the initiative in borrowing or the Federal Reserve authorities took the initiative in purchasing securities, in either event the sum total of reserve funds would be increased, and lending on an increased scale would be possible. In either event also, the Reserve authorities would not need to advance the full amount that the commercial bank would lend but only enough to supply the 20 per cent reserve required against the increased deposits resulting from its lending.

Taking All Banks Together

The same principle that would operate if there were only one bank holds true of all banks taken together—the great difference being that effects which are immediately

and directly discernible when there is assumed to be only one bank are much more difficult to follow when the explanation is applied individually to the thousands of banks actually in operation. What is true of banks as a whole is not true of every individual bank; there are always exceptions. When bank reserves in the aggregate are in excess of requirements, there nevertheless will be individual banks with no excess reserves; and when, therefore, banks in general are in a position to extend abundant credit, there nevertheless will be individual banks in no such easy condition. In particular, when the sum total of reserve funds is augmented by Federal Reserve or other action the increase will manifest itself first at certain individual banks which happen to be recipients of the additional funds. But no bank can expect to keep permanently what it receives. Its customers are always checking its funds elsewhere. By the normal and active process of clearing the enormous number of checks that are constantly being drawn on one bank and deposited in another—thereby entailing the transfer of funds from the reserve balance of one bank to the reserve balance of another—a rapid movement or circulation of reserve funds is maintained. The result is that any increase in the total volume of reserve funds tends sooner or later to spread itself from the few banks where it originates to many other banks, if not all.

Let us assume that the Reserve authorities realize that banks as a whole have insufficient reserves for the expansion of credit that is needed and proceed to buy Government securities in order to supply the money market with additional funds. Suppose as before that they buy \$20,000,000 worth and that the entire sum happens to be deposited in some one bank. That particular bank's deposits and reserves will both be increased by \$20,000,000. But the bank is not required to have reserves of more than 20 per cent, and 20 per cent of the increase is \$4,000,000. Therefore, \$16,000,000 of what the bank receives is excess reserves. It lends the \$16,000,000—assuming it can find borrowers—and the whole amount, let us suppose, is checked out and deposited in a second bank. This second bank with increased deposits of \$16,000,000 against which it is required to keep reserves of only 20 per cent, or \$3,200,000, gets in consequence, excess reserves of \$12,800,000. It lends these funds, and they are checked out by the borrowers and deposited in a third bank. The third bank, having to keep reserves of only 20 per cent against the increase of \$12,800,000 in its deposits, gets excess reserves of \$10,240,000 to lend. It lends, and the amount is checked out by the borrowers and

deposited in a fourth bank. It is evident that this process could go on till the amounts involved for successive banks were negligibly small. Including six more banks in the illustration, or ten in all, the additional deposits, loans, and reserves made possible by the Federal Reserve Bank's disbursement of \$20,000,000 would be as follows:

	Additional Deposits Received (100%)	Additional Loans Made (80%)	Additional Reserves Retained (20%)
1st bank. . .	\$20,000,000	\$16,000,000	\$4,000,000
2nd bank. . .	16,000,000	12,800,000	3,200,000
3rd bank. . .	12,800,000	10,240,000	2,560,000
4th bank. . .	10,240,000	8,192,000	2,048,000
5th bank. . .	8,192,000	6,553,600	1,638,400
6th bank. . .	6,553,600	5,242,880	1,310,720
7th bank. . .	5,242,880	4,194,304	1,048,576
8th bank. . .	4,194,304	3,355,443	838,861
9th bank. . .	3,355,443	2,684,355	671,088
10th bank. . .	2,684,355	2,147,484	536,871
Total first 10 banks . . .	\$89,262,582	\$71,410,066	\$17,852,516
Other banks in turn. . .	10,737,418	8,589,934	2,147,484
	<hr/> \$100,000,000	<hr/> \$80,000,000	<hr/> \$20,000,000

The figures assume, for the sake of simplicity, that every bank is able to find borrowers for the full amount that it can lend and that the full amount of every loan is checked out to some one other bank; that there are no left-overs and that the different banks come into the picture one at a time. They make no allowance for the fact that an individual bank in making loans is not limited to its excess reserves, because it can bring them up to the required level by borrowing from its Reserve Bank.

On this basis, the figures show that the first ten banks had additional reserves of \$17,852,516, additional loans of \$71,410,066, and additional deposits of \$89,262,582. Other banks sharing in the remaining portion of the \$20,000,000 of additional reserves would increase their loans by \$8,589,934 and would have additional deposits of \$10,737,418. In the end, accordingly, an expansion of deposits amounting to \$100,000,000 would be made possible by the \$20,000,000 of additional reserves created by Federal Reserve action. The result would be the same

if the banks were to purchase securities instead of making loans.

Of course, there would never be such an absolutely uniform division as we have been supposing, but the principle nevertheless holds true. Each bank could lend whatever reserves it had in excess of what it was required to have, and in the end the total additional loans and the total additional deposits would be several times as great as the total additional reserve funds created by the Reserve authorities' purchase of securities.[\(5\)](#)

The fact that what can be done by the banking system as a whole differs so much from what can be done by any individual bank is one of the most difficult things to understand clearly in the whole field of banking. It seems paradoxical. Yet it is a fundamental fact of utmost importance. The difficulty is to see that the limited power of the individual bank, which can lend somewhat less than the amount of additional reserves it receives, can, when exercised by many individual banks, enable them all together to lend several times the amount of the additional reserves. But what each bank receives is in each case the greater part of what has already been received by another bank, so that the same amount keeps working over and over again, a little diminished each time.

The practical consequence of this is that the Federal Reserve authorities, by supplying a relatively small volume of additional reserve funds, make it possible for the banking system as a whole to supply the public with a far greater additional volume of credit. Contrariwise, by withdrawing a relatively small amount of funds, when member banks have no excess reserves, the Federal Reserve authorities can make it necessary for the banking system to borrow the amount withdrawn or to reduce loans and investments—and consequently deposits—by several times that amount.

CHAPTER VII

Federal Reserve Powers and Limitations

Although Federal Reserve powers are important and extensive, they are nevertheless constantly subject to limitations inherent in the conditions under which they are

exercised.

The limitations upon the powers of the Federal Reserve authorities are partly statutory and partly practical. Those that are statutory relate primarily to the reserves that the Federal Reserve Banks are required to maintain against their note and deposit liabilities.

The circulating notes issued by the Federal Reserve Banks and the reserve deposits maintained with them by member banks are alternative forms of Federal Reserve Bank liability. As of December 31, 1938, Federal Reserve notes in circulation amounted to about \$4,500,000,000, and member bank reserve balances on deposit with the Reserve Banks amounted to about \$8,700,000,000. When a member bank needs additional Federal Reserve notes, they are obtained from its Federal Reserve Bank, which charges their amount to the member bank's reserve balance. Correspondingly, when a member bank finds that it has more Federal Reserve notes on hand than it needs, it may send the notes to the Federal Reserve Bank and have their amount credited to its reserve balance.

The Federal Reserve authorities expand the volume either of notes or of reserve balances in response to the demands of the public and of the member banks. Although they may at times take action to reduce the volume of bank reserves, they never need take action to reduce the amount of notes in circulation. Currency in excess of the public's needs is promptly deposited in banks and by them is deposited in the Federal Reserve Banks. The process is spontaneous. In effect, therefore, the amount of money in circulation is governed by the public's action, not by action of the issuing authorities, and no more currency will remain in use than is required.

Legal Limitations

The Federal Reserve Act stipulates that the Federal Reserve Banks shall have reserves of gold certificates equal to at least 40 per cent of the Federal Reserve notes in circulation and reserves comprising gold certificates or lawful money equal to at least 35 per cent of their deposits. Taking the figures as of December 31, 1938, this means that the Federal Reserve Banks must have at least \$1,800,000,000 in gold certificates as the 40 per cent reserve against their Federal Reserve notes of

\$4,500,000,000, and \$3,535,000,000 of gold certificates—assuming they have no other lawful money—as the 35 per cent reserve against their \$10,100,000,000 of total deposits. That is \$5,335,000,000 of gold certificates, taking the two requirements together. Actually, however, the Federal Reserve Banks had \$12,000,000,000 in gold certificates, or more than twice the maximum amount required. Notes in circulation and reserve deposits could therefore be more than doubled on the basis of present gold reserves, so far as the law is concerned. And since the Reserve authorities are empowered to suspend for limited periods the requirements stated in the law, the volume of notes and reserve deposits could be much more than doubled if an emergency should make it necessary.

The accompanying chart (Federal Reserve Banks—Reserve Position) [omitted] shows the volume of Federal Reserve Bank liabilities in the form of deposits and circulating notes during twenty-four years of Reserve System operations. It also shows the ratio of the Reserve Banks' reserves, which at their lowest, during 1920, were about 40 per cent of note and deposit liabilities, but in recent years have been about 80 per cent .

Practical Limitations

The practical limitations on Federal Reserve powers to expand note circulation and reserve deposits can best be understood when Federal Reserve notes and member bank reserves (which are deposits on the books of the Federal Reserve Banks) are considered together with Federal Reserve Bank credit and gold. These four factors are closely interrelated, and no one of them can change without a corresponding change in one or more of the other three. They are the four principal items on the Federal Reserve Banks' statement of condition. Rounding them off and disregarding other items, they may be shown in balance as follows:

(a) Gold certificates	\$12,000,000,000
(b) Discounts and securities . . .	<u>2,500,000,000</u>
Total	\$14,500,000,000

(c) Deposits	\$10,000,000,000
(d) Notes in circulation	<u>4,500,000,000</u>
Total	\$14,500,000,000

In the latter part of the year 1938 the deposits on the books of the Federal Reserve Banks as shown above (c) were \$10,000,000,000, and the Federal Reserve notes outstanding (d) were \$4,500,000,000. At the same time the banks held (a) \$12,000,000,000 in gold certificates and (b) \$2,500,000,000 of obligations in bonds, promissory notes, etc. The two groups of figures, taken together, show that \$14,500,000,000 of gold and Federal Reserve Bank credit made possible \$14,500,000,000 of Federal Reserve Bank deposits and notes. In other words, the gold certificates (a) and the Federal Reserve Bank credit (b) were the sources of funds amounting to \$14,500,000,000, and the reserve deposits (c) and the notes (d) represented the uses of those funds in like amount.

The Federal Reserve authorities have no control over the volume of gold. Its shipment into the United States is due to various causes, chief among them the excess of exports over imports and the flight of capital induced by the economic and political conditions in other countries. As the gold is received, the Federal Reserve Banks' holdings of gold certificates (a) and their deposits (c) are both equally increased. By the same token, the reserve balances of member banks—which constitute the bulk of Federal Reserve Bank deposits—are increased, and member banks accordingly find it easier to meet reserve requirements. The demand for Federal Reserve Bank credit (b) is consequently lessened; the member banks will have little occasion to borrow and the Federal Reserve authorities will have little occasion to purchase securities. If, however, the Federal Reserve authorities were to purchase additional securities, the result would be to expand member bank reserves (c). If they sold securities or if some of the discounts (b) were paid, deposits (c) would correspondingly decrease; unless there were simultaneously an increase in gold certificate holdings, or a decrease in the amount of notes in circulation.

The amount of notes in circulation (d) represents what the public requires; if an increase in the amount occurred—more notes being drawn into use—there would be a corresponding decrease in deposits, and if a decrease occurred—a smaller volume of notes being used—there would be a corresponding increase in deposits.

Although the power of the Federal Reserve authorities to create reserve funds by the extension of Federal Reserve Bank credit is subject to the statutory requirement as to the reserves in gold certificates and lawful money that they shall maintain against

their notes and deposits, it is evident that the practical limitations upon that power lie in conditions reflected in the other three factors, namely, gold, member bank reserves, and circulating notes. These conditions will of course be diverse. The amount of gold in the country depends upon world-wide economic conditions. The amount of bank reserves depends upon the amount of gold and upon the demand for currency, as well as upon the amount of Federal Reserve bank credit. The demand for currency depends upon business conditions. The demand for Federal Reserve Bank credit is affected by all of these factors and by the demand for member bank credit. In brief, money factors are not only dependent on one another, they are dependent on other factors. A given economic situation the resultant of a wide variety of forces—such as invention, labor, agriculture, foreign trade, government expenditures, taxation, war, weather—besides money and credit. Federal Reserve policy must always be related to other factors, and its effectiveness is not independent of their influence.

Required Reserves

The power to change member bank reserve requirements is closely related to the power to create and extinguish reserve funds. If member banks are under requirement to have reserves of \$6,000,000,000 and actually have reserves of \$10,000,000,000, it is apparent that they have \$4,000,000,000 of reserves in excess of requirements. This excess would enable them to increase by an enormous amount the volume of bank credit extended by them, assuming a strong enough demand arose. If the Federal Reserve authorities were to lower the reserve requirements, the amount of excess reserves and therewith the volume of member bank credit that it might be possible to extend, assuming demand, would be still further increased. If the Federal Reserve authorities were to raise the reserve requirements, the amount of excess reserves and therewith the volume of member bank credit that it might be possible to extend would be diminished, so long as the higher reserve requirements remained effective. While an increase in reserve requirements of itself tends to restrict the volume of member bank credit that might be extended, its effect can be offset, if advisable, by increasing the volume of Reserve Bank credit outstanding; with the possible advantage that in principle excess reserves which arise from Federal Reserve Bank credit are more flexible and better subject to current adjustment than excess reserves arising from gold. Consequently, a situation in

which the aggregate volume of reserve funds is to a great extent dependent upon Federal Reserve policy is apt to be more in the public interest than one in which the aggregate volume is dependent upon gold, the movements of which are largely beyond control.

At the present time reserve requirements, as shown in Chapter III, are little less than double what they formerly were. The reason for increasing them was that bank reserves had become expanded to an inordinate degree by the immense increase in the country's gold stock. As a result member bank reserves were so much in excess of requirements that the lending power of member banks, instead of being subject, as contemplated in the Federal Reserve Act, to the corrective influence of the Federal Reserve authorities, depended too largely upon the abnormal stocks of gold received from abroad and too little upon domestic factors subject to control. In an endeavor to return more nearly, to conditions under which the normal regulatory powers established by Congress are effective, the volume of reserves in excess of requirements was reduced by raising the requirements. This action had the effect of offsetting, to a partial extent, the increase in the gold stock.

An increase in reserve requirements does not increase the power of the Federal Reserve Banks to lend or to hold securities. The lending and investing power of the Federal Reserve Banks is not derived from member bank reserve deposits, and larger required reserve balances do not increase that power. The lending power of the Federal Reserve Banks is a statutory power whereby the Federal Reserve Banks may acquire promisory notes, acceptances, bonds, and other obligations and give in exchange therefor Federal Reserve notes or credit to the reserve accounts of member banks. Having such power, their ability to lend and to purchase securities is not limited by the volume of funds deposited with them by their member banks. (They can write a check against no funds.)

The Nature of Federal Reserve Bank Credit

Credit in general is a matter of monetary agreements, the essence of it being an acceptable promise to pay. Bank credit is a special form of credit, peculiar in that it involves a promise or assumption of liability by a bank, given in exchange for a promise made to a bank. Thus, a bank accepts the promisory note of a customer and

in exchange promises to pay the customer a corresponding amount, which, pending his order, is carried on its books as a deposit in his favor. Bank credit plays a vitally important part in modern economic life. As a source of bank deposits transferable by check, it provides the funds with which the bulk of monetary payments is effected. It is always interchangeable with legal tender money, but for the most part it is not derived from legal tender money, nor does the volume of bank credit bear any rigid relationship to the volume of legal tender money. If the volume of loans that banks could make and of deposits that they could accept were limited to the volume of currency in existence, bank credit would not have the utility it now has in our economic system. Bank credit is a means by which wealth in other than monetary forms can be transmuted temporarily into monetary forms; as when, for example, a man borrows a thousand dollars on mortgage or collateral security and thereby obtains monetary funds without selling his property.

Federal Reserve Bank Credit resembles bank credit in general, but under the law it has a limited and special use—as a source of member bank reserve funds. It is itself a form of money authorized for special purposes, convertible into other forms of money, convertible therefrom, and readily controllable as to amount.

Federal Reserve Bank credit, therefore, as already stated, does not consist of funds that the Reserve authorities "get" somewhere in order to lend, but constitutes funds that they are empowered to create. The process of creation is one of giving the promises of the Federal Reserve Bank—in the form of Federal Reserve notes and deposit credits—in exchange for the promises made by banks, the reason for the exchange being that the Federal Reserve Bank's promises are recognized by law as having a particular monetary utility not possessed by the promises of individuals or of private institutions. That is, Federal Reserve Bank promises—or "liabilities" as they are commonly called—serve in the form of Federal Reserve notes as the principal element of the circulation medium, and they serve in the form of reserve deposits as a basis for the extension of credit by member banks. These are the specific uses of the funds that have their source in Federal Reserve Bank credit.

Although the powers possessed by the Federal Reserve authorities are important and extensive, nevertheless they are constantly subject to limitations inherent in the conditions under which they are to be exercised. They are most effective when there

is an active demand for credit. When the demand is slack, or bank reserves are greatly in excess of requirements, the powers are much less effective. The Federal Reserve authorities can create credit when it is in demand, they can encourage the demand for it by making funds abundant and cheap, they can create deposits by open market purchases of securities from others than member banks; but they can not create a demand for credit or cause the created deposits to be actively used.

CHAPTER VIII

Member Bank Reserves and Related Items

The principal factors involved in Federal Reserve policy are member bank reserve balances, gold stock, Federal Reserve Bank credit, money in circulation, and Treasury cash and balances.

In the four preceding chapters the factors of Federal Reserve policy have been discussed at length. The accompanying chart (Member Bank Reserves and Related Items) [omitted] shows the movement of the more important of these factors from the early years of the Federal Reserve System to the present. This chart, slightly modified for present purposes, and the chart (Member Bank Reserve Balances) which appears later in this chapter, are regularly published in the Federal Reserve BULLETIN to portray current monetary developments.

The chart shows five lines, which may be considered in the following order:

Member Bank Reserve Balances

Gold Stock

Reserve Bank Credit

Money in Circulation

Treasury Cash and Deposits

From 1918 through 1932 member bank reserve balances in the aggregate never exceeded \$2,500,000,000 for more than a few days at a time, and until 1932 and 1933 their total fluctuated relatively little. Since 1933 the amount of these balances has greatly increased, until by the end of 1938—that is, in a period of five years—they were \$9,000,000,000, or three times as much as they ever were before

the increase began. These reserve balances are a potential base for a credit expansion far in excess of anything this country has ever experienced.

Gold and Federal Reserve Bank Credit

As explained in preceding chapters, the principal sources of reserve balances are gold and Federal Reserve Bank credit. Which of these is responsible for the remarkable increase in reserve balances since 1933? It is obvious from the chart that it is gold the total amount of which has doubled since 1934, while the amount of Reserve Bank credit has remained practically stationary; gold has risen to about \$15,000,000,000, while Reserve Bank credit is only \$2,500,000,000.

Before 1934, however, and prior to the recent large increase in the gold stock, the volume of Federal Reserve Bank credit showed wide fluctuations. It was then a more active factor in the volume of reserves. Before 1932 banks generally had no reserves at the Federal Reserve Banks in excess of what was required, and they frequently found occasion to borrow. At the same time and for the same reason, the Federal Reserve authorities had more occasion to buy and sell securities currently in the open market as a means of increasing and decreasing the volume of reserve funds. When the Reserve Banks increased their holdings, banks gained reserves and were enabled to pay off their borrowings and extend additional credit; when the Reserve Banks decreased their holdings, banks lost reserves and were forced to borrow or else curtail their extensions of credit. In 1932 and 1933 the Reserve Banks increased their holdings of United States Government securities, and the funds given in payment for their purchases first enabled the member banks to reduce their borrowings and then increased their excess reserves.

Since 1933 the rapid inflow of gold shown by the chart has increased member bank reserves much more rapidly than bank credit has been expanded. Consequently, banks have held large amounts of reserves in excess of requirements, and there has been little occasion for them to seek Federal Reserve Bank credit, or for Federal Reserve Bank credit to be expanded by open market operations.

Money in Circulation, Treasury Cash, and Treasury Balances

It will be noted from the chart that at all times the volume of bank reserves has been

less than the total of gold and Federal Reserve Bank credit combined. This reflects the fact that gold and Federal Reserve Bank credit are the principal sources not only of bank reserves, but also of money in circulation, which consists principally of Federal Reserve notes. They are also a source of the cash held by the Treasury or deposited by it in its checking account with the Federal Reserve Banks. The amount of these Treasury balances was relatively small until 1934, when it was substantially enlarged by the increased value of the gold stock resulting from revaluation of the dollar. As explained in a preceding chapter, fluctuations in Treasury balances generally represent a temporary rather than a permanent or basic use of funds. When the Treasury collects taxes, it receives the bulk of the payments by check. These checks in effect transfer money from the commercial banks to the Treasury; that is, they enlarge the Treasury's balances at the Federal Reserve Banks and reduce the reserve balances of member banks. The same thing occurs, in effect, when the Treasury borrows. On the other hand, when the Treasury expends the funds it has received, its own balances at the Federal Reserve Banks are reduced and the reserve balances of member banks are increased. Because Treasury receipts and disbursements alternately decrease and increase the reserves of banks, they tend to cancel out; though at any given time they may account for current changes of considerable magnitude in the volume of bank reserves and of Reserve Bank credit.

Another factor of potential importance, not shown on the chart, is Treasury currency. This includes coin, silver certificates, and United States notes. When these forms of money go into circulation, they are ordinarily deposited by the Treasury in the Federal Reserve Banks and are paid out by them to member banks as currency is required by the public. Like gold and Federal Reserve Bank credit, they are a source of bank reserves. They are not funds obtained by the Treasury from existing reserves through borrowing or taxation. Accordingly, an increase in the issue of coin, silver certificates, or United States notes will tend to increase bank reserves.

Interrelations Between Factors

All of the factors shown on the chart are closely and necessarily interrelated. Some of them are not directly subject to control by the Federal Reserve authorities, while others are subject to control in part. Increases and decreases in the volume of gold are relatively uncontrollable. The same is true of money in circulation; whatever the

public requires is supplied without delay or interference. Changes in Treasury cash and deposits and in Treasury currency generally reflect fiscal requirements and occasionally monetary policies (e.g., revaluation of gold, gold sterilization, and issuance of silver certificates); at any rate they are not among the factors directly subject to control by the Federal Reserve authorities. This leaves Federal Reserve Bank credit as the one factor that is largely controllable. As explained in the preceding chapter, the fact that it is controllable is the reason for its existence; it can be increased or decreased as a counterweight to changes in the less controllable factors.

At the present time, the interplay of the foregoing controllable and uncontrollable factors determines the volume of member bank reserve balances. At any given moment this volume may be affected by the uncontrolled movement of gold, or changes in the amount of money in circulation, or Treasury receipts and disbursements, and by the controlled increase and decrease in the volume of Federal Reserve Bank credit.

Bank reserves are not always or necessarily, however, so passive a resultant of other factors as they are under present conditions. At times when member banks have almost no reserves in excess of what they are required to have, as they did before the gold influx of recent years, there will be a greater need for Federal Reserve Bank credit, and member banks will borrow from the Reserve Banks. Under these circumstances changes in the volume of reserves will be a governing cause of changes in the volume of Federal Reserve Bank credit.

It will be noted that prior to 1934 there was a very close relation between money in circulation and Reserve Bank credit, seasonal fluctuations in the two lines almost duplicating each other. This reflects the fact that increases in the volume of money in circulation means withdrawal of currency from the Federal Reserve Banks, with a consequent decline in the volume of member bank reserves. Similarly, when currency is retired from circulation, and deposited in the Federal Reserve Banks, it is credited to the reserves balances of member banks and increases them. When the reserve balances represent merely what banks are required to have and there is no excess, the withdrawals of currency for circulation purposes have to be offset by extensions of Federal Reserve Bank credit. A given member bank, for example, that

needs \$100,000 in currency, but has no reserves, will borrow \$100,000 from the Federal Reserve Bank and have the amount credited to its reserve account so that the withdrawals will not reduce its reserves below the required amount. And, correspondingly, as soon as the member bank accumulates sufficient currency, it will deposit what it can spare in the Federal Reserve Bank and pay off its borrowing. Therefore, when banks have only such amounts of reserves as they are required to have—as was generally true before 1934—increases and decreases in the amount of money in circulation bring about corresponding increases and decreases in the volume of Federal Reserve Bank credit. But when banks have large excess of reserves—as they have had since 1934 increases and decreases in the amount of money in circulation do not appreciably affect the volume of Federal Reserve Bank credit but only the volume of the excess reserves.

A striking feature of the chart (below) is the abrupt increase in the gold stock in 1934. This reflects revaluation of the dollar, by which the price of gold was raised from \$20.67 to \$35 an ounce. Before this action was taken, all gold already in the country, which for the most part was held by the Federal Reserve Banks was turned over to the Treasury. The whole increase in the monetary value of gold went to the United States Government, therefore, and was added to the Treasury's cash balance. Except to the extent that a part of this increment was later expended by the Treasury, the increase in the value of the gold stock had no effect on member bank reserves.

Required and Excess Reserves

The preceding chart (Member Bank Reserve Balances) [omitted] shows reserve balances divided into required reserves and excess reserves, Required reserves are the part of total reserves which banks must keep in proportion to their own deposits, and excess reserves are the part in excess of what is required.

Before 1932, banks had almost no excess reserves. They maintained just what they were required to maintain and little more. When they needed larger reserves they used Federal Reserve Bank credit, which was therefore a much more active factor, as already explained, than it is now.

CHAPTER IX

What the Twelve Federal Reserve Banks Own and What They Owe

The central banking functions of the Federal Reserve System are reflected in the balance sheet of the Federal Reserve Banks.

The functions described in the preceding chapters are all reflected in the balance sheet of the twelve Federal Reserve Banks, which is made public every Friday and shows the condition of the Reserve Banks as of the Wednesday immediately preceding. It appears in the Friday issue of the principal daily newspapers of the country and is usually accompanied by explanatory comment, particularly as to changes in member bank reserves and related factors.

The statement as of December 31, 1938, in condensed form is as follows, only the most important items being shown separately.

ASSETS		LIABILITIES	
	Millions		Millions
1. Gold cert. on hand, in Treas . .	\$11,798	8. Federal Reserve notes	\$4,452
2. Other cash	368	9. Deposits:	
3. U. S. Gov. securities	2,564	Reserve member banks . . .	8,724
4. Discounts for member banks . . .	4	U. S. Treasury's acct	923
5. Other earning assets	16	10. Deferred availability items . . .	694
6. Uncollected items	711	11. Miscellaneous liabilities	<u>3</u>
7. Miscellaneous assets	<u>120</u>	Total Liabilities	\$15,237
Total Assets	\$15,581		

CAPITAL ACCOUNTS

	Millions
12. Capital	\$ 135
13. Surplus (section 7) . . .	149
14. Surplus (section 13b) . . .	27
15. Other capital accounts . . .	<u>33</u>
Total Liab. and Cap. ac. . . .	\$15,581

Explanation of Asset Accounts

1. Gold Certificates on hand and due from the United States Treasury. This amount comprises certificates due the Federal Reserve Banks for gold acquired by the Treasury, including both gold transferred by the Federal Reserve Banks to the Treasury upon adoption of the Gold Reserves Act of 1934 and gold subsequently acquired. It includes \$10,000,000 constituting a redemption fund for Federal Reserve notes.
2. Other cash is coin and paper money (not including gold certificates or Federal Reserve notes) in the Reserve Banks' vaults.
3. United States Government Securities are bonds, Treasury notes, Treasury bills purchased from dealers and others in the open market. This account shows the amount of Federal Reserve Bank credit created by such purchases in order to increase or replenish member bank reserves. Like the account which follows, Discounts for Member Banks, it reflects one of the most important Reserve Banking functions. Under the present law, Government obligations are never purchased from the Treasury by the Federal Reserve Banks but are purchased only in the open market.
4. Discount for Member Banks. This account shows the amount of Federal Reserve Bank credit created by lending and is represented in part by promissory notes of member banks secured by collateral, and in part by promissory notes or other obligations endorsed over to the Federal Reserve Bank by member banks. These are usually called discounts, or rediscounts, because when the Reserve Bank acquires them it gives credit for the amount thereof less a discount, i. e., an interest charge deducted in advance at the established rate. Like the account which precedes, United States Securities, it reflects one of the most important central banking functions. Until recent years, until gold imports expanded the reserves of member banks and made it unnecessary for them to borrow except infrequently and on small scale, discounts were very large. In 1920, for example, discounts for member banks were \$2,500,000,000, United States Government securities owned were only \$300,000,000, and other earning assets (mostly acceptances bought in the open market, now less than \$1,000,000) were \$400,000,000. This is in marked contrast to the more recent figures.

5. Other earning assets are now mainly loans made to industrial and commercial enterprises in accordance with section 13b of the Federal Reserve Act. This item also includes bills purchased, which, as referred to in the preceding paragraph, now amounts to less than \$1,000,000. At times when the supply of bank reserves has been low, however, the Federal Reserve Banks have bought substantial amounts of bills and thus have supplied funds for seasonal credit and currency demands, especially in the autumn months. These bills are acceptances, that is, two-party obligations arising from transactions in commodities, especially in the import and export trade. The Federal Reserve Banks purchases them at established rates in such volume as they are offered for sale.
6. Uncollected items include checks and other cash items deposited with the Federal Reserve Banks and still in process of collection at the time the statement is made up.
7. Miscellaneous assets consist of several items, of which the largest is the bank premises owned by the Federal Reserve Banks and carried at \$43,000,000. They also include premium on securities owned and accrued interest receivable.

Explanation of Liability and Capital Accounts

8. FEDERAL RESERVE NOTES are the obligations of the Federal Reserve Banks that circulate as money. They are described in Chapters II and VII.
9. Deposits consist mainly of the RESERVES of MEMBER BANKS. They also include checking accounts of the United States Treasury and other Governmental agencies, deposits of foreign banks, and deposits maintained by certain nonmember banks for use in clearing and collecting checks.
10. Deferred availability items are of technical rather than general significance. The account arises from the fact that Federal Reserve Banks do not give immediate credit for checks deposited for collection. Broadly speaking, deposits credit is deferred until the checks have had time to reach the banks upon which they are drawn and to be paid by them. Pending this, the Federal Reserve Banks give what is known as "deferred credit." These items are generally in approximate balance with "Uncollected items," shown among the assets (Number 6).

11. Miscellaneous liabilities consist of several items, the principal ones being discount on bills and securities and miscellaneous accounts payable.
12. All of the capital stock of the Federal Reserve Banks is owned by banks which are members of the Federal Reserve System. See Chapter I.
13. Surplus (section 7) is governed by section 7 of the Federal Reserve Act. It can be drawn on to meet deficits or losses, if any. It can not be distributed to the stockholding member banks, except as may be necessary to pay the regular 6 per cent dividend. The law provides that, if the Reserve Banks are dissolved, any surplus be paid to the United States.
14. Surplus (section 13b) represents the funds received from the Secretary of the Treasury for the purpose of making loans in accordance with section 13b of the Federal Reserve Act, plus or minus the net earnings or net loss arising from the use of such funds.
15. Other capital accounts consist primarily of reserves for contingencies, amounting to \$33,000,000, and undistributed earnings, if any.

It is plain from a glance at the statement that four items are by far the largest, namely, Gold Certificates and Government Securities among the assets, and Notes and Reserve Deposits of Member Banks among the liabilities. These items, with Discounts for Member Banks, reflect the essential operations of the Federal Reserve Banks as central banking institutions. The amount of gold certificates is increased from time to time as the Treasury makes use of the gold it acquires. The Government securities, discounts, and other earning assets are acquired when the Federal Reserve authorities create additional reserve funds for member banks. They represent the Reserve Bank credit advanced by the Reserve Banks and discussed in previous chapters.

Federal Reserve notes, on the liability side, constitute the largest and most flexible portion of the country's circulating medium. As already explained, their amount can increase or decrease in immediate response to the public's requirement of increased or decreased amounts of cash. The reserve deposits standing to the credit of member banks on the books of the Reserve Banks serve at the same time (a) as clearing

balances through which bank checks are collected and through which currency is drawn into circulation and returned therefrom, and (b) as to the means through which regulation of the lending power of commercial banks is effected. See Chapters II, III, and IV.

It will be observed, that the Federal Reserve Bank statement shows a very small proportion of assets that yield income—only about 15 per cent of the total. That 85 per cent of the assets are in such form that they yield no income is abnormal from the viewpoint of privately managed enterprise operated for profit. It is not usual even for a central bank, but since such an institution is conducted for public purposes and is not guided by the motive of earnings, circumstances may be such as to result in a large proportion of its lending power remaining unused. Such circumstances exist today.

CHAPTER X

Federal Reserve Bank Earnings

The operations of the Federal Reserve Banks, although not conducted for profit, yield an income which is ordinarily sufficient to cover expenses. The Federal Reserve authorities have special power to curb the use of credit for speculation in securities.

The creation of Federal Reserve Bank credit through lending and through purchases of securities incidentally yields an income to the Federal Reserve Banks in the form of interest.

Ordinarily this income is adequate to cover the necessary expenses of the Federal Reserve Banks and the Board of Governors and to leave a balance. Around the year 1920, the net earnings of the Federal Reserve Banks were large, to a great extent because of operations in connection with war financing, but since that period they have been relatively small. Some of the Federal Reserve Banks in certain years have operated at a loss. In twenty-four years (1914-1938) the total earnings of the twelve Federal Reserve Banks have amounted to \$1,277,000,000.

The distribution of these earnings is shown in the accompanying chart (Distribution

of Earnings of Federal Reserve Banks, 1914-1938) [omitted].

In round numbers, earnings have been used as follows:

	Millions
Expenses and reserves . . .	\$669
Dividends . . .	170
Paid U. S. Treasury . . .	150
Paid to Fed. Deposit. Ins . . .	130
Surplus Remaining . . .	<u>149</u>
Total Expenses . . .	\$1,277

The twelve Federal Reserve Banks operate with a force of about 11,000 officers and employees, and the total payroll in the course of twenty-four years, after deducting salary reimbursements, has been about \$345,000,000. Other important items of expense in the same period have been \$51,000,000 for depreciation and charge-offs on bank premises; \$50,000,000 for the expense of issuing and redeeming Federal Reserve currency; \$56,000,000 for postage, expressage, and insurance on currency and securities shipments; \$22,000,000 for local taxes; and \$20,000,000 for maintenance of the Board of Governors, in Washington, which regulates and supervises the Federal Reserve System. The Board is not supported by Government funds or appropriated moneys but by assessment upon the twelve Reserve Banks.

Congress provided in the Federal Reserve Act that dividends of 6 per cent per annum, cumulative, be paid by the Reserve Banks on their capital stock. The Act requires that this stock be purchased and held by member banks. Dividends are paid after all necessary expenses have been met.

Until 1933, the Federal Reserve Act required each Federal Reserve Bank to pay to the United States Treasury an annual franchise tax consisting of all net earnings after payment of dividends and certain additions to surplus. The sum paid in the course of eighteen years amounted to about \$150,000,000. In 1933, Congress required the Reserve Banks to pay about \$139,000,000 to the Federal Deposit Insurance Corporation, which had just been organized. This payment reduced the surplus by about half. At the same time Congress removed the requirement that the Reserve

Banks pay the Government a franchise tax. This enabled the Banks to apply unused earnings to a more rapid restoration of their depleted surplus.

As indicated, the surplus of the Federal Reserve Banks is now about \$149,000,000. This, with their capital of about \$135,000,000, gives them capital and surplus combined of about \$284,000,000.

The surplus is available to the Federal Reserve Banks for meeting losses, deficits, and unearned dividends, but it can not be otherwise distributed to the stockholding member banks. As already stated, the law provides that if the Reserve Banks should be liquidated, any surplus would be paid to the United States, after payment of debts and the par value of the stock with dividends due thereon.

The accompanying chart (Disposition of Net Earnings of Federal Reserve Banks) [omitted] covers the whole period of Federal Reserve bank operations and shows, year by year, the amount of net earnings transferred to surplus, the franchise tax paid to the Government, and dividends paid to member banks. It reflects the fact that there were large additions to surplus in the years about 1920 when earnings were highest, and in some subsequent years either there have been no additions or surplus has been drawn down. It reflects the fact that in 1933, as stated, Congress directed the Federal Reserve Banks to pay an amount equal to half their surplus to the Federal Deposit Insurance Corporation and also discontinued the franchise tax. It also reflects the fact that dividends have remained about the same.

As the chart shows, the net earnings of the twelve Federal Reserve Banks have varied considerably in the course of years. They were highest in 1919, 1920, and 1921, when the total was \$310,000,000. In these three years there was a strong demand for credit, and the Reserve Banks made a large volume of loans. Their net earnings in those three years amounted to approximately one-half their total net earnings in twenty-four years. In 1936, 1937, and 1938 the total net earnings were \$29,000,000. The reduced earnings in recent years reflect the fact that there has been little demand for credit. In 1920 when the Federal Reserve Banks had the highest earnings, they had loans and investments of more than \$3,000,000,000, most of which were loans yielding from around 4½ per cent to 6 per cent or 7 per cent. In 1938, when their net earnings were only a small fraction of what they were in 1920,

they had loans and investments of about \$2,500,000,000, most of which were Government securities yielding less than 1½ per cent.

CHAPTER XI

Margin Requirements

The regulatory powers of the Federal Reserve authorities so far described relate to the volume and cost of bank credit in general, without regard to the particular field of enterprise or economic activity in which the credit is used. In one respect, however, the Federal Reserve authorities are enjoined by law to give particular attention to the use to which credit is put. That is its use in speculation.

Speculation may occur in almost any field. It may occur in land, in commodities, or in securities; and wherever it occurs it is apt to have marked effect upon credit conditions in general. The Reserve authorities are instructed by the statute to keep themselves informed as to "whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities" and are authorized to take certain actions to prevent undue use of credit in these fields. In addition, they have special power to curb the use of credit for speculation in securities.

This power is exercised by limiting the amount which holders of securities may borrow upon them, either from banks or from brokers and securities dealers, for the purpose of purchasing or carrying securities. The amount is a percentage of the current market value of the securities. It is determined by the Board of Governors of the Federal Reserve System. Since 1934, when Congress gave the Board this authority, the figure has been as low as 45 per cent and as high as 60 per cent. A figure of 60 per cent means, for example, that a person owning listed stocks currently worth \$1,000 may borrow on them for speculative purposes no more than \$600. The limitation does not apply, however, to any loan for commercial purposes, even though the loan be secured by stocks. When it appears that there is borrowing on a large and growing scale to finance purchases of stock, and that it is in the public interest to exercise further restraint on speculation in securities, the Board may reduce the percentage which can be borrowed. As indicated, the limit has been as

low as 45 per cent. In this field, as in the general field of credit regulation, therefore, the Reserve authorities undertake to exercise a stabilizing and corrective influence.

This power to establish loan values for securities is commonly spoken of as a power to establish "margin requirements," that is, the amount of collateral which must be put up by the borrower in excess of the amount of his loan. If one is buying \$1,000 worth of securities, and the loan value is 60 per cent, he may borrow \$600 against the securities and must furnish the other \$400 himself. The banker or broker who makes him the loan then holds collateral worth \$400 in excess of the amount of the loan. This is his margin. The Board's regulation may be thought of, therefore, either as prescribing minimum margin requirements or as limiting maximum loan values.

The Board's regulation applies to the margin required at the time the loan is made. If the collateral security subsequently declines in value, the regulation does not make it necessary either to put up additional collateral or to reduce the loan. Aside from having to do with a specific use of credit, the authority with respect to security loans differs from other Federal Reserve powers in reaching outside the Federal Reserve System to banks which are not members of the System and to brokers and dealers in securities. It is closely related, however, to other regulatory powers of the Federal Reserve authorities, because the use of credit for purchasing or carrying securities has a very important bearing upon its use for business purposes in general. The greater part of credit used in carrying securities is extended by brokers, whose customers pay only partly in cash for the securities they purchase and go into debt to the broker for the balance. The broker himself must pay in full for the securities he buys, however, and ordinarily he borrows from his bank. Since brokers could not carry customers on any substantial scale unless they were themselves carried by the bank, most of the credit used by the customers in buying the securities is in reality furnished by the banks, and fluctuations in bank loans to brokers, as in any other bank loans, directly affect the bank's reserve position. A strong demand on brokers for credit, reflected in a strong demand by brokers for bank loans, may occasion substantial changes in money rates. By limiting the amount that can be borrowed on securities, therefore, and so restraining such demand for credit, the Federal Reserve authorities are able to impose restrictions on the use of bank funds for stock market speculation without restricting the volume of credit available for commercial and industrial needs or raising its cost.

CHAPTER XII

Summary

The Federal Reserve System has successfully overcome certain difficulties that formerly beset American economic life and imposed upon it great losses; the System still has constantly to meet new problems and difficulties.

The basic powers of the Federal Reserve authorities relate to money and banking. They are monetary in that they deal with the means of payment, which consists in part of currency, in part of deposit, credit originating from gold, and in part of deposit credit originating in loans and in purchases of securities by banks.

Before the Federal Reserve System was organized, the outstanding defects of American banking were diagnosed as "inelastic currency" and "scattered bank reserves." Establishment of the System promptly cleared the way for the anticipated improvements. Elasticity of the currency was achieved. The machinery for note issue proved adequate for the purpose and in time was found to work almost automatically. For many years now the volume of money in circulation has expanded and contracted smoothly and efficiently in accordance with the varying requirements of the public, and the currency function of the Federal Reserve Banks has become virtually a matter of routine, entailing no uncertainties and no difficult administrative problems.

The reserve function, on the other hand, has assumed far greater importance. It has come to be recognized as much more than a matter of "Pooling" or "mobilizing" scattered reserves and making available to banks in need of funds the surplus reserves of banks that have more than they need. It involves a power to create reserve funds and to extinguish them. If the funds lent by a Federal Reserve Bank, or paid by it for securities, were merely the funds deposited with it by its member banks, the loans and the purchases would not enlarge the total volume of reserve funds. In fact, however, they do enlarge the total volume of reserve funds. By acquiring the obligation of a member bank or other obligor and in exchange crediting an equivalent amount to the reserve balance of the member bank, a Federal Reserve Bank expands both its assets and its liabilities, and the expansion continues in effect

so long as the obligation is held. The action is creative.

This does not mean that the power of the Federal Reserve authorities is unlimited and that they can create something out of nothing. The law itself limits their power to expand their deposits—that is, the reserve balances of member banks—and to expand their note issue by requiring that their liabilities not exceed a certain ratio to their holdings of gold certificates. Although this limitation has lost effectiveness, because of the present large gold stock, a fully effective limitation of more practical nature remains. This is that Federal Reserve action will not result in an increased use of bank credit unless there is a demand from the public for additional funds. The Federal Reserve authorities have considerable control over the volume of bank reserves, but they have no corresponding control over the use of bank reserves, and in particular they do not have power to create a demand for credit. They are able to expand bank reserves to meet almost any conceivable demand for credit once that demand comes into existence and also to curb or discourage a demand for credit when it shows signs of developing speculative excesses. They possess no means, however, of impelling bank customers to borrow or of impelling bankers to lend.

The purpose of Federal Reserve functions, like that of Governmental functions in general, is the public good. Federal Reserve policy can not be adequately understood, therefore, merely in terms of how much the Federal Reserve authorities have the power to do and how much they have not the power to do. It must be understood in the light of its objective which is to maintain monetary conditions favorable for an active and sound use of the country's productive facilities, full employment, and a rate of consumption reflecting widely diffused well-being. In carrying out their policy, the Federal Reserve authorities take into account the factors making up the prevailing situation and use their powers in the way that seems to them best calculated to contribute, with other agencies, to economic stability.

In recent years the most important problems affecting Federal Reserve policy have arisen from the enlargement of bank reserves as the result of the increasing amount of gold in this country. This increase has been contributed to by increased production of gold from domestic mines, but to a much larger extent it has been the result of movements of gold into this country from abroad. The stock of gold in the United States has become about four times as great as it ever was before 1934 and amounts

to about 60 per cent of all the monetary gold in the world. Various causes have brought about this unprecedented accumulation, but the principal cause has been the disturbed economic and political situation in Europe. The result of the accumulation has been the expansion of the reserves of American banks to an amount and degree never before approximated. Member bank reserve balances, which scarcely ever exceeded \$2,500,000,000 before 1933, have amounted to \$9,000,000,000 and more—principally as a result of gold shipments from other countries.

The potential lending power derived by banks from receipt of this gold creates an unprecedented problem of control; because the unusual reserve of banks are much greater than can be absorbed by the Federal Reserve authorities under present powers. If changed conditions should result however in a return of gold to Europe the powers of the Federal Reserve authorities would be found highly effective in protecting American interests from being hurt by the withdrawal.

The principal means through which the Federal Reserve authorities may exercise their powers over bank reserves are in review the following:

OPEN MARKET OPERATIONS. These operations directly affect the volume of reserves: purchases of securities by the Federal Reserve authorities supply banks with additional reserve funds, and sales of securities diminish the volume of such funds. As a means of credit expansion, these operations are limited only by the supply of bills and securities available for purchase and by the reserve position of the Federal Reserve Banks themselves, assuming a demand for bank credit. As a means of credit contraction, they are limited by the amount of bills and securities held by the Reserve Banks. At the end of 1938 this amounted to about \$2,500,000,000, which of course is considerably less than the amount of member banks' excess reserves.

DISCOUNTS. Through the power to discount and make advances, the Federal Reserve authorities are able to supply individual banks with additional reserve funds and may make these reserve funds more or less expensive for member banks by raising or lowering the discount rate. Discounts can expand only when member banks need to borrow.

RESERVE REQUIREMENTS. Raising or lowering requirements as to the reserves which member banks maintain on deposit with the Federal Reserve Banks has the effect of diminishing or enlarging the volume of Funds that member banks have available for lending. Under existing law, the requirements may be raised from the present level by only about one-seventh and lowered by about three-sevenths.

As already stated, the foregoing powers directly affecting the volume of member bank funds have no immediate effectiveness with respect to the utilization of those funds. In the field of stock market speculation, however, the Reserve authorities have a direct means of control over the use of funds—namely, through margin requirements. The Reserve authorities may also exercise limited influence over the credit practice of banks through bank examinations.

In addition to the credit functions which have just been described, the Federal Reserve Banks perform certain services of which the most important are: holding member bank reserve balances; furnishing currency for circulation; facilitating the clearance and collection of checks and the transfer of funds; and acting as fiscal agents, custodians, and depositaries of the United States Government.

Establishment of the Federal Reserve System has made it possible to meet and overcome many difficulties that formerly beset American economic life and imposed upon it great losses. The System has accomplished improvements in the monetary and banking field that are now taken for granted. Yet new problems and needs are always arising. Those that result from recent changes in monetary conditions here and abroad are especially complex and difficult. Federal Reserve policies must be constantly adapted to conditions in an ever-changing world.

1. The term "reserves" as used in this book denotes asset reserves exclusively—that is, the reserves that count virtually as cash. It does not denote the reserves against contingencies that may be set up on the liability side of the balance sheet. [return](#)

2. As this and the preceding paragraph indicate, a bank's purchase of investments increase bank deposits just as bank loans do. For the sake of simplicity, the terms "lending" and "extension of credit" are often used where the purchase of investments by banks as well as lending by banks is meant. [return](#)

3. At present, gold purchased by the United States Treasury is not in fact deposited at a Federal Reserve Bank but is delivered to one of the United States Assay Offices, and the check received from the Treasury in payment is deposited in the Federal Reserve Bank. The technical steps involved in the transaction have no significance for present purposes, the effect being the same as if the gold were actually deposited in the Federal Reserve bank and by it turned over to the Treasury. The gold, though

held in the vaults of the Treasury, is nevertheless a part of the money supply of the country; on its way into the Treasury it gives rise to bank deposits and bank reserves, and if withdrawn from the banking system through export or otherwise, it would reduce them. [return](#)

4. Gold may be withdrawn from the United States Treasury, under present law and regulations, at the discretion of the Secretary of the Treasury, for export or for use in the arts but not for domestic circulation. [return](#)

5. The reserves required are not in fact 20 per cent at present, but about 15 per cent on the average. The figure of 20 per cent has been used for greater simplicity in illustration. The actual figure is always the result of several factors and varies from time to time, partly because of changes in the various required percentages and partly because of changes in the amount of deposits subject to the various required percentages. Between 1918 and 1929 the ratio of required reserves to deposits declined from about 9 per cent to about 7 per cent and thereafter rose again to about 8 per cent by the middle of 1936. In 1937 it rose to about 16 per cent, as a result of changed reserve requirements, and in 1938 it fell to about 15 per cent. [return](#)

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THE FIXATION OF BELIEF

From *COLLECTED PAPERS OF CHARLES SANDERS PIERCE*. This article was first published in *Popular Science Monthly*, vol. 12, 1877, and subjected to later revision. Charles Sanders Pierce was an extraordinarily intellectually gifted individual who never published a major work. A debt is owed to Charles Hartshorne and Paul Weiss for the collection and editing, and publication of Pierce's diverse work posthumously by Harvard Press. Editor's notes are omitted here, but Pierce's original footnotes are included.

* * * * *

The internet is such a cesspool of beliefs based on "tenacity," "authority," and mindless impulse that this one hundred twenty-six year old examination of belief and its methods of fixation are long overdue for revisitation.

§ 1. SCIENCE AND LOGIC

358. Few persons care to study logic, because everybody conceives himself to be proficient enough in the art of reasoning already. But I observe that this satisfaction is limited to one's own ratiocination, and does not extend to that of other men.

359. We come to the full possession of our power of drawing inferences, the last of all our faculties; for it is not so much a natural gift as a long and difficult art. The history of its practice would make a grand subject for a book. The medieval schoolman, following the Romans, made logic the earliest of a boy's studies after grammar, as being very easy. So it was as they understood it. Its fundamental principle, according to them, was, that all knowledge rests either on authority or reason; but that whatever is deduced by reason depends ultimately on a premiss derived from authority. Accordingly, as soon as a boy was perfect in the syllogistic procedure, his intellectual kit of tools was held to be complete.

360. To Roger Bacon, that remarkable mind who in the middle of the thirteenth century was almost a scientific man, the schoolmen's conception of reasoning appeared only an obstacle to truth. He saw that experience alone teaches anything—a proposition which to us seems easy to understand, because a distinct conception of experience has been handed down to us from former generations;

which to him likewise seemed perfectly clear, because its difficulties had not yet unfolded themselves. Of all kinds of experience, the best, he thought, was interior illumination, which teaches many things about Nature which the external senses could never discover, such as the transubstantiation of bread.

361. Four centuries later, the more celebrated Bacon, in the first book of his *Novum Organum*, gave his clear account of experience as something which must be open to verification and reexamination. But, superior as Lord Bacon's conception is to earlier notions, a modern reader who is not in awe of his grandiloquence is chiefly struck by the inadequacy of his view of scientific procedure. That we have only to make some crude experiments, to draw up briefs of the results in certain blank forms, to go through these by rule, checking off everything disproved and setting down the alternatives, and that thus in a few years physical science would be finished up—what an idea! "He wrote on science like a Lord Chancellor," [\(1\)](#) indeed, as Harvey, a genuine man of science said.

362. The early scientists, Copernicus, Tycho Brahe, Kepler, Galileo, Harvey, and Gilbert, had methods more like those of their modern brethren. Kepler undertook to draw a curve through the places of Mars, [\(2\)](#) and to state the times occupied by the planet in describing the different parts of that curve; but perhaps his greatest service to science was in impressing on men's minds that this was the thing to be done if they wished to improve astronomy; that they were not to content themselves with inquiring whether one system of epicycles was better than another but that they were to sit down to the figures and find out what the curve, in truth, was. He accomplished this by his incomparable energy and courage, blundering along in the most inconceivable way (to us), from one irrational hypothesis to another, until, after trying twenty-two of these, he fell, by the mere exhaustion of his invention, upon the orbit which a mind well furnished with the weapons of modern logic would have tried almost at the outset. [\(3\)](#)

363. In the same way, every work of science great enough to be well remembered for a few generations affords some exemplification of the defective state of the art of reasoning of the time when it was written; and each chief step in science has been a lesson in logic. It was so when Lavoisier and his contemporaries took up

the study of Chemistry. The old chemist's maxim had been, "Lege, lege, lege, labora, ora, et relege." Lavoisiers' method was not to read and pray, but to dream that some long and complicated chemical process would have a certain effect, to put it into practice with dull patience, after its inevitable failure, to dream that with some modification it would have another result, and to end by publishing the last dream as a fact: his way was to carry his mind into his laboratory, and literally to make of his alembics and cucurbits instruments of thought, giving a new conception of reasoning as something which was to be done with one's eyes open, in manipulating real things instead of words and fancies.

364. The Darwinian controversy is, in large part, a question of logic. Mr. Darwin proposed to apply the statistical method to biology.⁽⁴⁾ The same thing has been done in a widely different branch of science, the theory of gases. Though unable to say what the movements of any particular molecule of gas would be on a certain hypothesis regarding the constitution of this class of bodies, Clausius and Maxwell were yet able, eight years before the publication of Darwins immortal work, by the application of the doctrine of probabilities, to predict that in the long run such and such proportion of the molecules would, under given circumstances, acquire such and such velocities; that there would take place, every second, such and such a relative number of collisions, etc.; and from these propositions were able to deduce certain properties of gases, especially in regard to their heat-relations. In like manner, Darwin, while unable to say what the operation of variation and natural selection in any individual case will be, demonstrates that in the long run they will, or would, adapt animals to their circumstances. Whether or not existing animal forms are due to such action, or what position the theory ought to take, forms the subject of a discussion in which questions of fact and questions of logic are curiously interlaced.

§ 2. GUIDING PRINCIPLES

365. The object of reasoning is to find out, from the consideration of what we already know, something else which we do not know. Consequently, reasoning is good if it be such as to⁽⁵⁾ give a true conclusion from true premisses, and not

otherwise. Thus, the question of validity is purely one of fact and not of thinking. **A** being the facts stated in the premisses and **B** being that concluded, the question is, whether these facts are really so related that if **A** were **B** would generally be. If so, the inference is valid; if not, not. It is not in the least the question whether, when the premisses are accepted by the mind, we feel an impulse to accept the conclusion also. It is true that we do generally reason correctly by nature. But that is an accident; the true conclusion would remain true if we had no impulse to accept it; and the false one would remain false, though we could not resist the tendency to believe in it.

366. We are, doubtless, in the main logical animals, but we are not perfectly so. Most of us, for example, are naturally more sanguine and hopeful than logic would justify. We seem to be so constituted that in the absence of any facts to go upon we are happy and self-satisfied; so that the effect of experience is continually to contract our hopes and aspirations. Yet a lifetime of the application of this corrective does not usually eradicate our sanguine disposition. Where hope is unchecked by any experience, it is likely that our optimism is extravagant. Logicality, in regard to practical matters (if this be understood, not in the old sense, but as consisting in a wise union of security with fruitfulness of reasoning) is the most useful quality an animal can possess, and might, therefore, result from the action of natural selection; but outside of these it is probably of more advantage to the animal to have his mind filled with pleasing and encouraging visions, independently of their truth; and thus, upon unpractical subjects, natural selection might occasion a fallacious tendency of thought. [\(6\)](#)

367. That which determines us, from given premisses, to draw one inference rather than another, is some habit of mind, whether it be constitutional or acquired. The habit is good or otherwise, according as it produces true conclusions from true premisses or not; and an inference is regarded as valid or not, without reference to the truth or falsity of its conclusion specially, but according as the habit which determines it is such as to produce true conclusions in general or not. The particular habit of mind which governs this or that inference may be formulated in a proposition whose truth depends on the validity of the inferences which the habit determines; and such a formula is called a

guiding principle of inference. Suppose, for example, that we observe that a rotating disk of copper quickly comes to rest when placed between the poles of a magnet, and we infer that this will happen with every disk of copper. The guiding principle is, that what is true of one piece of copper is true of another. Such a guiding principle with regard to copper would be much safer than with regard to many other substances—brass, for example.

368. A book might be written to signalize all the most important of these guiding principles of reasoning. It would probably be, we must confess, of no service to a person whose thought is directed wholly to practical subjects, and whose activity moves along thoroughly-beaten paths. The problems that present themselves to such a mind are matters of routine which he has learned once for all to handle in learning his business. But let a man venture into an unfamiliar field, or where his results are not continually checked by experience, and all history shows that the most masculine intellect will oftentimes lose his orientation and waste his efforts in directions which bring him no nearer to his goal, or even carry him entirely astray. He is like a ship in the open sea, with no one on board who understands the rules of navigation. And in such a case some general study of the guiding principles of reasoning would be sure to be found useful.

369. The subject could hardly be treated, however, without being first limited; since almost any fact may serve as a guiding principle. But it so happens that there exists a division among facts, such that in one class are all those which are absolutely essential as guiding principles, while in the others are all which have any other interest as objects of research. This division is between those which are necessarily taken for granted in asking why a certain conclusion is thought to follow from certain premisses, and those which are not implied in such a question. A moment's thought will show that a variety of facts are already assumed when the logical question is first asked. It is implied, for instance, that there are such states of mind as doubt and belief—that a passage from one to the other is possible, the object of thought remaining the same, and that this transition is subject to some rules by which all minds are alike bound. As these are facts which we must already know before we can have any clear conception of reasoning at all, it cannot be supposed to be any longer of much interest to inquire

into their truth or falsity. On the other hand, it is easy to believe that those rules of reasoning which are deduced from the very idea of the process are the ones which are most essential; and, indeed, that so long as it conforms to those it will, at least, not lead to false conclusions from true premisses. In point of fact, the importance of what may be deduced from the assumptions involved in the logical question turns out to be greater than might be supposed, and this for reasons which it is difficult to exhibit at the outset. The only one which I shall here mention is, that conceptions which are really products of logical reflection, without being readily seen to be so, mingle with our ordinary thoughts, and are frequently the causes of great confusion. This is the case, for example, with the conception of quality. A quality, as such, is never an object of observation. We can see that a thing is blue or green, but the quality of being blue and the quality of being green are not things which we see; they are products of logical reflections. The truth is, that common-sense, or thought as it first emerges above the level of the narrowly practical, is deeply imbued with that bad logical quality to which the epithet *metaphysical* is commonly applied; and nothing can clear it up but a severe course of logic.

§ 3. DOUBT AND BELIEF

370. We generally know when we wish to ask a question and when we wish to pronounce a judgment, for there is a dissimilarity between the sensation of doubting and that of believing.

371. But this is not all which distinguishes doubt from belief. There is a practical difference. Our beliefs guide our desires and shape our actions. The Assassins, or followers of the Old Man of the Mountain, used to rush into death at his least command, because they believed that obedience to him would insure everlasting felicity. Had they doubted this, they would not have acted as they did. So it is with every belief, according to its degree. The feeling of believing is a more or less sure indication of there being established in our nature some habit which will determine our actions. [\(7\)](#) Doubt never has such an effect.

372. Nor must we overlook a third point of difference. Doubt is an uneasy and dissatisfied state from which we struggle to free ourselves and pass into the state of belief;[\(8\)](#) while the latter is a calm and satisfactory state which we do not wish to avoid, or to change to a belief in anything else.[\(9\)](#) On the contrary, we cling tenaciously, not merely to believing, but to believing just what we do believe.

...we cling tenaciously, not merely to believing, but to believing just what we do believe.

373. Thus, both doubt and belief have positive effects upon us, though very different ones. Belief does not make us act at once, but puts us into such a condition that we shall behave in some certain way, when the occasion arises. Doubt has not the least such active effect, but stimulates us to inquiry until it is destroyed. This reminds us of the irritation of a nerve and the reflex action produced thereby, while for the analogue of belief, in the nervous system, we must look to what are called nervous associations—for example, to that habit of the nerves in consequence of which the smell of a peach will make the mouth water.[\(10\)](#)

§ 4. THE END OF INQUIRY

374. The irritation of doubt causes a struggle to attain a state of belief. I shall term this struggle *Inquiry*, though it must be admitted that this is sometimes not a very apt designation.

375. The irritation of doubt is the only immediate motive for the struggle to attain belief. It is certainly best for us that our beliefs should be such as may truly guide our actions so as to satisfy our desires; and this reflection will make us reject every belief which does not seem to have been so formed as to insure this result. But it will only do so by creating a doubt in the place of that belief.[\(11\)](#) With the doubt, therefore, the struggle begins, and with the cessation of doubt it ends. Hence, the sole object of inquiry is the settlement of opinion. We may fancy that this is not enough for us, and that we seek, not merely an opinion, but a true

opinion. But put this fancy to the test, and it proves groundless; for as soon as a firm belief is reached we are entirely satisfied, whether the belief be true or false. And it is clear that nothing out of the sphere of our knowledge can be our object, for nothing which does not affect the mind can be the motive for mental effort. The most that can be maintained is, that we seek for a belief that we shall *think* to be true. But we think each one of our beliefs to be true, and indeed, it is mere tautology to say so.[\(12\)](#)

...for as soon as a firm belief is reached we are entirely satisfied, whether the belief be true or false.
...The most that can be maintained is, that we seek for a belief that we shall *think* to be true.

That the settlement of opinion is the sole end of inquiry is a very important proposition. It sweeps away, at once, various vague and erroneous conceptions of proof. A few of these may be noticed here.

376. 1. Some philosophers have imagined that to start an inquiry it was only necessary to utter a question whether orally or by setting it down upon paper, and have even recommended us to begin our studies with questioning everything! But the mere putting of a proposition into the interrogative form does not stimulate the mind to any struggle after belief. There must be a real living doubt, and without this all discussion is idle.[\(13\)](#)

2. It is a very common idea that a demonstration must rest on some ultimate and absolutely indubitable propositions. These, according to one school, are first principles of a general nature; according to another, are first sensations. But, in point of fact, an inquiry, to have that completely satisfactory result called demonstration, has only to start with propositions perfectly free from all actual doubt. If the premisses are not in fact doubted at all, they cannot be more satisfactory than they are.[\(14\)](#)

3. Some people seem to love to argue a point after all the world is fully convinced of it. But no further advance can be made. When doubt ceases, mental action on the subject comes to an end; and, if it did go on, it would be without a purpose.[\(15\)](#)

§ 5. METHODS OF FIXING BELIEF

377. If the settlement of opinion is the sole object of inquiry, and if belief is of the nature of a habit, why should we not attain the desired end, by taking as answer to a question any we may fancy, and constantly reiterating it to ourselves, dwelling on all which may conduce to that belief, and learning to turn with contempt and hatred from anything that might disturb it? This simple and direct method is really pursued by many men. I remember once being entreated not to read a certain newspaper lest it might change my opinion upon free-trade. "Lest I might be entrapped by its fallacies and misstatements," was the form of expression. "You are not," my friend said, "a special student of political economy. You might, therefore, easily be deceived by fallacious arguments upon the subject. You might, then, if you read this paper, be led to believe in protection. But you admit that free-trade is the true doctrine; and you do not wish to believe what is not true." I have often known this system to be deliberately adopted. Still oftener, the instinctive dislike of an undecided state of mind, exaggerated into a vague dread of doubt, makes men cling spasmodically to the views they already take. The man feels that, if he only holds to his belief without wavering, it will be entirely satisfactory. Nor can it be denied that a steady and immovable faith yields great peace of mind. It may, indeed, give rise to inconveniences, as if a man should resolutely continue to believe that fire would not burn him, or that he would be eternally damned if he received his *ingesta* otherwise than through a stomach-pump. But then the man who adopts this method will not allow that its inconveniences are greater than its advantages. He will say, "I hold steadfastly to the truth, and the truth is always wholesome." And in many cases it may very well be that the pleasure he derives from his calm faith overbalances any inconveniences resulting from its deceptive character. Thus if it be true that death is annihilation, then the man who believes that he will certainly go straight to heaven when he dies, provided he have fulfilled certain simple observances in this life, has a cheap pleasure which will not be followed by the least disappointment. [\(16\)](#) A similar consideration seems to have weight with many persons in religious topics, for we frequently hear it said, "Oh, I could not believe so-and-so, because I should be wretched if I did." When an ostrich buries its head

in the sand as danger approaches, it very likely takes the happiest course. It hides the danger, and then calmly says there is no danger; and, if it feels perfectly sure there is none, why should it raise its head to see? A man may go through life, systematically keeping out of view all that might cause a change in his opinions, and if he only succeeds—basing his method, as he does on two fundamental psychological laws—I do not see what can be said against his doing so. It would be an egotistical impertinence to object that his procedure is irrational, for that only amounts to saying his method of settling belief is not ours. He does not propose to himself to be rational, and indeed, will often talk with scorn of man's weak and illusive reason. So let him think as he pleases.

378. But this method of fixing belief, which may be called the method of tenacity, will be unable to hold its ground in practice. The social impulse is against it. The man who adopts it will find that other men think differently from him, and it will be apt to occur to him, in some saner moment, that their opinions are quite as good as his own, and this will shake his confidence in his belief. This conception, that another man's thought or sentiment may be equivalent to one's own, is a distinctly new step, and a highly important one. It arises from an impulse too strong in man to be suppressed, without danger of destroying the human species. Unless we make ourselves hermits, we shall necessarily influence each other's opinions; so that the problem becomes how to fix belief, not in the individual merely, but in the community.

379. Let the will of the state act, then, instead of that of the individual. Let an institution be created which shall have for its object to keep correct doctrines before the attention of the people, to reiterate them perpetually, and to teach them to the young; having at the same time power to prevent contrary doctrines from being taught, advocated, or expressed. Let all possible causes of a change of mind be removed from men's apprehensions. Let them be kept ignorant, lest they should learn of some reason to think otherwise than they do. Let their passions be enlisted, so that they may regard private unusual opinions with hatred and horror. Then, let all men who reject the established belief be terrified into silence. Let the people turn out and tar-and-feather such men, or let inquisitions be made into the manner of thinking of suspected persons, and when they are found guilty of

forbidden beliefs, let them be subjected to some signal punishment. When complete agreement could not otherwise be reached, a general massacre of all who have not thought in a certain way has proved a very effective means of settling opinion in a country. If the power to do this be wanting, let a list of opinions be drawn up, to which no man of the least independence of thought can assent, and let the faithful be required to accept all these propositions, in order to segregate them as radically as possible from the influence of the rest of the world.

This method has, from the earliest times, been one of the chief means of upholding correct theological and political doctrines, and of preserving their universal or catholic character. In Rome, especially, it has been practised from the days of Numa Pompilius to those of Pius Nonus. This is the most perfect example in history; but wherever there is priesthood—and no religion has been without one—this method has been more or less made use of. Wherever there is an aristocracy, or a guild, or any association of a class of men whose interests depend, or are supposed to depend, on certain propositions, there will be inevitably found some traces of this natural product of social feeling. Cruelties always accompany this system; and when it is consistently carried out, they become atrocities of the most horrible kind in the eyes of any rational man. Nor should this occasion surprise, for the officer of a society does not feel justified in surrendering the interests of that society for the sake of mercy, as he might his own private interests. It is natural, therefore, that sympathy and fellowship should thus produce a most ruthless power.

380. In judging this method of fixing belief, which may be called the method of authority, we must, in the first place, allow its immeasurable mental and moral superiority to the method of tenacity. Its success is proportionately greater; and, in fact, it has over and over again worked the most majestic results. The mere structures of stone which it has caused to be put together—in Siam, for example, in Egypt, and in Europe—have many of them a sublimity hardly more than rivaled by the greatest works of Nature. And, except the geological epochs, there are no periods of time so vast as those which are measured by some of these organized faiths.[\(17\)](#) If we scrutinize the matter closely, we shall find that there has not been one of their creeds which has remained always the same; yet the

change is so slow as to be imperceptible during one person's life, so that individual belief remains sensibly fixed. For the mass of mankind, then, there is perhaps no better method than this. If it is their highest impulse to be intellectual slaves, then slaves they ought to remain.

381. But no institution can undertake to regulate opinions upon every subject. Only the most important ones can be attended to, and on the rest men's minds must be left to the action of natural causes. This imperfection will be no source of weakness so long as men are in such a state of culture that one opinion does not influence another—that is, so long as they cannot put two and two together. But in the most priest-ridden states some individuals will be found who are raised above that condition. These men possess a wider sort of social feeling; they see that men in other countries and in other ages have held to very different doctrines from those which they themselves have been brought up to believe; and they cannot help seeing that it is the mere accident of their having been taught as they have, and of their having been surrounded with the manners and associations they have, that has caused them to believe as they do and not far differently. Nor can their candour resist the reflection that there is no reason to rate their own views at a higher value than those of other nations and other centuries; thus giving rise to doubts in their minds.

382. They will further perceive that such doubts as these must exist in their minds with reference to every belief which seems to be determined by the caprice either of themselves or of those who originated the popular opinions. The willful adherence to a belief, and the arbitrary forcing of it upon others, must, therefore, both be given up. A different new method of settling opinions must be adopted, that shall not only produce an impulse to believe, but shall also decide what proposition it is which is to be believed. Let the action of natural preferences be unimpeded, then, and under their influence let men, conversing together and regarding matters in different lights, gradually develop beliefs in harmony with natural causes. This method resembles that by which conceptions of art have been brought to maturity. The most perfect of it is to be found in the history of metaphysical philosophy. Systems of this sort have not usually rested upon any observed facts, at least not in any great degree. They have been chiefly adopted

because their fundamental propositions seem "agreeable to reason." This is an apt expression; it does not mean that which agrees with experience, but that which we find ourselves inclined to believe. Plato, for example, finds it agreeable to reason that the distances of the celestial spheres from one another should be proportional to the different lengths of strings which produce harmonious chords. Many philosophers have been led to their main conclusions by considerations like this;[\(18\)](#) but this is the lowest and least developed form which the method takes, for it is clear that another man might find Kepler's theory, that the celestial spheres are proportional to the inscribed and circumscribed spheres of the different regular solids, more agreeable to *his* reason. But the shock of opinions will soon lead men to rest on preferences of a far more universal nature. Take, for example, the doctrine that man only acts selfishly—that is, from the consideration that acting in one way will afford him more pleasure than acting in another. This rests on no fact in the world, but it has had a wide acceptance as being the only reasonable theory.[\(19\)](#)

383. This method is far more intellectual and respectable from the point of view of reason than either of the others which we have noticed. Indeed, as long as no better method can be applied, it ought to be followed, since it is then the expression of instinct which must be the ultimate cause of belief in all cases. But its failure has been the most manifest. It makes of inquiry something similar to the development of taste; but taste, unfortunately, is always more or less a matter of fashion, and accordingly metaphysicians have never come to any fixed agreement, but the pendulum has swung backward and forward between a more material and a more spiritual philosophy, from the earliest times to the latest. And so from this, which as been called the *a priori* method, we are driven, in Lord Bacon's phrase, to a true induction. We have examined into this *a priori* method as something which promised to deliver our opinions from their accidental and capricious element. But development, while it is a process which eliminates the effect of some casual circumstances, only magnifies that of others. This method, therefore, does not differ in a very essential way from that of authority. The government may not have lifted its finger to influence my convictions; I may have been left outwardly quite free to choose, we will say, between monogamy

and polygamy, and, appealing to my conscience only, I may have concluded that the latter practice is in itself licentious. But when I come to see that the chief obstacle to the spread of Christianity among a people of as high culture as the Hindoos has been a conviction of the immorality of our way of treating women, I cannot help seeing that, though governments do not interfere, sentiments in their development will be very greatly determined by accidental causes. Now, there are some people, among whom I must suppose that my reader is to be found, who, when they see that any belief of theirs is determined by any circumstance extraneous to the facts, will from that moment not merely admit in words that that belief is doubtful, but will experience a real doubt of it, so that it ceases in some degree at least to be a belief.

384. To satisfy our doubts, therefore, it is necessary that a method should be found by which our beliefs may be determined by nothing human, but by some external permanency—by something upon which our thinking has no effect. [\(20\)](#) Some mystics imagine that they have such a method in a private inspiration from on high. But that is only a form of the method of tenacity, in which the conception of truth as something public is not yet developed. Our external permanency would not be external, in our sense, if it was restricted in its influence to one individual. It must be something which affects, or might affect, every man. And, though these affections are necessarily as various as are individual conditions, yet the method must be such that the ultimate conclusion of every man shall be the same. [\(21\)](#) Such is the method of science. Its fundamental hypothesis, restated in more familiar language, is this: There are Real things, whose characters are entirely independent of our opinions about them; those Reals affect our senses according to regular laws, and, though our sensations are as different as are our relations to the objects, yet, by taking advantage of the laws of perception, we can ascertain by reasoning how things really and truly are; and any man, if he have sufficient experience and he reason enough about it, will be led to the one True conclusion. The new conception here involved is that of Reality. It may be asked how I know that there are any Reals. If this hypothesis is the sole support of my method of inquiry, my method of inquiry must not be used to support my hypothesis. The reply is this: 1. If investigation cannot be regarded

as proving that there are Real things, it at least does not lead to a contrary conclusion; but the method and the conception on which it is based remain ever in harmony. No doubts of the method, therefore, necessarily arise from its practice, as is the case with all the others. 2. The feeling which gives rise to any method of fixing belief is a dissatisfaction at two repugnant propositions. But here already is a vague concession that there is some *one* thing which a proposition should represent. Nobody, therefore, can really doubt that there are Reals, for, if he did, doubt would not be a source of dissatisfaction. The hypothesis, therefore is one which every mind admits. So that the social impulse does not cause men to doubt it. 3. Everybody uses the scientific method about a great many things, and only ceases to use it when he does not know how to apply it. 4. Experience of the method has not led us to doubt it, but, on the contrary, scientific investigation has had the most wonderful triumphs in the way of settling opinion. These afford the explanation of my not doubting the method or the hypothesis which it supposes; and not having any doubt, nor believing that anybody else whom I could influence has, it would be the merest babble for me to say more about it. If there be anybody with a living doubt upon the subject, let him consider it. [\(22\)](#)

385. To describe the method of scientific investigation is the object of this series of papers. At present I have only room to notice some points of contrast between it and other methods of fixing belief.

This is the only one of the four methods which presents any distinction of a right and a wrong way. If I adopt the method of tenacity, and shut myself out from all influences, whatever I think necessary to doing this, is necessary according to that method. So with the method of authority: the state may try to put down heresy by means which, from a scientific point of view, seem very ill-calculated to accomplish its purposes; but the only test *on that method* is what the state thinks; so that it cannot pursue the method wrongly. So with the *a priori* method. The very essence of it is to think as one is inclined to think. All metaphysicians will be sure to do that, however they may be inclined to judge each other to be perversely wrong. The Hegelian system recognizes every natural tendency of thought as logical, although it be certain to be abolished by counter-tendencies. Hegel thinks there is a regular system in the succession of these

tendencies, in consequence of which, after drifting one way and the other for a long time, opinion will at last go right. And it is true that metaphysicians do get the right ideas at last; Hegel's system of Nature represents tolerably the science of his day; and one may be sure that whatever scientific investigation shall have put out of doubt will presently receive *a priori* demonstration on the part of the metaphysicians. But with the scientific method the case is different. I may start with known and observed facts to proceed to the unknown; and yet the rules which I follow in doing so may not be such as investigation would approve. The test of whether I am truly following the method is not an immediate appeal to my feelings and purposes, but, on the contrary, itself involves the application of the method. Hence it is that bad reasoning as well as good reasoning is possible; and this fact is the foundation of the practical side of logic.

386. It is not to be supposed that the first three methods of settling opinion present no advantage whatever over the scientific method. On the contrary, each has some peculiar convenience of its own. The *a priori* method is distinguished for its comfortable conclusions. It is the nature of the process to adopt whatever belief we are inclined to, and there are certain flatteries to the vanity of man which we all believe by nature, until we are awakened from our pleasing dream by rough facts. The method of authority will always govern the mass of mankind; and those who wield the various forms of organized force in the state will never be convinced that dangerous reasoning ought not to be suppressed in some way. If liberty of speech is to be untrammelled from the grosser forms of constraint, then uniformity of opinion will be secured by a moral terrorism to which the respectability of society will give its thorough approval. Following the method of authority is the path of peace. Certain non-conformities are permitted; certain others (considered unsafe) are forbidden. These are different in different countries and in different ages; but, wherever you are, let it be known that you seriously hold a tabooed belief, and you may be perfectly sure of being treated with a cruelty less brutal but more refined than hunting you like a wolf. Thus, the greatest intellectual benefactors of mankind have never dared, and dare not now, to utter the whole of their thought; and thus a shade of *prima facie* doubt is cast upon every proposition which is considered essential to the security of society. Singularly enough, the persecution does not all come from without; but a man

torments himself and is often-times most distressed at finding himself believing propositions which he has been brought up to regard with aversion. The peaceful and sympathetic man will, therefore, find it hard to resist the temptation to submit his opinions to authority. But most of all I admire the method of tenacity for its strength, simplicity, and directness. Men who pursue it are distinguished for their decision of character, which becomes very easy with such a mental rule. They do not waste time in trying to make up their minds what they want, but, fastening like lightning upon whatever alternative comes first, they hold to it to the end, whatever happens, without an instant's irresolution. This is one of the splendid qualities which generally accompany brilliant, unlasting success. It is impossible not to envy the man who can dismiss reason, although we know how it must turn out at last.

387. Such are the advantages which the other methods of settling opinion have over scientific investigation. A man should consider well of them; and then he should consider that, after all, he wishes his opinions to coincide with the fact, and that there is no reason why the results of those three first methods should do so. To bring about this effect is the prerogative of the method of science. Upon such considerations he has to make his choice—a choice which is far more than the adoption of any intellectual opinion, which is one of the ruling decisions of his life, to which, when once made, he is bound to adhere. The force of habit will sometimes cause a man to hold on to old beliefs, after he is in a condition to see that they have no sound basis. But reflection upon the state of the case will overcome these habits, and he ought to allow reflection its full weight. People sometimes shrink from doing this, having an idea that beliefs are wholesome which they cannot help feeling rest on nothing. But let such persons suppose an analogous though different case from their own. Let them ask themselves what they would say to a reformed Mussulman who should hesitate to give up his old notions in regard to the relations of the sexes; or to a reformed Catholic who should still shrink from reading the Bible. Would they not say that these persons ought to consider the matter fully, and clearly understand the new doctrine, and then ought to embrace it, in its entirety? But, above all, let it be considered that what is more wholesome than any particular belief is integrity of belief, and that to avoid looking into the support of any belief from a fear that it may turn out

rotten is quite as immoral as it is disadvantageous. The person who confesses that there is such a thing as truth, which is distinguished from falsehood simply by this, that if acted on it should, on full consideration, carry us to the point we aim at and not astray, and then, though convinced of this, dares not know the truth and seeks to avoid it, is in a sorry state of mind indeed.

1. Cf. J. Aubrey's *Brief Lives* (Oxford ed. 1896), I. 299. [return](#)
2. Not quite so, but as nearly so as can be told in a few words. [return](#)
3. I am ashamed at being obliged to confess that this volume contains a very false and foolish remark about Kepler. When I wrote it, I had never studied the original book as I have since. It is now my deliberate opinion that it is the most marvellous piece of inductive reasoning I have been able to find. —1893. [return](#)
4. What he did, a most instructive illustration of the logic of science, will be described in another chapter; and we now know what was authoritatively denied when I first suggested it, that he took a hint from Malthus' book on Population. —1903. [return](#)
5. I.e., be dominated by such a habit as generally to give. —1903. [return](#)
6. Let us not, however, be cocksure that natural selection is the only factor of evolution; and until this momentous proposition has been much better proved than as yet it has been, let it not blind us to the force of very sound reasoning. —1903. [return](#)
7. Let us recall the nature of a sign and ask ourselves how we can know that a feeling of any sort is a sign that we have a habit implanted within us.
 We can understand one habit by likening it to another habit. But to understand what any habit is, there must be some habit of which we are directly conscious in its generality. That is to say, we must have a certain generality in our direct consciousness. Bishop Berkeley and a great many clear thinkers laugh at the idea of our being able to imagine a triangle that is neither equilateral, isosceles, nor scalene. They seem to think the object of imagination must be precisely determinate in every respect. But it seems certain that something general we must imagine. I do not intend, in this book, to go into questions of psychology. It is not necessary for us to know in detail how our thinking is done, but only how it can be done. Still, I may as well say, at once, that I think our direct consciousness covers a duration of time, although only an infinitely brief duration. At any rate, I can see no way of escaping the proposition that to attach any general significance to a sign and to know that we do attach a general significance to it, we must have a direct imagination of something not in all respects determinate. —1893. [return](#)

8. In this, it is like any other stimulus. It is true that just as men may, for the sake of the pleasures of the table, like to be hungry and take means to make themselves so, although hunger always involves a desire to fill the stomach, so for the sake of the pleasures of inquiry, men may like to seek out doubts. Yet, for all that, doubt essentially involves a struggle to escape it. —1893. [return](#)

9. I am not speaking of secondary effects occasionally produced by the interference of other impulses. [return](#)

10. Doubt, however, is not usually hesitancy about what is to be done then and there. It is anticipated hesitancy about what I shall do hereafter, or a feigned hesitancy about a fictitious state of things. It is the power of making believe we hesitate, together with the pregnant fact that the decision upon the merely make-believe dilemma goes toward forming a bona fide habit that will be operative in a real emergency. It is these two things in conjunction that constitute us intellectual beings.

Every answer to a question that has any meaning is a decision as to how we would act under imagined circumstances, or how the world would be expected to react upon our senses. Thus, suppose I am told that if two straight lines in one plane are cut by a third making the sum of the internal angles on one side less than two right angles, then those lines if sufficiently produced will meet on the side on which the said sum is less than two right angles. This means to me that if I had two lines drawn on a plane and wished to find where they would meet, I could draw a third line cutting them and ascertaining on which side the sum of the two interval angles was less than two right angles, and should lengthen the lines on that side. In like manner, all doubt is a state of hesitancy about an imagined state of things. —1893.

[return](#)

11. Unless, indeed, it leads us to modify our desires. —1903. [return](#)

12. For truth is neither more nor less than that character of a proposition which consists in this, that belief in the proposition would, with sufficient experience and reflection, lead us to such conduct as would tend to satisfy the desires we should then have. To say that truth means more than this is to say that it has no meaning at all. —1903. [return](#)

13. So long as we cannot put our fingers on our erroneous opinions, they remain our opinions, still. It will be wholesome enough for us to make a general review of the causes of our beliefs; and the result will be that most of them have been taken upon trust and have been held since we were too young to discriminate the credible from the incredible. Such reflections may awaken real doubts about some of our positions. But in cases where no real doubt exists in our minds inquiry will be an idle farce, a mere whitewashing commission which were better let alone. This fault in philosophy was very widespread in those ages in which Disputations were the principal exercises in the universities; that is, from their rise in the thirteenth century down to the middle of the eighteenth, and even to this day in some Catholic institutions. But since those disputations went out of vogue, this philosophic disease is less virulent. —1893. [return](#)

14. We have to acknowledge that doubts about them may spring up later; but we can find no propositions which are not subject to this contingency. We ought to construct our theories so as to provide for such discoveries; first, by making them rest on as great a variety of different considerations as possible, and second, by leaving room for the modifications which cannot be foreseen but which are pretty sure to prove needful. Some systems are much more open to this criticism than others. All those which repose heavily upon an "inconceivability of the opposite" have proved particularly fragile and short-lived. Those, however, which rest upon positive evidences and which avoid insisting upon the absolute precision of their dogmas are hard to destroy. —1893. [return](#)

15. Except that of self-criticism. Insert here a section upon self-control and the analogy between Moral and Rational self-control. —1903. [return](#)

16. Although it certainly may be that it will cause a line of conduct leading to pains that deeper reflection would have avoided. —1903. [return](#)

17. Unify them in the sense of Alexander Pope's *Universal Prayer*, and who is the individual whose conceit shall stand up and place his dictum against theirs? These faiths lay claim to divine authorship; and it is true that men have no more *invented* them, than the birds have invented their songs. It is a relapse toward the method of tenacity that segregates them and blinds the ecclesiastic to the value of anything but hatred. Every distinctive creed was as a historical fact invented to harm somebody. Still, the upshot has, on the whole, been success unparalleled. If slavery of opinion is natural and wholesome for men, then slaves they ought to remain.

Every such system was first established by some individual legislator or prophet; and once established it grew of itself. But within this principle of growth lurk germs of decay. The power of individualism becomes extinct; the organization alone has life. Now, in the course of ages old questions pass out of mind; new questions become urgent. The sea advances or recedes; some horde which has always lived by conquest happens to make a conquest of consequence to the world at large. In one way or another, commerce is diverted from its ancient roads. Such change brings novel experiences and new ideas. Men begin to rebel at doings of the authorities to which in former times they would have submitted. Questions never before raised come up for decision; yet an individual legislator would no longer be listened to. Never has the instinct of rulers failed to see that the summoning of a council of the people was a measure fraught with peril to authority. Yet however they strive to avoid it, they in effect invoke public opinion, which is a momentous appeal to a new method of settling opinion. Disturbances occur; knots of men discuss the state of affairs; and a suspicion is kindled, which runs about like a train of gun powder, that the Dicta men have been reverencing, originated in caprice, in the pertinacity of some busybody, in the schemes of an ambitious man, or in other influences which are seen to edify a deliberative assembly. Men now begin to demand that, as the power which maintains the belief has become no longer capricious but public and methodical, so the propositions to be believed shall be determined in a public and methodical manner. —1893. [return](#)

18. Let us see in what manner a few of the greatest philosophers have undertaken to settle opinion, and what their success has been. Descartes, who would have a man begin by doubting everything, remarks

that there is one thing he will find himself unable to doubt, and that is, that he does doubt; and when he reflects that he doubts, he can no longer doubt that he exists. Then, because he is all the while doubting whether there are any such things as shape and motion, Descartes thinks he must be persuaded that shape and motion do not belong to his nature, or anything else but consciousness. This is taking it for granted that nothing in his nature lies hidden beneath the surface. Next, Descartes asks the doubter to remark that he has the idea of a Being, in the highest degree intelligent, powerful, and perfect. Now a Being would not have these qualities unless he existed necessarily and eternally. By existing necessarily he means existing by virtue of the existence of the idea. Consequently, all doubt as to the existence of this Being must cease. This plainly supposes that belief is to be fixed by what men find in their minds. He is reasoning like this: I find it written in the volume of my mind that there is something **X**, which is such a sort of thing that the moment it is written down it exists. Plainly, he is aiming at a kind of truth which saying so can make to be so. He gives two further proofs of God's existence. Descartes makes God easier to know than anything else; for whatever we think He is, He is. He fails to remark that this is precisely the definition of a *figment*. In particular, God cannot be a deceiver; whence it follows, that whatever we quite clearly and distinctly think to be true about any subject, must be true. Accordingly, if people will thoroughly discuss a subject, and quite clearly and distinctly make up their minds what they think about it, the desired settlement of the question will be reached. I may remark that the world has pretty thoroughly deliberated upon that theory and has quite distinctly come to the conclusion that it is utter nonsense; whence that judgment is indisputably right.

Many critics have told me that I misrepresent the *a priori* philosophers, when I represent them as adopting whatever opinion there seems to be a natural inclination to adopt. But nobody can say the above does not accurately define the position of Descartes, and upon what does he repose except natural ways of thinking? Perhaps I shall be told however, that since Kant, that vice has been cured. Kant's great boast is that he critically examines into our natural inclinations toward certain opinions. An opinion that something is *universally* true clearly goes further than experience can warrant. An opinion that something is *necessarily* true (that is, not merely is true in the existing state of things, but would be true in every state of things) equally goes further than experience will warrant. Those remarks had been made by Leibniz and admitted by Hume; and Kant reiterates them. Though they are propositions of a nominalistic cast, they can hardly be denied. I may add that whatever is held to be precisely true goes further than experience can possibly warrant. Accepting those criteria of the origin of ideas, Kant proceeds to reason as follows: Geometrical propositions are held to be universally true. Hence, they are not given by experience. Consequently, it must be owing to an inward necessity of man's nature that he sees everything in space. Ergo, the sum of the angles of a triangle will be equal to two right angles for all the objects of our vision. Just that, and nothing more, is Kant's line of thought. But the dry-rot of reason in the seminaries has gone to the point where such stuff is held to be admirable argumentation. I might go through the *Critic of the Pure Reason*, section by section, and show that the thought throughout is precisely of this character. He everywhere shows that ordinary objects, such as trees and gold-pieces, involve elements not contained in the first presentations of sense. But we cannot persuade ourselves to give up the reality of trees and gold-pieces. There is a general inward insistence upon them, and that is the warrant for swallowing the entire bolus of general belief about them. This is merely accepting without question a belief as soon as it is shown to please a great many people very much. When he comes to the ideas of God, Freedom, and Immortality, he hesitates; because people who think only of bread and butter, pleasure and power, are indifferent to those ideas. He subjects these ideas to a different

kind of examination, and finally admits them upon grounds which appear to the seminarists more or less suspicious, but which in the eyes of laboratorists are infinitely stronger than the grounds upon which he has accepted space, time, and causality. Those last grounds amount to nothing but this, that what there is a very decided and general inclination to believe must be true. Had Kant merely said, I shall adopt for the present the belief that the three angles of a triangle are equal to two right angles because nobody but brother Lambert and some Italian has ever called it in question, his attitude would be well enough. But on the contrary, he and those who today represent his school distinctly maintain the proposition is *proved*, and the Lambertists *refuted*, by what comes merely to general disinclination to think with them.

As for Hegel, who led Germany for a generation, he recognizes clearly what he is about. He simply launches his boat into the current of thought and allows himself to be carried wherever the current leads. He himself calls his method *dialectic*, meaning that a frank discussion of the difficulties to which any opinion spontaneously gives rise will lead to modification after modification until a tenable position is attained. This is a distinct profession of faith in the method of inclinations.

Other philosophers appeal to "the test of inconceivability of the opposite," to "presuppositions" (by which they mean *Voraussetzungen*, properly translated, *postulates*), and other devices; but all these are but so many systems of rummaging the garret of the skull to find an enduring opinion about the Universe.

When we pass from the perusal of works upholding the method of authority to those of the philosophers, we not only find ourselves in a vastly higher intellectual atmosphere, but also in a clearer, freer, brighter, and more refreshing moral atmosphere. All this, however, is beside the one significant question of whether the method succeeds in fixing men's opinions. The projects of these authors are most persuasive. One dare swear they should succeed. But in point of fact, up to date they decidedly do not; and the outlook in this direction is most discouraging. The difficulty is that the opinions which today seem most unshakable are found tomorrow to be out of fashion. They are really far more changeable than they appear to a hasty reader to be; since the phrases made to dress out defunct opinions are worn at second hand by their successors.

We still talk of "cause and effect" although, in the mechanical world, the opinion that phrase was meant to express has been shelved long ago. We now know that the acceleration of a particle at any instant depends upon its position relative to other particles at that same instant; while the old idea was that the past affects the future, while the future does not affect the past. So the "law of demand and supply" has utterly different meanings with different economists. —1893. [return](#)

19. An acceptance whose real support has been the opinion that pleasure is the only ultimate good. But this opinion, or even the opinion that pleasure *per se* is any good at all, is only tenable so long as he who holds it remains without any distinct idea of what he means by "good." —1903. [return](#)

20. But which, on the other hand, unceasingly tends to influence thought; or in other words, by something Real. —1903. [return](#)

21. Or would be the same if inquiry were sufficiently persisted in. —1903. [return](#)

22. Changes of opinion are brought about by events beyond human control. All mankind were so firmly

of opinion that heavy bodies must fall faster than light ones, that any other view was scouted as absurd, eccentric, and probably insincere. Yet as soon as some of the absurd and eccentric men could succeed in inducing some of the adherents of common sense to look at their experiments—no easy task—it became apparent that nature would not follow human opinion, however unanimous. So there was nothing for it but human opinion must move to nature's position. That was a lesson in humility. A few men, the small band of laboratory men, began to see that they had to abandon the pride of an opinion assumed absolutely final in any respect, and to use all their endeavors to yield as unresistingly as possible to the overwhelming tide of experience, which must master them at last, and to listen to what nature seems to be telling us. The trial of this method of experience in natural science for these three centuries—though bitterly detested by the majority of men—encourages us to hope that we are approaching nearer and nearer to an opinion which is not destined to be broken down—though we cannot expect ever quite to reach that ideal goal. —1893. [return](#)

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FOOLS' GOLD

by Robert Carroll

*By monopolizing this commodity the moneyed classes have got Nature by the throat and the community under their heels... Compared with this process, usury is mere child's play. -Alexander Del Mar in **The Science of Money**.*

Advocacy of gold or gold "backed" money rests on dubious foundations. The discussion that follows will reveal some of the semantic deception, half-truths, doublespeak, self-interest pleading, and historical errors employed in gold advocacy polemics.

The Pope admitted in 1992 that Galileo had been right. This has nothing to do with gold money, but it is offered to show that neither antiquity nor authority makes a phony idea anything but phony.

There is a strong belief among gold money advocates that little bits of gold, especially if they are stamped with the image of some authority and numbers make better price counters than numbered pieces of paper or computer bytes. The belief involves a perception of what money is. The person who holds that belief perceives money to be something real and apparently needs to see and hold in his hand a physical manifestation of it. Gold is heavy, and refined gold is bright and shiny. It satisfies an emotional need however meaningless it is to the function of money. Money is a product of human mental fabrication. It always has been; it always will be. It is a tool that facilitates exchange. Modern society could not run without it or some equivalent accounting system.

A rational business decision would require that monetary symbols cost the least possible to manufacture. Presently, (1998), it costs around \$280 to mine and refine an ounce of gold. Mining decades of tons of ore per ounce of gold has left holes in the ground measured by cubic miles. The ore is leached by toxic chemicals that have produced environmental pollution. Banks create money in any amount with the touching of computer buttons.

Abstract numbers, meaningless in and of themselves, that count quantities of amperes, wheat, gasoline, volume, distance, area, force, or any measurable, quantifiable thing, suffice in commerce, science, and technics without the clumsy inconvenience of metal counters. Why should it be different with money?

A pseudo-legal argument is sometimes advanced by advocates of gold money that a debt cannot be paid with another debt. This is semantic deception. A debt can be paid with anything that is acceptable to the payee. In addition, as long as debt in the form of deposit entries in bank accounts or Federal Reserve Notes can be exchanged for real goods and services, the payee is just as well off as if he had received little lumps of metal. Further, the multi-trillion dollar world economy runs almost exclusively on exchange of debt-money which only consists of numbers in deposit accounts at banks.

A common argument for gold money that accompanies the pseudo-legal sophistry is that gold has "intrinsic value," another semantic deception. Gold has interesting intrinsic properties such as chemical stability and excellent electrical conductivity, but "intrinsic value" is a semantic error if not outright doublespeak. Value(1) is a subjective judgment and cannot be rationally thought of as intrinsic. Subjectivity is exclusively a product of human minds. "Intrinsic value" is a deceptive euphemism for price.

If people were stranded in some remote location without food, water, and shelter, a mountain of gold would serve no more purpose than so much sand. It would have no price. Gold has no intrinsic value. It merely has a price which is the result of complex factors associated with its subjective price value compared to other commodities. Industrial usefulness of gold as well as human subjectivity that desires gold for personal adornment, etc., does assure that gold will fetch a price in a modern market. But what price?

Gold pricing in the United States, today, 1998, is denominated in Federal Reserve Accounting Unit Dollars.(2) The commodity price of gold has fluctuated wildly in the last half of the 20th Century, mostly remaining in the \$300 to \$400 per ounce range in the last decade. Price fluctuation was not due to variations of the Federal Reserve Dollar. The U. S. monetary price of gold is \$42.22 per ounce. Artifact (jewelry, etc.) and numismatic prices of gold are what the market will pay. The value of gold as denominated by price is highly variable.

Historically, the commodity price of gold has been subject to fluctuation caused by normal supply and demand influences. Supply and demand influences are in turn affected by the vagaries of mining and shipping, speculation, hoarding, political action, industrial demand, wars, central bank manipulations, and fads.

When governments or private banks have attempted to use gold as money, or for the last yea many centuries the fraud perpetrated as gold "backing" or reserves, it has been necessary to establish a monetary price of gold by fiat in an attempt to isolate money from inevitable price fluctuations of commodity gold.

The U. S. Constitution writers anticipated the instability of commodity prices and included the phrase, *regulate the value*, in the coinage clause.(3) In 1792 after the ratification of the Constitution, the Congress, consistent with the Constitutional mandate, defined specific amounts of gold, silver, and copper as representing dollars. They regulated the value and established a monetary price by fiat.(4)

Historically, monetary prices have been set higher than market prices, the ludicrous present U. S. monetary price notwithstanding. It would make no sense to issue money that had an equal or lower monetary value than the price of acquiring the metal. This mark-up is known as seignorage. It is profit that accrued to goldsmiths, kings, banks, and governments that issued gold money. When the monetary price of gold was too low, coins were melted and turned into artifacts that could be sold for more money than the original coins. When the monetary price was too high, artifacts were melted and turned into

counterfeit coins. This was another cause of monetary and price instability when gold was used as money.

The relative scarcity of gold and the demand for gold for other uses than money should raise questions about the efficacy of trying to use consumable and losable gold as money or as monetary reserves.

The inherent instability of a scarce commodity subject to all the influences enumerated above have inevitably led to financial instability which instigates human suffering, social unrest, political instability, totalitarianism, fraud, counterfeiting, theft, war, and abandonment of gold monetary policy.

A *mantra* of gold money advocates is that alternative money systems, particularly "paper money," always fail. Historically, it is true; but it is also a case of selective historical facts, half-truth, and errant semantics. There is archaeological evidence that accounting systems existed before paper was invented. For example, clay tablets written in cuneiform that show evidence of debt accounting. Paper, *per se*, merely represented another more economical way of **accounting**. What is never admitted is that **all** money systems including gold money systems have failed. Today, "paper money" as bank notes is substantially irrelevant. Overwhelmingly, transactions are carried on via computer accounting where money is nothing more than numbers transferred from account to account by computers.

Arguments about the substance of money will never address the problem of why **all monetary systems have failed** .

In fact, historically, not only has no money system survived indefinitely; but also, no civilization, empire, or political system has survived indefinitely. Systematic monetary manipulation has played a part in their demise. It is not a question of gold or paper; it is a question of human culture. Is it possible to maintain a political system or nation that is founded in myth, intellectual error, and financial fraud?

The Gold "Backing" Fraud

A sacrosanct dogma of modern economic superstition is that money derives its value from scarcity. It is nowhere scientifically proven or successfully argued. It is accepted dogma; and, once again, the semantic trick of substituting value for price is used.

Scarcity does play a role in prices of goods and services, but it is only one factor; there are many other factors in price.

What is provable is that the scarcity of gold provided an opportunity for fraud that has become modern banking custom and practice.

Exactly how the fraud started is not matters of facts, but *that it started* is not in question.

Legend with perhaps more than a little truth in it has been related many times, including Congressional testimony.(5)

In brief, goldsmiths built vaults to secure their gold which was used in artifact manufacture and lending. The security of the vault attracted others who deposited their gold with the goldsmith for safe keeping. The goldsmith noticed that depositors never claimed all their gold at once. This provided him the opportunity to lend *their* gold at interest for *his* profit.

The custom developed that depositors would write notes which could be redeemed by the goldsmith to pay their bills. Eventually, the security of the goldsmith's vault and convenience of the notes induced more and more people to leave gold with the goldsmith and pay their bills with notes.

The common use of notes provided the goldsmith with the opportunity to write notes for making loans. In fact, it enabled him to write notes for more gold than there was gold in his vault. He **created money!** Eventually, it was found that as much as ten times the value of gold in the vault could be circulated as notes. He only needed enough gold in "reserves" to redeem the few notes that were presented for redemption.

This fraudulent practice has become modern banking custom and practice. Today, it is called fractional reserve banking.(6) Of course, gold is not presently used as reserves; banks just create money out of nothing without any pretense of gold reserves.

Gold advocates lament that money is no longer "redeemable." This is doublespeak that is tantamount to a lie. Since the initiation of the goldsmith's trick in banking, bank notes or "paper money" have never been fully redeemable in gold money. It must also be remembered most money created by banks by checks and deposit entry was never printed as banknotes. While deposit money, Federal Reserve Bank Notes, and U. S. coins cannot be exchanged for any form of gold money at the U. S. Treasury or Federal Reserve Banks, anyone is free to spend as much current money purchasing gold as they please; and the gold can be sold for current money. Furthermore, current money is exchangeable, fully redeemable, for all necessary and desirable goods and services which is the only **real purpose gold money could serve**. Satisfaction of superstitious beliefs and greed of investors are not considered real purposes.

The growth of national and world economies has rendered even the gold "backing" pretense of using gold as money absurd, but the greedy wishful thinking is that gold will be re-monetized at some astronomical price that will provide a windfall to gold investors. It is more likely that gold will be confiscated, as happened in the United States in 1933, before central banks attempt to re-monetize gold.

Attempts to re-monetize gold in the early 20th Century were accompanied by disaster in national economies and were quickly abandoned.

The Gold (un)Standard

"... the disastrous inefficiency which the international gold standard has worked since its restoration five years ago (fulfilling the worst fears and gloomiest prognostications of its opponents) and the economic losses, second only to those of a great war, which it has brought upon the world..."--J. M. Keynes(7)

What is generally referred to as "the gold standard" is a set of variable monetary and economic goals that involve manipulation of currency, balance of trade, internal commerce, and prices by use of variable gold policies. Different countries have tried different gold policies depending upon the desired goal. Whether it was to achieve balance of international trade, stable currency, stable internal commerce, or stable prices determined the policy. Balancing international trade may, and usually does, interfere with internal commerce. Stable prices may require juggling currency. Different countries with different goals pursuing different policies may conflict. What is called "the" gold standard is not a unique and well defined system.

There is a common conception of "the" gold standard that ties the value of the currency unit to a legally determined amount of gold. It is believed that such a policy would stabilize currency. It may be possible to stabilize currency using gold in monetary policy decisions but with disastrous other results.

For example, five methods used to manage a gold standard by the Bank of England from 1925 to 1931 follow:(8)

i. The bank rate.

ii. Open market operations (that is purchase and sale of securities) undertaken to influence the amount of reserves of the commercial banks, and their power of creating bankers' money.

iii. Open market operations, undertaken to influence the London Money Market.

iv. Gold exchange methods—dealings in foreign exchanges and in forward exchange, and variations in the price of gold within the narrow limits permitted.

v. Personal influence or advice—such as the so-called embargo on foreign loans.

Anyone familiar with Federal Reserve operations will note amazing similarity. Just as the present Federal Reserve Open Market Committee engages in a variety of open market transactions to control the dollar, the Bank of England tried to manage the pound ostensibly based on gold. The results also have an amazing similarity to the Federal Reserve's policies, particularly the "soft landing" announced by Alan Greenspan that was the 1990 recession.

... the operations of currency management conferred upon the Bank of England the power to restrict credit, to postpone new enterprises, to lessen the demand for constructional materials, and other capital goods, to create unemployment, to diminish the demand for consumable goods, to cause difficulty in renewing loans, to confront manufacturers with the prospect of falling prices, to force dealers to press their goods on a weak market, and to cause a decline in general prices on the home market. In brief, the stability of the international exchanges was accomplished by a process which deliberately caused universal depression in industry, created unemployment, and forced manufacturers to produce, and merchants to sell, at a loss.(9)

The operations of the Bank of England under the administration of Montagu Norman critiqued above is a classical example of what happens when monetary policy is carried out in the abstract. Human needs and human suffering be damned, trade will be balanced to control the outflow of gold or silver or inflation will be controlled to maintain prices regardless of how it affects employment, hunger, or any other form of human stress.

The errant buzz-word of monetary policy administered by Federal Reserve gurus personified by Alan Greenspan is inflation. Low unemployment motivates the gurus to "slow down an overheating economy." In other words, needful humans must be made to suffer to accomplish abstract monetary goals.

The above critique of Bank of England policies exposes, more than anything else, the fallacious thinking that gold will automatically regulate currency and prices. Not only the above critiqued policies, but also, other history confirms the fallacies.

One extreme anecdote from Roman history is the case of a man who had his own image placed on a gold nugget which he presented to a lover. So extreme were Roman concerns with controlling money that it was a death penalty offense under Roman law at that time to affix any image on gold except for official purposes. The law-breaker was executed.

This Roman anecdote is an example of two things: 1. An absurd, extreme policy used in an attempt to make an inherently unstable commodity suitable for monetary use by legal means. 2. The arrogant stupidity of legal absolutism.

Some factions of gold advocates argue that attempted regulation is the problem and that "market forces" should be allowed to follow their course with gold. Aside from the obvious superstitious belief in a fiction in support of a belief, histories of fraud, manipulation, monopolization, gambling, and speculation of commodities(10) left to market forces should overcome the tunnel-vision and doublethink of such an argument as market forces should determine the value of common currency while believing the implausible, self-defeating belief that gold left to speculation and monopolization will, by magic, lend stability to currency in the same market.

One of the sophistries used by gold money advocates is the *non sequitur*. Byzantium has been offered as an example of how a culture or empire was stabilized by a stable gold currency.(11) In the first place, stable Byzantium can be dismissed with the question: Where is Byzantium now? In the second place, the longevity of Byzantium was not extraordinary for its day. Nor did Byzantium ever achieve extraordinary wealth. The Italian city states built on bankers' credit lasted longer and achieved more wealth.(12) Byzantium existed during the "dark ages" of Europe as a near singularity in the Euro-Asian area. It was founded in autocratic theocracy. The annual trade of Byzantium was less than a week of world trade today, perhaps less than a day's trade. Byzantium's relatively stable coinage was a function of its relatively stable society maintained by a severe autocracy. Its relatively stable society was *not* a function of its coinage; its relatively stable coinage was a function of its relatively stable society.

After the ascendancy of the Italian city states, it could just as well be argued that Byzantium failed to achieve great wealth and eventually succumbed because of the superiority of credit money or Byzantium's stupid, limiting, and inflexible reliance on gold coinage, but that is not the argument presented here. The argument here is that money is a function of culture, not culture is a function of money although selective facts may make it appear so. Certainly, the pathological kleptomania and greed of Capitalism make it seem U. S. culture is a function of money.

The *coup de grace* of gold standard is that a gold standard applied in recent centuries has not altered the custom and practice of bank issued debt-money. Bankers, such as Alan Greenspan who has advocated a return to a gold standard, are well aware that gold standard is not only no threat to their power and ability to create money out of nothing; but also, it enhances their confiscatory power and control over both the public and private economy. It helps banks realize their superstitious *mantra* that money derives its value from scarcity. The more scarce the more value, i.e., the more **interest** banks can charge for the money they create out of nothing.

Ordinary gold standard advocates are either ignorant or disingenuous about bank created money. They usually blame government for the abuses of credit money, but it is banks that create money nearly exclusively. Paranoid, near hysterical arguments such as inflation is caused by "governments printing too much money" are absurd when it is banks that create money. What a silly argument it is to say governments print too much money when, for example, the U. S. government has borrowed more than \$5 trillion from banks and other investors in government securities! Every cent of it originally issued by banks! But just as any paranoiac can have real enemies, there is plenty of blame to lay on government. It is government that has given the power to create money to banks(13) then relies on borrowing money from banks and private investors at the additional expense of interest when taxes are inadequate to meet expenses.

A Federal Reserve bankers' dogma is that monetary policy must be separated from politics because politicians can't be trusted with it. This dogma has some truth in it; but like any half truth, it obscures a lie. Monetary policy can **never** be separated from politics, and bankers would loose their golden goose if the government exercised its Constitutional power to issue its own money.

Ostensibly, the people have the power to control politicians with the political process. People have no power to control bankers for whom they cannot vote and do not know.

Criticism of bank created money and how(14) it is done is left to other vehicles. This discussion is about the fallacies of gold money arguments.

Conclusion

What is usually referred to as "the" gold standard or gold backed money is an intellectual and financial

fraud. Under gold standard policies, Central banks wrote checks creating money to buy gold to use as reserves, just as Federal Reserve Banks create deposits to buy U. S. Treasury securities, now. A gold standard **does not prevent commercial banks from creating money on the basis of fictional reserves** and lending it at interest. What has passed as a gold standard in the last few centuries is not theoretically or functionally different than the present bank created credit/debt money system. In both cases, banks create and issue money as debt. Both systems are often properly labeled debt-money systems. Money is nearly exclusively issued by banks as debt at interest in **both systems**.

A plausible argument can be made that if banks were required to maintain an invariable level of gold reserves, it would limit how much money they could create. It would, but it would also limit how an economy functions as in the disastrous British case cited above.

The [Federal Reserve Act](#) was passed in 1913 establishing the Federal Reserve System as the U. S. Central bank. It required 40% gold reserves behind issuance of Federal Reserve Notes. World War I soon followed. It would have been impossible for the United States to finance its participation in that war with Federal Reserve Banks and commercial banks required to maintain 40% gold reserves. (The argument that it may have forced the U. S. to stay out of the war had the reserve requirement been maintained is irrelevant; the U. S. participated in the war.) Reserve requirements were lowered, and the war was financed with **debt-money created by banks**.

The [first central bank](#) of the U. S. was chartered in 1791, and the [Coinage Act of 1792](#) which limited coinage to the haphazard appearance of gold and silver owners at the mint forced seekers of money to use bank credit or debt financing. It is a speculation whether the two cited acts were intended to force money seekers into banks. The central bank has been attributed to the efforts of Alexander Hamilton. There is no doubt of Hamilton's banking connections.

The United States has become the most powerful nation ever in history. It did so mostly on bank credit; nearly exclusively so in the 20th Century.

Winning two world wars, once having the highest now reputed third or fourth average standard of living in the world, and development of spectacular technology including space exploration were all accomplished under bankers' debt-money schemes, but this is not a defense of bankers' debt-money. It must be repeated that criticism of bankers' debt-money is found elsewhere. This is to suggest that the U. S. could not have developed as it did under the restrictions that a gold money system would have imposed.

A credit money system operated for the purpose of serving human needs instead of serving the profit interests of bankers could educate everyone to any desired level, provide medical care for all, end poverty, and finance *any* socially acceptable and physically possible activity.

The substance of money used for counters whether lumps of yellow metal or computer bytes is unimportant, *per se*. What is important is monetary **policy**. Good or bad policy can be made with credit

money that makes good or bad results. It is hardly possible to have a good policy under the restrictions and inflexibility that a one hundred percent gold money system would impose. Gold "backing" known as fractional reserves has already been revealed as a banking fraud that differs from the present bankers' debt-money system in cosmetics only.

If there is anything that can be classified as a public utility, it is money. Yet, the supposedly democratic U. S. Government has seen fit to endow a select group of greedy bankers with all the power of issuing and regulating the money supply for their own profit. The banking system that issues money as debt holds the government and people hostage to the system. Until the power to issue money is taken from the hands of greedy corporate profiteers, megalomaniac kings, and plundering politicians, there is little hope for a socially kind and peaceful society or a safe and sustainable environment.

The science of how to do it is well known.

They [bankers] viewed national interests from the windows of the bank parlour. From their point of view, industry, commerce, agriculture, wages, employment, were but counters in the skilled game of international finance. They must be regulated to fit in with the monetary scheme. The monetary scheme must not be regulated to fit in with the needs and necessities of the world. ([15](#))

Whose interests are served by "the monetary scheme"?

Until the "cart before the horse" philosophy of financiers revealed in the above quote is righted, no monetary system will serve public interests. A gold monetary system will be just

FOOLS' GOLD!

Notes:

1. See [Theoretical Essay on the Nature of Money](#) for a fuller explication of value. [return](#)
2. Contrary to popular opinion, the "U.S." dollar in the form of bank notes and commercial bank credit is not issued by the United States Government. It is issued by Federal Reserve Banks and commercial banks mostly in the form of deposits or numbers in deposit accounts. [return](#)
3. Article I, Section 8, clause 5. [return](#)
4. *An Act establishing a Mint and regulating the Coins of the United States*, April 2, 1792, specified 24.75 grains of pure gold and 27 grains of standard alloy per dollar. [return](#)

5. Robert Hemphill, credit manager in the Federal Reserve Bank of Atlanta, before the Committee on Banking and Currency, House of Representatives, March 22, 1935, re Banking Act of 1935. [return](#)
6. See [Modern Money Mechanics](#), published by the Federal Reserve Bank of Chicago for a detailed explanation of how the central bank creates reserves and regulates the money supply and commercial banks create money by fractional reserve lending. [return](#)
7. Quoted by Sir Charles Morgan-Webb in *The Money Revolution*. [return](#)
8. Ibid. [return](#)
9. Ibid. [return](#)
10. See "The Tulipomania" chapter of *Extraordinary Popular Delusions and the Madness of Crowds* for a charming example of kleptomania, gambling, and greed in an unregulated market. Of course, a free market in tulips is one thing; a free market in common currency is another. The whole book is an entertaining read of collective "delusions" and "madnesses." [return](#)
11. See *The War on Gold* by Antony C. Sutton. [return](#)
12. See *An Inquiry into the Permanent Causes of the Decline and Fall of Powerful and Wealthy Nations* by William Playfair. [return](#)
13. See The Federal Reserve Act in the *United States Statutes at Large* and Title 12 USC for complete texts of current banking law. [return](#)
14. For how, see [Modern Money Mechanics](#) published by Federal Reserve Bank of Chicago. [return](#)
15. *The Money Revolution* by Sir Charles Morgan-Webb. [return](#)

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FREEDOM OF SPEECH

Article I, The Bill of Rights

*Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or **abridging the freedom of speech**, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.*

The first amendment to the Constitution of the United States was The Bill of Rights consisting of ten articles; however, it has become customary to refer to the Articles of The Bill of Rights as individual amendments. That custom will be followed here.

The highlighted portion of the 1st Amendment above relative to free speech seems clear and unequivocal. Does it mean what it says?

Apparently not.

In 1798, seven years after the adoption of The Bill of Rights, the Congress passed and President John Adams approved The Sedition Acts criminalizing certain speech, a clear abridgement or taking away of some freedom of speech. One would expect the Supreme Court to invalidate such a flagrant violation of the 1st Amendment, but one would be wrong. The Supreme Sophists invoked the common law doctrine of "no prior restraint" to uphold prosecutions under the Sedition Act.

It was ruled that the common law of the country remained the same as before the Revolution, that is, *English* common law. Under that scheme, one could not be restrained from speaking; but there was no protection from prosecution after the fact. [In English common law, truth is no defense, and it still remains that way, today; and the bigger the truth the bigger the libel.] The court ruled in favor of English common law in spite of the language of the second paragraph of

ARTICLE VI, U. S. Constitution:

ARTICLE VI

*This **Constitution**, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the **supreme Law of the Land**; and the **Judges in every State** shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.*

Did the Constitution stand for nothing in the eyes of the Supreme Sophists? If not, why not?

Jonathan Swift addressed the issue in satire approximately seventy years before:

In the tryal of persons accused for crimes against the State, the method is much more short and commendable: [compared to previously explained civil procedure] for if those in power, who know well how to choose instruments fit for their purpose, take care to recommend and promote out of this clan [lawyers] a proper person, his method of education and practice makes it easy for him, when his patron's disposition is understood, without difficulty or study either to condemn and [or] aquit the criminal, and at the same time strictly preserve all due forms of law. GULLIVER'S TRAVELS, Chapter V, "A Voyage to Houyhnhnms". c. 1726.

Jonathan Swift understood the labyrinthine, sophistic, doublespeak, "catch 22," nature of law and lawyers.

The decisions of the Supreme Court mentioned above reveal the political nature of judges. At the time, the Federalists, who had appointed the judges, were in power and under criticism. Some of the criticism had the tone of rhetoric of the French Revolution. The Federalists with their newly acquired power and recent memories of how they had overthrown the British government succumbed to their paranoia and tried to undo the First Amendment. The judges understood their

"patron's disposition" and assisted.

Although many State Constitutions included freedom of speech provisions, arguments were put forward that the 1st Amendment did not prevent States from abridging freedom of speech. Even Thomas Jefferson, contrary to his reputed libertarian philosophy, resorted to doublethink and argued that the U. S. Constitution superseded the English law of seditious libel for the the federal government, but not for state governments.[\(1\)](#)

Under the plausible emergency conditions of the Civil War, The Bill of Rights was set aside almost entirely. *Habeous corpus* was suspended and persons were held without trial. Civilians were subjected to military courts.

Emergency conditions provide plausible justification for agents of government to use their power to deprive citizens of rights, privileges, and immunities. The United States government has resorted to that ploy more than once, as will be shown.

After the Civil War, The 14th Amendment ostensibly prevented states from violating The Bill of Rights, but the language of the The 14th Amendment does not include the word rights. Instead, the words "privileges and immunities" are used.

ARTICLE XIV

*Secton 1. All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the **privileges and immunities** of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.*

* * *

In 1895, the Supreme Sophists struck again. They ruled that the 1st Amendment did not limit State's police power. Davis had been arrested in Boston, Mass. for speaking at the Boston Commons without a permit. *Davis vs Mass, 167 US 43, 1895.*

There was considerable resistance to the United States entering WWI. The Espionage Act was passed in 1917 with egregious violations of a sensible interpretation of the 1st Amendment to quell resistance to going to war. Hundreds of people were arrested and convicted for no other crime than speech.[\(2\)](#) Once again the Supreme Court proved to be no help for the citizen against government.

The Espionage Act was a classic example of legislative deception by labeling. While the act did contain some unnecessary espionage language because espionage was already a crime under other laws, the main language of the Act was directed against speech. And that's what almost all the prosecutions under the Act were about.

One of the rawest cases of prosecution under the Espionage Act was against the makers of a film called *Spirit of '76*. It was a film about the Revolutionary War and showed the British in a bad light. The Supreme Sophists upheld the prosecution because the British were now allies in World War I.[\(3\)](#)

For an interesting analysis of how emergency can be tortured into public economic and banking policy or any other abuse see [War and Emergency Report](#).

World War II, of course, created another tension and instigated the Smith Act that practically duplicated the 1917 Espionage Act. Prosecutions under the Smith Act did not succeed as well as the earlier prosecutions pursuant to the Espionage Act.[\(4\)](#)

Following World War II there was the House Un-American Activities Committee with its abuses of alleged communists. What that Committee really abused was the Consitution.

There was a forced loyalty oath that cost people jobs and reputations; and, of course, Joe McCarthy.

After more than two hundred years of struggle, the need for which should have been obviated by the 1st Amendment, freedom of speech perhaps comes closer now to the ideology of the 1st Amendment than it did in 1798. It remains important to maintain vigilance because plausible emergency and powerful propaganda can easily create a climate of mob acceptance of, or even worse, demand for suppression. Apathy may be even more dangerous.

The "internet" or "the web" provides a marvelous opportunity for the most free information exchange in human history. It is precious. Indeed, it is flooded with garbage; but that is the cost of freedom. We must keep this ribbon flying.

Notes:

1. *Freedom of Speech and Press in Early American History: Legacy of Suppression*, by Leonard W. Levy. [return](#)
2. *Freedom of Speech* by Zechariah Chafee, Jr. [return](#)
3. *Declarations of Independence: Cross-examing American Ideology* by Howard Zinn. [return](#)
4. *A Trial on Trial* by Maximilian St.-George and Lawrence Dennis. [return](#)

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GILBERT'S LETTERS

SEPTEMBER 16, 1993

WE CAN'T BORROW OURSELVES OUT OF DEBT

America's money is created as debt at interest.

Prior to its creation it has no existence.

When the debt principal is repaid, that money ceases to exist, as before, and the debtor is burdened with an obligation to pay interest to the money creator. The borrower's only options to satisfy this obligation are to forfeit collateral or to go further into debt to have more money created in an attempt to pay it.

By this simple, little understood trick the creators of "money", or "credit", or "deposits", (actually DEBT) have, without lifting a finger or breaking a sweat, siphoned off the real wealth of our nation which is created by productive efforts of people and the providence of nature and have reduced America's citizens to vassals in their system of debt slavery.

For every person in our country there is \$20,000 of money in existence. Sounds good! But there is \$64,000 of debt! Apply your \$20,000 to the debt and that money will cease to exist leaving you without any money and \$44,000 of debt. Your options are to forfeit your assets or borrow more money to attempt to pay.

You can not borrow yourself out of debt!

Since the average person only deals with money after it is brought into existence, perhaps it is not surprising that the cause of the ever increasing debt is not widely perceived. But it must be widely perceived if there is to be any hope of correcting it.

Since the method of money creation is itself the cause of the ever increasing debt, it is not possible to correct the problem using any method that deals with money after it has been created.

Working harder will not correct it.

Working longer hours will not correct it.

Having a job for everyone in the family will not correct it.

Neither raising nor lowering wages will correct it.

Full employment will not correct it.

Greater utilization of natural resources will not correct it.

Lesser utilization of natural resources will not correct it.

Neither increasing nor decreasing exports will correct it.

Less spending will not correct it.

More spending will not correct it.

More borrowing will not correct it.

Less borrowing will not correct it.

Changing the interest rates will not correct it.

Changing the tax rates will not correct it.

The only thing that will correct it is the one thing that is sacrosanct in the media, in education, in politics, in religion, and, yes, even in our social circles.

The only thing that will correct it is to strip private companies (banks) of their power to create money as debt at interest and adopt a method of money creation whereby the United States Treasury creates money as CREDIT!

This issue is the key issue to the financial future of our nation and world!

This chicanery is practiced throughout the world!

We must turn an entrenched, centuries old financial establishment on its ear!

Read about it.

Study it.

Understand it.

Talk about it.

Then raise some hell!

Gilbert Vik
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October 17, 1993

To the Editor,

The sizable number of sociologists at large in our nation today provides us with an opportunity to document in minute detail the death throes of a thoroughly modern society drowning in red ink.

This opportunity will likely be missed since sociologists have no perception that aberrant social behavior becomes the norm when a debt money system has enslaved a people taught to believe they are free.

We are told, correctly, I think, that most aberrant social behavior is the result of a sense of hopelessness.

Suppose you decide who has the most accurate perception of the hopelessness brought about by our debt money system. Is it the person who has no possessions, no education, no job, no prospect of a job, no money and no credit in a society that measures "success" and self worth in these very things? Or, is it the person who has all or most of these and operates under the delusion that he/she is "free" and "successful" while working from January first to Memorial Day to pay taxes and from Memorial Day to Halloween or later to make payments on debts?

Both these individuals can thank our debt money system for their plight.

But sociologists are not alone.

Business people don't get it.

Economists don't get it.

Educators don't get it.

Journalists don't get it.

Pastors don't get it.

Politicians don't get it.

Join the battle now while stamps and paper and words are still the weapons of choice.

Gilbert Vik

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April 21, 1995

To the Editor,

The United States Constitution has a couple of paragraphs specifying the Congress's relationship to money.

Article 1, Section 8, paragraph 2 says (Congress shall have power) To borrow money on the credit of the United States. In today's language this permits Congress to use a credit card.

Article 1, Section 8, paragraph 5 says (Congress shall have power) To coin Money, regulate the value thereof, and of foreign Coin, and fix the standard of Weights and Measures;. In the past this has been mostly thought of as the authority to print money as well as minting coins but to bring it up to date let's say that it gives Congress a Magic Checkbook.

The Magic Checkbook is actually an invention of the banking industry, but since the First Congress in 1791 loaned its paragraph 5 powers to the banking industry and left them there ever since, it would seem only fair for Congress to make use of the banking industry's Magic Checkbook invention.

What is a Magic Check?

A Magic Check, except for the fact that it is written by an official of the banking system, is exactly like a check written by a bank customer who has no funds in the account.

Then what makes it good?

It is good because the banking system does all the clearing of checks and if they clear it, it is as good as any other check. It is as good as gold, in fact, since the banks can buy as much gold as they care to own with Magic Checks.

What is the purpose of a Magic Check?

It creates new money and introduces it into the money supply thereby increasing the amount of money in circulation.

What authority do the banks claim for issuing Magic Checks?

The banking system officials claim that they have authority from Congress to issue Magic Checks and that Congress has that authority from paragraph 5 cited above of the United States Constitution.

Does this mean that Congress could write Magic Checks?

Absolutely.

And Congress can fund the expenditures of the Federal Government without using their credit card?

Absolutely.

Would there be any difference between a Magic Check written by a banking official and a Magic Check written by Congress?

There would be no difference in the checks themselves or the amount of money they would create. However, since banks are private profit seeking businesses their officers are reluctant to purchase anything except interest earning debt instruments and therefore their Magic Checks literally create debt. But Congress has no such profit motive and their Magic Checks would (1) purchase services needed by the public and (2) fund projects needed by the public and (3) redeem the government's debt instruments thereby eliminating both the debt and

need to levy most taxes.

Does this mean that when Congress uses its credit card they are borrowing money created by a bank's Magic Check?

Absolutely.

And Congress has to levy taxes on citizens to attempt to repay the money the bank created with a Magic Check?

Absolutely.

Then why doesn't Congress tear up their credit card and start writing Magic Checks?

Shouldn't we ask Congress?

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October 11, 1995

To the Editor,

The primary function of any government should be to arrange its laws to ensure that its citizens are safe and secure in both their person and property. But, by allowing private companies to create our money, our very own government has conspired to confiscate the earnings and property of its citizens and transfer them to these private companies through their government-sanctioned fraud.

Collectively, these private companies are the banking system. They operate at

two levels within our country.

The first level of money creation is the province of the Federal Reserve Banks. To maintain their stability all banks depend on the reliability of their creditors. The government is the most reliable creditor of all since it can tax its citizens, confiscate their property and even imprison them to collect for payment. Since the money created by the Federal Reserve is the foundation of the pyramid scheme that is commercial banking the Federal Reserve has a strong preference for dealing in government bonds and securities. The Federal Reserve writes checks to purchase what it buys but it has no checking account and no funds on deposit on which the check is drawn. Therefore the Federal Reserve parts with nothing to purchase government securities. But citizens must part with either their earnings or property to redeem the government's bond. In truth our government is presently held hostage by private corporations (Federal Reserve Banks) and citizens must pay the ransom. To remedy this colossal injustice Congress should create our nation's money by writing checks just as the officers of the private Federal Reserve corporations do at present.

The second level of money creation is the commercial banking industry where money is created by fractional reserve deposit expansion. The bank reserves created at the first level are expanded by a factor of ten or so when banks create new money by making loans. In creating this new money by loanmaking, the commercial bank also parts with nothing to obtain a lien against the creditor's collateral since the money is created by the act of making a bookkeeping entry. But the creditor must part with something to repay the "loan", either earnings or collateral. This in itself should constitute fraud in any court. But there is more. The creditor must pay interest. But the money creators don't create enough money for both interest and principal, only the principal, and so the borrower is always short the amount needed to pay the interest and must resort to more borrowing or forfeit collateral. Remember the bank parted with nothing to create the money they "loaned" at interest. It is fraud, pure and simple. Our laws and government should protect citizens against fraud.

These private companies are allowed to operate at the international level as

well. International bankers have no mechanism for creating reserves like the Federal Reserve banks do in the U. S. Of course they wouldn't put their own money at risk. So what do they do? They get taxpayer funded contributions from various countries to use for reserves which they then multiply using the fractional reserve deposit expansion method to obtain liens against the assets of under-developed nations. Therefore the international bankers part with nothing to swindle foreign countries' taxpayers and citizens out of their earnings and/or property. It is fraud, pure and simple. If these foreign loans are in default the bankers lobby for a loan guarantee package which means the taxpayer provides even more funds to pay off the bank's loans if a foreign creditor can't pay.

Perhaps it is in the context of money created by private companies that the saying "They've got you, both coming and going!" originated.

If you are a U. S. citizen or taxpayer please thoughtfully consider the following question. Do you now, or did you ever, believe your government has your best interests at heart?

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November 28, 1995

To the Editor,

Suppose I have no money in my checking account and write a \$1000 check to Bill's Lumber Yard to buy a unit of plywood.

Almost certainly my check will not clear and Bill will not be paid for the plywood. I could be charged with grand larceny and/or passing bad checks, arrested, tried, convicted, jailed and fined in addition to eventually paying for the

plywood.

But just suppose that by some mistake my check cleared. In this case Bill would be paid for the plywood. And, by means of an undetected criminal act, \$1000 of new money would be created.

When banks write bad checks they receive special treatment under the law because throughout our nation's history they have been present at every legislative session pressing for legislation that is favorable to their business. Their business is the legalized crime of money creation by check kiting and its polite name is fractional reserve deposit expansion. All other entities, including our government are now financially at the mercy of this legalized crime syndicate.

When someone obtains a bank loan to build a new house the bank does not have the money it "lends", it creates it on the spot by either issuing a check or simply making a bookkeeping entry in the borrower's account. The check itself is in every respect the same as a bad check issued by anyone else. The difference is that a bad check issued by a bank is certain to clear since the banking industry itself is in charge of clearing all checks. By the very same action that was (if detected) a crime for me, banks create new money and, not only are they not punished, but they obtain a lien against the borrower's collateral and are paid interest to boot.

We would actually be better served by allowing individuals to write bad checks to increase our money supply because as you noticed above I did not charge Bill interest when I wrote him a bad check. But this can not be allowed as there would be no control of the money supply.

Then what can we do?

The entity that is charged by our Constitution with creating and regulating our money is the Congress. The framers of the Constitution did not want our money to be created and regulated by either the American Bankers Association or Gilbert writing a bad check to Bill. Therefore, if we allow anyone to create our money by

writing checks without any funds in their account, it must be Congress.

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March 10, 1996

To the Editor,

Having contacted the offices of several representatives of the people in Congress by phone, please allow me to submit this transcript of an almost fictitious encounter of the constituent kind.

Rriinngg... Rriinngg.....Rriinngg... Rriinngg...

"Hello! This is Rep. Foster's office in Washington, D. C. This is Laurie Clark speaking."

"Hello! Yes, I am Obert Tagsd in Washington state. I've just recently come across the solution to paying off the national debt, stabilizing the economy, eliminating the income tax and poverty and also keeping financiers from making huge profits out of war. Anyway, I am so excited I decided to call and find out what Congress can do about implementing it."

"Well, that certainly sounds wonderful to me. I'm sure Rep. Foster will want to look into this. Exactly what are you suggesting?"

"It's really simple. Congress will start creating America's money as the Constitution allows and use it to pay the nation's bills directly instead of borrowing money created by banks as it does now."

"Well, don't you realize the government has always allowed the banks to create America's money and borrows this money to pay bills the tax revenue doesn't cover?"

"Yes, I know. That's why there is presently a 5 trillion dollar national debt that is still climbing at 2 to 3 hundred billion dollars a year, about the amount of the interest charges on the debt."

"Let me talk to Rep. Foster about your suggestion and I'll call you back afterwards."

"Great."

"Goodby."

"Goodby."

Forty-five minutes pass.

Rriinnngg...Rriinnngg.....Rriinnngg...Rriinnngg...

"Hello! This is Obert."

"Hello! This is Laurie Clark again from Rep. Foster's office."

"Oh, yes, I didn't expect to hear back so soon."

"Well, Rep. Foster thought your suggestion was very interesting, but wanted to remind you that the government has always let the banks create our money and borrows to cover the shortfalls over tax revenue."

"Yes, I know.."

"You must realize that Rep. Foster is unable to accomplish anything without the help of a majority of the other members of Congress. Rep. Foster spoke to the

senior member of our state's delegation who said you must realize that the government has always allowed the banks to create our money and has covered the shortfall over tax revenue by borrowing."

"Yes, I know.."

"Rep. Foster doesn't think there would be much interest here on Capitol Hill in changing the government's method of financing."

"Oh."

"Rep. Foster appreciates input from constituents and wants me to tell you that if you can think of some other simple way to pay off the national debt, stabilize the economy, eliminate the income tax and poverty and also keep financiers from making huge profits out of war please give us a call."

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August 15, 1996

To the Editor,

Some time back a friend told me this revealing little anecdote about economists.

Q: How does an economist get out of a hole?

A: First, he assumes a ladder.

For a long time it puzzled me how economists could completely miss

discovering the devastating consequences that result from allowing private companies to create our nation's money as a debt on which they collect interest.

It certainly is not that economists are lacking in intelligence.

And it certainly is not because there are not enough economists.

No, it appears that all economic theories and constructs are based on the assumption that a sound money system is a given, a pre-existing fact on which it is safe to build various theories and constructs. If this assumption was correct, no doubt the field of economics would enjoy much greater respect and success.

Unfortunately, we do not have a sound money system.

And unfortunately many folks fail to grasp the significance of this simple fact, or else they simply do not believe it.

Our money is created as debt. What is the significance of that? Let me try a novel approach to explaining it that may be helpful.

If we ask folks what a dollar represents they might say a dollar represents 100 pennies. That would be true if we had a sound money system, one we might call a credit money system.

Since we have a debt money system, a dollar in our system actually represents the lack of 100 pennies. Our debt money dollar is actually a unit of measure to quantify what we do not have. And what we do not have is a credit money dollar.

Another way of saying the same thing is that all the numbers in a debt money system like ours are negative numbers and all the arithmetic is negative arithmetic. And that means the sum total of all our money will never, ever get above zero. Not as long as we continue to use this system.

Take some currency out of your wallet and look at what is printed on the top. It says Federal Reserve Note. And Webster says the word note means "any of

certain commercial papers relating to debts or payments of money". Friend, that note is owed to a Federal Reserve Bank.

Also, the numbers in your checkbook ledger are called bank credit but in fact they too are debt and are in fact owed to some bank.

Interesting, isn't it that what is actually debt is called credit? How about credit cards? Aren't they really debt cards?

We are told that we have a money supply which currently amounts to about 5.3 trillion dollars. No significant portion of this so called money supply is anything but bank created debt which can circulate until such time as it is repaid. When repaid it no longer exists.

What accountant can balance the books if he only has red ink with which to make entries?

In this accounting system ALL the numbers are written in red.

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January 9, 1997

To the Editor,

"The Book of Prayer for Common Bankers" includes this selection titled "Prayer of Thanks" (for use at the end of the business day).

"Lord, how grateful we are that you have seen fit to permit the establishment of central banks in nearly every nation on the face of the earth, that they may

create for us plentiful and free reserves for our prosperity and use.

"We are ever mindful that without your divine providence and fractional reserve deposit expansion we would be poor indeed, perhaps nearly as destitute as some of our customers. May it please you to allow us to continue to serve these humble servants of yours night (via credit cards and ATMs) and day forever. Not only these but their children and grandchildren for many generations to come. Please continue to instill in your servants and ours a Protestant or Catholic work ethic, as the case may be, that our business will not languish through default.

"Nor can we forget to thank and praise you that you have so wisely permitted (insert the name of the state) State law to allow us to engage in all the 'usual and customary practices of banking'. We are grateful that you have seen fit to thus elevate us above the common man and thereby we have been blessed above all others, since what for the common man would be criminal fraud is for us a customary practice.

"As if this were not enough, you have provided us with the opportunity and the means, which we have wisely made use of, to purchase controlling interest in corporations, newspapers, and other media outlets with our surplus bank reserves. That this can be done without parting with any personal or corporate wealth is almost too wonderful for the human mind to consider. Nor do we forget that we have the option to finance giant corporate mergers and engage in large scale currency speculation with our surplus reserves.

"None of this would be possible if we could not continue to clear our own checks. How sweet it is!

"We praise you, Lord, and bless your name forever!

"We are grateful too, that economics does not include the subject of money creation, that educators' compensation remains high enough so they seldom think about money except to verify that their checkbook balances, that independent newspapers parrot the stories appearing in our newspapers, that the majority of

our young people are more interested in boys, basketball, babes, baseball and "Baywatch" than they are in banking, and that most adults are so busy chasing our dollars that they do not have time to even think about where they come from.

"We are perhaps most grateful of all for the almost magical way our own prosperity subdues our sense of justice and dulls our conscience. Human suffering and poverty are not our problems. We are simply businessmen.

"O Lord, through your power and ours may we maintain the status quo. May it ever be so."

Gilbert Vik
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May 18, 1997

To the Editor,

"The best slave is the slave that thinks he's free."

This quote, from a friend of mine from this life now departed, is an accurate picture of most U. S. citizens. In fact, every one except the money masters are slaves. Tell this to most folks and they will no doubt say "But I'm an American citizen and in bondage to no one."

Read on, friend.

Suppose you are an average American. Some bank owns a mortgage on your home. Suppose your mortgage takes 28% of your take home pay. A typical home mortgage ends up costing two and one half times the selling price. This means 60% of this mortgage payment is interest and equals 16.8% of your take home

pay and goes to the money masters. This figure does not include interest on auto loans, credit cards, etc.

You might say "But the bank loaned me money and they should have a return on their investment." In truth banks loan nothing. It is actually bank credit. You can think of it as the power to create money. No individual is allowed to create money. No other class of businesses is allowed to create money.

It would be more accurate to say that the bank allows you to overdraw your checking account if you will sign over your assets to them and pay whatever interest they are currently taking. This means that our so called money supply is nothing more than the sum total of every overdrawn checking account in the nation. Is it any wonder that we have a debt problem?

Since things are now arranged so the Congress, to whom the Constitution grants the power to create money, will not do so, Americans must pay income taxes in order that the government, too, can pay tribute to the money masters.

We must sell bonds to finance public projects and then pay two or three times the real cost of these projects because the Congress is not creating our money; money which would be free of fraud, free of interest and free of debt.

If you don't pay your taxes, either income taxes or property taxes, you will soon discover that you no longer own the property that you thought was yours.

If the money masters tighten the money supply (these are privately held corporations, remember) all manner of folks are liable to lose their property through no fault of their own.

So, even if you personally have no debts on which you are paying tribute to the money masters, they are still exacting tribute from you through taxes to finance public debt that exists because they have an exclusive franchise to create our nation's so called money. And your income and property, even though they may be free of all other debts or liens, are still in jeopardy because our nation's

money is created as debt.

Still think you are in bondage to no one?

Gilbert Vik
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July 19, 1997

To the Editor,

Let this letter serve as the official public announcement of my offer to create all the money the United States of America and her people require for their financial transactions.

Most folks will want to know what backing this money will have.

The main problem with our present money system is not that it isn't backed by something. It is backed by the borrower's collateral that the banks 'buy' with their good unbounceable rubber checks when they purchase mortgages and make 'loans'.

Folks in Australia have a more accurate description of what we in America call bank 'loans'. They generally refer to them as checkbook overdrafts. In other words, if you sign over your property to the bank, the bank will honor the checks you write, up to a predetermined limit, on your overdrawn checking account, provided you also pay them interest on the overdraft. Our entire money supply is nothing more than the sum total of all the overdrawn checking accounts in the nation. Is it any wonder that we have a debt problem?

One flaw of the banks' system is that interest is charged by banks for honoring

overdrafts. This creates both an unpayable debt and a money shortage at the same time, creating a built in demand for more borrowing.

Another flaw is that there is no permanent money supply. More overdrafts equals more 'money': less overdrafts equals less 'money'.

To correct these flaws was the motivation for me offering to create America's money interest free. Of course, Congress could assume its Constitutional authority and create money for America that was free of fraud, free of interest and free of debt. But absent that, it would be of great benefit to the nation to allow me to create all the money our nation needs. I offer to do so entirely free of charge, there will be no interest charge and it will never have to be given back to me or repaid. It will provide the nation with a permanent money supply that can circulate freely and will not be owed to anyone. The only condition I will attach to this offer is that Congress end the practice of allowing banks to create money as debt.

I stand ready to send the first check for \$1,000,000,000,000.00 as soon as Congress gives me the go ahead. My check will be payable to the U. S. Treasury and the U. S. Treasury will spend it into circulation by paying its normal expenditures. This check will be issued in the exact same fashion as the checks the officers of the New York Federal Reserve Bank issue to purchase bonds on the open market so there can be no question as to its being an accepted method of creating money.

You might ask "If a private citizen can create interest free, fraud free, debt free money for the nation so easily, why doesn't Congress do so as the U. S. Constitution stipulates?"

That's a good question. Why not ask your representatives in Congress?

Gilbert Vik
275 E. Sunny Sands Rd.
Cathlamet, WA 98612

360 849 4440

October 14, 1997

To the Editor,

My offer to create our nation's money free of charge as explained in my most recent letter (September 22) still stands and I assure you I am perfectly serious about it. But I do have a better idea for creating our money which builds on the essentials laid out in that letter. This better idea is to have everyone living in this country participate in the process of creating a permanent money supply for our nation.

The basis of this better idea is the concept of fairness. If the banking system can "buy" U. S. Government bonds with a check written against an unfunded account, it is only fair that the individuals forced to make the repayment of this bogus debt be allowed to write a check for repayment against an unfunded account. Or, since the banking system is creating a money supply based on debt by writing a check against an unfunded account, wouldn't it be better to allow residents to write a check against an unfunded account to create a money supply based on credit which would be a permanent money supply for the nation that would not be owed to anyone.

My proposal is to combine the taking of the next census with either the redemption of a large portion of our national debt or the creation of a substantial debt free money supply by requiring the census takers to have each person counted in the census who can write issue a check for \$30,000.00 against an unfunded account. The check would be made out to the U. S. Treasury and the funds would be spent into circulation by the Treasury for lawfully authorized expenditures. Concurrently with the census all banks and lending institutions would be required by law to maintain a reserve ratio of 100%. This simply means that they would be required to loan only money they actually had on hand, which

is just what they would like us to believe they are doing now. Banks would be taken out of the money creating business.

Perhaps even Congress might wake up and realize that they could have been creating our money all along and thereby could have eliminated the necessity of our nation ever having been in debt.

If you laughed at my previous letter in which I offered to write a check against an unfunded account for a trillion dollars, I hope you are not laughing now. This better idea gives us all an opportunity to be participants in freeing ourselves from the artificially created fictional debts levied against us by the banking system. I call them fictional debts because the banking system parts with nothing to create them. Could anything be fairer than to allow these debtors, also, who are truly victims of fraud, to part with nothing to repay fictional debts?

Gilbert Vik
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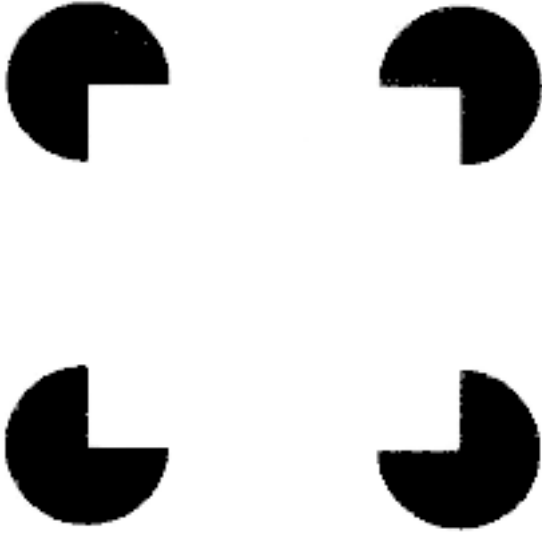
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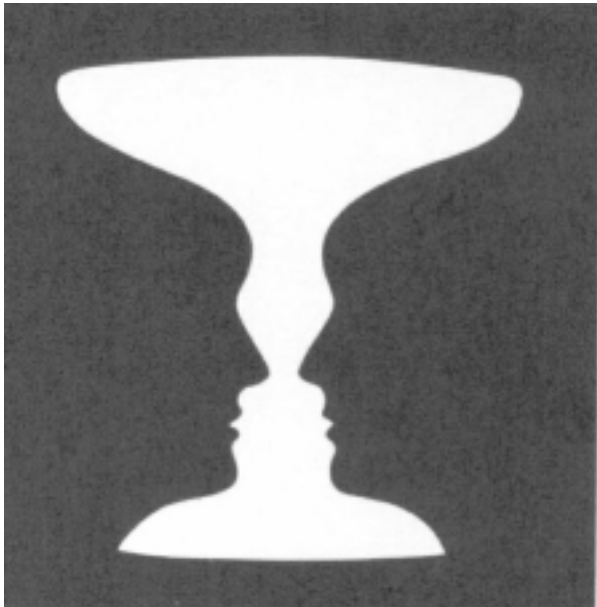
ILLUSIONS

Do you see the white square laid over the four black discs?



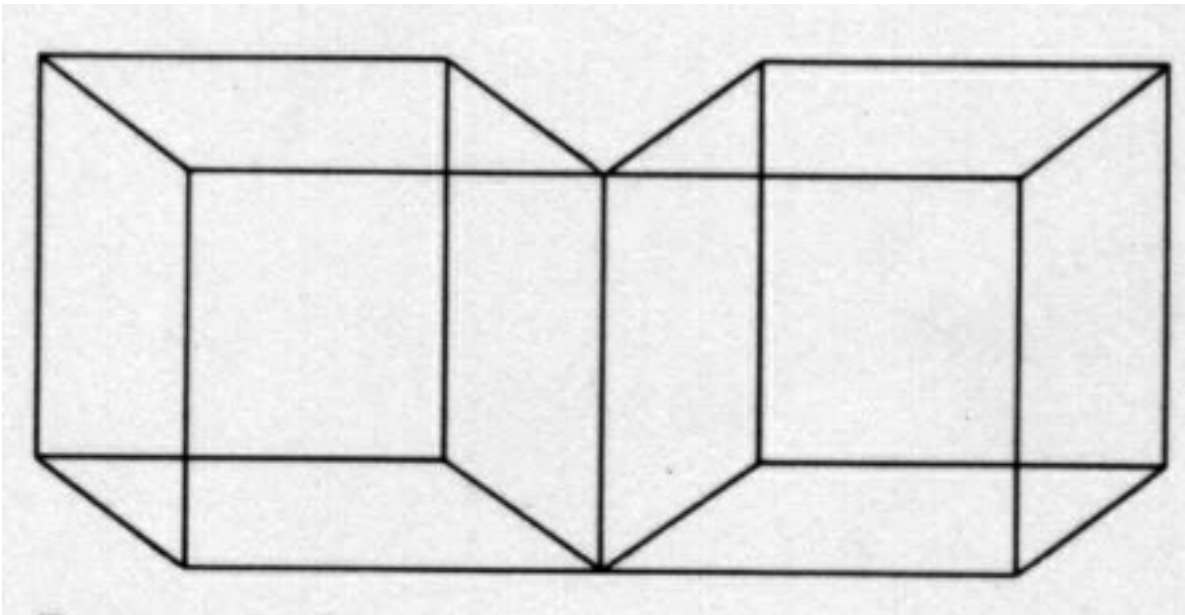
Look again. There is no white square.

Do you see a vase? Or two faces looking at each other?



Both are there.

How many arrangements of boxes do you see?



Two? Three? More?

Do you see the old woman?



Or the young woman?

All the above images are two dimensional drawings, yet all to more or lessor degrees suggest depth. The box drawing is the most depth deceptive. One can get an illusion that makes the boxes appear to go up and into the background, up and out of the background, one going up and in while the other goes up and out, and the reverse.

These illusions are designed to demonstrate that what our mind/brain mechanism 'sees' sometimes

conforms to stored patterns that do not correspond to what is actually focussed on our retinas. Think how much more illusive are those images that are generated by imagination, prejudice, and distorted propaganda.

This function, not to say dysfunction, of the mind is what all illusionists rely on. Stage or entertainment illusionists are great fun, but bankers, economists, politicians, theologians, gurus, advertisers, ideologues, and any other form of con-man rely on this mental function to mislead, confuse, and steal. They have learned that if they tell us what we want to hear, what we expect to hear, or what we hope to hear, we will serve them to our great disadvantage.

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LABOUR OR LIBERTY

by Eric de Maré
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On the following pages are printed revelations of authority on three matters of universal concern. First, on the disastrous control of the human race through the years by the Money Power. Secondly, on the way the banks create interest-bearing debts out of nothing and thereby not only rule all governments, industries and individuals but keep the world chronically short of buying power and heavily burdened with needless taxes. (The annual interest paid on the National Debt of the UK and almost entirely owned by the private commercial banks is in this year of 1996 around £23,000,000,000.) The effects are widespread decadence in poor education, increasing drug addiction and crime, insane terrorism, over-population, hideous urban growths and rapidly growing pollutions of land, sea and air, to say nothing of the needless hunger of millions of people all over the globe. Funds for urgently-needed scientific research are being seriously restricted - research, for instance, on alternative sources of energy that will be needed when the fossil fuels run out. As a result of its induced and artificial economic struggling, the criminal Debt System could, indeed, bring about another world war of such unrestrained savagery that it could end all life on this planet for ever. The situation is dire. We desperately need a new philosophy that is based on realities. Thirdly, therefore, is here appended an anthology on the need to eschew the prevailing Work Ethic on which the bankers rely for their retention of tyranny in favour of the emancipation of the individual human being by machine-granted leisure. Not Full Employment but Full Enjoyment in self-development.

This can only be achieved by three inter-related means: (i) The restoration of monetary control to where it rightly belongs: Parliament and People. (ii) The payment of debt-free and interest-free national credits to all retailers to enable them to sell their stocks below cost prices, so eliminating inflation for good while

precisely filling the present blatant and increasing gap between buying power and prices - a kind of VAT in reverse. (iii) The regular payment to every citizen, over and above any earnings, of National Dividends (Basic Incomes) as a birthright representing the fruits of that cultural inheritance belonging to us all, and to which the micro-chip and automation are the latest and most remarkable additions. As the costing engineer and distinguished originator of these Social Credit ideas, the late Major Clifford Hugh Douglas, wrote in his first book, "Economic Democracy" back in 1920 even before the micro-chip had been invented: *"It is fallacy that labour produces all wealth, whereas the simple fact is that production is 95 per cent a matter of tools and process."*

Money is not in itself wealth but only its token - a ticket system. What is physically possible to achieve must therefore be financially possible to make and distribute. Price Adjustments and National Dividends would allow this to happen to everyone's benefit in a splendid New Age that has become not just a romantic science-fiction dream but a real possibility. We can now gladly accept that modern machines and technology can increasingly eliminate human labour in production of wealth and so provide us all with that monetary independence, and therefore liberty, on which civilised living is founded. Let Douglas summarise our situation in the words he spoke in a lecture he gave in Newcastle in 1923 on "The Breakdown of the Employment System":

"I would commend to you, therefore, a most serious consideration of this issue: whether you wish the economic system to be made the vehicle for an unseen government, over which you have no control, which you did not elect, and which you cannot remove so long as you accept its premises, or whether, on the other hand, you are determined to free the forces of modern science, so that your need for goods and services may be met with increasing facility and decreasing effort, this, in turn, permitting humanity to expend its energy on altogether higher planes of effort than those involved in the mere provision of the means of subsistence".

THE HIDDEN POWER

I believe that banking institutions are more dangerous to our liberties than

standing armies. Already they have raised up a money aristocracy that has set the government at defiance. The issuing power of money should be taken from the banks, and restored to the people to whom it belongs. - Thomas Jefferson

Banks have done more injury to the religion, morality, tranquillity, prosperity and even wealth of the nation than they can have done or ever will do good. - President John Adams in 1819

I have two great enemies, the southern army in front of me and the financial institutions in the rear. Of the two, the one in my rear is the greatest foe. The Government should create, issue and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power. - Abraham Lincoln. (Were these views the cause of his assassination?)

If this mischievous financial policy (issue of Lincoln Greenback notes) shall become endurated down to a fixture, then that Government will furnish its own money without cost. It will pay off its debts and be without debt. It will have all the money necessary to carry on its commerce. It will become prosperous without precedent in the history of the world. The brains and the wealth of all countries will go to North America. That government must be destroyed or it will destroy every monarchy on the globe. - Editorial, *The Times*[London] , when the Greenbacks were issued.

The death of Lincoln was a disaster. I fear that foreign bankers with their craftiness and tortuous tricks will entirely control the exuberant riches of America, and use their power systematically to corrupt modern civilization. They will not hesitate to plunge the whole of Christendom into wars and chaos in order that the earth should become their inheritance. - Bismarck, when lamenting Lincoln's murder.

From the time I took office as Chancellor of the Exchequer I began to learn that the State held, in the face of the Bank and the City, an essentially false

position as to finance. The Government was not to be the substantive power, but was to leave the Money Power supreme and unquestioned. - Gladstone

The world is governed by very different personages from what is imagined by those who are not behind the scenes. Governments do not govern but the hidden hand. - Disraeli

Of the Versailles Peace Conference after the First World War: *The international bankers swept statesmen, journalists, and jurists all on one side and issued their orders with the imperiousness of absolute monarchs.* - Lloyd George

The great monopoly of this country (USA) is the monopoly of big credits. The growth of the nation, therefore, and all our activities, are in the hands of a few men who chill and check and destroy genuine economic freedom. - President Woodrow Wilson

Permit me to issue and control the money of a nation and I care not who makes its laws. - Mayer Amschel Rothchild

Every effort has been made by the Federal Reserve Board (FED) to conceal its powers, but the truth is - the FED has usurped the Government. It controls everything here (in Congress) and it controls all our foreign relations. It makes and breaks governments at will. - Congressman Louis T. McFadden

The truth is well known among our principal men now engaged in forming an imperialism of capital to govern the world. While they are doing this the people must be kept in a condition of antagonism. By thus dividing the voters we can get them to expend their energies in fighting over questions of no importance to us, except as teachers to lead the common herd. Thus by discreet actions we can secure all that has been so generously planned and successfully accomplished. - *The Bankers' Magazine*, USA, 1892

It is obvious that in our days wealth and immense power have been concentrated in the hands of a few men. This power becomes particularly

irresistible when exercised by those who, because they hold and control money, are also able to control credit and decide to whom it shall be allotted. In that, they supply the life-blood, so to speak, of the whole economic body. They have their grasp on the very soul of production, so that no one dare breathe against their will. - Pope Pius XI, Quadragesimo Anno 106-9

Until the control and issue of money and credit is restored to the government and recognised as its most conspicuous and sacred responsibility, all talk of the sovereignty of Parliament and Democracy is idle and futile. - Mackenzie King, Prime Minister of Canada in 1935

The main mark of modern governments is that we do not know who governs, de facto any more than de jure. We see the politician and not his backer; still less the backer of the backer; or, what is more important of all, the banker of the backer. Throned above all, in a manner without parallel in all the past, is the veiled prophet of finance, swaying all men living by a sort of magic. - G. K. Chesterton

The nation state as a fundamental unit of man's organized life has ceased to be the principal creative force. International Banks and Multinational Corporations are acting and planning in terms that are far in advance of the political concepts of the nation state. - Zbigniew Brezinski, Secretary and founder member with David Rockefeller, President of the Chase Manhattan Bank, of the Trilateral Commission which links the hidden leaders of Europe, America and Japan

The United Nations International Children's Emergency Fund (UNICEF) estimates that 500,000 children die in the Third World each year because of the debt crisis and the cruel and counter-productive policies the economist-bankers of the International Monetary Fund have imposed upon the wretched of the Earth. - William F. Hixson in "A Matter of Interest", 1994

Banking was conceived in iniquity and born in sin. Bankers own the earth; take it away from them but leave them with the power to create credit, and, with

a flick of the pen, they will create enough money to buy it all back again. Take this power away from them and all great fortunes like mine will disappear, and they ought to disappear, for then this world would be a happier and better world to live in. But if you want to be slaves of bankers and pay the cost of your own slavery, then let the bankers control money and control credit. - Lord Stamp, a Director of the Bank of England, in a speech in 1940

In this country the Institute of Bankers allocated five million pounds to combat the subversive ideas of ourselves. The large Press Association were expressly instructed that my own name should not be mentioned in the public Press. - C. H. Douglas, "The New Age", 28th March 1929

The issue which has swept down the centuries, and which will have to be fought sooner or later, is the People versus the Banks. - Lord Acton in 1875

I set to work to read the Act of Parliament by which the Bank of England was created and I soon began to perceive that the fate of the kingdom must finally turn upon what should be done with regard to the accursed thing called the National Debt. I saw how it had beggared and degraded the country... The scheme, the crafty, the cunning, the deep scheme, has from its ominous birth been breeding usurers of every description, feeding and fattening on the vitals of the country, till it has produced what the world never saw before - starvation in the midst of abundance. - William Cobbett

ITS HUGE SWINDLE

Banks act as "creators of money". - Professor Alan Day in "The Economics of Money", 1959.

They (the bankers) manufacture Credit by a mere stroke of the pen. - W. Hadley Robinson, Fellow of the Institute of Bankers

As the situation stands at present, the banker is in a unique position. He is probably the only known instance of the possibility of lending something

without parting with anything; and making a profit on the transaction, obtaining in the first instance his commodity free. - C. H. Douglas in a speech in Newcastle in 1923

Banks create credit. It is a mistake to suppose that Bank Credit is created to any important extent by the payment of money into the Banks. - Encyclopaedia Britannica, 14th edition

It is the fact that Bank deposits are used as money, which provides for the statement that "Bank loans create deposits". The creation takes place when the value of the loan is credited to the customer's account. - Chambers' Encyclopaedia, 1950

By creating deposits banks create money. When the manager of a branch of one of the joint stock banks opens an overdraft account for a customer, the loan creates a deposit; that is to say, a book debt has been incurred to the customer in return for a promise to repay it. - The Penguin Dictionary of Economics, 1979

So we have the principle, which is one of the axioms of modern banking, that every increase in lending creates a deposit. New money can be created by a net addition to bank lending, and money can be destroyed by a net repayment of bank loans. - E. Victor Morgan in "A History of Money", 1965

Money in the United States is not only a relatively small amount of cash, but we have primarily the bank deposits. This money has been created by the banks through their volition, not through the volition of Congress. - J. H. Rand Jr., President of Remington Rand, Inc.

It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities, a bank

creates a credit in its books, which is the equivalent of a deposit. - Lord MacMillan in "The Report of the MacMillan Committee on Finance and Industry", 1931

The banks do create money. They have been doing it for a long time, but they didn't quite realise it, and they did not admit it. Very few did. Today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create credit. - H. W. Whyte, Chairman of the Associated Banks of New Zealand in his *evidence before the N. Z. Monetary Commission*, 1955

I am afraid that the ordinary citizen will not like to be told that the banks or the Bank of England can create or destroy money... The amount of money in existence varies only with the action of the banks on increasing or diminishing deposits. - Reginald McKenna, erstwhile Chairman of the Midland Bank and Chancellor of the Exchequer

It is simply childish to say that a country has no money for social betterment or for any other purpose, when it has the skill, the men and materials to create that betterment... The history of money is one long unbroken history of fraud, and this power of money-creation by the banks is the final chapter. In brief, the creation of money, once performed by the producer of wealth, then by the custodian of wealth, who fraudulently issued more paper than the wealth he guarded, has passed to a set of people who neither produce, nor own, nor guard wealth, but are merely book-keepers. I find it incredible that a stable society can persist founded on the most colossal lucrative fraud that has ever been perpetrated on society. If we hypocritically claim that the employment system is a moral system and that man must be kept at work rather than choose work, we are sealing the doom of this civilization. - C. H. Douglas in a lecture at Ashridge Park in 1936

THE PHILOSOPHY OF LEISURE

Leisure is the best of all possessions. - Socrates

The perfect constitution will turn no citizen into a working mechanic. In the future every instrument should do its own work, the shuttle weave itself and the lyre be plucked without a guiding hand, so that foremen would not need workers nor masters slaves. - Aristotle

The economic problem, the struggle for subsistence, has always been hitherto the primary, most pressing, problem of the human race. If the economic problem is solved, mankind will be deprived of its original purpose. Will this be of benefit? For the first time since his creation man will be faced with his real, his permanent problem - how to use his freedom from pressing economic cares, how to occupy his leisure, which science and compound interest will have won for him, to live wisely, and agreeably and well. - John Maynard Keynes in "Essays in Persuasion", 1963

We shall have to question fundamentally why we work, how we take our leisure, and whether work itself is a positive activity. What is so special about work, especially if it will no longer be necessary, that we make such a feature of it? The Haitians have a very wise and perceptive old proverb: "If work were a good thing the rich would have found a way of keeping it all to themselves". We do not believe that work per se is necessary to human survival or self-esteem. - Clive Jenkins and Barry Sherman, Trade Union leaders in "The Collapse of Work", 1979

Work is the refuge of people who have nothing better to do. - Oscar Wilde

It is mentally and morally injurious to man to do anything in which he does not find pleasure, and many forms of labour are quite pleasureless activities and should be regarded as such. All works of that kind should be done by a machine. And I have no doubt that it will be so. At present machinery competes against man. Under proper conditions machinery will serve man. The fact is that civilization requires slaves. Unless there are slaves to do the ugly, horrible, uninteresting work, culture and contemplation become almost impossible. Human slavery is wrong, insecure and demoralizing. On mechanical slavery, on the slavery of the machine, the future or the world depends. - Oscar Wilde in

"The Soul of Man"

The ultimate aim of the machine is leisure - that is, the release of other organic activities. - Lewis Mumford in "Technics and Civilization"

Is ideal man, then, to be idle? I answer that, if so, I see no wrong but a great good. I deny altogether that idleness is an evil, or that it produces evil, for I am well aware why the interested are so bitter against idleness - namely, because it gives time for thought, and if men had time to think their reign would come to an end. Idleness - that is the absence of the necessity to work for subsistence - is a great good. I hope that succeeding generations will be able to be idle. I hope that nine-tenths of their time will be leisure time; that they may enjoy their days, and the beauty of this beautiful world, that they may rest by the sea and dream, that they may dance and sing, and eat and drink. I will work towards that end with all my heart. - Richard Jeffries in "The Story of my Heart", 1883;

Increased means and increased leisure are the two civilizers of man. - Disraeli

I suppose that this is what is likely to happen, that machinery will go on developing with the purpose of saving men labour, till the mass of people attain real leisure enough to be able to appreciate the pleasure of life and begin to find out what it is they really want to do. They will soon find out that the less work they did (the less work unaccompanied by art, I mean) the more desirable a dwelling-place the earth would be. - William Morris

Civilization is rooted in noble play. - Johan Huizinga in "Homo Ludens", 1970

The tendency to overvalue work and the effort of doing something difficult is so deep-rooted that it even effects our notion of love. At the zenith of the Middle Ages it was held that sloth and restlessness, "leisurelessness", the incapacity to enjoy leisure, were closely connected; sloth was held to be the source of restlessness, and the ultimate cause of "work for work's sake". It is only in and through leisure that the "gate of freedom" is opened. The world of "work" and of the "worker" is a poor, impoverished world, be it ever so rich in material

goods. Leisure is only possible when a man is at one with himself, when he acquiesces in his own being. It is an attitude of mind, a contemplative attitude, not a Sunday afternoon idyll, but the preserve of freedom, of education and culture, and of that undiminished humanity which views the world as a whole. - Joseph Pieper in "Leisure the Basis of Culture", 1952

I am inclined to agree with the Biblical saying that work is a curse. If you have the money, you can have leisure, but if you have no money, it's unemployment. Personally, I'm rather doubtful about this blessing of work. - Dr. Temple, Archbishop of Canterbury

For the last few centuries man has been obsessed by the idea of work, by the need for constant activity. He is almost incapable of being lazy for any length of time. This contrast, however, is only apparent. Laziness and compulsive activity are not opposites but are two symptoms of the disturbance of man's proper functioning. The opposite of both is productiveness. Man has created such sources of mechanical energy that he has freed himself from the task of putting all his human energy into work in order to produce the material conditions for living. He could spend considerable part of his energy on the task of living itself. - Eric Fromm in "The Art of Loving", 1976

If leisure and security were enjoyed by all alike, the great mass of human beings who are normally stupified by poverty would become literate and would learn to think for themselves... Goods must be produced, but they must not be distributed. And in practice the only way of achieving this was by continuous warfare. - George Orwell in "1984"

Modern finance imposes on us a totally unnatural privation. The wage system is really a slave system. The factory workman is not a responsible human being, responsible for what he makes. He is only responsible for doing what he is told. He has been reduced to a sub-human condition of intellectual irresponsibility. He is only a man in his spare time. It is because man has free will that he is a man, and not because he has twenty dinners a day and forty motor cars. The artist is not a special kind of man, but every man is a special kind of artist. Art

is that work and that way of working in which man uses his free will. A civilization based on the doctrine of free will naturally and inevitably produce artists. In such a civilization all men are artists and so there is no need to talk about it. - Eric Gill in "Money and Morals", 1937

Were mechanisation an end in itself, it would be an unmitigated calamity, robbing life of half its fulness and variety by stunting men and women into sub-human, robot-like automatons. But in the last resort, mechanisation can have only one object: to abolish the individual's physical toil of providing himself with the necessities of existence in order that hand and brain may be set free for some higher order of activity. - Professor Walter Gropius, world-famous architect

In what lies the significance of human life in which machine power has grown to be the destructive factor that it now is in the hands of the Money Power? There will come a universal margin of leisure, greater rational freedom for the individual than any known by previous civilizations - but that only if the creative artist is there in his true place, the machine in his hand as a tool. Money should have no power whatever in itself. Employment is not enough! What a man wants, if democracy works, is not so much employment as freedom to work at what he believes in, what he likes to do. Consult Social Credit! The most practical of all the systems of "money" yet devised. - Frank Lloyd Wright, world-famous architect in "The Living City", 1963

There is no doubt that if the human race is to have their dearest wish and be free from the dread of mass destruction they could have, as an alternative, what many of them might prefer, namely, the swiftest expansion of material well-being that has ever been within their reach, or even within their dreams. By material well-being I mean not only abundance but a degree of leisure for the masses such as has never before been possible in our mortal struggle for life. The majestic possibilities ought to gleam and be made to gleam before the eyes of the toilers in every land and ought to inspire the actions of all who bear responsibility for their guidance. - Sir Winston Churchill at the opening of Parliament, November 1953

Man is an active, creative being, born to explore the universe around him. There is no hint of a suggestion that his genetic structure, his psychological needs and drives, or even his social heritage, demands that he spend a vast chunk of his life poring over figures in a neon-lit office, driving a diesel engine through smoky streets, or watching a million bottles a day pass him on a conveyor belt. As we move towards the end of this century, therefore, expect to find man throwing off the shackles of compulsory mindless labour, and embracing the new intellectual riches which the computer will provide. - Dr. Chris Evans in "Scientific Fact", 1979

Consider the lilies how they grow, they toil not neither do they spin, yet Solomon in all his glory was not arrayed like one of these. - Jesus Christ

Eric de Maré, RIBA, RDI, (b.1910) has earned his living mainly as an architectural journalist and photographer, and for some years edited the weekly "Architects' Journal" in London. He has written and illustrated many books and articles on architectural history and topography, and on the art and craft of photography (See "Who's Who."). Since student days during the Hungry Thirties he has been an ardent advocate of the Social Credit ideas of the late Major Clifford Hugh Douglas, and among his writings is the paperback "A Matter of Life or Debt" which relates Social Credit to the new world of the micro-chip and automation, and is available from Humane World Community, Inc., P. O. Box 788, Onalaska, WA 98570, USA. \$12US tax and ppd.

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A Monetary System for the New Millennium

by Roger Langrick

The Debt Engine is a phrase to describe unrelenting, forever increasing private and government debt. The need to stay ahead of escalating debt fuels practically everything we do; it forces us out of bed in the morning to go to jobs that most of us despise. Corporations make all their decisions around first how to service their snowballing debt, and secondly around profit. Governments spend all their time worrying about how to meet their social agendas while at the same time servicing the increasing debtload of deficit spending.

As a motivating force, the Debt Engine now exceeds all others in the insane dash of the planet towards self destruction. Universal unrepayable debt creates a social environment in which certain types of behavior flourish and inhibits or destroys any tendency towards long term concerns and nourishment.

Unrepayable Debt is different than the everyday debt of normal life. Unrepayable Debt is an actual built in flaw of our present monetary system: The Fractional Reserve System. It benefits no-one except those intimately connected with the banking industry and in spite of its devastating repercussions, it is a flaw that can be fixed.

Everyone has some ideas about money, who controls it, where it comes from and how it operates. Some say the government prints it; others say hardwork makes money, while others would guess that it's something to do with gold. They might also picture it as a vast pile with everyone competing for as much as they can get. Bankers sometimes inflame our passions by claiming that the government has grabbed all the money and there is none left for private industry.

It's all poppycock. Our money supply isn't created by the government; a brilliant idea doesn't make money and neither does hard work (unless you happen to be in the counterfeiting business.) Our money is a national accounting system of who owes what to whom, and it is a system that is owned and operated by the private

banking industry.

There is no such thing as a static heap of money created by hard work and business cunning. Money flicks in and out of existence as credit and debit balances; the money supply swells and contracts continuously as loans are created and then destroyed. Money is simply a bookkeeping system; a man created device.

The man who invented the monetary system which we use today was a Scotsman, John Law, who lived during the 18th. century. He invented a new type of money to replace the old one of specie (the use of coins). In doing so he created the mechanism to finance the industrial revolution, and ultimately our modern technological world.

Much has been made of the astounding inventions of that era but what is often forgotten is that most of them would have never have seen the light of day without John Law and his invention: the Fractional Reserve Money System. Without it, there would have been no railroads, no Nissans or G.M.'s, nor would there have been any super highways to drive them on. There would have been no space shuttle, no Love Canal, no drift net fishing, no heart transplants, and no Cruise missiles.

What John Law did with his invention of a new money system was enable the Industrial Revolution, with all of its good and bad aspects, to take place. Without him, the Revolution would have fizzled and died, and with it, our technological world.

Here was the problem which John Law solved. In the early 1700's the newly industrializing nations of the world were in a perpetual state of economic crisis because their coinage system of money could not keep up with demand. Governments tried everything to increase the money supply. One trick was to make new coins much smaller than the old thereby getting more per ounce, but it was a stop gap measure at best.

To grasp the magnitude of the problem, try to imagine building just one modern skyscraper using only gold coins as finance. The industrialists of the Industrial Revolution were faced with a similar problem; how to build their factories, mills and railroads using only scarce gold coins.

John Law's solution was to create a national paper money supply; banknotes that would be officially recognized as "real money". The advantages were obvious. Paper money could be expanded indefinitely and was much cheaper than specie to make. To get and keep initial public confidence, Law suggested a fraction of gold be always kept on hand for the few people who wanted to redeem their notes.

Through a process of trial and error it was found that specie could support about ten times its value in paper money. That is, a bank which held \$10 in gold could safely print and loan out about \$100 in paper money. The gold held in reserve was obviously a mere fraction of the banknotes which it supported, and so the system became known as the Fractional Reserve System. The private banking industry was chartered by government to create the new money supply of paper notes. Until earlier in this century, banks literally printed their own supply against their own gold reserves with their name on each note, and lent them out to the public and government. Now the federal government has taken on the printing job but the notes are still drawn on private banks.

In the 1930's the convertibility of bank notes was dropped but the Fractional Reserve System is alive and well today, albeit in a more sophisticated form. Cheques or credit cards have largely replaced paper money but the principle remains the same; the banking industry creates the money which government and society then borrows.

John Law's method of money creation is still the dynamo that powers our present world. By replacing specie with a simple national accounting system of credit and debit, he made money infinitely more flexible, able to be contracted or expanded to meet any situation.

However, using the Fractional Reserve System has not been a universally happy experience. It has a built in mechanical flaw that always keeps total national and private debt ahead of the money available to repay it. In fact the more a nation expands, the more it automatically goes into debt to the system over and above the money that it borrows.

To explain, imagine the first bank which prints and lends out \$100. For its efforts it asks for the borrower to return \$110 in one year; that is it asks for 10% interest. Unwittingly, or maybe wittingly, the bank has created a mathematically impossible situation. The only way in which the borrower can return \$110 of the bank's notes is if the bank prints, and lends, \$10 more...at 10% interest.

When presented with this scenario, there is often a tendency to think: "Ah, but the borrower can always make the extra \$10 somewhere else, through hardwork or a deal overseas." However, although we frequently interchange the two sayings, earning money is not the same as making it. Earnings are simply a transfer of money from one ownership to another and neither increase nor decrease the total money in existence. Making money actually does increase the nation's money supply but no-one can do that but the banking industry itself as laid down in its charter from the federal government.

The result of creating \$100 and demanding \$110 in return, is that the collective borrowers of a nation are forever chasing a phantom which can never be caught; the mythical \$10 that were never created. The debt in fact is unrepayable. Each time \$100 is created for the nation, the nation's overall indebtedness to the system is increased by \$110.

The only solution at present is increased borrowing to cover the principle plus the interest of what has been borrowed. The business or government that cannot expand its borrowing every year is seized by its increasing debt load and dragged under.

Many economists are not unmindful of the problem but pass it off as irrelevant. They say that if the marketplace economy keeps expanding, thereby fuelling an

increase in the total money supply, there is no problem with meeting interest payments on an increasing debt load. But under such circumstances, economic expansion is not a luxury but an imperative to stay ahead.

In John Law's day, the need to continuously expand to meet growing debt repayments was seen as a minor problem of no consequence. Today, however, we all know the planet cannot sustain unlimited growth. Even so, we are stuck with a monetary system that demands continuous expansion or face the chaos of total economic collapse.

The consequences of the Debt Engine are everywhere. Political and business leaders are sacrificing the planet to stay ahead of bankruptcy. Technology is not being used to create a sane and sustainable lifestyle for us all but is being channeled into the most narrow band of activity: the market place activity of "making" money. Just as governments are forced into ignoring vital social and environmental questions in their efforts to balance the books, so many corporations are putting to one side such things as resource depletion and the destruction of the ecosystem in their frantic efforts to remain economically alive.

But the situation is not completely bleak. Just as John Law found a way around the impasse of coinage, so there are solutions for the problem of unrepayable debt. Obviously the first thing to do is make sure that the ratio of credit to debt is always the same. Under the Fractional Reserve system, \$100 credit is created and \$110 debt is demanded in return; that is, there is always more debt than credit. This equation should be \$100 credit equals \$100 debt.

The mechanics of how to achieve this were proposed over one hundred and fifty years ago. It was proposed that the nation's money be created by two agencies: the banking industry and government.

Instead of taxes, government would be empowered to create money for its own expenses up to the balance of the debt shortfall. Thus, if the banking industry created \$100 in a year, the government would create \$10 which it would use for its own expenses. Abraham Lincoln used this successfully when he created \$500

million of "greenbacks" to fight the Civil War.

A government which creates its own money supply becomes independent, and the most important result of freeing government from its present debtor relationship to the banking industry would be to make it more able to respond to social pressures for reform. A financially independent government would be able to pursue long term agendas for the betterment of society. For instance, a twin source of money creation could not only rapidly reduce taxes, but create additional funding for other initiatives. A government having the same right of issue as is now monopolized by the banking industry could fund vital job creating initiatives such as environmental repair and sustainable technology on a scale that is hard to imagine.

America has the resources to lead the world into a sustainable future. But it needs a monetary system which will allow for its resources to be mobilized towards a greater destiny than marketplace superiority. Such a new monetary system with all of its potential would require a dramatic upgrading of society's consciousness and understanding of money. We have to move from a simplistic belief in money having an intrinsic value of its own and see it as a bookkeeping system of the real wealth of our nations. Ultimately our money is not dependent on gold in Fort Knox but on the human and natural resources which it represents.

The world has passed beyond an age of scarcity and the challenge of the new era is not about solving problems of want, but dealing with abundance and how to use it to create a sustainable future. Above all we need the visionaries able to point the way.

In my forthcoming book *Superproduction*, I try to address the potential which is now in our grasp. With computerization, robotics, advances in genetics and food growing, we have the potential to turn the planet into a sustainable ecosystem capable of supporting all. We have the technology to genuinely contemplate colonizing the solar system.

This is not a time to be saddled with an 18th century money system designed

around the endless rape of the planet. John Law enabled humanity to scabble out of scarcity but now his system is antiquated. Philosophically it is based on the robber baron mentality and technically it is flawed with Unrepayable Debt. As such it is unable to respond either to the abundance which it created or the problems which it spawned.

The Debt Engine has distorted the potential of the Industrial Revolution and forced us into a narrow focus of marketplace ethic. A new monetary system with enough government control to ensure funding of vital issues could unlock the creative potential of the entire nation. By redirecting the focus of our national economy, a new monetary system would enable men and women who can think in terms of abundance not only for themselves, but how also to use it for the benefit of the entire planet. I know John Law would approve.

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THE MONEY QUESTION

???

This is an edited and updated version of a speech to the Washington State Libertarian Convention, Tacoma, Washington, 1995 by Muriel E. Mobley.

Albert Ellis said in a *New Guide to Rational Living*:

...you could hardly conceive of a more irrational world than our present society. In spite of the enormous advances in technical knowledge made during the last century, and the theoretical possibility that all of us could live in peace and prosperity, we actually hang on to the brink of local strife, world war, economic insecurity, political skulduggery, organized crime, pollution, ecological bankruptcy, business fraud, sexual violence, racial bigotry, labor and management inefficiency, religious fanaticism, and other manifestations of inhumanity. ...Modern life, instead of seeming just a bowl of cherries, often more closely resembles a barrel of prune pits.

Even though Ellis recognizes that we have the technology to feed, house, and clothe all mankind as well as live in peace, freedom, abundance, and leisure, he never in all of his writings which I have ever read ever once addressed the cause of our maladies. But others have. If only we will listen, learn, and act on our knowledge there is hope of a remedy that will enhance the life and liberty of every individual.

In America today there is no shortage of people willing to work at alleviating society's ills. Unfortunately, very few recognize just what it is that is causing such turmoil in our supposedly enlightened world.

What is the cause of all this social turmoil?

C. H. Douglas said, "The answer is so short as to be almost banal. It is money."

Ralph Borsodi said, "Without money reform, no social reform would be possible," and added, "Money reform, or an honest money system, will be the most difficult reform to bring about because so few people understand the problem."

Lord Maynard Keynes said, "There is no subtler, no surer means of overturning the existing basis of society than to debauch their currency. The process engages all the hidden force of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

The supposedly mysterious arena of money mechanics is the battlefield where the war to defeat the power of a corrupt money system will be won or lost. Money mechanics is the nuts and bolts procedure that creates and uncreates money. I will attempt an explanation of the mechanics of America's money system. It is so simple that I have often said that its simplicity is its best cover. It is incredibly simple and many people refuse to believe it.

This explanation will be quite brief, but it is based on documented facts not the least of which are the publications of the system itself.[\(1\)](#) I hope my explanation will be sufficient for us to begin to expose commonly believed myths and fallacies. It should help expose the anti-democratic, anti-social, and anti-libertarian nature of the system. It should also expose some of the mutually exclusive contradictions in orthodox economics. **No economic theory or ideological construct that excludes money mechanics has any chance of being accurate and complete.**

In 1791 the Congress established a [central bank](#) to monetize the government's debt. In 1792 the Congress enacted a [coinage bill](#) to establish a mint and coin privately owned silver. The monetized debt assured a justification for taxation for the benefit of the financial oligarchy. The Coinage Act assured that rich people could convert their silver to legal tender money.

The Federal Reserve Act of 1913 and subsequent revisions, particularly in 1935 and 1980, are but consolidations of financial oligarchic power that began in 1791.

You need not share my opinions of the foregoing history to observe and learn what the present financial system is all about and observe its effects. Total Credit Market Debt is nearly \$23 trillion.[\(2\)](#) TCMD includes government, financial, foreign, and private debt but excludes corporate stock. Social, financial, political, and environmental chaos runs rampant.

Nothing I am about to tell you is secret, but the information will not come to you through ordinary education and media sources. You must go to it.

The present private monopoly banking system was enacted into law Dec. 23, 1913 by legislation blatantly mislabeled the [Federal Reserve Act](#). It has been subsequently revised.[\(3\)](#)

This private monopoly bank is our central banking system. It is the monetary policy authority of the United States. It is a bank of issue, that is, it creates and regulates the money supply. It is sometimes called the bankers' bank. It is erroneously called the government's bank. The government banks there, but the government does not own or control the Federal Reserve Banks any more than you own or control the bank where you bank.

Monetary policy of the bank monopoly must be clearly distinguished from fiscal policy of the government. Monetary policy is creation and regulation of the money supply; fiscal policy of the government is tax, borrow, and spend. Monetary and fiscal policy are different and sometimes conflict.

In its present form the nationwide banking monopoly consists of twelve regional banks, a Board of Governors, the Federal Open Market Committee, several advisory committees, and the member depository institutions such as commercial banks, S & Ls, credit unions, etc. Most depository institutions are members but a few still operate under state laws.

The bank monopoly makes monetary policy in three ways: 1. It creates and regulates original bank reserves. 2. It dictates fractional reserve ratios. 3. It dictates the discount interest rate.

Regulation of original bank reserves is accomplished, primarily, by buying and selling U. S. Treasury securities in the open market.⁽⁴⁾ The Fed buys securities by writing checks or creating deposits by computer entry for money that does not exist. The Fed does **not** complete a transaction by transferring money from one account to another as ordinary businesses do. **The Fed creates the money it uses in its open market transactions.**

The operation may be best understood if we use the example of checks. The Fed writes a check to a securities dealer. The dealer deposits the check at his commercial bank. The commercial bank credits the dealer's account and returns the check to the Fed. The Fed credits the bank's reserve account. New money has been created and can be circulated by the dealer writing checks to pay his bills.

The money created by this process has no corporeal existence other than numbers in a bank's ledger. Keep in mind that **no notes** have been printed and **no coins** have been minted. This is the secret of understanding money mechanics which I call ledger entry legerdemain or ledger entry shell game. Also, keep in mind that if you or I did such a thing, we would be called federal although not Federal Reserve Bank officer. We would be called federal prisoner.

The deposit made by the securities dealer creates an addition to the commercial bank's reserve account. Commercial banks may lend a portion of the value of the reserve account. The portion is determined by the specified fractional reserve requirement. If the specified fraction is 10%, the bank may lend 90% of its reserve account value.

If the Fed wrote a check for \$1000 to the securities dealer, the commercial bank would accrue \$1000 in new reserves and could lend \$900. The \$900 loan creates new deposits and a transfer of \$900 of reserves to the recipient bank. The recipient bank may lend \$810. The deposit of \$810 and transfer of reserves

enables a loan of \$729. The process limits the commercial banking system to a maximum creation limit of \$9000 from an original \$1000 dollar deposit and reserve creation by the Fed. It is a cascading system of money creation that is limited by the reserve ratio. Do not forget that **all** the money was created out of **nothing** by bank officers' signatures on checks. The Fed checks are not written against funded accounts. Commercial banks' checks are written against make-believe reserves. The reserve account, to the extent that it is supported by deposits, is a bookkeeping fiction that enables the bank to show you that your money is in your account even though it has used your money as the basis of a loan. This is what I call ledger entry legerdemain or ledger entry shell game. Which account is the money in? The deposit account? The reserve account? The loan account? Or all three at the same time?

Technically, checks are no longer necessary. All operations can be done by computers.

Actual reserve ratios required to be held are variable. [\(5\)](#) Presently they are 10%, 3%, and 0%. The theoretical limit of 3% ratio is 32 times multiplication of reserves. 0% has no theoretical limit. Actual commercial bank multiplier of the system as a whole is around 12 to 14.

Commercial banks do not lend out money that has been deposited with them as is commonly believed. In reality, banks create the money, lend it, and accept it as additional deposits. [*Modern Money Mechanics*](#), published by the Federal Reserve Bank of Chicago, explains on page six, "Of course, they [commercial banks] do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts." Remember that no corporeal thing has been created at all. It is entirely numbers transferred by checks. The fractional reserve requirement limits how much money commercial banks can create. It is the Fed's most powerful regulatory method. Changes made in reserves whip-crack through the banking system with an approximate 12 times effect.

The art of commercial banking is the bookkeeping management of this ledger entry shell game. Banks are constantly accepting deposits, paying demand checks, making loans and receiving pay back of loans. When a bank's loan-reserve ratio cannot otherwise be maintained, the bank may go to the Fed with Treasury securities as collateral and borrow. The interest the Fed charges the commercial bank is the discount rate of interest. The discount rate generally influences all other interest rates.

There are two other forms of money worth mentioning. Coins issued by the Treasury is a minor source of currency. It is our only government issued debt-free money. U. S. Notes are no longer circulated. Federal Reserve Notes, paper money, are part of the ledger entry shell game. FRNs are printed for the Fed by the Bureau of Printing and Engraving. The Fed pays the cost of the printing and issues the notes. Commercial banks receive the notes as a debit to their reserve account and issue them to customers who demand them in exchange for deposit debits. Coins and notes support the myth that money is something tangible and substantial.

The foregoing is how our money is created. Money destruction is the rest of the story of money mechanics. The Fed can shrink basic bank reserves by taking the opposite action in the open market that it took to create reserves. That is, it sells securities. The buyer's check is sent to the buyer's commercial bank for debit of his deposit account and deposits and reserves are reduced. The reduction in reserves creates a reverse cascade or collapse of loans and deposits of up to 12 times the reduction in reserves. Money is thereby uncreated.

Commercial banks uncreate money corresponding to loan principle when a loan is repaid. In order to repay a loan, the money must come out of a deposit account. A reduction in deposits may leave the bank with reserves that supported the deposit and are now excess. To restore money to circulation, a new loan must be made. No reverse cascading effect occurs, because reserves are not reduced. Keep in mind that we are not talking about anything corporeal. We are talking about deposit money that only exists as numbers. It is all numbers and bookkeeping. Numbers can be created and erased with the touch of a computer button as easily

as they can be transferred from one account to another.

Our money supply is a dynamic function of money creation by lending and cancellation by repayment. The money supply known as M1, M2, M3, and L commonly published in business and statistical literature is the total of liquid money in the pipeline at a given time. It is not a true representation of the dynamic money supply. The M's obscure the dynamics of lending and paying back.

Loans, of course, require payment of interest. When banks create money to loan, they do not create any money to pay interest. Therefore we always have more debt than money. When the loan principle is repaid, money is canceled and the money supply is reduced. The interest debt can only be paid by additional borrowing. Money, called interest, is the banks' income; and by not creating money to pay interest, banks have created an exponential annuity to themselves. The entire banking system is a lose-lose game for all of us, and a win-win game for bankers.

It is a system of bankers, by bankers, for bankers. This is true not only for us but for all people of the planet. We Americans live in the la-la land of **lies** shouting for all the world to hear—we are free! we are free! Yes, free to put ourselves, our kids, grandkids, and everyone into debt-money slavery. This is reason enough to understand why we are not loved worldwide.

Based on the above explanation of the money system, I am about to lob some handgrenades at commonly believed myths.

MYTH No. 1. The government prints money. This myth is supported by semantic sophistry. Printing money and issuing money are two entirely different things. As explained above, the Bureau of Printing and Engraving prints Federal Reserve Bank Notes, but the government does not issue them. The Fed does. The government mints coins, an insignificant part of the money supply, taxes, and borrows in the open market from private investors. Perpetrators of this myth equate this to printing money.

When the Fed or commercial banks buy government securities, new money is created as described above. The total of those bank transactions constitutes about 20% of the Gross Public Treasury Debt erroneously labeled the "national" debt, or about \$1 trillion. This is less than 20% of the money supply, but it must be remembered that all money, coins excepted, originates as debt. The true money supply is the dynamic creation and payback of debt. The perpetrators of this myth resort to polemical sophistry. New money is created when anyone borrows from a fractional reserve institution. ANYONE!

MYTH No. 2. Inflation is caused by printing too much money. The explanation in Myth No. 1 explodes this myth. No printing press, no printing press inflation.

MYTH No. 3. We must pay off the national debt. This is one of the more pernicious myths. When money is created by debt at interest and canceled by repayment, it is impossible to pay off all debt and maintain a money supply. It is mathematically possible for the government to pay off its debt to all but the Fed; but if the government paid off the Fed, bank reserves would disappear and so would the money supply. The debt can never be paid off until an alternate source of money is available with which to do it. I repeat, the debt cannot be paid off without an **ALTERNATE SOURCE OF MONEY**.

MYTH No. 4. Inflation is caused by too much money chasing too few goods. To believe this myth, one must be deaf, dumb, and blind. Open your eyes and observe that there is no shortage of goods. In fact, there are too many goods chasing too few dollars. Consumer debt is more than \$1 trillion for goods not yet paid for. Stores are full and begging us to buy more by debt erroneously called credit. There has been too little money since W.W.II, yet inflation as measured by prices is endemic. The perpetrators of this myth engage in the doublethink that money derives its value from scarcity while at the same time they assure us there is too much money! That surely must cause Orwell to twist in his grave.

MYTH No. 5. Consumer Price Index is a valid measure of inflation. This would be true only if inflation is defined that way. CPI is massaged to create false images for political consumption. The product base, the weighting, and the time

base are all altered for political subterfuge. CPI is also distorted by price decreases caused by technological innovation.

MYTH No. 6. Business makes money. This myth is largely supported by semantic confusion. Only banks make money; businesses get money that has been created by banks as debt.

MYTH No. 7. The problems of unemployment and debt can be solved by producing more. Producing more what? We cannot pay for what we have already produced because of an obvious shortage of money. Production means nothing without concomitant consumption. The more we produce and consume by going into debt, the faster the debt rises in a vicious spiral of financial and social stratification.

MYTH No. 8. The problems of unemployment and debt can be solved by exporting goods. Exports in excess of imports only earn debt currency issued by foreign banks. Foreign debt currency is useless in the domestic market. Here we encounter yet another mathematical impossibility. All nations **CANNOT** be net exporters. The objective of foreign trade is to get an advantage in the competition for resources and artificially scarce money. What a colossal folly to export our real wealth for useless debt currency issued by foreign banks. The ultimate end of this fallacious competition is **WAR**—yet another creator of debt and waste.

MYTH No. 9. One of the most tenacious and emotionally charged myths is that the physical substance of money matters. It is of no consequence what-so-ever what money is made of as long as it is issued as debt. The mechanism, the irreconcilable mathematics, and mal-distribution of wealth will result in the same social, financial, environmental, and political chaos. It always has. The historical records of the junkyard of empires show it well.

MYTH No. 10. The myth of eminent bankruptcy. One glimpse at the exponential increase in Total Sector Assets, Liabilities, Credit Market Debt, and money supply shows there is no inherent reason for the fictions touted by bankruptcy mongers such as Henry Figge. All functions increase along similar curves. In

articles published in The Spotlight on February 27 and March 6, 1995, we addressed this myth in more detail including a graph of the functions. Only mismanagement or deliberate management could cause debt to ever exceed assets. The subtle effect of inflation makes it so. Nothing here should be construed to mean the depression of the 1930s or hyper-inflation such as Germany in 1923 did not happen or will not happen again. If and when they happen, they will happen by design to accomplish some political or financial goal.

MYTH No. 11. The myth that there is a simple solution to a complex problem. This myth is not unique to money, but it supports all money myths one way or another. There is mathematical proof that a system of n variables must have no less than n solutions. The empirical reasoning is that in any system of interdependent variables, changing one variable affects all other variables. Hence, they must all be solved simultaneously. I have outlined only a few variables. There are many more. Is the solution to this money problem beyond the reach of human intellectuality? I hope not, but perhaps that is just my wishful thinking. But if scientific methodology can put men on the moon and bring them back, why can it not solve the money problem? I hope it can if we opt for the necessary mental discipline and begin to deal with real data in real time. When we do that we will see that many problems facing society are a result of the financial structure. No change is possible without a change in the structure. Just as an automobile cannot fly due to its structure no matter how much one tinkers with the engine or what color it is painted, the financial system can only do what it was designed to do. What it is designed to do is perpetuate an exponentially increasing annuity to the financial oligarchy.

If we divide the total money of the nation by the total population of the nation we conclude that there is about \$21,500 for each person. This sounds like plenty of money for everyone. Unfortunately, there is about \$58,000 of debt for every person. Apply your \$21,500 to the debt and \$37,500(6) of debt would remain. Your options are forfeiture of assets or borrow more money. Can you borrow yourself out of debt? You **cannot!**

Since the average person only deals with money after it has been created, perhaps it is not surprising that the cause of the ever increasing debt is not widely perceived. But it must be widely perceived before there is any hope of correcting it.

Since the established mechanism of money creation and uncreation is **itself the cause** of ever increasing debt, it is not possible to correct the debt problem using any method that deals with money after it has been created.

Working harder or longer will not correct it.

Having a **job** for everyone will not correct it.

Neither **raising nor lowering wages** will correct it.

Neither **greater nor lesser utilization of natural resources** will correct it.

Neither **increasing nor decreasing exports** will correct it.

Neither **more nor less** spending will correct it.

Neither **full employment nor less than full employment** will correct it.

Changing **interest rates** will not correct it.

Changing **tax rates** will not correct it.

The only thing that will correct it is the one thing that is a sacrosanct non-subject in media, education, politics, religion, and even social discourse. The **only** thing that will correct it is to strip banks of their power to create **their** money as **debt at interest** and adopt a method of money creation whereby the U. S. Treasury creates our money as **CREDIT!**

This issue is the key issue in the financial future of our nation and world!

This **FRAUDULENT** money mechanism is utilized throughout the world and is destroying nations, communities, families, and individuals right before our eyes!

We must turn an entrenched, centuries old financial establishment on its ear!

READ ABOUT IT.

STUDY IT.

UNDERSTAND IT.

TALK ABOUT IT.

THEN RAISE SOME HELL!

1. [Modern Money Mechanics](#), published by the Chicago Federal Reserve Bank.[return](#)

2. Second quarter, 1999. [return](#)

3 See Title 12 USC for complete, current banking law.[return](#)

4. See [Modern Money Mechanics](#) for a complete review of open market operations.[return](#)

5. See current issue of Federal Reserve Bulletin for requirements and conditions.[return](#)

6. Based on credit market non-financial debt. Total other liabilities could triple it.[return](#)

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United States Code, Title 12 and Title 31.

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A MONEY TIMELINE

YEAR	EVENT
~590	Solon writes new laws for Attica, cancels debts and removes stone markers (controversial).
~336	There are two sorts of wealth-getting,...one is a part of household management, the other is retail trade: the former necessary and honourable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another. The most hated sort, and with the greatest reason, is usury, which makes a gain of money itself, and not from the natural object of it. Aristotle, <i>Politics</i> , Bk I, Ch. 10.
303	Laws of the Twelve Tables appeared in Rome, defaulting debtors' families could be seized and sold into slavery.
~221	Qin Shihuangdi unifies China.
56	...But meanwhile, before the empire of Rome became coextensive with Alexander's, the most immediate and decisive effect of the universal enthusiasm was to impel men to incur the most impossible obligations. Nearly every one was at once both creditor and debtor; men lent one another any little money they possessed, and borrowed again whenever they were in difficulties. Italian society had become an inextricable labyrinth of debit and credit, through the system of <i>Syngraphae</i> or letters of credit, which were negotiated in the same way as securities and bills of exchange today, because the scarcity of capital and the frequent oscillations in prices would have made it ruinous for them to be redeemed too frequently. Those who were in need of money attempted to sell to some financier the claims they had on other persons, and the financier would give cash payment, of course with a proportionate discount according to the prospects of the debt, the needs of the creditor and the condition of the money market... <i>The Greatness and Decline of Rome</i> , Guglielmo Ferrero, Vol. II, pg. 57.
44	Julius Caesar assassinated.
27	Octavian, adopted son of Julius, receives title of Augustus Caesar.
0000	Beginning of common era.
~330	Founding of Constantinople.
455	Rome sacked, beginning of Dark Ages of Europe.
~900	Byzantium begins decline while wealth and power of Venice and Genoa ascend.
1095	The first Crusade.
1147	The second Crusade.
1189	The third Crusade.
1203	The fourth Crusade.
1204	The fall of Constantinople.

- 1218 The fifth Crusade.
- 1248 The sixth Crusade.
- 1270 The seventh Crusade.
- 1307 Arrest of Knights Templar and confiscation of wealth by French Philip IV and Pope Clement V.
- 1492 Columbus blunders into "New World," later designated Americas, plunder and genocide of Americas begin.
- 1494 Double entry bookkeeping method published.
- 1497 Vasco de Gama sails around Africa to India, beginning of end of overland trade routes to the East and ascent of western Europe to financial and trade supremacy, also enhanced by looting of Americas.
- 1619 Black slaves brought to Virginia Colony.
- 1666-7 English King Charles II abandons sovereignty over coinage, beginning of "free" coinage.
- 1694 Bank of England chartered, beginning of modern central banking.
- 1709 First land enclosure act in England.
- 1741 English government begins suppression of Colonial money.
- 1764 Currency Act forbids Colonial paper money.
- 1776 Adam Smith publishes "*Wealth of Nations*" and "fathers" the nescience of economics.
Thirteen North American Colonies declare independence from England.
- 1783 England accepts American independence.
- 1789 U. S. public debt at \$75 millions.
- 1791 [First central bank](#) chartered in the U.S., banknotes receivable by government.
- 1792 [Coinage Act](#) in U.S. to establish standards for money coins of gold, silver, and copper; act inculcates "free" coinage.
- 1794 Alexander Hamilton leads troops in Whiskey Rebellion.
- 1805 Publication of *An Inquiry Into the Permanent Causes of the Decline and Fall of Powerful and Wealthy Nations*, by William Playfair, which documents beginning of exponential increase in English national debt coincident with founding of Bank of England.
- 1811 First U.S. Central bank charter expired.
- 1812 War of 1812, U.S. vs England.
- 1816 [Second Central Bank](#) chartered in the U.S.
- 1819 Serious recession in U.S. economy due to monetary contraction.
- 1836 Second U.S. Central bank charter expired.
- 1837 Serious recession in U.S. economy due to monetary contraction.

- 1861 U.S. Civil War begins, U.S. Public debt is \$64.8 millions (1860)
[\\$50,000,000 U. S. Notes](#) authorized to help finance Civil War.
- 1862 [\\$10,000,000 additional U. S. Notes](#) authorized.
[\\$150,000,000 additional U. S. Notes](#) authorized.
- 1863 Jan. 1, Lincoln issues Emancipation Proclamation.
- 1863 "National" Bank Act establishes *de facto* third U.S. central bank.
- 1864 ["National" Bank Act](#) revised.
- 1865 U.S. Civil War ends, Public debt is \$2.68 billions.
- 1869 Credit Strengthening Act promised to pay U.S. debt in specie.
- 1873 Silver surreptitiously demonetized by limiting payment to \$5.
- 1874 Disastrous recession in U.S. due to monetary contraction.
- 1878 Bland-Allison Act authorized purchase and minting of silver dollars, restored legal tender to silver dollars, with private contract escape clause.
- 1883 Recession in U.S. due to bank contraction of money.
- 1893 Sherman Silver Purchase Law repealed, U.S. fell into recession.
- 1907 First major U. S. recession of 20th Century.
- 1910 Proposal for U.S. central bank written in secret at Jekyll Island.
- 1913 U.S. central bank established by [The Federal Reserve Act](#).
- 1917 U.S. enters WWI, Public debt is \$5.7 billions.
- 1918 WWI ends, U.S. Public debt is \$14.59 billions. .
- 1919 U.S. Public debt rises to \$27.39 billions.
- 1920 First U.S. recession manipulated by Federal Reserve.
- 1929 Federal Reserve "crashes" Stock Market, ten year depression begins, Bank for International Settlements founded.
- 1933 FDR Roosevelt inaugurated, New Deal begins, banks closed, domestic gold confiscated.
- 1934 Gold re-valued at \$35 per ounce.
- 1935 [Banking Act of 1935](#) finalizes Federal Reserve Open Market Committee to buy and sell U.S. securities for purpose of regulating bank reserves.
- 1937 U. S. economy takes downturn in spite of New Deal legislation.
- 1939 WWII begins.
- 1941 U.S. enters WWII, U.S. Public debt is \$48.96 billions.
- 1944 United Nations Monetary and Financial Conference at Bretton Woods, NH., charters IMF. (Interestingly, the UN did not officially exist)
- 1945 WWII ends, U.S. Public debt is \$258.68 billions, IMF is instituted, World Bank founded.

- 1946 Public debt climbs to \$269.42 billions.
- 1947 Public debt reduced to \$258.28 billions, U.S. economy slumps.
- 1948 Public debt reduced to \$252.29 billions, economy in recession.
- 1950 Korean War begins.
- 1953 Korean War truce, Public debt is \$275.17 billions.
- 1957 Public debt is \$274.89 billions with small budget surplus, economy in recession.
- 1960 Public debt at \$290.21 with small budget surplus, economy goes into recession.
- 1961 Escalation of U.S. involvement in Viet Nam begins.
- 1964 Silver is demonetized in U. S.
- 1970 Public debt is \$389.16 billions, economy in recession.
- 1971 Pres. Nixon decrees wage and price controls, closes international "gold window."
- 1973 Cease fire in Viet Nam.
- 1974 Public debt is \$492.66 billions, economy in recession.
- 1979 Public debt is \$845.11 billions, short recession.
- 1980 [Depository Institutions Deregulation and Monetary Control Act of 1980](#) expands regulatory power of Federal Reserve in typical legislative doublespeak. Savings and loan scandal follows.
- 1981 Public debt is \$1,028.73 billions, economy goes into recession, massive deficit spending begins.
- 1987 Alan Greenspan appointed Chairman of Federal Reserve BofG, announces "soft landing" for U.S. economy.
- 1991 U.S. in worst post WWII recession.
- 1994 Genocide in Rwanda after Structural Adjustment Program applied by IMF.
- 1998 Jan. 14, Michel Camdessus, Managing Director of IMF, is in Indonesia to offer Structural Adjustment Program that requires 50% devaluation of Indonesian currency and 60% cut in wages to receive "bail-out" loan. Rioting shortly followed that was put down with military force. Suharto forced to step aside as head of government.
- 1998 Public debt of U.S. reaches \$5.6 trillions.

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POPULATION GROWTH

The following graphs show Earth's hypothetical human population growth based on 1% annual growth rate beginning with 6 billion (6×10^9) at year 2000. Each succeeding graph begins at the end of the previous graph.

Figure 1.

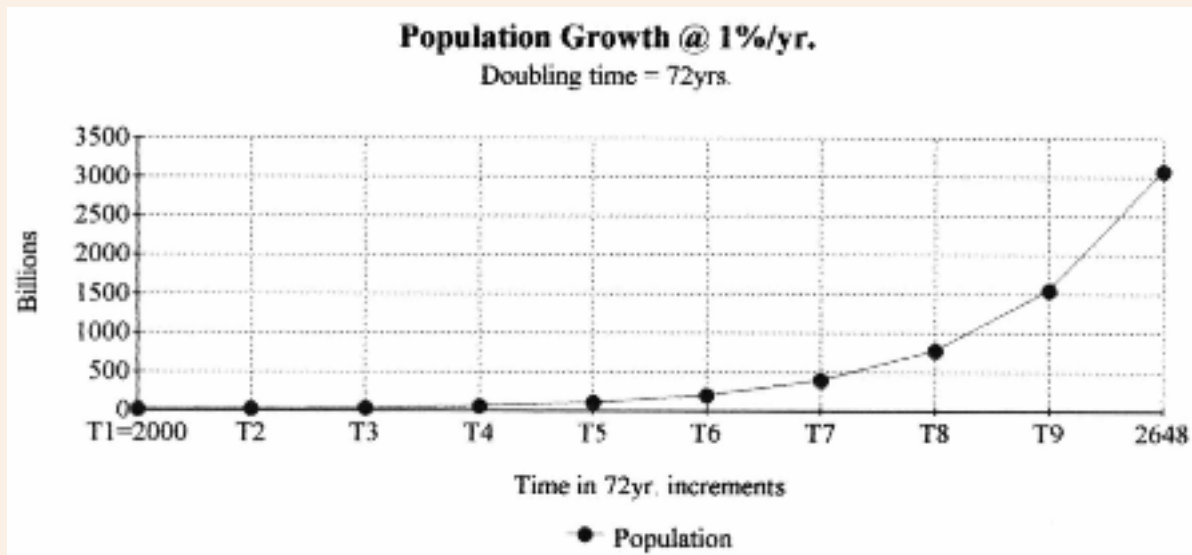


Figure 2.

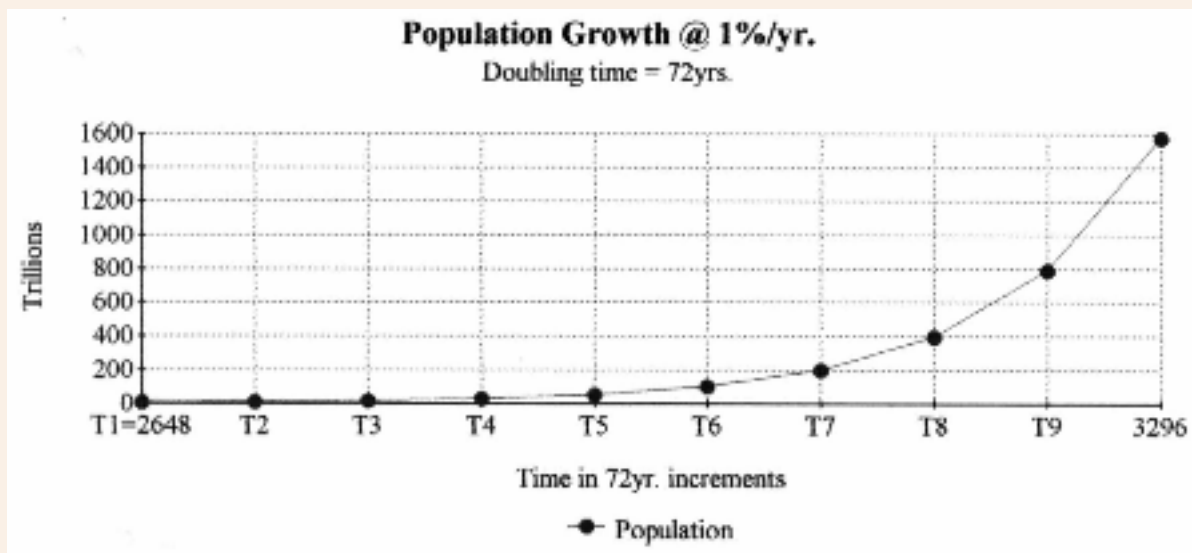


Figure 3.

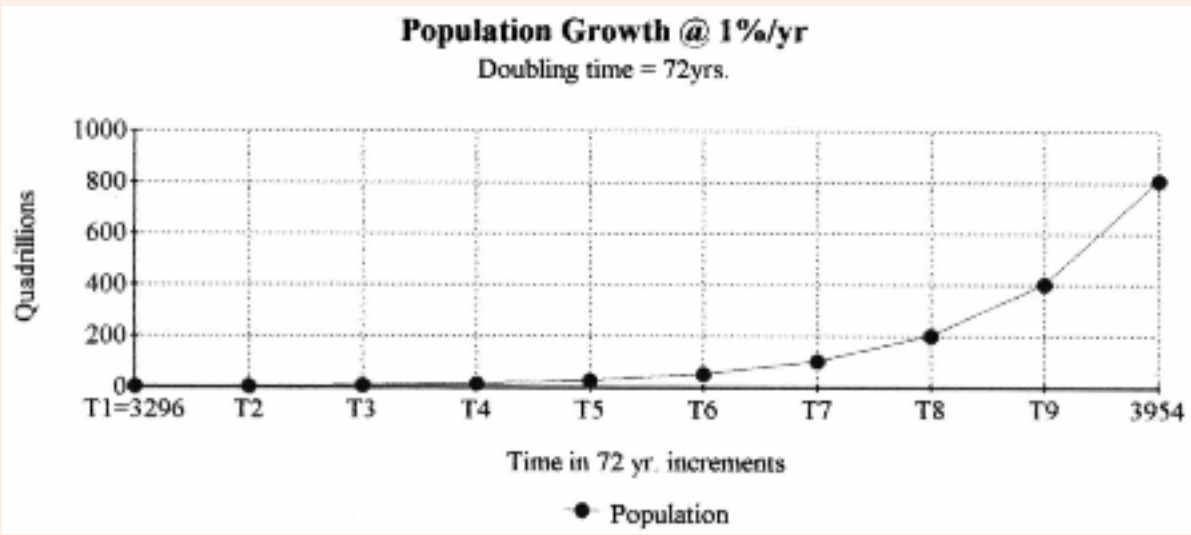


Figure 4.

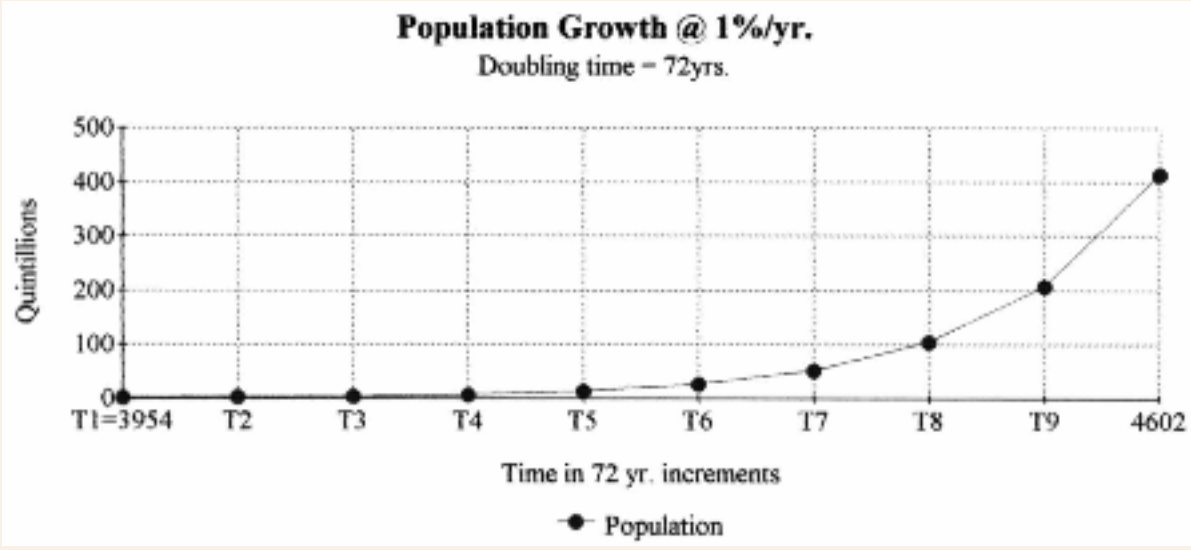
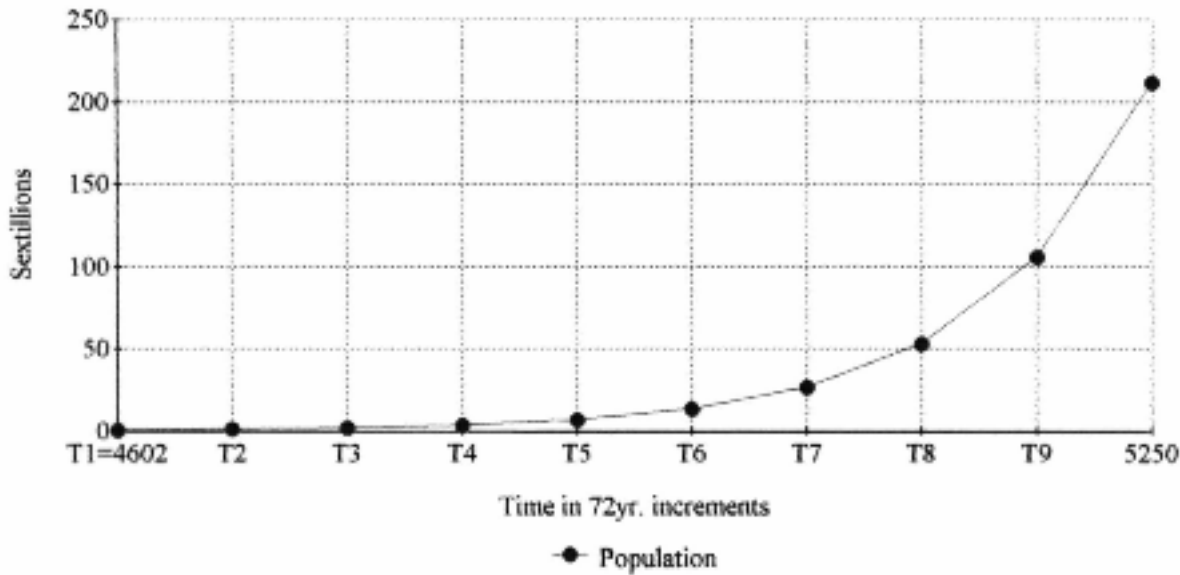


Figure 5.

Population Growth @ 1%/yr.

Doubling time = 72yrs.



*

The red asterisk in Figure 2 indicates the approximate time, prior to year 3080 A. D., when there would be one human for each square meter of land. A little more than one millennium from 2000 A. D.

The red asterisk in Figure 5 indicates the approximate time when the mass of human bodies would equal the mass of the Earth. Calculation is based on average body weight of 150 lbs.

Dates for equivalent events for different rates of population growth may be found by multiplying by the ratio of 1% to the different rate. For examples: For $\frac{1}{2}\%$ rate of growth multiply by 2; for 2% rate of growth, multiply by $\frac{1}{2}$.

Of course, human population can never reach the first of the above conditions, never mind the second. That is the point. It is intended to accentuate the thoughtless, wishful belief perpetuated by superstitious economists, self-serving politicians, and ignorant journalists that there are no limits. It may be that population will not double after 2000 A. D.; population growth rates are reported to be in decline. According to estimates presented in links below, the rate could fall below 1% by 2015. Wishful apologia? Are the limits already happening? If population doubling is not to happen, birth rates must drop further or death rates must increase or a combination of both. Given a casual observation of written history, it is predictable that death rates will rise.

[Population Timeline](#) [U. S. Census Projections](#)

[U. N. Population Information Network](#)

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POSSIBILITIES

The present state of technology makes it possible for every human being on the planet at present population levels to be clothed, housed, fed, and medically cared for without undue human labor, environmental pollution, and depletion of natural resources.

If the above statement is a desirable condition as is so often rhetorically advocated by religious and political ideologues, why is it not an achieved condition?

Either the statement is false or the ideology is merely a rhetorical mask for other agendas.

The most casual observation of present society and culture shows that the use of natural resources and labor is far less than optimum. In fact, the limitations are not human or material. The limitations are financial limitations - a lack of money.

The limits of money are determined by policy. In fact, any amount of money can be created by touching computer buttons.

Why is there a shortage of money? Why is virtually every governmental body, corporation, and individual in debt?

The answer is so short is it banal. It is debt money.

Almost all money is issued as interest bearing debt. There is never enough money to pay off debt because the debt money system creates more debt than money. Debt grows exponentially as futile payment and borrowing continue.

The exponential growth of debt coincident with the formation of England's central bank, the Bank of England, was shown in *An Inquiry into the Permanent Causes of the Decline and Fall of Powerful and Wealthy Nations* by William Playfair, published in 1805. Three centuries after the formation of the Bank of

England and nearly two centuries after the publication of Playfair's work, academic economists are in pathological denial of the facts. They have been educated beyond their ability to assimilate real data in real time and then think and reason. They perpetuate their learned beliefs from generation to generation. What is to be expected of the brainwashed? After all, it took the Pope three and one half centuries to admit that Galileo was right. Economists are not different; they believe what they have been taught to believe. They believe it in the absence of real data, in spite of real data, and after repeated failure of their theories. For such nonsense, they are awarded Nobel Prizes. They are *credentialed misinformers*.

The exponential growth of debt and the necessary exponential growth of borrowing creates a spiral of inflation. Just as one cannot outrun one's shadow, one can never catch up with the growth of debt.

The chronic shortage of money creates a climate of competition for the scarce money. It is a marvel of human doublethink that there can be winners without losers in competition. It is a failure of human compassion that winners are exalted and losers are dehumanized.

It is a failure of human intellect to understand that in a scarce money system less is left to divide up whenever anyone gets more.

Is it any wonder, then, that the world is an armed camp of murderers and plunderers? Governments have murdered more than two hundred million people, including battle deaths, in the Twentieth Century. Revolutionaries, terrorists, and other government wannabes have run the total number even higher. Governments have stolen inestimable amounts of property by taxation and destroyed inestimable amounts of property by war.

Is it any wonder, then, that millions of children starve to death annually, and that they are continuously denied food unless someone provides the money to buy the food to feed them. They are denied food because of monetary *policy*. Policy can be changed.

At the same time children are starving, athletes are paid deca-megadollars for the useless activity of handling, catching, or striking balls. Some of them are paid more deca-megadollars to advertise products that exploit disadvantaged children with products made by child labor.

Is it any wonder, then, that portable property is never safe? Is it any wonder, then, that even minimal property owners cry for more police protection and loss of freedom in the vain hope of protecting what little they have?

Is it any wonder, then, that people turn to drugs, gurus, rock music, sports, television, movies, sex, romance novels, and all other mind-numbing distractions from the real world?

The defects of the money system have led to many suggested solutions. Some suggestions are futuristic and forward looking. Others appear to be little more than the addition of another thing-a-ma-jig to be added to the current Rube Goldberg, dysfunctional debt contraption. Some look backward to already failed systems such as gold based money.

Gold based money systems of the last three hundred years have been merely variations of a debt money system that used gold as fractional reserves.

Links to interesting and creative sites follow. It is suggested that three things must be kept in mind in studying and formulating possible remedies:

- The mathematical premise that systems of variables cannot be made stable without controlling all variables.
- Nothing can be accomplished without political power and the acquiescence of a sufficiently large population base.
- Money is a man-created thing that is subject to cause and effect relationships as surely as more material things.

POSSIBILITY LINKS

[+ Social Credit School of Studies](#)

[+ Coalition to Reform Money](#)

[+ Ithaca Hours](#)

[+ Truth in Money](#)

[+ Technocracy](#)

[+ Venus Project](#)

[A MONETARY SYSTEM FOR THE NEW MILLENNIUM](#)

[UNITAX](#)

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UNITAX OR TAXES SHOULD TELL THE TRUTH

A review by Malcolm Slessor [\(1\)](#)

This article was published in *The Social Crediter*, the official journal of the Social Credit Secretariat, Volume 77 No. 6, November-December 1998.

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Tax is generally considered a burden to be borne, but to be avoided if possible. To evade it is illegal. The existing system is a gold mine for tax accountants, as their clients seek guidance on avoidance. Though such endeavours represent an enormous waste of clever people's time, it is quite understandable. The present tax system penalises endeavour and hard work. The more you make the more the government takes. The same applies to the firms, whose corporation tax is a sore point. Profits are taxed twice. Once at the level of the firm and then as dividends. But government must have income.

The most widespread system of tax is to tax human effort. In the UK we have income tax, corporation tax, social security payments. And there is the most damaging tax of all; value-added tax, which is a direct tax on labour, for is it not labour that adds value? There is also voluntary taxation, maquerading under the name of the Lottery. This is a particular burden on the poorer sections of the community, who can less afford it, but who gamble in the hope of riches.

Let us look at tax in another way; as a signal. All stable systems, from the human body's homeostatic mechanism to the workings of the market function through signals fed back to the main system. If you are too hot, the body sweats to aid cooling. If there is too much oil on the market, the price drops. This is a universal attribute. A properly designed system responds to external signals, and thereby corrects itself. The signal from the labour tax system says "it appears to be unprofitable", "no point of working hard", "lets see how we can structure the company to avoid tax." Another consequence is that the employer, who is burdened with bureaucracy associated with employment, finds it easier and cheaper to replace employees with machines. There is much less bureaucracy associated with buying and operating machines.

The labour tax system places no value on ecological gestures, such as reducing emissions or using less energy. Yet from the conferences in Rio and Kyoto governments have committed themselves to reducing greenhouse gases. Still they continue to tax labour. The endemic problem is not a shortage of labour, but unemployment.

So lets turn the thing on its head. If governments tax energy instead of labour, there is no tax on profits, so there is no need to appear unprofitable. Tax accountants become redundant. Work as hard as you like for you can now take home all your pay. But be careful how you use your energy, for it will now be expensive.

Such a proposal is not new. It is called "*Unitax*". The idea was acclaimed as the social invention of the year in 1990.⁽²⁾ The idea has not gone down well with economists, who generally fail to appreciate the central role of energy.⁽³⁾ Any possibility of a rise in energy prices scares the living daylights out of politicians, while captains of industry have seen it only as a threat to their competitiveness, which it is not. Today there is a *Unitax* Association ⁽⁴⁾ devoted to proselytising the concept. It has received the accolade of being borrowed by Johathan Porrit, the guru of the green left.⁽⁵⁾

Imagine what it would be like in a *Unitaxed* country. There would be no income tax. Industry and Commerce would pay no taxes on profits nor contribute to social security on behalf of their employees or collect their tax on behalf of government. There would no longer be any need of annual tax returns, and so no need of inspectors with the right to pry into one's financial affairs. On the other hand it would be a country where no one could evade taxation, because no one can avoid using energy. Everyone, individuals (visitors and residents alike), industry and commerce all contribute to the national exchequer in proportion to their use of energy or through the energy embodied in the goods and services they buy. The black economy and the financial activities of the criminal classes, are captured. The tax dodging of the super-rich is a thing of the past. The sheer simplicity of the concept compels admiration.

Unitax is a *caloric* tax on primary energy, and only on primary energy, levied at the point where it enters the economy. Thereafter there is no government involvement.

This is central to the concept. Primary energy is raw, unprocessed energy emerging from the ground. It enters the economy through a comparatively small number of enterprises like oil, gas and coal companies, and as imports. There are probably less than fifty points of entry for the whole of the UK, thus monitoring of taxation would be cheap, and utterly simple. At one fell swoop the cumbersome present methods, which presently absorb 4.5% of tax raised; fill 10,700 pages of legislation and absorb the minds of many clever people, are done away with. *Unitax* can be monitored by a handful of excise officials.

Six major advantages accrue from such a taxation system.

- a. It sends the right signal to energy users.
- b. It makes labour cheaper and easier to hire.
- c. It sets a higher value on diminishing and vital resources.
- d. It is cheaper to administer.
- e. It offers a simple, fast way for government to control the economy and raise tax.
- f. It can make exports **more** competitive.

UNITAX - AN EXAMPLE

In this example from 1990, minor taxes have been omitted. The government raised £141 billion in "labour taxes." The country consumed 9492 million giga-joules (i.e. peta-joules) equal to 215.7 million tonnes of oil equivalent of primary energy. The solar energy captured by agriculture and forestry is not counted here as it is renewable energy. Thus the *Unitax* would have been:

£141 billion divided by 9492 million GJ which equals £14.85 per GJ of primary energy.

This makes primary energy about 70% of the price of premium grade petrol, but about five times more expensive than domestic gas. This is indeed a radical shift in price. Let's imagine it is introduced step by step as in Table 1 following:

**TABLE 1:
THE POTENTIAL UNITAX ELEMENT IN VARIOUS UK "LABOUR" TAXES IN 1990(6)**

UK primary energy use = 9492 million GJ	Tax raised £billion	Unitax £/GJ
Value-added tax only	33.0	3.47
Income tax only	54.5	5.75
Social Security contributions only	32.9	3.46
Corporate tax only	21.4	2.25
Total "labour" taxes	141.8	14.93

The primary energy supplier collects the tax and passes it to the exchequer. For each GJ of primary energy supplied to the refiner, the invoice will carry a tax statement of £14.85, say £15.00 for simplicity.

Since the tax is caloric, it makes no difference if the energy derives from coal, oil, gas or whatever. However, secondary fuel sources like electricity are not so taxed. The tax element in electricity is built in through the fuels used by electricity generators. Primary energy has to be refined. The refiner sells it as marketable fuels, such as petrol, domestic gas, diesel fuel and so on. Let us track this tax from source to consumer for the case of crude oil from the North Sea.

Suppose an oil platform in the North Sea extracts one million tonnes a year.

Oil has a calorific value of 41.8 GJ per tonne, so the tax would be $(1 \text{ Mt} \times 41.8 \text{ GJ/t} \times £15.00) = £627 \text{ million}$ plus any royalty or petroleum revenue tax that government also chose to levy. Again for simplicity, let us ignore that.

In a *Unitaxed* environment they may not be appropriate. Thus the primary producer seeks to recover the tax element of £627million from the refiner who is also paying the international price of the crude. Taking an average price for oil of £1.5 per GJ, the total cost of the oil to the refiner is now about £690million. There is now an awful lot of money wrapped up in that oil, and the refiner will seek the highest possible efficiency. Typically a refiner would dissipate 5-6% of the energy in the oil during refining. Now, with a huge incentive to efficiency this will be cut, say to 4%. This reduces the 1million tonnes to 960,000 tonnes which amount, however, must carry the original tax plus the producer's cost plus refining cost. At a rough estimate fuels would reach the market at a price of about £18.00 per GJ. This is now not much below the current price of petrol. This now is the price that must be paid on **all** fuel by **all** fuel users; farmers, fishermen, manufacturers, and citizens. So how would this affect the manufacturer? Table 2 analyses a typical average intensity manufacturer.

**TABLE 2:
MANUFACTURER'S COSTS: COMPARISON BETWEEN TRADITIONAL LABOUR TAXES
AND UNITAX**

Annual costs, any money unit	Under labour taxes£	Under Unitax £
Wages, 100 people @ £/hour	1,000,000	1,000,000
Social Security contributions	500,000	nil
Fuel, 100,000 GJ @ £3/GJ with <i>Unitax</i> @ £18/GJ	300,000	1,800,000
Capital depreciation	100,000	100,000
Other costs	1,000,000	1,000,000
Profit, 15% of Turnover	435,000	435,000
Tax at 30% on profit	130,000	nil
Selling price	3,465,000	4,335,000
Value added tax on sale		
Price to customer	606,000	nil
Price to consumer	4,071,000	4,335,000
Added cost to consumer	nil	264,000 (6%)

The manufacturer's selling price is now £870,000 more, but the cost to the consumer is £264,000 more, a rise of 6%. An efficiency gain in the use of fuel of 2% could cut that back to zero. It can be expected that some management costs will fall since the manufacturer need employ fewer wages clerks.

EXPORTERS AND IMPORTERS The manufacturer's costs may now exceed those in equivalent international markets, especially in the energy intensive industries. Within the country it is a level playing field.

How is it placed with regard to foreign competitors? It turns out that it puts it at a distinct advantage! Under the *Unitax* concept exporters would have their *Unitax* rebated on the energy embodied in the exported goods, in the above case by £1.5million making it 28% cheaper. Importers would bear a *Unitax* based on their embodied energy: thus the level playing field. In 1990 on a UK-wide basis the government would have had to rebate exporters £42billion, but it would have charged a duty on imports substantially more than £42billion. Thus any imbalance in international payments is to some extent recouped so far as government finances are concerned.

UNITAX FROM A PERSONAL POINT OF VIEW

All costs finally fall upon the consumer. However take home pay is now higher. Consumer choice is wider. One can save by choosing less energy intensive goods - say fresh vegetables over frozen. The most glaring drawback is the high cost of home heating. Electricity prices rise 270%! However bad that looks at first sight, the **net** impact on households is very small. Moreover there is tremendous incentive to use fuels wisely, there will be strong motivation to invest in house insulation, fuel-efficient furnaces and cars, and in renewable energy systems. This is good for the home-owner and good for the country. *Unitax* sends the right signal.

OBJECTIONS

£50 a week to heat an average home! Electricity prices through the roof! The public will be outraged. But consider this. Something has to be done. There are always problems with new ideas. There are three in particular.

First and most important is that *Unitax* would militate against the poor, since no-one can live without heat and light, at least in a temperate winter climate. This means that some sort of support system must be devised, as is the case with present taxation. One proposal is to have a citizen's wage.⁽⁷⁾ It cannot be beyond our wit to sort this out. Then it is pointed out that since the tax will drive people to be more energy efficient, energy use will fall, so that the tax will tend to erode its own base. Indeed it will, and it will mean that tax per energy unit will rise until it reaches some stable value, but it will not affect the amount of tax raised.

A common objection to *Unitax* is that it would be impossible to estimate the "embodied energy" of imports.

Anybody familiar with the techniques of energy analysis knows this is not so. Experience will produce a set of tables that the excise officers can use to calculate both rebate and tax. It will be significantly less complicated than the present system, where (in the UK) there are over 1400 pages of instructions on

tariffs and other regulations. It will be up to the exporter and the importer to argue the case and produce evidence. One can imagine that the UK exporter will try to demonstrate the highest possible embodied energy use, and the UK importer the lowest. On the principle of competition, the exporter will be encouraged to reduce energy use in order to compete with the importer in the home market.

ELECTRICITY

The tax on electricity arises from the original tax on the fuels used to generate it. This puts renewable energy sources like hydro-electricity or direct solar power at tremendous advantage. It will encourage investment in sustainable energy. Nuclear power however stands at some disadvantage unless it re-processes its spent fuel. The tax element in electricity is now extremely sensitive to the efficiency of resource use. The difference between producing electricity at 45% thermal efficiency in the latest plants and the 30% that has been common in recent times, can make as much as 8 pence a kilowatt hour difference in price. *Unitax* makes it much more attractive to develop combined heat and power systems. These make use of heat both for producing electricity and heating homes, but are capital intensive, and have not been popular in the UK for that reason. With *Unitax* the economics of combined heat and power are unassailable.

IMPLEMENTATION

Because of its revolutionary nature, implementation of *Unitax* must be phased in over a decade or so to allow producers and consumers to adjust to new ways. Value added tax is the obvious candidate for substitution. Certain other taxes might be retained. Though the times are ripe for a tax like *Unitax*, it will take many years before such an idea can penetrate UK society and political circles. Still, we must start somewhere.

Notes:

1. Malcolm Slessor was professor of Energy Studies at Strathclyde University and is a member of the Resource Use Institute. [return](#)
2. Institute for Social Inventions, 1990 award made jointly to the author and Farel Bradbury *the original architect of Unitax*. (See F. Bradbury, *The resource economics proposition*, Resource Use Institute, 1994, ISBN 1-872579-051) [return](#)
3. One prominent Cambridge econometrician wrote to Bradbury saying "*As an economist I do not regard energy as especially different from transport, telecoms or computing power.*" [return](#)
4. Unitax Association, 50 New Road, Great Baddow, Chelmsford, Essex, CM2. [return](#)
5. J. Porrit, *The Director*, July 1990. [return](#)
6. Table 16.1 in M Slessor, J. King and D. Crane, *The Management of Greed*, (Edinburgh: RUI Publishing, 1997) ISBN 1-

872579-07 8 [return](#)

7. A citizen's wage or basic income has been proposed by Bradbury and many others. [return](#)

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TOLSTOY ON DEBT ENSLAVEMENT OF FIJI: (1)

THE CONQUEST OF THE FIJIANS

“The Fijians live in Polynesia on islands in the Southern Pacific Ocean. The whole group, Professor Yánzhul tells us, consists of small islands covering about 8,000 square miles. Only half of them are inhabited, by a population of 150,000 natives and 1,500 whites. The native inhabitants, who emerged from savagery long ago, are distinguished among the natives of Polynesia by their ability, and are capable of work and of development, as they have proved by rapidly becoming good farmers and cattle-breeders. They were thriving, but in 1859 the kingdom found itself in a desperate position. The Fijians and their King Thakombau needed money. They needed \$45,000 for contributions or indemnities demanded by the United States of America for violence said to have been inflicted by Fijians on some citizens of the American republic.

“To collect this sum the Americans sent a squadron, which suddenly seized some of the best islands as security and even threatened to bombard and destroy the settlements unless the contribution was paid to the American representatives by a given date. The Americans had been among the first white men to settle in Fiji with missionaries. Selecting or seizing under one pretext or another the best plots of land on the islands and laying out cotton and coffee plantations they hired whole crowds of natives, whom they bound by contracts the savages did not understand, or obtained through contractors who dealt in live chattels. Conflicts between such planters and the natives, whom they regarded as slaves, were inevitable, and a conflict of that kind served as pretext for the American demand for compensation. Despite its prosperity Fiji till then had been in the habit of making payments in kind, as was customary in Europe till the Middle Ages. The natives did not use money, and their trade was entirely done by barter; goods were exchanged for goods, and the few public or government levies were collected in country produce. What were the Fijians and their King Thakombau to do when the Americans categorically demanded \$45,000 under threat of dire consequences in case of non-payment? For the Fijians the figure itself was incomprehensible, not to speak of the money, which they had never seen in such

quantities. Thakombau consulted with the other chiefs, and decided to turn to the Queen of England. At first he asked her to take the islands under her protection, and later on asked her simply to annex them. But the English treated this petition cautiously and were in no hurry to rescue the semi-savage monarch from his difficulties. Instead of a direct reply they fitted out a special expedition, in 1860, to investigate the Fiji Islands, in order to decide whether it was worth spending money on satisfying the American creditors and annexing the islands to the British dominions.

“Meanwhile the American government continued to insist on payment, took possession, as security, of some of the best positions, and having observed the prosperity of the people, raised its demand from \$45,000 to \$90,000, and threatened to raise it still further if Thakombau did not pay promptly. So, pressed on all sides, poor Thakombau, who was ignorant of European methods of arranging credit transactions, began, on the advice of European settlers, to seek money from Melbourne merchants on any terms, even if he had to yield his whole kingdom to private persons. And so in Melbourne, in response to Thakombau's appeal, a trading Company was formed. This Company, which took the name of the Polynesian Company, concluded an agreement with the Fiji rulers on terms very favourable to itself. Undertaking to meet the debt to the American government, and engaging to pay it by certain fixed dates, the Company under its first agreement obtained 100,000 and later 200,000 acres of the best land at its own selection, with freedom for all time from all taxes and duties for its factories, operations and colonies, and for a prolonged period the exclusive right to establish banks in Fiji with the privilege of unlimited issue of bank-notes. Since the signing of that contract, finally concluded in 1868, the Fijians were confronted, side by side with their own government under Thakombau, by another power—the influential trading Company with great landed possessions on all the islands and a decisive influence in the government. Till then Thakombau's government for the satisfaction of its needs had contented itself with what it obtained by various tributes in kind and by a small customs duty on imported goods. With the conclusion of this agreement, and the establishment of the powerful Polynesian Company, its financial position changed. An important part of the best land in its dominions passed over to the Company, and so the

taxes diminished; on the other hand, as we know, the Company had a right to the free import and export of goods, as a result; of which revenue from the customs was also reduced. The natives, that is to say 99 per cent. of the population, had always been but poor contributors to the customs revenue, for they hardly used any European goods except a little cotton stuff and some metal ware; and now, when through the Polynesian Company the wealthier European inhabitants escaped the payment of customs dues, King Thakombau's revenue became quite insignificant and he had to bestir himself to increase it. And so Thakombau consulted his white friends as to how to escape from his difficulties, and they advised him to introduce for the first time in the country direct taxation, and, no doubt to facilitate matters for him, it was to be in the form of a money-tax. The levy was instituted in the form of a general poll-tax of £1 on each male and four shillings on each woman in the islands.

“Even to the present day in the Fiji Islands, as we have already mentioned, the cultivation of the soil and direct barter prevails. Very few natives have any money. Their wealth consists entirely of various raw produce and of cattle, but not of money. Yet the new tax demanded, at fixed dates and at all costs, a sum of money which for a native with a family came to a very considerable total. Till then a native had not been accustomed to pay any personal dues to the government except in the form of labour, while the taxes had all been paid by the villages or communes to which he belonged, from the common fields out of which he, too, drew his chief income. He had only one way out of the difficulty: to obtain the money from the white colonists, that is, to go either to a trader or a planter who had what he needed—money. To the first he had to sell his produce at any price, since the tax-collector demanded it by a given date, or he was even obliged to borrow money against future produce, a circumstance of which the trader naturally took advantage to secure an unscrupulous profit; or else he had to turn to a planter and sell him his labour, that is to become a labourer. But it turned out that wages on the Fiji Islands, in consequence probably of much labour being offered simultaneously, were very low, not exceeding, according to the report of the present administration, a shilling a week for an adult male, or £2 12s a year; and consequently merely to obtain the money to pay his own tax, not to mention his family's, a Fijian had to abandon his home, his family, his own land and

cultivation, and often to move far off to another island and bind himself to a planter for half a year, in order to earn the £1 needed for the payment of the new tax; while for the payment of the tax for a whole family he had to seek other means. The result of such an arrangement can easily be imagined. From his 150,000 subjects Thakombau only collected £6,000; and then an intensive demand, previously unknown, began for taxes, and a series of compulsory measures. The local administration, previously honest, soon came to an understanding with the white planters who had begun to manage the country. The Fijians were taken to court for nonpayment and sentenced, besides the payment of the costs, to imprisonment for not less than half a year. The rôle of prison was played by the plantation of the first white man willing to pay the tax and legal costs for the prisoner. In this way the whites obtained cheap labour to any desired extent. At first this handing over to compulsory labour was permitted for a period of six months only, but later on the venal judges found it possible to sentence men to even eighteen months' labour, and then to renew the sentence. Very soon, in a few years, the picture completely changed. Whole flourishing districts had become half-depopulated and were extremely impoverished. The whole male population, except the old and the feeble, were working away from home for the white planters to obtain money needed for the payment of the tax, or to satisfy sentences of the court. Women in Fiji do hardly any agricultural labour, and so, in the absence of the men, the land was neglected or totally abandoned. In a few years half the population of Fiji had become slaves to the white colonists.”

* * *

“This tragic episode in the life of the Fijians is the clearest and best indication of what money is and of its significance. Here all is expressed: the first basis of slavery—cannon, threats, murder, the seizure of land and also the chief instrument—money, which replaces all other means. What has to be followed through the course of centuries in an historic sketch of the economic development of nations is here, when the various forms of monetary coercion have been fully developed, concentrated into a single decade. The drama begins with the American government sending ships with loaded cannon to the shores of the islands whose inhabitants it wishes to enslave. The pretext for the threat is

monetary, but the drama begins with cannon directed against all the inhabitants: women, children, the aged and the innocent; an occurrence now being repeated in Africa, China and Central Asia. That was the beginning of the drama: ‘Your money or your life’ repeated in the history of all the conquests of all nations; 45,000 dollars and then 90,000 dollars or a massacre. But there were no 90,000 dollars available. The Americans had them. And then the second act of the drama begins: brief, bloody, terrible and concentrated slaughter has to be postponed and changed to less noticeable, but more prolonged, sufferings. And the tribe with its ruler seeks means to substitute monetary enslavement—slavery, for the massacre. It borrows money, and then the monetary forms of the enslavement of men are organised.

“These forms at once begin to act like a disciplined army, and within five years the whole work is done; the people are not only deprived of the right to use the land, and of their property, but also of their liberty; they are slaves.

“The third act begins: the situation is too hard and the unfortunate people hear rumours that it is possible to exchange masters and go into slavery to someone else. (Of emancipation from the slavery imposed by money there is no longer any thought.) And the tribe calls in another master, to whom it submits with a request to mitigate its condition. The English come, see that the possession of these islands will make it possible for them to feed the drones of whom they have bred too many, and the English government annexes these islands with their inhabitants, but does not take them as chattel slaves and does not even take the land and distribute it to its own supporters. Those old methods are now unnecessary. All that is necessary is that a tribute should be exacted; one large enough on the one hand to keep the slaves in slavery, and sufficient on the other to feed the multitude of drones.

“The inhabitants had to pay £70,000 sterling. That is the fundamental condition on which England agreed to rescue the Fijians from their American slavery, and at the same time this was all that was necessary for the complete enslavement of the natives. But it turned out that under the conditions they were in the Fijians could not possibly pay £70,000. The demand was too great. The English modify

the demand for a time, and take part of the claim in produce, in order, in due course, when money should be in circulation, to raise their exaction to its full amount. England did not act like the former Company, whose procedure may be compared to the first arrival of savage conquerors among a savage people, when all they want is to seize what they can get and to go away again, but England acts as a far-seeing enslaver; it does not at once kill the hen that lays the golden egg, but will even feed it, knowing the hen to be a good layer. At first, she slackens the reins for her own advantage, in order later to pull them in and reduce the Fijians to the state of monetary enslavement in which the European and civilised world finds itself, and from which no emancipation is in sight.”

By the time Tolstoy's work was first published, chattel slavery had been abolished in the North America and Europe. The word *genocide* had not been invented, but the practice of genocide, as now defined, by direct, unapologetic, forceful military conquest as Europeans and independent Euro-Americans practiced on indigenous Americans was in decline. The more subtle conquest by debt was coming into vogue as outlined by Tolstoy above. Debt collection was becoming the *raison d'etre* for forceful conquest when all else failed.

Debt slavery is usually denied because the typical debtor entered into the contract voluntarily. The “Catch-22” is that there is almost no other possibility for the farmer, entrepreneur, consumer, or developing country

For a good thumbnail exposition of the genocidal practices of the the present-day, supra-national debt mongers, IMF, etc., read *The Globalisation of Poverty* by Michel Chossudovsky.

1. From *What Then Must We Do?* written by Leo Tolstoy and first published in 1886. Translation by Aylmer Maude and published in 1925. Reissued in 1991 by Green Books. [return](#)

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Treasury System vs. Federal Reserve System

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Zero income tax

How would you like to receive a letter from the Internal Revenue Service stating that your tax due from last years' income is zero? And that your future income will not be taxed by the federal government.

Many people believe that taxes are a necessary evil. It's a patriotic duty to pay taxes. The idea that the federal government needs revenue, from taxes, to keep it operating is totally false. State and local governments do need revenue to pay for their expenses, however, the federal government falls into a different category.

Increase money in circulation

To show how federal taxes can be eliminated it is first necessary to discuss the role of money in our economy. To be able to transfer goods and services from the producer to the purchaser requires money. There must be an adequate amount of money, either instantly available or can be easily borrowed that will allow for an easy flow of trading. Because our economy is continuously growing there is a continuous need to add money to the nations money supply.

If there is not enough money available, much of the goods and services will not be produced or sold, the economy will contract. If the shortage of money continues for a long time there would be a severe downturn in the economy resulting in increases in bankruptcies, company down sizing and job layoffs, what economists call a recession.

Simply, because of national growth and anticipated growth we need brand new money coming into the economy.

Paying government obligations with treasury money

The best way to increase the money supply is have the government, specifically the Treasury, to create money and issue currency and/or checks to people, organizations and companies who are doing business with the government, such as, suppliers, contractors and employees. The government will be paying its obligations through treasury money. The people and companies receiving this money would deposit it into local banks, where the money will become part of our money supply. Thus increasing the money in circulation.

There would be no need for the government to borrow money. This treasury money is created into existence without treasury bonds, without taxes, and without interest charges. This money is **not** added to the national debt. Eventually, through this system the present national debt could be reduced to zero.

Treasury System

This type of money system, where the Congress controls our money, can be called a **Treasury System**. Congress sets the monetary policy and the Treasury would be responsible for creating and extinguishing our money. Our Constitution provides Congress the legal right to operate a Treasury System (Article 1, Section 8, Clause 5). Only the Treasury would be authorized to create money. The Federal Reserve banks would become part of the Treasury. Privately owned banks and companies would **not** be allowed to create money. Loans made by the banks would be based on actual dollars the banks have on their books. Banks would be allowed to charge a small amount of interest on loaned money.

Fractional reserve banking and federal bank reserves are out. All checks would clear through the Treasury.

Our country has never operated on a Treasury System model.

Overspending

Even with this system, Congress or the Treasury cannot go crazy and issue enormous amounts of money beyond the growth of the economy. If the Treasury System is operated properly we could avoid the pitfalls of our present yo-yo or roller-coaster economy.

Tax money, over \$1 trillion, which is now collected yearly by the government would be available to the people for investment into our economy. If your federal taxes are zero, you can spend more into the economy. The economy will flourish. Inflation and unemployment would be practically eliminated.

The argument often made against the Treasury System is that the government will be producing worthless money because it is not backed by *real money*. This is pure propaganda. The truth of the matter is that our present money system, which is controlled by the private bankers, creates money out of thin air. Who is backing the bankers? You are. When the bankers get into big financial trouble, who do they run to for help? The government. And, of course, the government then goes to the people, the producers of real wealth.

Occasionally, because of unanticipated circumstances, a need may arise to reduce (extinguish) the amount of money in circulation. To bring the money supply into balance with the economy the government can reduce spending or a federal tax can be placed on a widely used commodity, such as gasoline. In an extreme situation a one time federal income tax may be necessary to calm down an inflationary binge. In any event, all these measures are only a temporary inconvenience. The Treasury System is not prone to create inflation, unlike the present Federal Reserve System.

The Treasury System, which is proposed here, is controlled by the people through their elected representatives in Congress and is backed by the productivity of our society.

Federal Reserve System

Our present money system, the Federal Reserve System, was established in 1913.

Congress gave total control of money creation to privately owned local banks and privately owned regional Federal Reserve banks. In the belief that they could solve the nations monetary problems, which has been plaguing this country since its inception.

The word Federal in Federal Reserve does not mean a government operated program. In fact, the Reserve banks are regular business enterprises seeking a profit. Practically all the people who are employed by the Federal Reserve banks are paid their salary by the banks, not by the government.

Federal Reserve game

The Federal Reserve banks and local banks have been given a special privilege to create and control money by our Congress. For example, under the Monetary Control Act of 1980, the Federal Reserve Bank of New York can purchase through its open market operation \$10 million worth of Microsoft stock. The bank pays for this stock with its own check, a **Fed check** or its electronic equivalent. [The Fed check is created from thin air, there are no funds backing this check. No funds!]

The Fed check is deposited, by the stock seller, into a local bank. It is then returned to the Federal Reserve Bank of New York, where the check is cleared and the local bank is given full credit for this deposit. This is all a bookkeeping procedure. Local banks, through their *bank deposit / loan cycle* can create \$90 million from this \$10 million initial deposit.

Again, realize that the local banks are creating money from thin air, just as the Federal Reserve Bank of New York created the Fed check from thin air. Obviously, the banks can get fabulously rich under this grand scheme.

It is interesting to note that the 12 privately owned Federal Reserve banks have **zero debt**. These banks started in 1914 with a worth of \$143 million, their present worth is estimated to be half a trillion dollars. Quite a gain.

Now consider our government, it has an astronomical debt of approximately \$6 trillion (\$6,000,000,000,000) and growing. We, the taxpayers are responsible to payoff this debt.

World domination

The bankers and their paid economists, media people and politicians are moving us into a world monetary system which resembles our Federal Reserve banking system. This is a move away from democracy and toward a system where large global banks and large transnational corporations will dominate the economies and peoples of the world.

Our Congress must start to dismantle the Federal Reserve System and move toward a more workable, stable and equitable money system, like the Treasury System.

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THE U. S. DEBT PYRAMID SCAM

An Offering for U.S. Dissidents

by Boudewijn Wegerif

March 2000

The bottom line to the story is -
The blind will see debt for what it is,
the prisoners of debt will be freed,
the bankers' debt money scam will be undone,
and Bill Gates' Microsoft greed at the apex to the
debt pyramid of dollar imperialism will be exposed.

I see that the latest report of the Federal Reserve Board shows that there was a staggering \$25.6 trillion of credit market debt outstanding in the U.S. at the end of 1999—the total debt burden of the people of the U.S. having about doubled since 1990, and increased by \$2.25 trillion in 1999 alone!

Now \$2.25 trillion dollars—that is more than the value of all the gold and foreign currency reserves of all the countries in the world—in fact, at today's gold price, that is more than twice the value of all the gold ever produced in the world. Or to bring it down to more personal terms, \$2.25 trillion dollars of increased debt in the U.S. in one year works out at about \$375 for every man, woman and child in the world, and nearly \$8,500 for every man, woman and child in the United States.

In one year the per capita U.S. debt burden, including all household, enterprise and government debt increased by almost \$8,500, to \$95,000.

One has to ask, of course, where has that \$2.25 trillion dollars of new debt in the U.S. credit market come from?

The easiest way to answer the question is to relate it to what happens when you ask your bank manager for a loan of say \$100,000 and the bank agrees to that in return for the deeds of your house and, lets say, \$100,000 of interest payments for the five year period of the loan.

Having agreed the terms of the loan, there is now some fancy fingerwork on a computer keyboard and that's it! No depositors have been told that their money has been lent to you, because it hasn't. The \$100,000 loan to you, for which you have handed over the title deeds of your home, is new money in the economy and a new asset for the bank—part of its riches. Just like that!

And that \$100,000 is going to be deposited in either the same bank or other banks in the banking system, to give the banks the right to lend yet again to other borrowers up to near enough the full amount of the new deposits—and then these new borrowers will deposit their loans in the banking system, giving the banks the right to lend yet again—and so on and so on and so on.

Of course, international regulations set by the Bank of International Settlements (B.I.S.) in Switzerland require that banks hold reserves of not less than 8 percent of loan assets; however, the necessary growth in capital adequacy to keep pace with the growth in loans, and hence money supply, is easily organised: in part by creaming off some of the interest that is charged to borrowers, and in part by the bank credit that comes back in the form of capital investment in the bank.

For, obviously, there are winners out there making money with the money that originated as debt money from the banks—which is to say, there are winners accumulating more of the money supply than they need or want to spend on goods and services—and these winners are ‘wisely’ investing some of their winnings back in banking. So once again there is a shortfall of money in society, unless there is more borrowing, with more assets pledged to the banks and other financial institutions.

Just think about it—how every mortgage contract supports a pyramid of more and more debt. And extend your thinking to take in the fact that the total debt owed on all owner-occupied housing in the United States is now well over \$6 trillion, having grown by over \$.6 trillion in 1999.

What that means is that \$.6 trillion of ‘money’ has come into the economy in one year to boost the nation’s money supply—the nation’s means of exchange—the life blood of the U.S. economy—thanks to a great number of householders surrendering the deeds of at least \$.6 trillion worth of housing to the banks and other financial institutions that make up the credit market!

Furthermore, with respect to the total mortgage debt of over \$6 trillion, it means that the title deeds to over half the owner-occupied housing in the U.S. is now held by the banks and financial institutions that make up the credit market.

My estimate of a total equity value of under \$12 trillion of all owner-occupied housing is based on figures in *Housing Statistics of the United States* (edited by Patrick Simmons, Bernan Press, 1997). My source is *The Grip of Death*, by Michael Rowbotham (published by Jon Carpenter, who, incidentally, have just brought out a second book by Michael Rowbotham on our debt enslavement called *Goodbye America*).

What we have to think about here is Michael Rowbotham's question in *The Grip of Death*, "Is it proper to rely upon housing debt to create the nation’s medium of exchange?" And the answer is clearly, "Hell no!"

It is really alarming to know that nearly all money in the economy is debt number money, created out of nothing essentially.

Apart from the rank injustice and stupidity of it, just imagine what would happen if all money on loan from the banks and other financial institutions that make up the credit market were to be repaid. Then the banks and so on would be out of business and there would only be the coins and notes issued by the government left in circulation as legal money tender—coins and dollar bills with a purchasing value of not much more than \$1 trillion for a country needing at least twenty times that amount of money to keep going economically.

Here please note that the money supply of every country in the world today is dependent on banks and financial institutions taking ownership, essentially, of an ever-growing proportion of the housing stock—as well as holding I.O.U.s in different forms against an ever-increasing proportion of the revenue of industry and commerce and government tax revenues.

When Sir Josiah Stamp, a director of the Bank of England in the 1920s, stopped to think about how banks make their money, he was so amazed, he wrote:

"Banking is conceived in iniquity and born in sin. Bankers own the earth. Take it away from them, but leave them the power to create money and with the flick of a pen (nowadays, with speedy fingers over a computer keyboard) they will create enough money to buy it back again. Take this great power away from them and all great fortunes like mine will disappear, and they ought to disappear, for this would be a happier world to live in. But if you want to continue (to be) the slaves of bankers and pay the cost of your own slavery, let them continue to create money and to control credit."

And this is what The Nobel laureate scientist Frederick Soddy had to say in the 1920s about how banks were making money then—(and please bear in mind that the banking system's control of the world economy is now very much greater):

"The whole profit of the issuance of money has provided the capital of the great banking business as it exists today. Starting with nothing whatever of their own, they have got the whole world into their debt irredeemably, by a trick.

"This money comes into existence every time the banks 'lend' and disappears every time the debt is repaid to them. So that if industry tries to repay, the money of the nation disappears. This is what makes prosperity so 'dangerous' as it destroys money just when it is most needed and precipitates a slump.

"There is nothing left now for us but to get ever deeper and deeper into debt to the banking system in order to provide the increasing amounts of money the nation requires for its expansion and growth.

"An honest money system is the only alternative."

An honest money system? Was Soddy referring perhaps to what Thomas Jefferson had in mind, when he said in 1800 or thereabouts—

"The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions having the issuing power of money are more dangerous to liberty than standing armies."

Well Abraham Lincoln tried that. He needed money to meet the expenses of the Civil War and the banks wanted over 30 percent interest. So Lincoln by-passed the banks and created 300,000 dollars worth (an enormous sum in those days) of government-issued, debt and interest-free money notes—which came to be called ‘greenbacks’. This worked so well, Lincoln was inspired to formulate a Monetary Policy in 1865 for more of the same when the Civil War was over. He wrote:

"The privilege of creating and issuing money is not only the supreme prerogative of government, but it is the government’s greatest creative opportunity... The people will be issued with a currency as safe as their own government. Money will cease to be the master and become the servant of humanity. Democracy will rise superior to money power."

A few weeks later he was assassinated. Is there to be another form of Civil War in the U.S., of the people against the banks, to put Lincoln's monetary policy, with improvements, into effect? This is a serious question.

For just think what it means—a credit market with \$25.6 trillion, which is \$95,000 per head, of debt assets—debt assets that have to be serviced. This means that the whole economy is now servant to the money-lenders—who are now only interested in lending big to big spenders promising big profits from financial speculation, property deals, star wars, gulf wars, Kosovo incursions, huge construction projects, etc., etc.

Anything but what is needed to help us create a sustainable lifestyle and bring the earth back to health. And why?—why the bigism? Why the bombings and ‘peace keeping operations’ to support the bigism?

Because the debt pyramid scam requires it—because there is a debt, and you can't service the debt without creating more debt, and the only way you can create more debt is to pretend that you are going to have a really big-time, profitable tomorrow to borrow against today—Yes, the only way you can create more debt now, by the principles that rule the privately owned credit market, is to degrade commodities, degrade labour, degrade goods and services and go the limit in creating inflated capital values in over-priced stocks and shares and properties—as the collateral for yet more borrowing, more debt.

That is why the stock market value of Microsoft, the most highly capitalized corporation in the world, increased by \$120 billion in one week in December 1999, for example—\$120 billion being about equal to the value put on a whole year of economic activity (GNP) in Finland, or Greece, or South Africa.

Microsoft's Christmas time market value was then a staggering \$600 billion, 77 times earnings, 28 times revenue.

AND SUSPECT EARNINGS AT THAT.

For according to the investment advisor Bill Parish of Parish & Company, underlying the spectacular 'success' of Microsoft is a big fraud. Microsoft is not a profit-maker but a loser hiding losses.

According to Bill Parish, "The fundamental problem is that Microsoft is incurring massive losses and only by accounting illusions are they able to show a profit. Specifically, Microsoft is granting excessive amounts of stock options that are allowing the company to understate its costs."

He goes on: "You might ask yourself, what would happen to Microsoft's stock price if the public suddenly realized that they lost \$10 billion in 1999 rather than earning the reported \$7.8 billion? If 80 percent of its stock value or roughly \$400 billion is the result of a pyramid scheme..."

Does this mean that the U.S. debt pyramid of \$25.6 trillion could collapse if Microsoft's little pyramid scheme is brought to an end through exposure? The thought is mind-boggling.

And if the U.S. debt pyramid goes (flickering out into Microsoft cyberspace, as it were), surely the other major debt pyramids of Japan and Europe will go also—debt pyramids which I estimate must amount to another 35 trillion in dollar equivalence—towards a total world debt burden of not less than \$11,000 on every man, woman and child alive.

WE ARE AT THE BOTTOM LINE HERE: Is Microsoft going to be the undoing of Wall Street, and through Wall Street, the global financial 'Tower of Babel'—or rather, to untangle the metaphor, is Microsoft going to be the undoing of the U.S.-cum-global debt pyramid scam?

The answer to that is, "Could be", judging from the evidence posted by Bill Parish in a 22 February 2000 update to the original exposé at <http://billparish.com/msftfraudfacts.html>.

The Microsoft pyramid scheme, writes Parish, "is now accelerating and destabilizing both the stock market and overall economy, corrupting the Federal Reserve's efforts to control the money supply and triggering false inflation. Microsoft, once a great technology company, has indeed become a 'pied piper' of financial fraud."

Perhaps this was also the view of Microsoft's own internal auditor—"a respected Deloitte and Touche veteran", writes Parish—who settled for \$4 million under the Federal Whistle-blowers Act after being given the option to resign or be fired. What he had done? He had "noted" that "earnings manipulations at Microsoft", which were "designed to meet expectations", were "illegal and constituted fraud."

While considering these rather alarming revelations, please do also spare a thought for the prisoners in

the U.S.—two million prisoners, up from 500,000 in 1980 and one million in 1990.

According to an article in the 15 February issue of *The Guardian* in England, with under 5 percent of the world's population the U.S.—this most powerful country in the world—now has one in four of the world's prisoners. Why?

Maybe the fact that the U.S. prison industry now turns over \$35 billion a year has something to do with it—and builds new prisons that cost \$7 billion each, and, with over 500,000 employees, employs more people than any private enterprise apart from General Motors, and has a powerful lobby in Washington: maybe all this has something to do with it.

Maybe the fact that the money makers and servile politicians who really ought to be in prison and are not has something to do with it also!

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WHEN MONEY EATS THE WORLD

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by John McMurtry, Professor of Philosophy
University of Guelph.

As the wheels come off the global market juggernaut, we need to understand that the unfolding collapse has been programmed into the machine. Stay the course of capital deregulation long enough and a truly momentous wreck is guaranteed. The fact is that our political and market leaderships have ensured no intelligent thought relating to the actual life needs of societies has been listened to for 15 years. "No alternative," they incanted without a break since the Reagan revolution of mindless government first began stripping social infrastructures by ever lower tax rates for the rich and 20% compound interest rates on public debt. Even now as the government of France pulls out of the MAI declaration of rights for unaccountable borderless capital, Ottawa is still prating about "sticking to its commitments" to the meltdown program.

The problem is a generalized mind-seizure. As money-to-more-money circuits have become increasingly autonomous, public consciousness has fetishized money demand as the sovereign authority of the world. The lifeblood of societies has been circulated away as fast as possible to "pay off deficits as a national emergency," "reduce social costs to attract investors," "cool down the

employment rate to ward off currency devaluation," "deregulate the labour and resource markets economy for greater efficiencies," and so on. The litany for expropriation of societies' common heritage and infrastructure has been recited every hour for almost twenty years, and it has always and everywhere been the disguise for highly leveraged money sequences to feed on the social life substance across the planet.

But even as the meltdown progresses across continents, the unseen seat of the disease is not yet whispered—*that money sequences are overloaded far beyond the capacity of social and environmental capacities to feed them, and that they increasingly attack life-serving functions to continue their decoupled cycles.*

Because these money sequences are increasingly without productive outcome of any kind, redistribute more and more wealth to the economically parasitic while stripping the civil commons and the poor, and progressively demand ever more revenue extraction from social and environmental hosts, their reproduction has become increasingly incompatible with civil and planetary life.

The overloading of the life-system by ever more ravenous money sequences is, in truth, behind every crisis people face today in the global market—behind the stressing and breaking of the planetary environment's carrying capacities, behind government debt and deficit loads and crises across the world, behind the ceaseless mergers, acquisitions and job-sheddings by corporate finance departments, behind the speed-ups of every process of work and resource extraction, behind the privatization and enclosure of evolved civil commons in every culture, and behind now the Asian meltdown and the great slump of Japan.

We need not summarize all the symptoms. But consider some figures of money-demand aggregates increasing exponentially on life systems at every level, every new unit of the escalating load requiring "more competitive performance" or "more competitive cost cutting" from individual, social and environmental life-hosts, with no limit set to what will be demanded next.

Bear in mind that the meaning of "discounted cash flow," which is the moving

line and reference body of global market value, means that what is today \$100 in real terms is the same as \$100 + compound interest in one year (\$110), two years (\$121), or 20 years from now as the *starting base* from which every "worthwhile enterprise" is calculated. The system is a horizonlessly expanding money-demand machine engineering all that lives to extract more money value from it.

If the victim societies melt under the "free circulation" of the hot money flows, then this is because they did not "adapt effectively." If the atmosphere itself can no longer hold the pollutants dumped into it, then this is the occasion for issuing "pollution credits" to make more business out of the earth's collapse.

Canada's Pension Plan itself is now being fed to the hungry money circuits. The reason is simple. Since money grows money, why not put our national pension funds into the global market to make it pay for future pensions. Consider the rate of multiplication. An input of \$10,614 in 1955 yields an output of compound-interest-plus multiplication to \$5,309,000 in 1998.[\(1\)](#) That is, an over 500-times increase in what goes to "the investor" who performs no function in the increase, nor in the productive economy to receive this increase, nor in serving the life of any life organization to be entitled to all further exponential multiplication of this money demand seeking to be still more. This is called "market freedom."

In 1998, the combined money-demand value of US pension and mutual funds to whom this multiplication is promised was \$9 trillion, or 30 times the net money worth of the US's 60 richest market agents, with more new money-demand then going into these funds every quarter than all the US super-rich own together.[\(2\)](#) These were predicted to grow at a sustained or rising rate. At the same time, both British and Canadian national pension funds planned to redistribute all of their public funds into the global market of transnational money sequences as well, instead of as in the past lending to governments, investing in jobs for the young, or committing to any defence or growth of life at all. Meanwhile the poverty of children, dead-end youth prospects and the slips in environmental carrying capacity in both societies continued to climb.[\(3\)](#)

During this collapse of life-system bearings and money-sequence metastasis, even

the once mighty machine shop of the world, Japan, came to the end of the line. It reached the surplus money wall in the early 1990's, performing as a harbinger of the disorder few saw. When the speculatively driven prices of real estate and Nikkei stocks plunged, and the richest banks in the world could not find productive enterprises to invest in and steward as their successful automobile and electronic industries had done since 1950 by long-term, careful financial ministry planning, Japan's money sequences had no way out. When the hundreds of billions of uncommitted money demand first invaded and then exited Asian stocks and currencies in 1997-98, leaving societies there on average halved in their money access to means of existence, Japan was left with hundreds of billions of debt that could not be paid by the lenders, and with no advances behind the armed force of land clearances and forced borderless markets favoured by the US corporate axis.

Japan controlled \$12 *trillion* in loose money with no real function to perform except to become more. But with its unmoored banks loaded with \$1000 billions in bad loans, Japan's government naturally had to pump over \$200 billion more in public funds to back up the decoupled financial circuits.[\(4\)](#)

Robotically lock-stepping to the unhinged market paradigm, the IMF and the US government demanded still *more* borderless financial deregulation from Japan, just as they had prescribed for all the economies of Asia that had already been melted down by such financial deregulation. Japan's government, not recognizing the gallows wit and still locked in the paradigm themselves, promised "a big bang" of more deregulation in financial markets.

We've been getting the big bang now for a long time, and it only gets bigger.

When a long-dominant paradigm fails in its prescriptions, and it calls for more of its failed prescriptions to solve its failures, its circularity becomes terminal. What is not recognized is the underlying principle of the escalating failures: that *financial crises always follow from money-value delinked from real value*, which has many names but no understanding of what it is. Value is what serves life itself, and the global market paradigm has no place in its metric for the life factor

at any level.

1. "Illustration of an Assumed Investment of \$10,000," *Templeton Growth Fund Limited Annual Report*, April 30, 1998, p.3. [return](#)
2. Peter Drucker, "The Idol Rich," *Report On Business Magazine*, January 1998, p.88. [return](#)
3. In the 1998 Competitiveness Rankings by World Economic Forum, the growth of child poverty, youth unemployment, environmental depletion and degradation, and every other indicator of societies in serious life-slippage is simply excluded from the index. This is how the value metric of the global market paradigm is systemically life-blind, and how nations which follow it can be hollowed out while believing they are ever more competitive. [return](#)
4. The figures referred to above are drawn from across the special issue of *Newsweek* (February 2, 1998) devoted to the Asia financial crisis, "How Big Is Asia?" *The Economist*, February 7, 1998, p.72, *The Wall Street Journal*, February 17, 1998 and Marcus Gee, "The Real End of Japan Inc." *The Globe and Mail*, April 18, 1998, p. D4. [return](#)

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