

The Work of the President's Cabinet

TREASURY DEPARTMENT

In his annual report, submitted to congress December 3rd, Secretary McAdoo presents the urgent need for currency reform, and sounds a note of assurance and promise to the public and business world that the great and powerful arm of the treasury department is, and will continue to be, extended in safeguarding the rights of the people and the legitimate business interests of the country. The secretary recites in chronological order the steps taken by the treasury department during the past recent months to assist the orderly progress of business and to allay apprehension at times when fears, largely imaginary, pervaded business circles. From the efficacy of these measures which temporarily dissipated feelings of unrest and restored confidence, the secretary points out the abiding benefit which would follow the enactment of a law containing the fundamentals of the administration currency bill, by permanently establishing confidence throughout the financial fabric of the nation.

To demonstrate the instantaneous practical value of government intervention and aid in times of stress, the report first recalls the effect of the treasury's quick response to the appeal of Dayton, Ohio, last spring, for immediate assistance to its financial institutions to recover from the losses incident to the floods that devastated that city. Every national bank in Dayton was designated as a government depository, and the treasury department offered to deposit \$2,000,000 of federal funds. The mere announcement of this relief restored confidence at once and instead of the anticipated need of \$2,000,000 the treasury was called on for only \$182,000.

Continuing, the report says:

"A special session of congress convened on April 7, 1913, and immediately began to consider the important questions of tariff and currency reform. The vast economic changes involved in these two important questions had the natural effect of causing in many quarters apprehension as to the possible effects of the anticipated legislation. A feeling of unrest began to pervade business circles. This was accentuated by a certain propaganda of pessimism which, whether designedly or not, produced a condition of extreme nervousness and tension. In the early part of June this assumed a serious aspect. Complaints began to reach the department from many parts of the country that credits were being restricted, and that it was increasingly difficult to secure funds for the normal needs of legitimate business. To what extent these reports were justified there was no exact means of ascertaining, but the general conditions indicate a more or less acute state of affairs. In order to relieve anxiety and to let the business interests of the country understand that there was no occasion for unreasonable restriction of credits, and to destroy apprehension based upon unjustifiable fears, and to assure the country that the means were at hand to cope successfully with any situation that might arise, the secretary announced that there was actually on hand in the treasury and ready for immediate delivery to any and every bank complying with the requirements of the law, five hundred million dollars (\$500,000,000) in new national bank note currency, which the secretary said he would not hesitate to issue under the provisions of the Aldrich-Vreeland act of May 30, 1908, to banks making application therefor in accordance with the terms of that act. The relief occasioned by this announcement was instantaneous. Confidence of the banks in their ability to meet the demands of their customers was largely restored and the unfavorable symptoms promptly disappeared. So completely effective was this action that none of the five hundred million dollars (\$500,000,000) of currency was applied for by the banks.

CROP-MOVING DEPOSITS

"Toward the latter part of July symptoms of uneasiness began to reappear. There was much talk about the difficulty of moving the fall crops and the annual apprehension on this score began to stalk about the country with more than usual vigor. It is a characteristic of our imperfect and unsatisfactory banking system that the very prosperity of the country becomes, at times, a menace, because of the apprehended inability of the banks to meet the seasonal demand for the

large amounts of money required to move a bounteous harvest. Conditions were again becoming acute when the secretary determined to deposit from twenty-five millions to fifty millions of dollars of government funds in the national banks in those parts of the country where the necessity for funds to move the crops existed. The secretary announced that, as security for such deposits, high-class commercial paper would be accepted at 65 per cent of its face value, bearing the indorsement of the depository bank. This was an unprecedented step, because commercial paper had never before been accepted as security for government deposits. It was, however, a necessary and highly beneficial step, because it enabled the banks to obtain the required funds upon the pledge of available paper already in their vaults. If the banks had been obliged to secure these deposits with government bonds or other fixed investments, the relief would not have been effective, because many of the banks would have been compelled to use the deposits for the purchase of the bonds required by the government as security.

"In order to distribute intelligently the crop-moving deposits, three conventions of bankers were held at the treasury department in Washington during August, 1913, the first composed of bankers from the south and southwest states; the second composed of bankers from the middle western and northwestern states; the third composed of bankers from the Pacific coast and Rocky mountain states. It was not necessary to extend aid to the eastern states, although the department was ready to do so if it had been required.

"It was essential that the action of the department should be non-partisan and non-political; the crops of republicans, democrats, progressives, and all other classes of the people had to be moved, and the earnest desire of the department was to have the benefits of this action diffused as widely and impartially as possible. The clearing-house associations in each of the cities invited to participate in the conferences were asked, therefore, to name the delegates. A most interesting and intelligent body of men assembled in Washington and discussed with the secretary and Assistant Secretary Williams (in charge of the fiscal bureaus) the needs of their several communities and sections. As a result, allotment of these funds was made upon the basis of the testimony of their several representatives, as follows:

South and southwest.....	\$22,550,000
Middle and northwest.....	19,000,000
Pacific coast and Rocky mountain..	4,950,000

Total \$46,500,000

"The department, having no machinery for the investigation of local credits, was obliged to rely upon the banks in the larger cities as instrumentalities for the distribution of government funds to the banks in the smaller communities. In the discussions at Washington, the representatives of the banks were urged to pass the government funds on to their country correspondents upon reasonable terms. The secretary is gratified to be able to say that in most instances this was done upon a basis that seemed fair to all concerned.

"The effect of this action was highly beneficial. Confidence was restored. The readiness of the government to meet every reasonable need of the banks for the legitimate purpose of crop moving had the happy effect, so the department is informed, of causing much hoarded money to be deposited in the banks. This increased their ability to take care of their customers, and caused a decided relaxation in the demands of country correspondents for accommodation, which, prior to the announcement of the secretary, had been much greater than usual, because the small banks were attempting, very naturally, to impound all the funds they could get to make them safe against the anticipated stringency. The moment it became known that the government stood ready to assist, the tension was relieved, business resumed a normal aspect, and the fall movement of crops, trade, and commerce proceeded upon an easier and safer basis than for many years past.

"It is interesting to note that of the fifty million dollars which the department offered to place in the banks for crop-moving purposes, only \$34,661,000 had been called for up to November 25, 1913. These funds will be grad-

ually repaid to the treasury beginning in January, 1914.

CURRENCY LEGISLATION

"The psychological and practical value of these incidents can not be overestimated. They demonstrate clearly that any improvement in our financial system which will permanently establish confidence will in itself be an immense gain, and if that improved financial system assures the opportunity to secure at all times the necessary funds and credits to meet the expanding and legitimate needs of the commerce and industry of the country, it will be an achievement of enduring benefit.

"These incidents also show conclusively the enormous value of an altruistic governmental agency in the financial affairs of the country. So long as the government has the power to intervene in a beneficent and unselfish way, the danger of panics and of unjust practices will be largely, if not wholly, destroyed. This is one of the chief objects sought in the proposed reformation and reorganization of our banking and currency system. The people of the country are to be congratulated upon the early prospect of sound legislation on this vitally important subject. Should the congress enact the fundamentals of the pending measure, it is believed that permanent protection will be provided against recurring commercial crises and that adequate facilities will be created for that legitimate and sound expansion of credits so vital to the prosperity of our great and growing country.

"It has been, and will continue to be, the policy and purpose of the secretary to exercise all the powers of the department for the protection of the public and the legitimate business interests of the country.

INTEREST ON GOVERNMENT DEPOSITS

"Prior to 1908 interest had never been required on government deposits. After the act of 1908 interest at the rate of 1 per cent per annum was collected on so-called "inactive accounts" in national banks. By "inactive accounts" is meant a special deposit (usually \$1,000) which remains fixed or stationary in amount. The aggregate of such accounts on the first day of June, 1913, was \$1,286,500, and the entire amount of interest collected by the government thereon during the preceding period of about five years was approximately \$715,000.

"On April 30, 1913, the secretary announced that beginning June 1, 1913, all government depositories, active as well as inactive, would be required to pay interest at the rate of 2 per cent per annum on government funds. Only nine of the total number of national banks holding government deposits refused to pay interest under the new regulation.

"Hundreds of applications were received from other banks seeking government deposits on the new terms, many of which were granted. The government has not had the slightest difficulty in placing its deposits at 2 per cent interest.

"On the 1st of November, 1913, the total amount of government funds on deposit in national banks was reported at \$98,334,917.36, which, if this average balance should be retained, would add to the net revenues of the government approximately two million dollars (\$2,000,000) per annum.

"A careful calculation has been made of the amount of public money on deposit in national banks throughout the country for the sixteen years preceding the 4th of March, 1913, namely, from 1897 to 1913, and it has been found that if the present policy of charging 2 per cent interest on such deposits had been established in 1897, the government would have received during that sixteen-year period a total of about \$30,610,381."

OPERATION OF NEW INCOME TAX LAW

Concerning the operation of the new income tax law, Secretary McAdoo points out that the law went into effect immediately after its passage on October 3rd, with the proviso that collections at the source should begin on the 1st day of November, 1913. Only twenty-eight days, therefore, were allowed the department within which to prepare regulations covering the collection of the tax at the source. Many intricate and difficult problems are involved in the initiation of a new law so far-reaching in its effects and so complicated in its operations. The department, however, took vigorous hold of the matter, and on October 25 issued the first of