

MAKES CHANGES IN CURRENCY SYSTEM

New Money Law Displaces 122-Year-Old Code.

IS FAR-REACHING IN SCOPE

Most Important Law Relating to Finance Passed in Many Years—Essential Features of the Measure Explained in Nontechnical Language.

Washington, Dec. 23.—The new bill affecting the currency, banking and finances of the country is one of the most far-reaching measures relating to finance that have been enacted in many years.

The magnitude of the subject, the diversity of interests affected and the length of the debates in both branches of congress has to follow the changes and grasp the essentials of this highly technical measure in its important bearings on money, finance, banking and the entire range of fiscal subjects, public and private, which it affects.

Summary of the Bill.
With a view, therefore, of presenting succinctly and in nontechnical language an epitome of the salient features of the measure as finally framed, the following summary is given of the bill as a whole and of its principal details:

Generally speaking, the first steps to be taken to bring into operation the nation's new financial system will be through an organization committee consisting of the secretary of the treasury, secretary of agriculture and controller of the currency.

Banks have 60 days within which to file their applications for membership in the new system, and one year's time is allowed before the government will compel the dissolution of any national bank that refuses to join.

Will "Take Up the Slack."
The new law will make little direct change in the operation of the present national banks, except to allow them to loan a certain amount of their funds upon farm mortgages.

Its chief purpose is to add a new piece of machinery to the banking system that will "take up the slack" during the changing business conditions of each year; that will give the banks a place to quickly convert their assets into cash in time of need, and that will bring out new federal currency when it is needed, and retire it when money becomes "cheap."

Banks are now required to keep a certain percentage of their deposits as "reserves," part in cash in their own vaults and part of which may be re-deposited in the banks of New York, Chicago, St. Louis and other designated cities.

In times of sudden financial demands, when banks have loaned up to the full limit of their resources, these reserves furnish little relief, because if they are paid out to meet demands the banks are left in a precarious condition.

Basic Principle of Law.
The basic principle of the new law is to get these reserve funds out into circulation when necessary without lessening the safety of any bank, and to provide a place to which local banks may rush in a crisis and get cash for the "prime commercial paper" they hold in their vaults.

This is to be accomplished through a chain of regional reserve banks, or "reservoirs of reserves," in which all banks shall deposit a stated part of the money they are required to hold as reserves.

Under the new system, when a financial flurry comes the banks can take commercial paper, such as notes, drafts and bills of exchange, to these "reservoirs," and secure the use of their own reserves, or, if necessary, even the reserve of other banks, by depositing this security.

The new regional banks will receive about one-half of the bank reserves of the country. They in turn will be permitted to loan back to the banks all but 35 per cent. of these reserves, so that in case of emergency millions of cash can be brought out into circulation quickly.

The banks will have to pay for these loans, however, as individuals have to pay for a loan from any local bank, and this charge is expected to prevent the too free use of the reserves held by the regional banks.

New Paper Currency.
A new form of paper currency is also provided for, to come out in case of emergency, and which is expected to go back into the hands of the government when times are normal. These "treasury notes" will be printed by the government and issued through each regional reserve bank, and will bear the guarantee both of the regional bank and of the government.

If the demand for currency in any section of the country exceeds the supply of circulating money a regional bank can secure this new money from the government and put it into circulation; but a gold reserve of 40 per cent. and commercial paper equal to the full value of the note must be held as a reserve behind each note issued.

This provision is expected to be the influence that will drive the new money back into retirement when it is no longer needed.

Clearly Explained.
The following analysis presents the details of the new law without adhering closely to the technical division or language of the measure:

At the head of the system will stand

a federal reserve board at Washington, appointed by the president, and to consist of the secretary of the treasury, the controller of the currency and five other members. Two of these shall be expert bankers, but none shall have banking affiliations or own bank stock during their service. This board will exercise general control over the entire system.

The temporary "organization committee," or the federal reserve board, will select from eight to twelve cities where regional reserve banks shall be located and will divide the entire country geographically with these cities as the centers of districts. All national banks in a district will be required to subscribe for the stock of the regional reserve bank in that district and to keep a portion of their reserves there.

Known as "Member Banks."
Local banks will be known as "member banks" because they will own the stock of the regional reserve bank of their district. Each member bank will be required to take capital stock of the regional reserve bank, equal to 5 per cent. of the member bank's capital and surplus. The capital of the regional bank will increase or decrease so that it always represents 6 per cent. of the combined capital and surplus of all the banks of the district that have joined the system.

National banks are compelled to join and state banks are permitted to if they bring their reserve requirements up to the standard set for national banks and submit to national examinations.

Public Can Buy Stock.
Public ownership of the stock of the regional reserve banks is permitted only in case enough banks do not join in any district to provide a capital stock of \$4,000,000. In such event the public may purchase the stock in quantities limited to \$25,000 for each individual, but the voting of this stock will be placed in the hands of government representatives on the board of directors of the regional reserve bank.

The regional reserve banks may do business only with their member banks, not with the public, except that certain "open market operations" such as the purchase and sale of gold, government, or municipal bonds, and certain forms of bills of exchange, are permitted. These banks will make their earnings from the loans made to member banks, and from the purchase and sale of bonds and foreign bills of exchange.

Must Put Up Cash.
Member banks will be compelled to put up in cash only one-half of their subscription to the capital of the new banks, the rest can be called for if needed by the regional bank. Dividends of 5 per cent. will be paid on this stock to the member banks, and the stock will be non-taxable.

After these dividends are paid one-half of the surplus net earnings goes to create a regional surplus fund, and when this has reached 40 per cent. of the regional bank's paid in capital these earnings are to go into the United States treasury. The balances of the net earnings are to be paid to the United States as a franchise tax. With the machinery thus created for a new banking system that is supplementary to the commercial banks of the country, the law provides for a gradual transfer of part of the bank reserves to these new "reservoir" banks.

In order not to disturb business conditions, or to withdraw too suddenly the heavy deposits of country banks in the large cities, the law provides that three years may be consumed in shifting these balances and that, if necessary, part of the reserves transferred to the regional banks may consist of commercial paper.

The amount of reserve required from every bank under the new law, and the place where it must be kept, are as follows:

Country banks—Total reserve required, 12 per cent. of demand deposits and 5 per cent. of time deposits. Five-twelfths must be held in the bank's own vaults for two years and four-twelfths after that. For the first year two-twelfths must be kept in the regional bank, increasing one-twelfth each six months thereafter until it reaches five-twelfths of the total reserve. For three years the unallotted part of the reserve may be kept in the banks of reserve cities. After that time it must be kept either in the country banks and vaults or in the regional reserve bank.

Reserve city banks—Total reserve required, 15 per cent. of demand and 5 per cent. of time deposits. Six-fifteenths must be kept in the bank's vaults for the first two years and five-fifteenths after that time. Three-fifteenths must be kept in the regional reserve bank for the first year, increasing one-fifteenth every six months thereafter until it reaches six-fifteenths. For three years the unallotted portion of the reserve may be kept in other banks, in its own vaults, or in the regional bank; after that time in one of the latter two places.

Central reserve city banks (New York, Chicago and St. Louis)—Total reserve required, 18 per cent. of demand and 5 per cent. of time deposits. Seven-eighths in the regional reserve banks and the remaining five-eighths in either place the bank may choose.

Regional Reserve Banks.
These immense funds of reserves from "member banks," together with government moneys, will make up the deposits of the regional reserve banks. Each of these banks will be administered by a board of nine directors, six of whom will be elected by the banks, and three appointed by the federal reserve board.

The regional reserve banks may re-district—that is, buy at a discount from its member banks—"prime commercial paper" when the member banks desire to convert these assets into money.

Character of Paper.
The exact terms of this important provision as to the character of paper upon which the regional reserve banks may furnish cash are as follows:

"Upon the indorsement of any of its member banks, with a waiver of demand notice and protest by such banks, and federal (regional) 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.

Eligible for Discount.
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 the paragraph must have a maturity at the time of discount of not more than 90

FIVE FUNDAMENTALS OF THE CURRENCY BILL

Issue of currency, guaranteed by the government, based upon notes and bills representing commercial transactions and backed by a gold reserve. The new currency is expected to contract and expand to meet the varied demands of trade.

Concentration of the bank reserves of the country in regional institutions capitalized by the banks of the country and controlled by directors elected by the banks.

Creation of a market for the negotiable commercial paper which forms the bulk of the assets of the banks, where, in time of stress, those assets may be easily and without loss transformed into cash.

Establishment of from eight to twelve great regional banks throughout the country, which will issue currency, rediscount paper and centralize and mobilize the reserves of the local banks.

Creation of a federal reserve board of seven members appointed by the president, with final powers of control and supervision over the entire system.

days; 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 (regional) reserve bank, to be ascertained and fixed by the federal reserve board."

The "Elastic" Element.
The new treasury notes, which are to furnish the "elastic" element in the currency system, and to add to the country's circulating money in time of need, will come into use in the following way:

The notes will be printed by the government, with a distinctive style for each regional reserve bank. One of the three directors named by the federal reserve board for each regional bank will be known as the "federal reserve agent" for that bank, and a supply of the notes will be placed in his custody.

Should a regional bank desire to pay out more money than its cash resources will permit, the law provides that it may put some of its rediscounted commercial paper into the hands of the "federal reserve agent," and received in return the new treasury notes.

For each note that it puts out into circulation, the regional reserve bank must set aside in gold 40 per cent. of the value of the note as a guarantee for its redemption. This gold, with the commercial paper held by the "federal reserve agent," is the protection behind the new money; but these notes will also be guaranteed by the government and may be redeemed in gold in the United States treasury.

Reserve Required.
Each regional bank, under the act, must keep a reserve of 35 per cent. of the deposits it has received, besides the 40 per cent. gold reserve behind the treasury notes it issues. If the gold reserve behind the notes falls below 40 per cent. a heavy tax is imposed on the bank, which in turn adds the tax to the rate it charges member banks for rediscounts. This was designed to stop an over-expansion of currency. In times of sudden stress the federal reserve board can suspend these reserve provisions, in order to furnish quick relief to any community.

Take Up Bonds.
None of the existing forms of currency except the national bank notes will be disturbed by the new law. The United States bonds, now used to secure the issue of national bank notes, are to be taken up at the rate of \$25,000,000 a year by the regional reserve banks and new treasury notes or short term three per cent. bonds will take their place. National bank currency is expected gradually to retire.

The federal reserve board will exercise final control over the entire operation of the system. It can compel one regional bank to loan to another in time of need; can suspend all restrictions surrounding the reserves which regional banks must hold, and can remove directors of regional reserve banks whenever it is believed necessary.

Banks in Control.
While the banks retain control of the boards of the regional reserve banks, their connection with the federal reserve board is only through an advisory council, made up of one representative from each federal reserve district. This council will meet in Washington to confer with the federal reserve board "on general business conditions" and to make recommendations and suggestions concerning discount rates, note issues, and reserve conditions.

An important change in national banking methods embraced in the new law will permit all national banks except those in New York, Chicago and St. Louis to make direct loans on five year farm mortgages up to 25 per cent. of their capital and surplus, or up to one-third of their time deposits.

"Another provision in the law permits national banks having a capital of \$1,000,000 or more to open foreign branches. Similar authority is given to the regional reserve banks, the purpose being to facilitate the development of American trade abroad.

PROMINENT PEOPLE

CROY DUCHESS "NOT EQUAL OF HUSBAND"



The 1914 edition of the Almanach de Gotha, which has just appeared in Berlin, categorically announces that the marriage of Miss Nancy Leishman and the duke of Croy "is not a marriage of equal birth."

It is understood in royal circles that this phraseology, which is unusual in the Almanach, is printed at the instigation of the Prussian royal herald's office, and is intended as notice to the duke that his wife is not entitled to the privileges of the kaiser's court or the other royal courts of Germany.

When the duke of Croy and Miss Nancy Leishman were married at Geneva on October 23 there was a strong presumption that the bride would not be acknowledged as the duchess of Croy in Germany. The marriage took place without the consent of the kaiser and with the disapproval of the family of the duke.

Upon the announcement of the engagement last April the match was disapproved at a family council, called by the dowager duchess of Croy, the duke's mother, or members of all the branches of the Croys in Belgium, Prussia, France and Hungary. Later the Association of High German Nobility, at a meeting at Frankfurt-on-Main, also opposed the marriage.

disapproved at a family council, called by the dowager duchess of Croy, the duke's mother, or members of all the branches of the Croys in Belgium, Prussia, France and Hungary. Later the Association of High German Nobility, at a meeting at Frankfurt-on-Main, also opposed the marriage.

BACK TO THE FARM

He swung his swivel chair around from the flat desk on which documents of all kinds were arranged in orderly fashion and arose to greet the visitor who entered this comfortable but severely plain office. Slightly below medium height he was, hair whitened somewhat by a lifetime of hard service, cheeks ruddy with health, blue eyes sparkling with fire—a man of sixty, clean cut, full of energy—the heart and mainspring directing force of the New York Central system, which means boss of 10,000 miles of railways. Forty years and four has William C. Brown been in railroad work; five has he spent as president of the New York Central. And now he has handed in his resignation to take effect January 1.



"Yes," he said, in answer to a question, "I remember very well when I commenced work as a railroad. It was in the latter part of June, 1869, and a mighty hot June day at that. I was sixteen years old then, plowing corn on a farm out in northern Iowa. It was a big field to plow the sun beat down with broiling rays, and the horses sweated their way between the long rows as I guided them and bore down on the plow.

"At one end the big field ran up close against the railroad and when I got there I stopped to let the horses rest and to catch a breath of air for myself. Outside, on the rails, was a section foreman, A. J. Leach, and his gang at work. He looked up and saw me wiping my forehead. After a single glance he said:

"Young man, how would you like to go to railroad?"

"I'd like it mighty well," I replied.

"All right," said Leach. "Report for work next Monday morning and start in."

"I did report the following Monday morning, and went to work," Mr. Brown continued with a smile. "I've been right at it ever since."

PANCHO VILLA, SOLDIER OF LUCK



No man in any of Mexico's countless rebellions and revolts has gone through a more complete change of circumstance than has Pancho Villa. In the last five months, and to few men has there ever been given a more kaleidoscopic career in a life time than this desperado diplomat has jammed into the last five years of his existence.

Escaping from United States border patrols and Mexican federal infantry and cavalry last March, Villa took the field with a single horse, which had been "borrowed," two sacks of flour and nine men. Last month he returned with upward of 10,000 followers, mostly well armed, quick moving cavalrymen, 38 large field pieces, 50 rapid fire machine guns, a trainload of ammunition, other trainloads of supplies for his troops and more than \$5,000,000 in Mexican money.

Villa's record of triumphs in the last year is all the more wonderful when it is considered that it was done almost entirely with ammunition and artillery taken from the enemy's far stronger force.

MR. BORLAND'S LATEST PET

Representative William P. Borland, who not long ago gained fame by bringing a baby home under each arm with which to surprise his wife and augment his household, was seized by another whim on his recent trip to Panama and brought home a monkey.



She was a beauty, as monkeys go, and while Mr. Borland does not know the technical name of the species, he affirms that she had a white face and was just about the cunningest and rarest thing in the monkey line he ever saw. In fact, she was more beautiful than good and seemed wholly lacking in appreciation.

Instead of grovelling at his feet in gratitude for being transported from the jungles of Panama right into the very arms of a member of congress, she growl morose over the matter, got to be a regular man hater, and found her only solace when bedded on the nice soft muff of Mrs. Borland. Mr. Borland tried to win her heart, but three bites now mar his beauty. The monkey? Well, she is out at the National zoo at Washington, where sport the wild animals corralled by Theodore Roosevelt in the wilds of Africa and Yellowstone park; the collection of possums sent to President Taft and President Wilson, and the parrots and things brought back by other members of congress on their various trips to Panama.

HOW DISPUTED POINTS WERE ADJUSTED

The following changes affecting points at difference between the senate and house were made in conference:

Comptroller of currency and secretary of agriculture retained as members of organization committee.

Comptroller of currency made ex-officio member of federal reserve board and total membership retained at seven and the term of office fixed at ten years.

Alaska excluded from provisions of act. After federal reserve districts are established, national banking associations shall have 30 days in which to subscribe for capital stock of reserve banks.

Individuals may purchase up to \$25,000 stock in federal reserve bank instead of \$10,000, as provided in house bill.

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

Number of regional reserve banks to be "not less than eight nor more than twelve," as provided by the senate.

The minimum capital of regional reserve banks fixed at \$4,000,000. No senator or representative can be an officer of a federal reserve bank.

No director of Class C directors of federal reserve board shall be an officer, director, employee or stockholder of any bank.

Each member bank is permitted to nominate one candidate for Class A and one for Class B directors.

Subscription of member banks 6 per cent. of capital and surplus of subscribing bank.

Senate provision for the guarantee of national bank deposits eliminated.

Use of federal reserve notes as part of reserves of member banks stricken out.

At least one-third of the reserves of the country banks must be held in the vaults of local banks.

House provision for collections at par practically restored, banks to be permitted to collect only actual expenses.

Retirement of 2 per cent. bonds aggregating \$300,000,000 within 20 years provided for as against retirement of \$125,000,000 in senate bill.

Gold reserve behind the notes remains at 40 per cent., with a graduated tax against any depletion.

Salary of members of the federal board increased from \$10,000 to \$12,000.

Members of reserve board shall serve two, four, six, eight and ten years instead of one to five years.

Reserve board can liquidate or reorganize reserve banks.

Compensations for directors, officers and employees of federal reserve banks shall be subject to the approval of the federal reserve board.

Recess appointments to reserve board shall expire 30 days after the following session of congress opens.

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.