Banking Problems that Led to Formulation of the Federal Reserve Act of 1913

An Honors Thesis (ECON 492)

by

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Purpose

The purpose of this paper is to investigate the events and problems of the banking system that led to the Federal Reserve Act of 1913. The paper examines the history of banking in the United States and identifies some of the more significant factors that persuaded American bankers, politicians, academicians, and others that reform of the banking system was necessary. A discussion of the banking panic of 1907 illustrates some of these factors. Finally, the basic provisions of the Federal Reserve Act of 1913 are presented and discussed.
Introduction

Pre-twentieth century America had a fear of centralized power and a distrust of moneyed interests. This dominated contemporary politics and, consequently, prevented the creation of a central bank which appeared to be the embodiment of those fears. However, the existence of a fractional reserve banking system without a lender of last resort that could provide reserves to the banking system in the event of a banking panic was a serious problem. Nationwide banking panics in the nineteen and early twentieth centuries were frequent (occurring in 1837, 1857, 1873, 1884, 1893, and 1907). The severe panic of 1907 convinced many bankers, politicians, academicians, and others that a central bank was necessary to prevent future banking panics and to bring order to financial markets.

The Federal Reserve Act of 1913 was the product of a long and sometimes bitter political struggle which resulted in a compromise. As many contemporary and modern students of the history of banking in the United States point out, the Act was a response to a troubled banking sector which was characterized by financial panics and general instability of banks. Bank suspensions were a common occurrence and especially numerous after major banking panics as indicated by the following data from the “Historical Statistics of the United States” (pg. 636):

Bank Suspensions: 1871-1910
For instance, the panic of 1893 caused 496 bank suspensions that year and shook the banking system for the next five years.

The provisions of the Federal Reserve Act of 1913 cannot be fully understood without studying the nature of banking prior to the Act, the contemporary problems and issues that were pressing on the various stakeholders, or the banking reform movement of the early 1900s. Consequently, this paper will examine the history and problems of banking in the United States under the National Banking Act of 1864, the banking panic of 1907 and the problems it caused, and the reform process that led to the Federal Reserve Act of 1913.
Literature Review

The history of banking in the United States has generated considerable interest. The following is a selected review that focuses on discussions of banking problems that led directly to the formation of the Federal Reserve.

Bray Hammond conducted a penetrating study of banking in the United States prior to 1865 in "Banks and Politics in America From the Revolution to the Civil War." In this study, he provided an interesting discussion of the American fear of central banks which delayed the banking reform for some time after the weaknesses of the banking system became apparent. He contends that pre-twentieth century America had a fear of centralized power which was evident in the significant influence of Jacksonians, supporters of President Andrew Jackson, who stood behind "the humbly born and rugged individualists who were gaining fortunes by their own toil and sweat, or wits, [who] were still simple Americans..., anti-monopolistic, anti-governmental, but fraught with the spirit of enterprise" (Hammond, pg. 328). They attacked the Bank of the United States because they believed it was a symbol of oppression, tyranny, monied power, aristocracy, wealth, privilege, and monopoly. The attack emphasized the Wall Street businessmen's jealousy of the federal Bank, their dislike of the federal Bank's restraint on bank credit, the Bank's interference with states' rights, the popular identification of the Bank with the aristocracy of business and the agrarian antipathy toward the federal Bank (Hammond, pg. 329). Thus, in 1836, President Jackson, the leader of the Jacksonian trend, allowed the charter of the Second Bank of the United States to expire. "Destruction of the Bank ended federal regulation of bank credit and shifted the money center of the country from Chestnut Street to Wall Street" (Hammond, pg. 329).
The lack of organization within the banking system was one of the most important problems prior to the Federal Reserve Act of 1913. Thibaut de Saint Phalle, in "The Federal Reserve, An Intentional Mystery," described the banking system after the demise of the Second Bank of the United States as being a period of chaos. Thousands of banks were issuing thousands of different types of bank notes, making the methods of payments difficult and inefficient. Phalle pointed out some of the most significant characteristics of the lack of organization. They included scattered reserves over a large area which prevented quick pooling of funds in times of panic, lack of central clearing facilities which hindered a quick transfer of funds, and absence of any lender of last resort.

Pyramiding of reserves was a major problem associated with the lack of organization and was also identified by Phalle. However, Oliver M.W. Sprague provides an interesting and more detailed discussion of this subject in the "History of Crises under the National Banking System." He concluded that allowing banks to keep their reserves on deposit in other banks, perhaps in other cities, caused the banking system to fail in meeting the severe strain of crises. He indicated that the banks were always weaker than they appeared and, therefore, less able to cope with financial difficulties.

Among the most important conclusions drawn by Sprague was his belief that the country was in need of a lender of last resort. He believed that all the banking panics under the national banking system would have been easier to manage if the New York banks were able to increase loans to meet demands of depositors for money. His discussion of the usefulness of clearinghouses supports this belief. After an extensive study of several banking panics during the latter part of the nineteenth century, Sprague concluded that banks' organized effort through
clearinghouses made financial crises less severe. He also recognized that such organized effort was not always easy to achieve due to each bank's desire to keep its independence and sovereignty. Thus, in his opinion, creation of a lender of last resort was possible only by imposing a central authority that would induce the interbank cooperation in times of crises as well as oversee the banking structure during normal times.

Another major problem of banking under the national banking system was the problem of an "inelastic supply of currency." In "A Monetary History of the United States," Friedman and Schwartz explain that because of the banks' fractional reserves, any overall attempt by the public to raise its currency holdings would drain bank reserves which in turn would cause banks to contract their outstanding liabilities by a multiple of the loss in reserves. This led to some bank suspensions and threatened a chain reaction resulting in a bank panic. The two authors also explain the contemporary view that the money stock should conform to the needs of trade. The view was that the supply of money should increase during good economic periods in order to facilitate the increased economic activity and should decrease when the economy was not performing so well – it should be elastic. Friedman and Schwartz claim that this view was one of the most dominant considerations during the banking reform process of the early 1900s and is reflected in its incorporation in the Federal Reserve Act of 1913.

As Friedman and Schwartz indicate, the weaknesses of the banking system were recognized in the contemporary banking literature. However, the fear of centralized banking accompanied by various political interpretations of the existing problems delayed banking reform. The dramatic experience of the banking panic of 1907 induced many Americans to put their fears and disagreements aside and create a banking system that would foster and correspond
to the country's economic growth and the need for a more stable and cooperative banking environment.
Between 1836 and 1864

The fear of centralized banking that was present in the United States during this period was the motivation behind President Andrew Jackson’s decision to allow the charter of the Second Bank of the United States to expire in 1836, eliminating any central authority overseeing the banking structure. By the 1860s, the United States banking system consisted of thousands of individual banks each issuing its own notes. The notes varied in value and depended on the financial strength and trustworthiness of the issuing bank. This required some means of clearing the notes of different banks. Some larger banks attempted to facilitate clearing by requiring smaller banks to maintain redemption deposits with them. Banks which chose not to maintain such deposits ran the risk of having all of their notes returned for redemption in specie. This was a powerful force restricting the issue of unsound notes.

National Banking System

An important step in banking reform was achieved by the National Banking Act of 1864. The Act was an attempt to organize American banking through the formation of national banks. The provisions of this Act were modeled after those of the New York State Banking Act of 1838 and the Louisiana State Banking Act of 1842.

The underlining principles of the National Banking Act were almost the same as those of the New York State Banking Act of 1838 (Hammond, pg. 562, 727-728). Prior to the New York Act, a special state charter was required for bank organization. As a result, monopoly and special
favoritism were widespread, and it was felt that competition would relieve these problems. The act of 1838 provided the State of New York with a banking law embodying the principle of competition, known as free banking. The National Banking Act extended the principle of free banking to the entire nation. Any group of five or more people who could meet the minimum capital requirements contained in the law were granted federal charters. Generally, applicants had to demonstrate some need for a bank and to possess the proper character and intentions.

The Louisiana law required all banks to separate long- and short-term loans, while the issuance of long-term debt was restricted. Short-term loans, usually ninety-day commercial paper, were not renewable and sanctions were imposed against those who failed to pay their debts or who required extended periods to liquidate their loans. The provisions of the National Banking Act were not as strict as those of the Louisiana Act. However, it did prohibit banks from engaging in certain activities. The real estate investments by banks, for instance, were allowed only for their own needs for banking facilities while all other long-term non-commercial operations were forbidden.

The National Banking Act authorized national banks to issue a new type of bank note secured by United States government bonds. Issuing banks deposited the required amount of government bonds with the Comptroller of the Currency, a new agency created by the Act to oversee national banks. The Act limited the issue of notes by a national bank to its paid-in capital. This provision was intended to prevent banks from using specie to buy state government bonds on margin and then using the bonds to issue notes equal to the par value of the bonds. The newly-issued notes would then be used to complete the payment for bonds purchased on credit. The surplus of note issue could be used to repeat the same process over again. This practice
enabled banks to maintain a circulation equal to twenty or thirty times their paid-in specie capital (Hammond, pp. 619-620).

The National Banking Act also attempted to standardize the reserves held against bank deposits by making them uniform with respect to the size and location of the national banks. In most states, reserves were either unregulated or low percentages of total deposits were required. Some banks had so little specie in their reserves that they were unable to meet even the slightest increase in public's demand for currency. With respect to location of a national bank, reserve requirements were highest for banks in New York City and lowest for country banks. Banks outside New York were permitted to count their deposits in other banks as part of their reserves.

Despite the fact that banks were required to have reserves, often the amounts held in bank vaults or on deposit with other banks were not available or sufficient to meet sudden demands without falling below the required reserve minimum. This was the case because banks tended to loan out as much money as they could, thus always being near their minimum reserve ratio (required reserves/total deposits). Banks were induced by the profit motive to approach their minimum reserves but were forbidden by law to fall below them. Therefore, knowing that the punishment for violations of reserve requirements could be the closure of the bank by the Comptroller of the Currency, banks were forced to contract credit to gain liquidity (to gain necessary cash for payment to demanding depositors) in times of stringency.

A major criticism of the national banking system was that it did not provide a mechanism for interbank cooperation. The only cooperation between the national banks was through the requirement of the National Banking Act that every non-New York bank designate a redemption agent for its notes (a bank willing to exchange its notes for specie) in New York City or some
other large city. This is one of the reasons New York became the primary financial center in the United States, especially because banks in other large cities were required to name their own redemption agents in New York. The requirement lowered the redemption costs to note-holders but it was of very little use in times of crises.

Another important criticism of the National Banking Act was that it did not cover all the existing banks in the United States but only those with national charters. By 1913, the number of state banks was more than twice that of national banks as indicated by the following data from the “Historical Statistics of the United States” (pp. 624, 626, and 630):

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of national banks</th>
<th>No. of state banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>7,467</td>
<td>19,197</td>
<td>26,664</td>
</tr>
</tbody>
</table>

*Note:* Number of state banks also includes the private banks because they were not segregated from other banks between 1896 and 1946.

In 1865, Congress attempted to suppress state banks by placing a prohibitive tax on state bank note issues. However, after several years of decline, state banks came to realize that note issues were becoming less important relative to demand deposits as a means of payment. Consequently, state banks continued to occupy an important position in American banking.

Despite its ineffectiveness, the National Banking Act of 1864 determined the nature of banking from 1864 to 1913. Among the most important aspects of the Act are the philosophy of independent unit banks, the type of note issue, and the reserve structure. These aspects composed the core elements of the banking reform discussion in the early 1900s.
Problems of Fractional Reserve Banking Under the National Banking System

The banking problems prior to the Federal Reserve Act of 1913 fall into two categories: (1) problems of organization or lack of it and (2) problems of the inelasticity of note issue. The first problem took many forms including scattered reserves, lack of central check-clearing facilities, and the absence of a lender of last resort. The second problem dealt with the inability of the circulating currency to expand in the event of bank runs.

Organizational Problems

Some organizational features of the National Banking Act prevented smooth operation of the financial system. The national banking system was not really a system at all but rather a loose body of independent banks responsible only to themselves and only for themselves. Such structure prevented any united action among the banks when abnormal conditions prevailed. Therefore, as Thibaut de Saint Phalle points out, excessive individual bank independence played a significant part in the spread of bank panics (pg. 47). In time of panic, each bank scrambled to protect its own liquid position by attempting to collect large amounts of cash in order to resist a run. A run on one bank induced other banks to take a similar defensive approach but the fixed amount of cash in the system necessarily frustrated this effort.

The reserve system written into the National Banking Act was considered defective by many. A pyramiding of reserves was caused by allowing banks to deposit a share of their reserve requirements with banks in major cities but could still list those deposits as reserves. Furthermore, the banks in major cities deposited a share of their reserves with major banks in
New York City. Consequently, the actual level of available reserves was much lower than what it was nominally required. The system was always weaker than it appeared and less able to meet any increase in demand for hand-to-hand currency relative to demand deposits.

Some New York banks, in order to increase their share of interbank deposits, paid interest on demand deposits. This practice appeared to be a source of trouble since reserve deposits became concentrated in a few banks (Sprague, pp. 20-24). As Sprague points out, such banks "were directly responsible for any disturbance in the New York money market, which was due to the use of these funds, and also for any failure to meet demands for their return to banks in the rest of the country" (pg. 20). The banks engaged in this practice were obliged to lend out the money to obtain a return with which to pay the interest. They saw profit opportunities due to return rates exceeding the interest charge they were required to pay to attract deposits and, therefore, profited on the margin between the two rates. The demand deposits obtained in this manner were generally loaned on the stock exchange in the form of call loans. These loans were presumed to be almost perfectly liquid since the funds were available on call.

Often, after a period of stability, banks approached their minimum reserve requirements as they attempted to maximize profits. Because of reserve pyramiding and individual bank isolation during a crisis it became impossible for banks to redeem a large amount of deposits without some credit contraction. This led to two separate problems: (1) a stringency placed on country banks affected all banks because of the fractional reserve system and (2) stringencies tended to snowball since no effective means of interbank cooperation existed. When country banks called deposits from their correspondent banks in cities other than New York, those banks were often forced to call deposits from New York. Banks subject to calls were forced to restrict
credit if they lacked free reserves. They were reluctant to go below their minimum required reserves to meet this sudden demand because of the legal sanctions which might be imposed by the Comptroller of Currency. Unless the circumstances were very severe, banks usually did not violate their reserve requirements. Thus, the only recourse was a credit contraction. The second problem deals with the lack of cooperative arrangement through which strong banks could come to the aid of weaker banks, therefore, stopping the scramble for cash. The reserves were too scattered to be of general use. Instead, in most cases, the panic spread from weaker to stronger banks as the distrust of banks was propagating. Because of the development of clearinghouses, however, things were not quite as bad as they might have been. In both 1873 and 1907, it is probable that the crises would have been worse had not New York banks come to one another's aid. The clearinghouses allowed some cooperation during panics and, therefore, convinced many people that more cooperation would improve the operation of the financial sector.

The typical operations of clearinghouses were to clear checks and drafts and transact other interbank business. However, during crises they took on added importance. In times of stringency, they issued clearinghouse loan certificates based on the assets of member institutions which were used in place of currency in interbank clearings. Thus, bank reserves were increased by the amount of lawful money (gold coins and certificates and silver coins and certificates) ordinarily tied up in clearing procedures. While the loan certificates could not be counted as required reserves, they freed cash by serving as a substitute in interbank payments (Sprague, pp. 45-53).

During the panics of 1873 and 1907, New York banks pooled their reserves to meet the demand for currency. In 1873, they did so by forming the New York Clearing House (on
September 20, 1873) which issued clearinghouse loan certificates. In later years, banks were reluctant to cooperate and they failed to do so in both 1884 and 1893. Pooling, however, was accomplished again in 1907 because of the pressure exerted on New York bankers by J.P. Morgan, the embodiment of financial power and one of the strongest financiers of the era. The cooperative actions during panics as well as the occasional reluctance with which banks engaged in them impressed many people and, consequently, influenced later banking legislation. Accompanied by the lack of central check-clearing facilities which hindered the quick transfer of funds among banks in different parts of the country, these events emphasized the need for a central authority to oversee and regulate banking activities.

*Fractional Reserves*

The second major problem with the banking system prior to 1913 was an inelastic supply of currency or, as Friedman and Schwartz explain, the absence of effective convertibility between currency and deposits (pg. 168). Hand-to-hand currency was composed of national bank notes, U.S. Treasury Notes, gold coins and certificates, silver coin and certificates, and other subsidiary currency. The amount of silver currency, both coin and certificates, was fixed as were U.S. Treasury Notes. Gold coin and certificates were allowed to grow as the amount of monetary gold grew. Subsidiary coins and national bank notes were slightly flexible because they were allowed to grow but still had to conform to the maximum limit under the law. The elasticity problem, however, did not concern the long-run growth of the money supply but rather its short-term expansion and contraction. The problem was that when the demand for loans and currency increased in good economic times, the amount of cash available in the system could not be increased to meet the needs of consumers and businesses. Conversely, the system had no
operating mechanism to shrink the currency supply when the economy was performing poorly (Phalle, pg. 48).

In each crisis, the demand for currency could not be met without drawing down reserves because, in the short run, national banks were not able to expand the supply of national bank notes. In turn, this forced banks to contract their outstanding liabilities by a multiple of the loss in reserves and, therefore, reduced the total amount of money available to be held.

The problems of fractional reserve banking under the national banking system became the dominant issues of banking reform. The inelasticity of the stock of money and the lack of an effective reserve system or mechanism for cooperation began the trend toward a more structured form of organization. This was later opposed by the belief of many Americans in a free and independent banking system. For the purpose of illustrating the problems of the national banking system as well as understanding the motivation for and purpose of the Federal Reserve Act of 1913, the following section briefly examines one of the more important financial crises, the banking panic of 1907.
"On extraordinary occasions," wrote David Ricardo, "a general panic may seize the country, when everyone becomes desirous of possessing himself of the precious metals as the most convenient mode of realizing or concealing his property - against such panic banks have no security [under]...any system" (Encyclopedia, pg. 45). In a financial panic, fear leads to sudden and enormous withdrawals of deposits from banks and to wholesale selling of various financial assets for cash. People bail out of a system they fear will crash and, by doing so, either cause the
disaster or enlarge it. A panic is a sudden scramble for liquidity. Unable to sell their assets quickly, banks cannot possibly honor their contractual liabilities during a panic and, therefore, they must default on their debt obligations, causing the banking system to become insolvent. In most instances, banking panics occur at the onset of economic downturns which led to their association with crises and depressions. Generally, banks suspended convertibility of deposits into currency in unison, meaning that they temporarily refused to honor their contractual agreements to redeem their debt for cash on demand. The panic of 1907 followed a pattern similar to other panics.

The decade prior to 1907 was generally very prosperous. A mild two-year economic contraction that ended in 1904 interrupted the advance in mid decade. However, this was followed by a strong expansion that featured industrial growth accompanied by rapid growth of the money stock and an advance in the stock market. By May 1907, the economy reached a cyclical peak and business activity entered a period of contraction which lasted for about a year. These events are reflected by the real and money income curves in the chart on the following page.
Until the beginning of 1907, both curves reflect an upward trend, but as they enter the first quarter of the year, they begin to flatten out and finally turn downward in the second quarter.

Similarly, the money stock curve has an upward trend all the way into the second quarter and...
then it sharply turns downward. Both price indices, implicit and wholesale, reflect an upward trend in prices until the second quarter, however, the wholesale price index better reflects the fall in prices during the economic downturn than does the implicit price index curve which flattens out during that period.

The economic decline was gentle until October when a panic seized the banks. As a result, banks generally refused to pay out currency or specie to depositors on demand. Not only did banks fail, but the economic contraction intensified. Thus, the banking panic of 1907 divided the economic contraction into two parts. The first part was the period between May and September in which there were no obvious signs of real distress. Prices continued to rise (as indicated by the wholesale price index curve in Chart 1), production in some lines flattened out but did not decline seriously, freight car loadings behaved similarly, bank clearings held fairly steady, no drastic rise in the liabilities of commercial failures, and the only significant change was the reversal in gold movements from net imports to net exports. The second part of the contraction was after the October panic and it showed clear signs of severity. Production, freight car loadings, bank clearings, and the like all declined sharply, while the liabilities of commercial failures increased sharply.

From May until September, some decline in the money stock was evident, but no bank runs occurred during this time. In October, however, banks came under severe pressure. The public ran on them, demanding currency in exchange for deposits. The banks sought to increase their currency holdings to meet their depositors' demands. With both, the public and banks scrambling for liquidity, the total money stock declined by five percent in five months. This is also reflected by the sharp downturn of the money supply curve during the second half of 1907.
in chart 1 on the previous page. Prices collapsed on the stock market as banks called in loans used to finance security holdings.

The first signs of panic surfaced in October 1907. On October 14, five banks which were members of the New York Clearing House and three outside banks required assistance from a group of clearinghouse banks. On October 21, the third largest trust company in New York, the Knickerbocker Trust Company, "began experiencing unfavorable clearing house balances," a problem that was connected with the banks that were initially in trouble (Friedman, pg. 159). The next day, the Knickerbocker Trust Company was suspended by the Clearing House. The suspension occurred after considerable debate among the members as the articles from the New York Times in Appendix A indicate. Friedman and Schwartz argue that if the Knickerbocker were helped, the further crisis developments might have been prevented (Friedman, pg. 159).

Since the entire credit structure appeared to be in danger, the Trust Company of America and the Lincoln Trust Company were given assistance when they began experiencing difficulties on October 23 and 24 respectively which saved them from failing. However, the general alarm outside New York could not be prevented.

Between October 21 and October 23, while the heavy runs on the New York trust companies were occurring, the New York Clearing House banks had to furnish currency required by the trust companies as well as ship currency to banks in the rest of the country for use there. In order to aid the Clearing House, Secretary of the Treasury, George Cortelyou, deposited $25 million with the chief central reserve city banks in New York on October 24. The aid provided the banks with the funds for local withdrawals. Between October 19 and October 31, Cortelyou
deposited $36 million in New York banks. Also, $28 million had already been deposited mainly in banks outside New York between August 28 and October 14.

However, New York was still threatened with panic. Loans were difficult to obtain and stock market prices collapsed. On October 24, J.P. Morgan, one of the most powerful financiers of the era, organized a money pool of $25 million in order to prevent a further price decline on the stock exchange. Some leading banks and financiers subscribed to that pool. Next day, another pool of $10 million was formed. The local runs slowed down by the end of the week but alarm had already spread throughout the country.

In response to the demand for currency by country banks who held deposits in New York, the New York Clearing House began issuing clearing house loan certificates on October 26. Fearing a drain on their reserves, the New York banks immediately began restricting the convertibility of deposits into currency. In previous panics during the 1800s, substitutes for currency were issued. Some of these included clearinghouse loan certificates issued to banks for payments to each other, small clearinghouse checks and certificates, cashiers' checks, and manufacturers' pay checks. The restriction pushed the currency to a premium over deposits. The premium reached a high of four percent (4%). This meant that every dollar of cash was worth $1.04 in bank deposits or that an individual was willing to give up one dollar worth of bank
deposits in order to obtain $0.96 in cash. Deposits became a less desirable asset because of distrust of banks and because deposits were no longer so useful for transaction purposes. This economic phenomenon was termed "hoarding of currency" by Oliver M.W. Sprague (pg. 276). The restriction of payments by the New York banks quickly spread to banks throughout the country. The restriction period ended in January, 1908.

Interpretation of Events in 1907

The most common interpretation of the banking panic of 1907 is that the panic and restriction of payments transformed a fairly mild economic contraction into a severe one. This interpretation motivated the monetary reform of the time that culminated in the Federal Reserve Act in 1913 (Friedman, pg. 163). Friedman and Schwartz, while recognizing that the bigger and stronger New York banks might have postponed restriction of payments by heavy and prompt lending to the weaker banks and trust companies and by supplying the currency needs of banks outside of New York, defend the relatively early restriction of payments. They believe that the restriction was a "therapeutic measure" which prevented the contraction from becoming even more severe and much more prolonged than it was (Friedman, pg. 163). Weak banks failed but such failures did not cause a chain reaction. Only a few banks failed because of temporary illiquidity. "Restriction of payments thus protected the banking system and gave time for the immediate panic to wear off, as well as for additional currency to be made available" (Friedman, pg. 167). Based on Friedman's and Schwartz's interpretation, the early restriction of payments helped prevent widespread bank failures, cut short a possible major deflation, and kept the maximum decline in the stock of money to less than eight percent (Friedman, pg. 167).
In the "History of Crises Under the National Banking System," however, Oliver M.W. Sprague argues that the restriction of payments was a "discreditable step [because it] was taken when the New York banks were much stronger than on other occasions and when prospects for securing additional funds were far more promising" (pg. 261). Sprague criticizes the New York banks because they delayed the issue of clearinghouse loan certificates and resorted to restriction of payments, while their own reserves were still sufficient (Sprague, pg. 273). Sprague believes that early assistance to the Knickerbocker Trust Company might have prevented any distrust in the soundness of the banking system. At the same time, he does not blame the failure of the clearinghouse authorities to aid this third largest trust company in New York because the Knickerbocker was not a member of the New York Clearing House (Sprague, pg. 253).

Friedman and Schwartz identify two reasons for high vulnerability of the banking system in 1907 to a shift in the liquidity preferences: (1) the ratio of deposits to currency ($D/C$) had been growing steadily and (2) the ratio of deposits to banks' reserves ($D/R$) had been rising irregularly and slowly until about 1898 and then it accelerated (Friedman, pg. 164). These occurrences are represented in the following chart by the deposit-reserve ratio and deposit-currency ratio curves.
"The rise in the ratio of deposits to reserves intensifies the effect of any attempted shift on the part of the public to currency" (pg. 65). It made banks more susceptible to failure through runs because the extent to which they could satisfy the increased demand for currency diminished as the ratio of deposits to reserves increased. Consequently, banks were more prone to strengthen their cash positions at the slightest sign of possible demands on them (Friedman, pg. 165).
The Reform of the Banking System

The Aldrich-Vreeland Act

Named for Senator Nelson W. Aldrich and Representative Edward B. Vreeland, this temporary act (1908) dealt with the problem of how to provide enough currency quickly to satisfy the demands of the public when it wanted to convert large amounts of deposits into cash. To do so was critical for the system because if total currency (high-powered money) could not be expanded rapidly the withdrawal of it from the banks would deplete their reserves as depicted by the high-powered money curve during the second half of 1907 in chart 2. By a sort of reflex action, this would make banks reduce their liabilities and so reduce the total means of payment (deposits plus currency) by a multiple amount. “Short-period ‘elasticity’ in one component of the money stock -currency- was therefore desirable in order to prevent undesired ‘elasticity’ in the total money stock” (Friedman, pg. 169).

The Aldrich-Vreeland Act permitted banks to join together in groups to form National Currency Associations which were empowered to issue emergency currency. The banks would deposit certain approved assets (commercial paper and bonds) with the association. Limits would be placed on the amounts of currency that could be created and the notes would have to be retired promptly once the emergency ended, a process to be encouraged by taxes on notes. The emergency provisions of the Aldrich-Vreeland Act were used only once, at the outbreak of World War I, before the Act expired on June 30, 1915. On that occasion, the act successfully provided “an effective device for solving a threatened interconvertibility crisis without monetary contraction or widespread bank-failures” (Friedman, pg. 172).
Another very important clause of the Aldrich-Vreeland Act provided for the appointment of a National Monetary Commission which served as the incubator for the Federal Reserve Act. Senator Nelson Aldrich was the Chairman and Representative Edward Vreeland was the Vice-Chairman of the eighteen-member congressional body. Through hearings and many special studies, the commission undertook an exhaustive examination of the monetary system and possible remedies for its deficiencies. In 1912, the Commission issued a report to Congress recommending a plan of reform. The Commission's proposals for a central bank were highly contentious politically (Johnson, pp. 17-18). After extensive debate, the Federal Reserve Act was passed on December 23, 1913. The new system was very similar in general structure to and identical in many details with the specific plan of reform recommended by the commission (Friedman, pg. 171). Prior to the 1912 report by the Commission, Senator Aldrich proposed a bill whose similarities with the Federal Reserve Act of 1913 are quite apparent.

The New Aldrich Bill of 1911

In 1911, Senator Aldrich proposed a new bill for creation of a National Reserve Association with a paid-in capital of $100 million. The Association would be wholly owned by subscribing banks and would have fifteen regional districts. The board of directors of each district's branch were to be selected by local associations of banks. Even though the head office charged with overseeing the district branches was going to be located in Washington D.C., the government would not be represented on the board of this new institution. All national banks would be required to become members, while the state banks could chose to join or not, as they saw fit. The new bill appealed to the banking community by emphasizing that the National Reserve Association would function as a national clearinghouse (White, pg. 94). On one
occasion, senator Aldrich said that “the organization proposed is not a bank, but a cooperative union of all banks of the country for definite purposes and with very limited defined functions. It is, in effect an extension, an evolution of the Clearing House plan modified to meet the needs and requirements of an entire people” (White, pg. 94). As the composition of the board of directors conveys, small banks were given a voice in the selection of directors, while the weight of votes of large banks depended on their subscription or contribution to the association’s stock (White, pg. 95). One of the branches’ responsibilities was to rediscount notes and bills of exchange endorsed by members on agricultural, industrial, or commercial transactions of twenty-eight days or less maturity. The purpose of this provision was to “impart sufficient elasticity to the currency according to the principles of the real bills doctrine” (White, pg. 95). The bill forbade discounting of bills drawn to carry stocks, bonds, or other investment securities with the purpose of dissolving the relation between banking and the stock market (White, pg. 95).

The new Aldrich Plan was rejected and, in Thibaut de Saint Phalle’s opinion, that was due to several reasons: (1) the absence of any real government influence over the system, (2) the proposal to allow the banks to include notes as reserves, (3) a uniform discount rate, and (4) centralization of the National Reserve Association’s administration. Another important reason deals with the political circumstances: the newly-elected Democratic Congress was strongly opposed to centralized control of the banking system. Many members of Congress perceived Aldrich as the spokesman for Wall Street bankers which reduced the credibility of Aldrich’s arguments (Phalle, pg. 50). Even though the Aldrich Bill never became law, many of its features were later included in the Federal Reserve Act.
Soon after his election, President Woodrow Wilson took an active interest in the preparation of a banking reform bill and called a special session of Congress in the Spring of 1913 largely to deal with banking legislation. Fear of control by Wall Street on one hand and too much government control on the other required reconciliation. Eventually, the bill of Virginia’s Representative Carter Glass and a Senate version of it resulted in a compromise that received President Wilson’s signature on December 23, 1913 as the Federal Reserve Act. The legislative process was complicated and involved numerous political leaders, bankers, and academicians.
The Federal Reserve Act of 1913

This legislation established a new banking structure under the supervision of the Federal Reserve Board and twelve district Federal Reserve Banks. The purpose of the act was clearly stated in its introductory section:

“To provide for the establishment of the 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” (The Statutes, Vol. XXXVIII, pg. 251).

Eugene N. White, in “The Regulation and Reform of the American Banking System, 1900-1929,” lists the main provisions of the Act of 1913 (pp. 97-98):

1. Every member bank was required to contribute six percent of its capital and surplus to the Federal Reserve Bank (one half was to be paid in and the other half was on call).
2. State-chartered member banks had to conform to the minimum capital requirements of national banks.
3. Reserve requirements on demand deposits established by the National Banking Act were lowered to eighteen percent (18%) for central-reserve-city banks, fifteen percent (15%) for reserve-city banks, and twelve percent (12%) for country banks. With respect to time deposits, the new reserve requirement was reduced to five percent (5%) for all classes of banks. For a brief time, part of these reserves could be carried in vault cash, but eventually they had to be deposited with the Federal Reserve Bank where they earned no interest.
4. Member banks were forbidden to have a deposit in excess of ten percent (10%) of capital and surplus with a nonmember bank.

5. Member banks were examined twice per year by the Comptroller of the Currency and were subject to special examination on the discretion of the Federal Reserve Bank.

6. All member banks had the privilege of rediscounting notes, drafts, and bills of exchange at the Federal Reserve. Financial instruments used to carry stocks or bonds, except those of the U.S. government, were excluded. The maturity of the instruments discounted could not exceed ninety days (except in cases of agricultural bills which were allowed a maximum six-month maturity). Notes or paper for firms or individuals which were worth more than ten percent (10%) of the bank’s capital and surplus were prohibited. Bank acceptances which were based on import or export of goods and had maturities of no more than three months were discountable as long as they were not worth more than fifty percent of a bank’s capital and surplus.

7. Member banks were required to deposit, at par, checks and drafts drawn upon any of the depositories of the Federal Reserve Banks with the Federal Reserve Bank. The Federal Reserve Banks also became the acting clearing houses for their members.

8. The act established a mechanism for gradual retirement of national bank notes in order to avoid lowering of prices of bonds which were used to secure those notes.

The Act provides an elastic supply of currency which was viewed as a deficiency of the previous system. Now, as business activity grew, the money supply could expand as well as contract once the demand for currency decreased thus preventing periodic panics and runs on banks. However, as it is evident from the banking panics of the Great Depression, this provision of the Act did not
work in solving the currency inelasticity problems as it was intended by the authors of the Act.

Another important provision of the Act was the centralization of bank reserves which pooled "the system's reserves for common use in periods of credit stringency" (Phalle, pg. 54).

These provisions pleased many in the banking community as indicated by the excerpts from the New York Times dated December 24 and 25, 1913 in the Appendix B. This is reinforced by the fact that two hundred and thirteen (213) banks applied for membership in the new Federal Reserve System during its first day, December 24, 1913.

**Federal Reserve System under the Act of 1913**

The Federal Reserve Act of 1913 provided for the establishment of twelve Regional Federal Reserve Banks located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.
The structure of the initial Federal Reserve System is represented by the following chart:

Federal Reserve System, 1913

The stock of each Federal Reserve Bank was held by the member banks of its district. Each district bank had a board of directors serving three-year terms and each district bank selected one person to serve on the Federal Advisory Board which met four times a year in Washington D.C. The Federal Reserve Act granted power to every Federal Reserve Bank to establish discount rates which could vary among the districts. However, all district rates had to be approved by the Federal Reserve Board in Washington D.C. The district banks were also charged with deciding whether or not to make loans to individual member banks.

The Federal Reserve Board consisted of seven members which included the Secretary of the Treasury, the Comptroller of the Currency, one member designated by the President as Governor and one as a Vice Governor. All seven members were appointed by the President for

32
fourteen-year terms. The Board supervised the twelve district banks, as indicated by the chart, and was authorized to perform open-market operations (to buy and sell acceptances and government securities). Among the most important powers granted to the Board by the Act is the power to issue currency without a limit.

*The Federal Advisory Board* was composed of twelve members, one from each Federal Reserve district. The member for each district was elected annually by the board of directors of the Federal Reserve Bank for that district. The Act required the Board to meet at least four times a year in Washington D.C. All members of the Board were private commercial bankers. The board was empowered to either directly or through its officers make representations regarding matters within the jurisdiction of the Federal Reserve Board, to call for information, and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in various districts, open-market operations, and the general affairs of the Federal Reserve System. The Board’s function was entirely advisory.

All member banks with national charters were required to be members of the Federal Reserve System. Banks with state charters could voluntarily join the system if they were qualified for membership and accepted by the Federal Reserve Board. The financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised were consistent with the purposes of the Federal Reserve Act were all important considerations in deciding to allow the applicant’s membership. Once the bank became a member, it assumed a number of important obligations. It was required to comply with the reserve requirements of the Federal Reserve and to keep its required reserves on deposit without interest at the Federal Reserve Bank in its district. The member bank was a subject to
various requirements of Federal law with respect to branch banking, holding-company regulation, interlocking directorates, certain loan and investment limitations, and other matters. Finally, each member bank was a subject to supervision and examination by the Federal Reserve authorities.

The Act of 1913, however, was not the end of the banking reform process as many had hoped. Changes in the Federal Reserve System were called for after the financial crises of the Great Depression and were accomplished primarily by the Glass-Steagall Act of 1933 and the Banking Act of 1935. These acts extended the powers of the Federal Reserve, particularly those of the Federal Reserve Board, and created the system as we know it today.
Summary

The chaotic nature of American banking prior to and during the civil war led to an attempt to form national banks. Such banks presumably could solve some of the most pressing problems of that time: highly-risky investments by state banks, variety of notes which made trade difficult and expensive, bank monopoly and special favoritism, lack of available and sufficient reserves to back up the deposits, state banks issuing more notes than their paid-in capital could support, etc.

Formation of the national banking system in 1864 helped solve some of these problems but it failed with respect to some others. For instance, the Act of 1864 prohibited banks from engaging in some high-risk activities, such as long-term, non-commercial investments and operations. It also attempted to solve the problem of bank monopolies and special favoritism by embracing the principle of *free banking*. The Act authorized national banks to issue notes secured by the U.S. government which now made notes more sound and, also, made an attempt to standardize the reserves held against bank deposits. However, the national banking system did not foster interbank cooperation and did not have much influence on the non-national banks. Therefore, in time of panic, each bank scrambled to protect itself which made it more difficult to resist the increasing runs on banks. Furthermore, pyramiding of reserves caused the actual level of available reserves to be much lower than it was nominally required, thus making the banking system weaker than it appeared. The inelasticity of currency was one of the more important problems of the national banking system. When the economy was performing well, the money
supply could not be increased to accommodate its needs nor could it shrink when the economy was sluggish.

The weaknesses of the national banking system in the 1800s were apparent to contemporary observers. However, restructuring of the system required major changes which many did not favor. It was the severe panic of 1907 that induced lawmakers to undertake a major reform of the system. The panic, it was claimed, transformed a fairly mild economic contraction into a severe one which motivated the monetary reform. In May 1908, Congress passed the Aldrich-Vreeland Act, a piece of stopgap legislation designed to prevent panics like those that plagued the U.S. economy in previous years. The Aldrich-Vreeland Act created a National Currency Association with the power to issue emergency currency to banks experiencing difficulty resulting from a general monetary stringency. The Act also created the National Monetary Commission charged with conducting a study of the money and banking system.

The work of the National Monetary Commission led to the first attempt to establish a central bank along the lines of the Federal Reserve by introducing the Aldrich bill in 1911. The bill would have created a central bank called the National Reserve Association. Membership in the Association was voluntary, bank notes were to be issued against general assets and government bonds, and there were provisions for central rediscounting of commercial paper, reserves against deposits, and reserves against bank note issues. The Aldrich bill vested the control over the Association in the nation's bankers rather than in the government. This was enough to doom the bill since it threatened to bolster the power of the so-called "money trust," a concentration of control of money and credit in the hands of a few Wall Street leaders. Also, the
bill was introduced by Republicans in a newly-elected Democratic Congress which made its approval more difficult.

After a long and politically controversial process, the Federal Reserve Act of 1913 was introduced in Congress the year following the failure of the Aldrich Bill. The intention was to create a central banking system which would avoid either political or private domination of the monetary system. The new system was a blend of public and private participation under the coordination of a public body, the Federal Reserve Board. The system was designed such that it could be independent within the general structure of the government, not necessarily independent of the government. It has been compared broadly to a trusteeship created by the Congress to administer the nation's credit and monetary policies. It was a trusteeship committed to safeguarding the integrity of the monetary system. The Federal Reserve Act of 1913 provided tools to manage money and credit markets more effectively than ever before. However, its effectiveness was widely questioned during the Great Depression of 1930s when three banking panics occurred. Despite the fact that the original Act of 1913 was changed by the Glass-Steagall Act of 1933 and Banking Act of 1935, it still remains one of the most important pieces of financial legislation enacted in the twentieth century. The Federal Reserve Act of 1913 had created the basic structure of the Federal Reserve System which still remains and is one of the most successful financial entities in the world. In a sense, it is comparable to the Roman Colosseum, a ruin still admired by many.
Appendix

A
KNICKERBOCKER WILL NOT OPEN

Conference of Bankers Deems It Unwise to Aid the Trust Company Further To-day.

EIGHT MILLIONS WITHDRAWN

Attorney General Jackson, Though, Will Take No Step to Close the Institution.

STILL HOPES FOR THE BEST

Results of Conferences After A Suspender, a Broker's Failure, and a Panic by Day in Wall Street.

After the conference of bankers last night it was learned that the Knickerbocker Trust Company, which shut its doors on Saturday from fear of the possibility of withdrawing the withdrawal of $8,000,000 in deposits, was regarded by them as the conference as insolvent, and that no aid was to be expected by the institution.

It was the opinion of all the bankers at the conference that the general banking institutions and the other institutions in Wall Street, the banks, but the trust companies as well, have been much strengthened, and no further trouble is apprehended.

The Knickerbocker Trust Company was represented by the President, Mr. Morgan, and his associates was that the company's capital and surplus were limited, and that it was the duty of the bankers to assume the responsibilities of previous poor management.

Attorney General's Hopes Fizzle.

On the other hand, Mr. Jackson, after a conference with Acting Superintendent of Banks in New York, which lasted until 1 o'clock this morning, made the announcement that he would take no step to close the Knickerbocker Trust Company.

Mr. Jackson said:

"I have no reason to believe that the Knickerbocker Trust Company will reopen our business.

I was authorized to act on the basis of the statement of the company, as well as the records of the company, and I am satisfied that the company is solvent and sound, and that it is not necessary to take any step to close the company."
TWO BOYS DEAD FROM RABBITS.

Were Killed in Dog Near Philadelphia.

Oct. 21.—Two boys were killed last night in Philadelphia in the dog fight that is to be held tomorrow at 3 o'clock. The names of the boys are John and Michael, aged 12 and 13 years, respectively.

Balloons Popped at the Market.

Mrs. Fleshmann, who is making a big Christmas gift to her husband, will be presented with a balloon by her husband.

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Appendix

B
CURRENCY LAW HITS PRIVATE BANKERS

They Will Not Be Eligible to Membership in National Bank Boards.

INCREASED LOANING POWER

$500,000,000 Additional Available in New York Banks Alone—Law Approved Here.

While general satisfaction with the result of the hearing has been expressed here yesterday, one provision of the new law which will be worth watching is the provision that the banks who were partners in private bank associations will be ineligible for membership in any association of banks.

The bill, passed by the state legislature, went into effect today. The new law is the result of a long struggle between the banks and the state government.

The banks have been opposed to the adoption of any measure which would have the effect of increasing the power of the state government over the banks.

THE NEW YORK TIMES, WEDNESDAY, DECEMBER 24, 1915.

OWNEN-Glass BILL FRUIT OF 1907 PANIC

Aldrich Bill a Forerunner, but Its Authorship Helped Its Defeat.

WILSON CARRIED HIS POINT

Was Insistent Upon Government Control of Reserve Board and Bankers Acquiesced.

The movement for banking and currency reorganization has been carried to the point of the Ownen-Glass bill, a result which has been achieved by the persistence of the Aldrich bill.

The bill was carried by the Senate and will now be presented to the House. The bill is expected to be passed by the House and signed by the Governor.

The Ownen-Glass bill was introduced by Aldrich, chairman of the Banking and Currency Committee.

WILSON SIGNS CURRENCY BILL

Continued from Page 1

The Administration accepted the bill with the understanding that the bill would be submitted to Congress for consideration. The bill is expected to be passed by both houses of Congress and signed by the President.

The Ownen-Glass bill will be submitted to Congress for consideration. The bill is expected to be passed by both houses of Congress and signed by the President.

The Ominous Signs

While the banks have been looking for a way out of the difficulties which they have met in the past, the Ownen-Glass bill has been looking for a way in. The bill is expected to be passed by both houses of Congress and signed by the President.

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The presentation of a box of Porto Rico (Coqueta Size) reflects the giver. It is a brand of unique, discriminating smokers who bought it. Here are the popular sizes—

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<th>Size</th>
<th>Price</th>
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<tbody>
<tr>
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<td>Panetela</td>
<td>$2.50</td>
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<tr>
<td>Saratoga</td>
<td>$3.00</td>
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<tr>
<td>Pacifico</td>
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<tr>
<td>Perfeccionado</td>
<td>$1.25</td>
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<tr>
<td>Exceptionale</td>
<td>$2.50</td>
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<tr>
<td>Knickerbocker</td>
<td>$2.50</td>
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<tr>
<td>Billmarck</td>
<td>$3.00</td>
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**EXPEETS BUSINESS REVIVAL**

Irving T. Bush Sees the Beginning of a Cycle of Prosperity.

Certainly that the new currency law is needed for the country's recovery. In particular, work aimed to bring the country back to normalcy. One of the most important changes was the adoption of the gold standard for the currency. This change will help to stabilize the currency and make it more valuable. President Bush expressed his strong belief that this change will bring about a new cycle of prosperity.

**IMPORTED FROM PO**

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</table>

**At All Stores**
NATIONAL BANK CRASH TO JOIN NEW SYSTEM

Applications from 213 Received
Up to 5 P.M., and Telegrams Still Pouring In.

18 OTHER CONCERNS APPLY

Most Banks Here Await Action of
Their Stockholders—Work Begun
on Plans for Organization.

SANTA DIES ON XMAS TRIP

Struggle Through Snow to Poor
Boy's Home Fatal to Mr. Heap.

DENVER, Dec. 24—Little crippled Will
Harris, 5 years old, met his Christ-
mas in death. He was seen carrying a
snowball on his head, and walked several blocks through
the snow in the impoverished section
of town. He died of pneumonia. He had
been brought to the farm by his father,
who said that they would discuss with Mr. McReynolds
plans for their business affairs.

Mr. Heap learned that Mrs. Harris, in
desperation, had told her little boy that
there was no Santa Claus for poor children.
He rose from his own bed to
a dressing room to the shopping dis-
trict, where he himself made the selec-
tion of the gifts. Thereafter the family,
though unable to pay for them, was able to
receive the presents for the children.

"The idea was the boy's love of snow,"
the attorney stated. "But he could not
see the spirit of the season in the open air.
He was comforted and satisfied, but he was
lost to us when he died." He was

McADOO ACTING PRESIDENT

How Other Cabinet Officers Are
Spending the Holidays.

WILLIAMSBURG, Dec. 24—Secretary
McAdoo will be Acting President of the
United States Post Office Department on
Thursday, the day of the next session of
the Congress. Mr. McAdoo will remain
in Washington for Christmas Day,

Speaker of the House, after having Christ-
mas dinner with his family, will leave for a
lecture tour in the West, which will
continue until Congress reconvenes on Jan. 25. Secretary Bryan
is at his winter home in Atlantic City. Secretary Bland will spend Christmas
with his friend in the mountains of New
Mexico, and will later visit Mrs. Bryan and
Mrs. Bland in Atlantic City. Secretary
Garfield will dine in Washington, but will later spend a few days in
Raleigh, N.C.

Dr. and Mrs. Beattie Have Narrow
Escape When Locust Falls.

Dr. J. H. Beattie and his wife were
calling in the front yard of their auto-

SCORES OF TRUST
ARE SEEKING PE

Belief That American Sugar
Others Will Compromise
Department of Justice

GOVERNMENT IS HOF

Wilson's Speech an Intimate
He is Willing to Meet 1
Business Half Way.

Special to The New York Times
WASHINGTON, Dec. 24—With full
justification in official circles it was
announced in the Post Office Department that next week will see
occurred with relations between
attorneys and industries. The

The New York Application

Applications have been received
from national banks in the State of New
York, the District of Columbia, and
Ohio. The only other state which
the names of the following banks are
reported to have been received are the First National of
New York and the National Bank of
New York.

TRIP.

Dr. and Mrs. Beattie have had a narrow
escape when a large number of locusts
fell on their automobile. The couple
were coming from a lunch in the city
when they noticed a cloud of locusts
approaching. They tried to drive away
but the insects followed them, and
finally the car became so heavily
burdened that it was forced to stop.

Mr. Beattie and his wife were able to
escape without injury, although the car
was completely covered with locusts.

In the meantime, the locusts
continued to follow the car, and finally
the couple were forced to abandon
their vehicle. They were rescued by
passers-by and were able to continue
their journey unharmed.

The incident was reported as
remarkable, and was the talk of the
town.
CRISES ON AUTO.

Dr. and Mrs. Batelle Have Narrow Escape When Locust Falls.

Dr. F. H. Batelle and his wife were riding in the front seat of their automobile outside of Washington in District of Columbia, about 5 o'clock yesterday afternoon, when a loose tree sixty feet tall, which stood in a row of bushes several feet above the roadway, suddenly toppled and fell with a crash across the highway. The trunk struck the rear set of the automobile, crumpling it flat against the road and stopping the machine in its track.

The abrupt halt threw Dr. and Mrs. Batelle back against the rear of their seats and they were clutched and pressed against some of the large branches, but neither one seriously hurt.

The embankment in which the locust tree had been upending itself was the rain of Tuesday night and the tree had stood tottering through the day. Engineers were called out late in the afternoon to make sure of the security of other locusts in the same row.

ASKS PRAYER FOR A REUNION

End of Family Differences, a Christmas Text.

An old man, who in the last 5 years had left their traces, and whose booming whispered the reflection of an upwelling in an old-fashioned American heart, walked with rather restless steps along the streets yesterday evening. His heart had been overburdened with some embarrassment, he handed in a letter, explaining that he was one of the two persons referred to in it, and that he wanted to enlist the help of the all the silent prayers on Christmas day to his relief, although he held that his-month-old baby

He then added his lingering efforts throughout the many years.

The letter, written in fine but slightly slanted style, read:

"Merry and Happy Christmas," and said:

To the Editor of The New York Times:

The most recent anniversary, celebrated at all the dates of the year—thirty-eight years ago, born into this world that through his life and intervention all have been the objects of the same care and attention to which he was concerned in this city two, the last of a large family, and then forgotten, or children's days should take place. Those already have been arranged for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place. These arrangements have been made for many years, although they have not been in perfect order, nor the children's days should take place.

The old man left the letter, thanking the Times for publishing it, and walked with lighter steps out of the office.

Greater Salt Area Defender.

Washington, Dec. 26—The enormous new building here as a candidate for the area is expected to have a greater salt area than was first proposed, it was learned last night. That is said to be the principal change in the proposed salt area increase not accommodated.
Bibliography


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