Chapter E8

Peter Huntoon
Lee Lofthus

Aldrich-Vreeland

Spike in Circulation at The First National Bank of Chicago

Figure 1. Charter number 8 was reinstituted for use by the bank in 1911; however, large stock of 1902 date back sheets with obsolete charter number 2670 remained in the Comptroller's inventory in 1914 so were used to fill orders for the Aldrich-Vreeland emergency currency then. This particular note was sent to the bank before its first requisition for the emergency currency. Heritage Auctions Archives photo.

The First National Bank of Chicago provides a spectacular example of how its officers took advantage of the Aldrich-Vreeland Act to make a short-term increase in their circulation from $3,234,000 at the beginning of August 1914 to $11,234,000 by September 19th. This was a whopping 3.5-fold increase.

This article will examine this occurrence from the perspective of the handling of this increase as revealed in the National Currency and Bond Ledgers maintained by the Comptroller of the Currency. The Chicago bankers then completely got out of the currency-issuing business by the end of 1916.

Aldrich-Vreeland Act

National bank note circulation was fixed by the amounts of U.S. bonds deposited by bankers with the U.S. Treasurer to secure their circulations. The amount of the bonds was in turn by law predicated on the capitalization of their banks, a number that was rather static and certainly unresponsive to variable economic conditions such as seasonal business cycles or economic shocks. Thus, national bank note circulation was inelastic leading to periodic shortages and surpluses of money that caused correlative spikes and dips in interest rates as the demand for money fluctuated. In the extreme, external economic shocks caused destabilizing money panics to develop that fed ruinous depressions as money was withdrawn from banks by the public.

Passage of the Aldrich-Vreeland Emergency Currency Act on May 30, 1908, was a response to the devastating Panic of 1907. Congress through the act attempted to introduce a degree of elasticity into the national bank note supply. This took the form of allowing bankers to obligate various non-Federal government bonds and high-grade short-term commercial loans they held in order to secure additional infusions of national bank notes. This allowed the money supply available to economy and their own short terms needs to increase, thus reducing upward pressure on interest rates. The act was an economic experiment that would expire on June 30, 1914.

Figure 2. This note was sent to the bank on September 1, 1914 as the Comptroller of the Currency's staff was scrambling to ship batches of sheets to fulfill the lingering backorder for the bank's $3 million August 28th requisition for emergency currency. The freshly printed sheets it was among had been received from the Bureau of Engraving and Printing on August 30th. Heritage Auctions Archives photo.

The concept was simple. There was an existing tax on national bank circulations. The additional circulation provided for by the act was taxed at a higher rate in contrast to their bond-secured circulation. Consequently, there was a strong incentive for the bankers to redeem the addition currency as soon as the need for it had passed.

The tax on currency put in circulation by a bank that was secured by 2% U.S. Treasury bonds was ¼ percent per half year and on bonds with yields greater than 2% was ½ percent per half year. In contrast, the emergency currency put in circulation was taxed at a rate of 5% per annum for the first month with an additional tax of 1 percent per annum for each additional month until a tax of 10% per annum was reached.

Bankers found it uneconomic to take advantage of the act primarily because the tax on the emergency currency was excessive.

As World War I broke out with the assassination of Austrian Archduke Ferdinand on June 28, 1914 and declaration of war by Britain against German on August 4th, Congress hastily passed an amendment to the Federal Reserve Act of 1913 on August 4th that extended the Aldrich-Vreeland Emergency Currency Act another year to June 30, 1915. The tax on emergency currency placed in circulation was reduced for the first three months to a rate of 3% per annum and afterward an additional tax of ½ percent per annum for each additional month until 6% was reached.

Bankers quickly took advantage of the Aldrich-Vreeland Act to respond as interest rates spiked as Europeans scrambled to finance their war and demand for credit rolled over the American economy. The first emergency currency was issued on August 4, 1914; the last February 12, 1915. The need for it quickly subsided so by the time the Aldrich-Vreeland Act expired on June 30, 1915, all of it was in a state of retirement because the bankers had withdrawn their deposits of "other securities" and had deposited money with the U.S. Treasurer to redeem it.

The Creation of Money and Elasticity

We are bankers in August 1914 operating under the current legal requirements in the Aldrich-Vreeland and applicable amendments

These allow us to accumulate (1) commercial loans that have terms of 4 months or less or (2) state and local government bonds that we fund with our depositor's money and the operating capital of our bank. Let's assume below that we have accumulated commercial loans. We obligate those loans as security to obtain emergency money.

Figure 3. James B. Forgan in 1913, president of The First National Bank of Chicago when the circulation spiked to over $10 million in 1914 as a result of Aldrich-Vreeland infusions of emergency currency. FNB Chicago photo.

Let's say these loans total $100,000. The Aldrich-Vreeland Act permits us to obtain 75 percent of the value of the loans in the form of emergency currency from the Comptroller of the Currency; specifically, $75,000.

The $75,000 was created out of thin air. We lend it as well, also in the form of short-term loans. Our portfolio of loans now stands at $100,000 using the bank's money and $75,000 using the emergency currency.

Once the $100,000 in loans that we used as security for the emergency currency mature, we deposit $75,000 with the U.S. Treasurer so he can release the lien of the United States on them. The Treasurer in turn deposits the $75,000 into a redemption fund to retire the emergency currency money from circulation. As it is presented, the Treasurer purchases it with the money in the redemption fun and it simply vanishes.

When the $75,000 loan we made with the emergency money matures, that principal coupled with the $25,000 we still hold from our original $100,000 in loans leaves our bank with its $100,000 investment in the enterprise, the interest it earned on both the $100,00 in loans it put up as security and the loans we made with the $75,000 worth of emergency currency.

Yes, there were costs. The bank was paying interest on the part of the $100,000 that it used from its depositors and the interest it paid to the U.S. Treasury for use of the emergency currency.

The economic benefit derived was that some economic force was in play that was creating a shortage of money that caused interest rates to spike. Once those rates surpassed the threshold that triggered obtaining emergency money via the Aldrich-Vreeland Act our bank stepped in and through that mechanism created an additional $75,000. This increase allowed us to not only serve our borrowers but infused the economy with additional liquidity to deal with the monetary stringency that was fueling the interest spike. The newly created money was available to mitigate whatever was perturbing the economy and its availability tamped down interest rates by reducing the competition for funds at the time.

What you have just witnessed is an example of monetary elasticity.

New Provisions

The Aldrich-Vreeland Act contained interesting provisions new to the handling of national bank notes. Initially, only national banks that had existing bond-secured circulations could avail themselves of emergency currency. Another provision required the Treasury to produce a stockpile of sheets for every issuing bank equal to 50 percent of the capital stock of the bank. The notes in the stockpile were required to bear an "or other securities" qualifier in their security clause regardless of whether the bank would ever issue emergency currency or not. These stockpiles were to be printed as soon as practicable upon passage of the act. Once printed, the currency was to be held by the Treasury Department or subtreasury located closest to the subscribing banks.

Table 1. Record of bond (%) and "or other securities" (MS #1) security deposits and withdrawals made by The First National Bank of Chicago where MS #1 represents Miscellaneous Securities as per Section 1 of the Aldrich-Vreeland Act.

Date	Deposits	Type	Withdrawals	Type
Brought forward	$350,000	2%		
Brought forward	$434,000	3%		
Brought forward	$2,450,000	4%		
Aug 8, 1914	$3,000,000	MS #1		
Aug 15, 1914	$1,888,000	MS #1		
Aug 28, 1914	$3,000,000	MS #1		
Sep 19, 1914	$112,000	MS #1		
Nov 2, 1914			$1,000,000	MS #1
Nov 4, 1914			$1,000,000	MS #1
Nov 7, 1914	$125,000	4%		
Nov 10, 1914	$40,000	4%	$500,000	MS #1
Nov 16, 1914			$1,000,000	MS #1
Nov 17. 1914	$75,000	4%		
Nov 24, 1914			$1,000,000	MS #1
Nov 30, 1914			$2,500,000	MS #1
Dec 1, 1914			$1,000,000	MS #1
Dec 23, 1914	$200,000	4%		
Feb 3, 1915	$50,000	4%		
Mar 6, 1915	$100,000	4%		
Jan 21, 1916			$1,000,000	4%
Jan 22, 1916			$890,000	4%
Jan 31, 1916			$1,150,000	4%
Mar 3, 1916			$350,000	2%
Mar 3, 1916			$384,000	3%
1916			$50,000	3%

Obviously, the purpose of producing the sizable inventories and housing them as close to the banks as possible was to make them readily available on short notice should the bankers actually subscribe for an emergency infusion. The idea was that as soon as the Treasury approved their application, the Comptroller would notify the appropriate repository to ship the notes to the bank so they would arrive in a timely manner. This moved the distribution of national bank notes for most banks out of the Comptroller's facilities in Washington, DC.

Another subtle technical detail was that when the bankers began to retire their emergency currency, they could use national bank notes to do so in addition to the so-called lawful money previously authorized for such use by the National Bank Act as then amended. Until this allowance, only Treasury currency had been designated as lawful money for redemption purposes. The Treasury currencies that were current while the Aldrich-Vreeland Act was in effect were legal tender notes, silver certificates and gold certificates.

Although all national banks would eventually issue the "or other securities" notes whether they used emergency currency or not, the Aldrich-Vreeland Act specifically prohibited the issuance of notes without the modified security clause when used as emergency infusions. Thus, Series of 1882 brown backs and 1902 red seals continued to be issued to banks after passage of the act until those stocks ran out, provided the bankers had not subscribed for emergency currency. This provision was designed to prevent the unnecessary waste of existing stocks of Series of 1882 brown backs and 1902 red seals in the Comptroller's inventory.

The hastily passed August 4, 1914 amendment to the Federal Reserve Act of 1913 on the eve of the outbreak of WW I carried one particularly interesting provision. It further authorized the issuance of emergency currency to banks that had no bond-secured circulation. This meant that it was theoretically possible if the stars aligned just right that a few banks across the country would issue only emergency currency and nothing else. This happened in a handful of cases.

Table 2. Shipments to cover the first two "or other securties" deposits for emergency currency by The First National Bank of Chicago with the entries listed in the order as found in the National Currency and Bond Ledgers.

Sheet	Charter	Sheet Serials	Value
August 8, 1914 shipment:			
5-5-5-5	8	1-20000	$400,000
5-5-5-5	2670	60001-66000	$120,000
5-5-5-5	2670	66671-90670[a]	$480,000
10-10-10-20	8	1-40000	$2,000,000
			$3,000,000

a. Sheets 66001-66670 delivered August 31 unrelated to this shipment.

Sheet	Charter	Sheet Serials	Value
August 17, 1914 shipment:			
5-5-5-5	2670	90671-97670	$140,000
5-5-5-5	2670	98671-111670	$260,000
10-10-10-20	8	40001-46000	$300,000
10-10-10-20	2670	63001-76000	$650,000
50-100	2670	1001-4000	$450,000
5-5-5-5	2670	97827-98670	$16,880
5-5-5-5	2670	97671-97826	$3,120
50-100	2670	4001-4444	$66,600
			$1,886,600[b]

b. $1,400 due - shipped with August 29, 1914 delivery..

The First National Bank of Chicago

The First National Bank of Chicago was among the first national banks chartered in the country. The bank was assigned charter 8 on June 22, 1863 under the terms of the Act of February 25, 1863. The organizers had chosen a corporate life of less than 20 years so the Act of July 12, 1882 allowing for a first 20-year extension of corporate life had not been passed in time to save it from a forced liquidation. The bankers reorganized with the same bank title under new charter number 2670 on May 1, 1882. At their request, charter 8 was cosmetically reinstated to this successor bank on May 24, 1911 by the Comptroller of the Currency.

Emergency Currency

The first application from The First National Bank of Chicago for an infusion of emergency currency was accepted on August 8, 1914, which amounted to $3,000,000. Three additional applications arrived in quick succession as listed on Table 1. The total subscribed for by the bank was a very substantial $8,000,000 by September 19th.

At the time, there remained in the Treasury's inventory large stocks of unissued sheets carrying the then obsolete charter number 2670. Those sheets consisted of Series of 1902 date back 5-5-5-5, 10-10-10-20 and 50-100 combinations. As a result, the bank was still receiving notes with the obsolete charter number.

New 5-5-5-5 and 10-10-10-20 Series of 1902 date back face plates had been made in 1912 that carried reinstated charter number 8. Substantial printings from them also were in the unissued inventory. These stocks as well as those bearing charter 2670 resided at the Chicago subtreasury and together totaled $5,411,940.

The Aldrich-Vreeland Act required that a stock of notes equal to 50% of the capitalization of the bank be available for issue in case emergency circulation was drawn. The Chicago bank was capitalized at $10,000,000 so that provision was satisfied. The scramble to supply the emergency currency to the bank began immediately. The first requisition for $3 million was shipped in full from the Chicago subtreasury stock the day it was received. See Table 2.

However, that first requisition consumed over half the available inventory so rush orders for additional printings to replenish the inventory were lodged with the Bureau of Engraving and Printing by the Comptroller of the Currency's staff. These were printed from charter 8 Series of 1902 date back plates.

Included in the order were requests for a 50-50-50-100 plate and a duplicate 10-10-10-20 plate, respectively certified for use August 10th and 20th. Once available, the duplicate charter 8 10-10-10-20 plate was sent to press alongside its existing counterpart to help satisfy demand. The first delivery from these new plates consisted of 11,000 sheets from the 50-50-50-100 plate having a face value of $2,750,000. They arrived at the Comptroller's office in daily batches over the five-day period August 17-21.

Ultimately the four requisitions for emergency currency by the bank totaled $8 million inclusive of August 8-September 19, 1914 followed by $590,000 worth of traditional bond-secured infusions beginning November 7. Feeding this enormous demand required non-stop production at the BEP for this one bank alone from mid-August to October 19, 1914, with daily deliveries as fast as the work became available. A total of $10,600,000 was printed for the bank during this period.

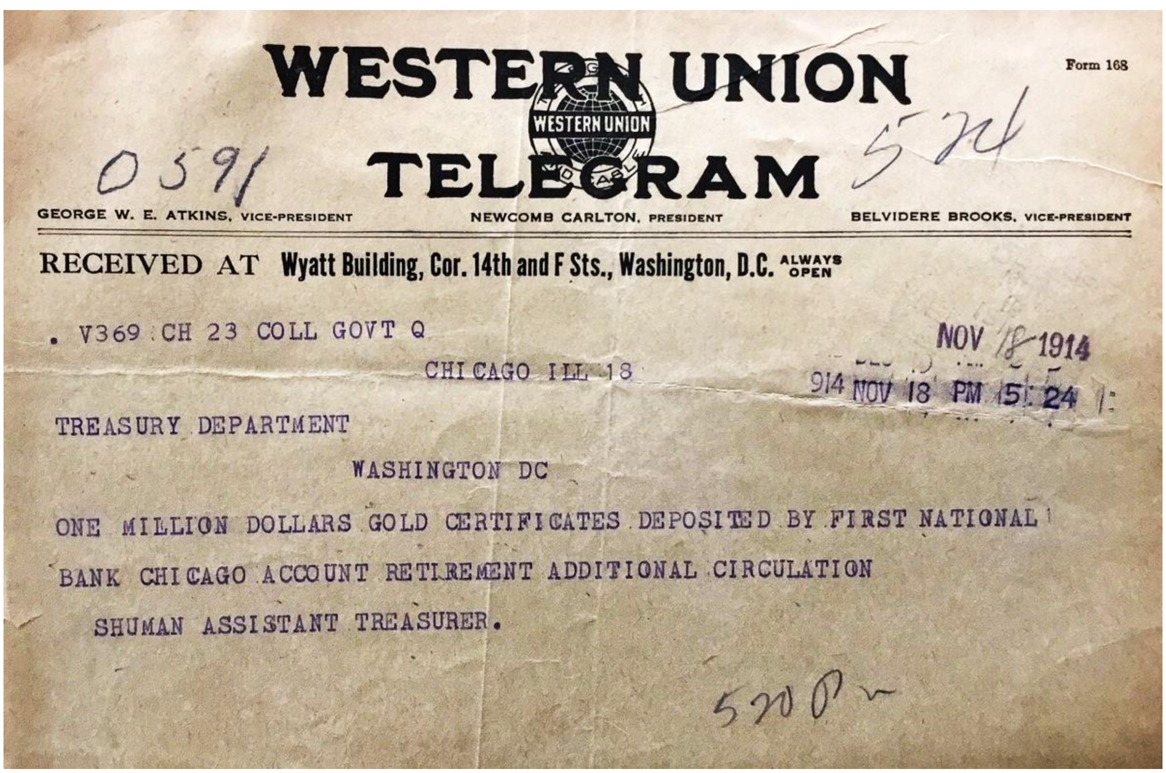
Table 3. Lowest Series of 1902 date back sheet serial numbers that appeared in an emergency currency shipment to The First National Bank of Chicago.

Charter Number	Sheet Combination	Sheet Serial Number	Date Sent to Bank
2760	5-5-5-5	60001	Aug 8, 1914
	10-10-10-20	60001	Aug 29, 1914
	50-100	4001	Aug 17, 1914
8	5-5-5-5	1	Aug 8, 1914
	10-10-10-20	1	Aug 8, 1914
	50-50-50-100	1	Aug 31, 1914

It is clear from the Comptroller's ledgers that there was a chaotic attempt to get the emergency currency to the bank as quickly as possible. The sheets were sent in batches from either the Chicago subtreasury or probably directly from the Comptroller's office in Washington as the new production became available. The entries in the ledgers were mostly logged out in date order. Each entry represented a batch of sheets of a single sheet combination, all carrying the same charter number, either 2670 or 8. Like batches were not recorded or shipped to the bank in serial number order as revealed on Table 2. The clerks entering the deliveries simply posted the shipments in the order in which they received memos confirming that they had been sent.

Emergency Issues Cease

The economic viability of emergency currency collapsed within a few months. As designed, the high circulation tax on it caused the bankers to retire it as soon as they recovered the principal from the loans that they used to back it. The Chicago bankers made seven such deposits inclusive of November 2-December 1, 1914 to clear their decks as per Table 1.


WESTERN UNION TELEGRAM

Form 168

0591 574

GEORGE W. E. ATKINS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT

RECEIVED AT Wyatt Building, Cor. 14th and F Sts., Washington, D.C. ALWAYS OPEN

. V369 CH 23 COLL GOVT Q

NOV 18 1914

CHICAGO ILL 18

1914 NOV 18 PM 5 24

TREASURY DEPARTMENT

WASHINGTON DC

ONE MILLION DOLLARS GOLD CERTIFICATES DEPOSITED BY FIRST NATIONAL BANK CHICAGO ACCOUNT RETIREMENT ADDITIONAL CIRCULATION

SHUMAN ASSISTANT TREASURER.

520 P

Figure 4. November 18, 1914 Telegram from the Chicago Subtreasury advising the Treasurer that The First National Bank of Chicago deposited $1,000,000 worth of gold certificates to retire emergency currency. See the November. 16, 1914 entry on Table 1.

There is a subtle technicality associated with the circulation of both bond-secured national bank note circulations and the emergency circulations treated here. The bankers were obligated to pay the circulation tax only if they actually placed the notes in circulation. In many cases, it appears that they subscribed for it, which was done at no cost to them until they put it in circulation. However, large volumes of emergency currency never left the banks, revealing in many of those cases that the bankers didn't loan it in order for it to go into circulation.

We know this because when it came time for them to liquidate their obligations for it, many simply returned their unissued sheets as part of their lawful retirement deposits. In due course, the Treasury adopted a policy to allow the Treasurer to return the sheets to the Comptroller of the Currency for eventual re-issue. Adoption of this practice was a waste prevention measure.

None of the $8 million of the Chicago emergency currency was returned and re-inventoried for re-issue. Implied is that the bankers circulated what they received of it.

Postscript

The Chicago bankers began to increase their traditional bond-secured circulation following their redemption of their emergency currency. They bought $590,000 worth of 4% U.S. Treasury bonds as security for this increase between November 7, 1914 and March 6, 1915. The $590,000 worth of national bank notes that they received were shipped to them despite the fact that the huge amount of their emergency currency was actively being withdrawn from circulation. The last shipment of their national bank notes that they ever received were sent to cover their last bond deposit on March 6, 1915. \

That they received this currency turned on another highly technically provision in the Aldrich-Vreeland Act. Specifically, the law required that a dedicated redemption fund be maintained by the U.S. Treasurer solely for the purpose of redeeming the emergency currency. Thus, the money bankers sent to retire it went into that fund where thereafter the redemption of the emergency currency was the liability of the Treasurer, not the bank.

The Chicago bankers decided to get out of the currency-issuing business entirely in 1916 so by year-end they had sold all their securing bonds. They never took out circulation again. When they ceased issuing, there remained $6,807,940 in unissued Series of 1902 date backs bearing charter number 8 in the Comptroller's inventory. The composition of this hoard, which eventually was destroyed, was as follows.

Quantity	Combination	Bank Sheet Serial Numbers
61,862	5-5-5-5	68139-130000
61,406	10-10-10-20	92595-154000
10,000	50-50-50-100	2001-12000

Our discovery of the extraordinary quantity of emergency currency used by The First National Bank of Chicago resulted from seeing the extraordinary Aldrich-Vreeland spike in circulation in the Pollock data set posted on the Society of Paper Money Collectors website. It contains his compilation of the yearly circulations for all the national banks as published in the Annual Reports of the Comptroller of the Currency.

The circulation for the Chicago bank for September 12, 1914 was $10,040,537, which stood out like a sore thumb in contrast to 1913 at $2,434,000 and 1915 at $1,077,000. We thought it was a typo.

Sources of Data

Bureau of the Public Debt, 1914-1915, Records of Destruction of Retired Currency: Record Group 53, folder "Reports of Deposits Made on Account Retirement Additional Circulation 1914," (53/450/53/21/3, Entry 545, Box 1), U.S. National Archives, College Park, MD.

Comptroller of the Currency, 1863-1935, National Currency and Bonds Ledgers: Record Group 101, (101/550/901/12/2 through 5/containers 223, 228, 232, 239), U.S. National Archives, College Park, MD.

Pollock, Andrew, 1863-1936, Bank presidents, cashiers, total resources, circulations by year: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.spmc.org%2Fsites%2Fdefault%2Ffiles%2Fnbn_spreadsheets%2F2%2520-%2520Pollock%2520data%2520set_0.xlsx&wdOrigin=BROWSELINK

United states Statutes:

March 30, 1908, An Act to amend banking laws (Aldrich-Vreeland Emergency Currency Act).

August 4, 1914, An Act to amend section seven of an Act approved December twenty-third, nineteen hundred and thirteen, and known as the Federal Reserve Act.