SEVENTEEN YEARS OF THE BANKING CONSPIRACY

HON. CHARLES RUSSELLER

SENTENTIÆ
OF THE
EARLY CHRISTIANS

HON. CHARLES INGLIS

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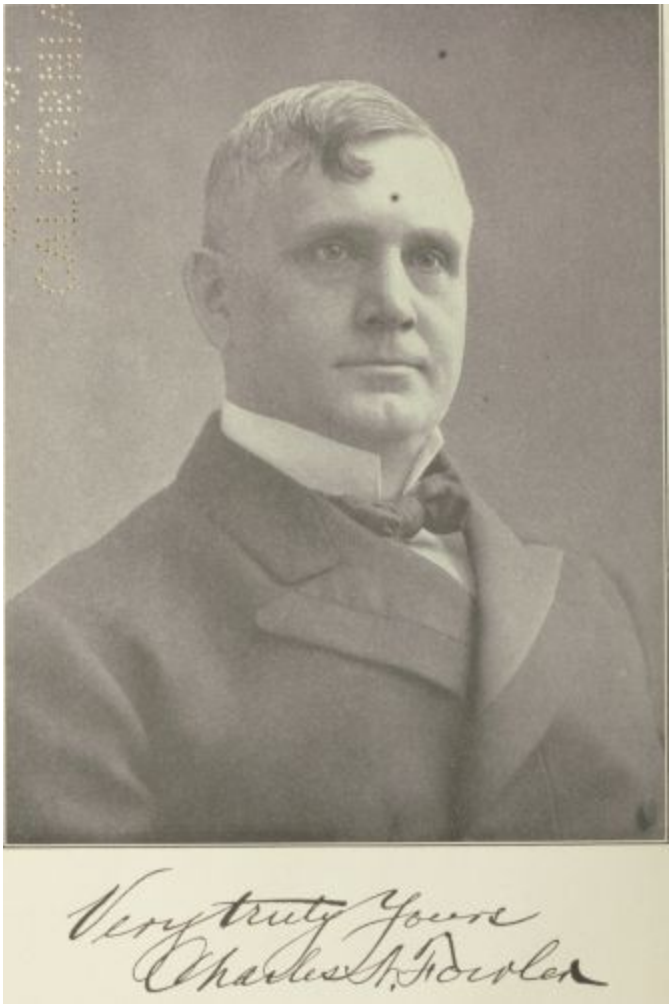

Very truly Yours Charles N. Fowler

SEVENTEEN TALKS

ON THE

BANKING QUESTION

BETWEEN

UNCLE SAM

AND

MR. FARMER,	MR. BANKER,
MR. LAWYER,	MR. LABORINGMAN,
MR. MERCHANT,	MR. MANUFACTURER

BY

Hon. Charles N. Fowler

WHO WAS A MEMBER OF THE HOUSE OF REPRESENTATIVES FOR SIXTEEN YEARS, A MEMBER OF THE BANKING AND CURRENCY COMMITTEE FOR FOURTEEN YEARS AND CHAIRMAN OF THE COMMITTEE FOR EIGHT YEARS

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FOREWORD

This book is written in the form of a conversation between Uncle Sam and six men of various occupations. It begins with the A, B, C of the subject and by question and answer goes over all the different phases of the subject precisely as you would expect them to arise under such circumstances. After weeks of study and investigation they finally reach an agreement, based upon their talks, and formulate a Financial and Banking system for the United States.

THE AUTHOR.

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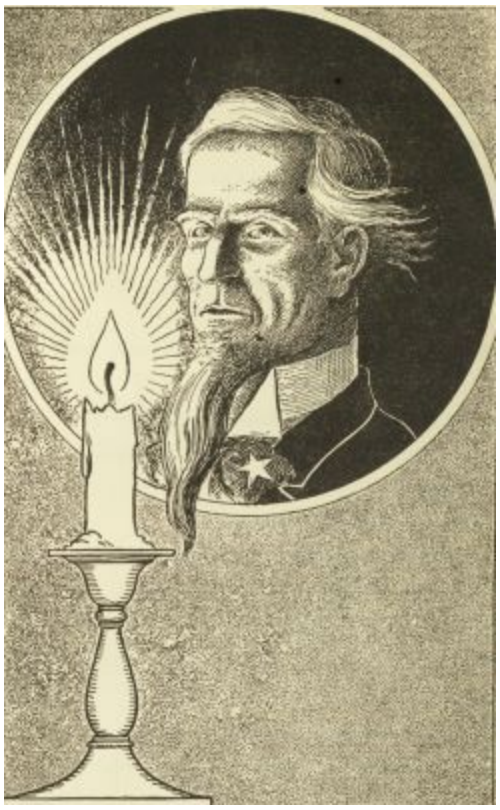


FIRST NIGHT

THE STANDARD OF VALUE

UNCLE SAM: Gentlemen, I have invited you to take part in one conversation a week upon the much-vexed and all-important question of a financial and banking system for my country. We shall continue these conversations until we arrive at some conclusion which will be satisfactory to all of us, although this may seem difficult at the outset.

To begin with, I want to assure you that our talks shall be absolutely confidential, and nothing that is said at these meetings shall ever go any farther, unless we agree to announce our conclusion. With this understanding we can be brutally frank with each other, and I can expose my hand to you.

The present situation is one demanding immediate attention, and only our ignorance, greed or political cowardice can prevent us from arriving at a satisfactory solution of this problem. We must be sincere and patriotic in our purpose, for we represent practically every phase of our citizenship, and I assume you are typical of the average intelligence of the people.

Here is Mr. Lawyer to steer us clear of legal obstacles, Mr. Laboringman to speak for our millions of daily toilers, Mr. Farmer to point out the disadvantage of agricultural loans, Mr. Merchant to illustrate the defects of our present commercial credits, Mr. Manufacturer to caution us against the conversion of our liquid capital into fixed investments and Mr. Banker to tell us of his woes and enlighten us upon the remedies for all his ills.

What we don't know now, we will each attempt to find out before our talks come to an end. Certainly there is some solution to this question. In short and in fact it must be solved.

I am the laughing stock of the entire civilized world today. For our persistent folly we suffer losses in the aggregate amounting to hundreds of millions of dollars every year. We ought to have, and can have the best and the most efficient banking system in the world. Indeed, we ought to give the laugh to all the other countries in banking, as we do practically in everything else. It is up to us.

MR. BANKER: Uncle Sam, I agree absolutely with what you have just said. I believe it is our duty to sit every week, as you suggest, continuously until we arrive at some conclusion upon which we can all agree. If we do this I believe, since we represent so many callings and are so representative of the various lines of business, we shall find the public approving of our conclusion.

I suggest that we begin with the very A, B, C of this question, and settle one point after another as we go along. If we do this, our differences will disappear as we progress, and the X, Y, Z of this question, or the formation of a financial and banking system, will be comparatively easy in the end.

For example, we must first fix clearly in our minds what a standard of value is, and what our standard of value is, what money is, what currency is, what capital is, what a bank is, and so continue step by step to the end, leaving absolutely nothing for guesswork, if that is at all possible.

The experience of the world has been so broad and complete that our solution of this question is entirely possible, although we have some problems that are peculiar to ourselves.

MR. LAWYER: That plan suits me exactly, for only recently I made a thorough study of the question of our standard of value. My investigation took me back more than 6,000 years, and I found the subject amusing often as well as intensely interesting, while the result of my research was most satisfactory.

I discovered that everything from baked clay to the credit of practically every government that has ever existed had been used at some time or other, as a standard of value, or a measure of value.

MR. FARMER: Mr. Lawyer, just what do you mean by a "standard of value"?

MR. LAWYER: A "standard of value" is anything that may be selected by which all other things in some particular locality or country are measured.

The Indians of British Columbia used haiquai shells; one string being equal to one beaver skin. In Australia tough green stone and red ochre were used. In Central Africa slaves were used. In Iceland the law made cattle the standard of value. In the Fiji Islands whales' teeth. In the South Sea Islands red feathers were used. In Mexico and Abyssinia salt was used.

Agriculture has produced its standard of value; corn, maize, olive oil, cocoanuts, cocoa-nut oil, tea, tobacco, cacao, beans, wheat, rice.

The pastoral life produced its standard of value; sheep, cattle, goats, horses and practically every other domestic animal, according to the time and place.

The following history of American experience in the development of a standard of value cannot be better restated, and is practically a repetition of the experience of mankind in all the ages, therefore I want to read what Horace White says upon the subject:

"It may be said that Virginia grew her own money for nearly two centuries, and Maryland for a century and a half.

"The first settlers of New England found wampumpeage, sometimes called wampum and sometimes peage, in use among the aborigines as an article of adornment and a medium of exchange. It consisted of beads made from the

inner whorls of certain shells found in sea water. The beads were polished and strung together in belts or sashes.

"They were two colors, black and white, the black being double the value of the white. The early settlers of New England, finding that the fur trade with the Indians could be carried on with wampum, easily fell into the habit of using it as money. It was practically redeemable in beaver skins, which were in constant demand in Europe. The unit of wampum money was the fathom, consisting of 360 white beads worth sixty pence the fathom. In 1648 Connecticut decreed that wampum should be 'strung suitably and not small and great uncomely and disorderly mixt as formerly it hath been.' Four white beads passed as the equivalent of a penny in Connecticut, although six were usually required in Massachusetts and sometimes eight. In the latter colony wampum was at first made legally receivable for debts to the amount of 12d. only. In 1641 the limit was raised to fifty pounds sterling, but only for two years. It was then reduced to forty shillings. It was not receivable for taxes in Massachusetts. The use of wampum money extended southward as far as Virginia.

"The decline of the beaver trade brought wampum money into disrepute. When it ceased to be exchangeable in large sums for an article of international trade the basis of its value was gone. Moreover it was extensively counterfeited, and the white beads were turned into the more valuable black ones by dyeing. Nevertheless it lingered in the currency of the colonies as small change till the early years of the eighteenth century. While it was in use it fluctuated greatly in value.

"The first General Assembly of Virginia met at Jamestown July 31, 1619, and the first law passed was one fixing the price of tobacco 'at three shillings the beste, and the second sorte at 18d. the pounde.' Tobacco was already the local currency. In 1642 an act was passed forbidding the making of contracts payable in money, thus virtually making tobacco the sole currency.

"The Act of 1642 was repealed in 1656, but nearly all the trading in the Province continued to be done with tobacco as the medium of exchange.

"In 1628 the price of tobacco in silver had been 3s. 6d. per pound in Virginia. The cultivation increased so rapidly that in 1631 the price had fallen to 6d. In order to raise the price, steps were taken to restrict the

amount grown and to improve the quality. The right to cultivate tobacco was restricted to 1,500 polls. Carpenters and other mechanics were not allowed to plant tobacco 'or do any other work in the ground.' These measures were ineffective. The price continued to fall. In 1639 it was only 3d. It was now enacted that half of the good and all of the bad should be destroyed, and that thereafter all creditors should accept 40 lbs. for 100; that the crop of 1640 should not be sold for less than 12d., nor that in 1641 for less than 2s. per lb., under penalty of forfeiture of the whole crop. This law was ineffectual, as the previous ones had been, but it caused much injustice between debtors and creditors by impairing the obligation of existing contracts. In 1645 tobacco was worth only 1-1/2d. and in 1665 only 1d. per lb.

"These events teach us that a commodity which is liable to great and sudden changes of supply is not a desirable one to be used as money.

"In the year 1666 a treaty was negotiated between the colonies of Maryland, Virginia, and Carolina, to stop planting tobacco for one year in order to raise the price. This temporary suspension of planting made necessary some other mode of paying debts. It was accordingly enacted that both public dues and private debts falling due 'in the vacant year from planting' might be paid in country produce at specified rates.

"In 1683 an extraordinary series of occurrences grew out of the low price of tobacco. Many people signed petitions for a cessation of planting for one year for the purpose of increasing the price. As the request was not granted, they banded themselves together and went through the country destroying tobacco plants wherever found. The evil reached such proportions that in April, 1684, the Assembly passed a law declaring that these malefactors had passed beyond the bounds of right, and that their aim was the subversion of the Government. It was enacted that if any persons, to the number of eight or more, should go about destroying tobacco plants, they should be adjudged traitors and suffer death.

"In 1727 tobacco notes were legalized. These were in the nature of certificates of deposit in Government warehouses issued by official inspectors. They were declared by law current and payable for all tobacco debts within the warehouse district where they were issued. They supply an early example of the distinction between money on the one hand, and

Government notes, or Bank notes, on the other. The tobacco in the warehouses was a real medium of exchange. The tobacco notes were always payable to bearer for the delivery of this money. They were redeemable in tobacco of a particular grade, but not in any specified lots. Counterfeiting the notes was made a felony. In 1734 another variety of currency, called 'crop notes,' was introduced. These were issued for particular casks of tobacco, each cask being branded and the marks specified on the notes.

"The circulating medium of the New England colonies was quite as fantastic as that of Virginia. Merchantable beaver was legally receivable for debts at 10s. per pound. In 1631 the General Court of Massachusetts ordered that corn should pass for payment of all debts at the price it was usually sold for, unless money or beaver skins were expressly stipulated. In other words, a debt payable in pounds, shillings, and pence might be paid at the debtor's option in any one of three ways; in corn at the market price, in beaver at 10s. per pound, or in the metallic money of England. For more than half a century this order continued in force and operation, other things being added to the list from time to time.

"In 1635 musket balls were made receivable to the extent of 12d. in one payment.

"In 1640 Indian corn was made current at 4s. per bushel, wheat at 6s., rye and barley at 5s., and peas at 6s. Dried fish was added to the list. Taxes might be paid in these articles and also in cattle, the latter to be appraised.

"The need of metallic currency was severely felt. In 1654 it was ordered that no coin should be exported, except 20s. to pay each one's traveling expenses, on penalty of forfeiture of the offender's whole estate.

"The cost of carrying the country produce taken for taxes amounted to 10 per cent of the collections. A constable once collected 130 bushels of peas as taxes in Springfield. He found that he could transport this portion of the public revenue most cheaply by boat. Launching it on the Connecticut River, he shipped so much water on board at the falls that the peas were spoiled. Thus we learn that money ought to be easy of carriage and not liable to injury by exposure to the elements.

"In 1670 it was ordered for the first time that contracts made in silver should be paid in silver.

"In 1675, during King Philip's war, the need of metallic money for public use was so great that a deduction of 50 per cent was offered on all taxes so paid.

"The first local currency of New Netherlands was wampum, but it was subordinate to the silver coinage of the mother country; that is, it was reckoned in terms of that coinage as fixed by the Dutch West India Company from time to time. It was fixed at six white beads for a stiver. Wampum was not made in the province, but was imported from the east end of Long Island, the principal seat of production. It is mentioned in a letter from the Patroons of New Netherlands to the States General in June, 1634, as 'being in a manner the currency of the country with which the produce of the country is paid for,' the produce of the country being furs.

"Beaver soon became current here, as in New England, and for the same reason, its currency value being fixed by the company at 8 florins per skin. As 5 wampum beads were equal to 1 stiver and 20 stivers to 1 florin, and 8 florins to 1 skin, the ratio of wampum to beaver was 960 to 1. The market ratio did not coincide with the legal ratio very long. Nor was the legal ratio of either wampum or beaver to silver maintained; for, in 1656, Director Stuyvesant wrote to the company urging that beaver be rated at 6 florins instead of 8, and wampum at 8 for a stiver instead of 6, as these rates were nearer the commercial values.

"In 1719 the Assembly of South Carolina made rice receivable for taxes, 'to be delivered in good barrels upon the bay in Charlestown.' In the following year a tax of 1,200,000 pounds of rice was levied, and commissioners were appointed to issue rice orders to public creditors, in anticipation of collection, at the rate of 30s. per 100 lb., in the following form:

"'This order entitles the bearer to one hundred weight of well-cleaned merchantable rice to be paid to the commissioners that receive the tax on the second Tuesday in March, 1723.'

"Rice orders were made receivable for all purposes, and counterfeiting was made felony without benefit of clergy.

"In eastern Tennessee and Kentucky, early in the nineteenth century, deer skins and raccoon skins were receivable for taxes and served the purposes of currency.

"When California was first invaded by gold seekers there were a few Mexican coins in circulation there, not nearly sufficient to answer the needs of the growing community. The immigrants brought more or less metallic money with them. The smaller coins were those of many different countries, chiefly Spanish. For want of sufficient coins, the first trading was done largely with gold dust, sometimes by weighing it in scales, sometimes by guesswork. A 'pinch' of gold dust about as large as a pinch of snuff had a current value and was a common measure in places where there was no means of weighing. At a public meeting in San Francisco, September 9, 1848, it was resolved by unanimous vote that $16 per ounce was a fair price for placer gold. This rate was at once adopted in all business transactions. By and by private coiners of gold came into the field. The Legislature was at first alarmed by the appearance of these unaccustomed pieces, and passed a law to prohibit circulation and to close the shops where they were made. It was soon found, however, that they were a great convenience. Then the law was repealed. Several establishments immediately went to work assaying and coining gold. One of these was at Salt Lake City, whose productions were known as Mormon coins. Only one of these establishments, that of Moffat & Co., of San Francisco, conformed exactly to the government standard of weight and fineness. All the others, however, including the Mormon ones, circulated freely, and were received on deposit by the banking houses until the government set up an assay office and began to stamp octagonal pieces of $50, called 'slugs,' and afterwards those of $20 each. This was done in 1851; the San Francisco mint was not ready till 1854. The Moffat coins continued to circulate after the mint had gone into operation, since everybody had confidence in their goodness. It is estimated that $50,000,000 of private coins were struck. They were received in the Atlantic cities at their assay value only."

The foregoing illustrations drawn from our own history serve to explain the nature of money and the processes by which mankind learns to distinguish between good money and bad.

MR. FARMER: In all that has been said there is nothing stranger nor more interesting than what is going on today.

Uap is one of the most interesting of the South Sea Islands. It is the Western outpost of the Carolines, which were purchased by Germany from Spain for $3,300,000 at the close of the Spanish-American War. The form of money

used by the people and the perfection of the system of currency is as interesting as anything in the history of the human race.

The small change consists of pieces of pearl shell and small round stones. Large sums are represented by fei. These are big circular stones in the form of wheels ranging in diameter from one to twelve feet. In the centre of each is a hole through which a pole is thrust to facilitate carriage from one spot to another.

These coins are not minted on the island, nor has any addition been made to the supply of them for a number of years. They were originally fashioned in the Pelao Islands, and brought thence to Uap in canoes over a stretch of four hundred miles of ocean. A very large fei could not be changed into smaller coin without seriously disturbing the currency of the island. The owner of one of these twelve-foot masses of wealth is a sort of J.P. Morgan. Like the man with the million dollar bill in Mark Twain's story, he does not need to break his money in order to pay for anything he may buy, but readily secures all that he desires on credit.

It speaks volumes for the honesty of the islanders that all this stone money is left out of doors standing against the sides of the huts. The annals of Uap do not contain a single record of the theft of a fei, but perhaps the difficulty of disposing of such unwieldy cash may be a potent factor in the matter. Not only is the ownership of a large fei equivalent to the command of an unlimited amount of currency, but abstract possession seems to entail the same advantage.

Many years ago a canoe carrying one of these large stones was sunk a few miles off the island. Although the fei went to the bottom of the ocean and has lain there ever since, the man to whom it was consigned enjoyed all the advantages that would have accrued from its delivery to him. During his lifetime he was accredited one of the wealthiest men of Uap. Not only that, but he bequeathed his interest in the submerged fei to his son, and it has been passed on in like manner through four or five generations, securing all the advantages of substantial wealth to each.

Mr. Lawyer: Metal of some kind has been used as far back as the records of time go, and strange as it may seem, gold was the first metal to be used as well as the first to be discovered, as a standard of value, or measure of value. Iron was used in Sparta, spikes in Central Africa, nails in Scotland,

lead in Burmah, copper, tin and silver in Rome. Silver and gold were used in China a thousand years ago. In her palmy days gold bracelets and rings were weighed out in Egypt, measuring value.

For the past two hundred years there has been a distinct evolution of the world's present standard of value going on, sometimes it has been gold, sometimes it has been silver, sometimes nations have tried to have both. During the last hundred years the struggle to use both has gone on persistently until within the last twenty-five or thirty years.

William A. Shaw states that in France during a period of one hundred years, the ratio between gold and silver had been changed one hundred and fifty times. The controversy of this period has well been called the "Battle of the Standards."

A constantly increasing trade between the nations of the earth has made a common standard of value more and more important, while the ever-increasing refinement in the exchange of commodities among the peoples of the earth has made a single standard absolutely essential.

Experience has wrought the change, and now the entire commercial world has gold as its standard of value.

It is interesting to observe how gold because of its peculiar fitness, as compared with any other commodity, was finally selected and adopted as the world's standard of value.

If we were to study for months for the purpose of ascertaining what the characteristics of the world's standard of value should be, we would define the characteristics of gold as particularly distinguished from any other metal or thing.

First: Gold has by far a greater stability of value than any other substance. It is very doubtful whether there is a perceptible change, at least any such change of value, as could be agreed upon. It is so small.

Second: Gold has portability, or the facility of transportation from one part of the country to the other, or from one nation to the other, that makes it desirable as compared with any other metal, that is to be thought of for a standard of value. For example, the same value in silver weighs thirty times as much.

Third: The divisibility of gold at the mint into convenient pieces for trade and commerce is all that can be desired.

Fourth: It has, practically speaking, perfect durability. It will not corrode, or waste away, except by wear, and waste by wear is now largely obviated by the use of some representative, such as our gold certificate.

Fifth: Gold possesses homogeneity or perfect uniformity of structure and material.

Sixth: Gold possesses cognizability, or can be readily known or recognized.

It was undoubtedly all these inherent qualities, these prerequisites that led to those legislative enactments which have during the last hundred years singled out this yellow metal as the most fit arbiter of the world's trade.

The first legislative act that seemed to lead to this ultimate decision of the world was passed by the House of Commons in 1774, but not until 1816 was the law passed that definitely settled the question of the standard of value for Great Britain. The very same law passed in that year, now nearly one hundred years ago, remains in force to this day.

In 1853, the United States followed Great Britain in an attempt to establish the gold standard. We reduced the weight of our silver coins, smaller than one dollar, and made them legal tender for only five dollars in amount. The silver dollar was not considered in this legislation of 1853, and not until February 12, 1873, did the gold dollar become the unit of value, when the gold standard was unequivocally established. The silver dollar was at that time worth about two cents more than a gold dollar, and therefore it was omitted from the coinage. This was the famous crime of '73, about which the men now wearing gray hair, or no hair, heard so much in the '80's and early '90's. Yes, we were hearing this as late as 1896, when it was the Battle Cry of the Presidential Campaign.

It may be stated that practically the whole civilized world, with the single exception of Great Britain, has come to the single gold standard, since 1873.

The only country now remaining upon the silver basis, or that has not taken steps to place itself upon a gold basis, is, according to the report of the Director of the Mint, the Central American States, which are of comparatively no commercial importance whatever.

MR. MERCHANT: How much gold is there in the world today?

MR. LAWYER: It was estimated in 1890 that the amount of gold accumulated was approximately $4,000,000,000 (four thousand million dollars).

The amount of gold produced during the last twenty-two years, or since 1890, by all the countries of the world approximates $6,500,000,000 (six thousand five hundred million dollars). Of course a deduction, or allowance, must be made for what has been used outside of monetary purposes, or in industrial consumption, approximately $1,500,000,000 (one thousand five hundred million dollars). A deduction should also be made for what has been absorbed by India, about $700,000,000 (seven hundred million dollars), and also by Egypt, about $200,000,000 (two hundred million dollars), or nearly $1,000,000,000 (one thousand million dollars), by these two countries.

The Director of the Mint in his report, Page 53, says:

"In statistics of the precious metals India is the most important country of Asia, and has long been one of the most important in the world. The Government of India has advised this bureau that the uncoined gold imported into that country might be considered to be used for ornaments and in manufactures. This amounted in 1910 to $47,026,698.

"The movement to India deserves to be treated in a class by itself. A large part of the gold and silver that goes there sinks out of sight, and whether it is made into ornaments or buried in the ground, is withdrawn at least in large part from the monetary stock of the world. Some of it may be brought out in periods of emergency, such as times of famine, and reconverted into money, but in the past a steady stream of the precious metals has moved into India and disappeared as a factor in the commercial world. Sir James Wilson, K.C.S.I., for many years in the Government service in India, in a comprehensive address delivered before the East India Association of London, on June 14, 1911, reported the net imports of gold by India since 1840 at about $1,200,000,000, or one-tenth of the world's production in that time.

"It may be questioned whether the economists who are expressing fears as to the effects that may result from the production of gold at the present rate are aware of the amount of that metal taken by India since the gold standard

was definitely established, and the Government began to pay out sovereigns freely. That occurred in 1900. For the ten-year period, 1890-1899, the net imports plus the country's own production were $135,800,000; for the eleven years, 1900-1910, they aggregated $433,800,000. For the British fiscal years ended March 31, 1911, they amounted to $90,487,000, or about one-quarter of the world's production after the industrial consumption was provided for.

"*If this ability on the part of India to take and pay for gold proves to be permanent, it is apparent that there will be no over supply to trouble the rest of the world.*"

The finance department of the Government of India, in its report for the fiscal year ended March 31, 1911, commenting upon these figures, says:

"'The gold figures are striking, but it is equally remarkable that the increase in gold has not been at the expense of silver; the country, in other words, continues to take practically the same amount of silver, but it prefers that the addition to the imports of treasure which it has been able to claim should be in the form of gold.'"

Sir James Wilson, in the address alluded to, sums up his explanation by saying:

"'As for India, her prosperity is steadily advancing. Great numbers of her people prefer to spend their savings on gold rather than on other commodities. The probability is that altogether apart from questions of currency India will continue to absorb gold in ever increasing quantities.'

"The Egyptian situation is somewhat like that of India. The country is on a gold basis, and for thirty years has been steadily taking gold in the settlement of its trade balances. The high price of cotton in recent years, and the increasing production of the country explains the trade balances, but there is some mystery about the way the gold disappears from view. It does not enter into bank stocks, and it is difficult to understand how a country of its size and population, and in which the masses of the people are so poor, can absorb so much gold coin. In the first period under review the customs records show net imports by $58,670,000, and in the second period, $146,660,000. For the year 1910 they were $30,000,000.

"Some light is shed upon the situation by the following statement in an address by Lord Cromer, made in London, in 1907:

"'A little while ago I heard of an Egyptian gentleman who died leaving a fortune of £80,000 [$400,000], the whole of which was in gold coin in his cellars. Then, again, I heard of a substantial yeoman who bought property for £25,000 ($125,000). Half an hour after the contract was signed he appeared with a train of donkeys bearing on their backs the money, which had been buried in his garden. I hear that on the occasion of a fire in a provincial town no less than £5,000 ($25,000) was found hidden in earthen pots. I could multiply instances of this sort. There can be no doubt that the practice of hoarding is carried on to an excessive degree.'"

In round figures the approximate amount of gold remaining for commercial or banking purposes is approximately $4,000,000,000 (four thousand million dollars), in addition to what we had in 1890, making a total of $8,000,000,000 (eight thousand million dollars).

Of this total amount the United States has $1,800,000,000 (one thousand eight hundred million dollars), or nearly one-quarter of the monetary gold supply of the world.

However, if we had our proper proportion of the world's monetary gold, considered from the standpoint of our bank resources, we should have upwards of $3,000,000,000 (three thousand million dollars).

MR. BANKER: How do you make that out?

MR. LAWYER: The banking resources of the entire world are now about $55,000,000,000, while those of the United States are about $25,000,000,000, or two-fifths of the bank resources of the world, and therefore we are entitled to two-fifths of the eight billion of monetary gold of the world. This would give us $3,200,000,000.

While, as I have just said, it is true that there have been no discoveries of new fields since 1890, with the exception of the Klondike, a most important event occurred in the discovery of the Cyanide process, which was, with the circumstances attending it, well described by the Mining World and Engineering Record of London, which said:

"The discovery of the Cyanide process must be regarded as one of the greatest achievements of modern time. And there can be no doubt that

Cyaniding will be held by the coming generation for its importance, not so much to the mineral industries directly, as for its bearing upon world economies in rendering possibly a greatly increased output of gold and silver year after year. In a comparatively brief twenty-year interval since 1890, when Messrs. McArthur and Forrest brought the modern perfected Cyanide process prominently before the mining world, the output of gold has amounted to 284,081,289 fine ounces. This is a most astonishing showing, especially when compared with a total output of 401,311,148 fine ounces for the entire 397 years previous from 1493 to 1890, a period lacking just three years of being four centuries.

"For the great expansion in the world's output, particularly noticeable in the past fifteen years, the spread of the Cyanide process is directly responsible. Nor, if we except the Klondike, has this record production been boomed by the development of new fields. The cream of the world's gold fields had already been skimmed in previous years in California, Australia, South Africa, Siberia, India, and elsewhere. It is mainly on the cast-off leavings of the old field that the Cyanide process has achieved a record production of the yellow metal. And among those leavings, we must not forget the innumerable low-grade properties whose exploitation has been rendered fundamentally possible only by the Cyanide process. It is these latter which now furnish the bulk of the world's supply of gold, and upon which the world must depend very largely for its future requirements."

MR. BANKER: Those figures are startling. We must be getting more gold than we need for banking purposes.

MR. LAWYER: On the contrary, our banking resources are increasing faster than our gold supply. In 1890 the banking resources of the world were estimated at $16,000,000,000, less than one-third of what they are today. That is, the banking resources have trebled since 1890, and the gold supply for reserve or monetary purposes has only doubled.

MR. BANKER: What about the gold supply for the future?

MR. LAWYER: The production during the past four years has been about stationary, averaging $450,000,000 each year. You must remember there have been no gold discoveries of any consequence during the past ten years, and it is very probable that the production will remain almost stationary for a few years to come. At present it looks as though the gold supply, and the

demand for gold for monetary purposes, would run along about equal. Of course the more intimate the business relations of the nations of the earth become, the more efficient will the reserve of gold become, because the reserves of the world will become more and more mobilized, and therefore more efficient in the conduct of the world's business.

MR. MERCHANT: From what you have said, and as a result of my own study, I am convinced that the adoption of the Gold Standard was a natural selection. It was the survival of the fittest.

Thousands of books have been written upon this subject, and libraries literally filled with them.

In 1896, when the Presidential campaign was fought out on this question, my investigation led me into an extended historical review of the use of metals as money. I found that it had been in use by the Babylonians, the Egyptians, the Greeks, the Romans, the Chinese, the Europeans during the middle ages, and that the struggle between gold and silver during the last two hundred years had resulted to the advantage of the people, to the commerce of every nation and to the whole world. This last struggle was not whether gold or silver should be the standard of value, but whether both should or could be used as the standard of value. That is, could we have a double standard. The decision has been unequivocal and universally in favor of a single standard of value, and that standard gold.

But the double or bi-metallic standard had been a troublesome question long before that. Professor Ridgeway says that from the first to the last the Greek communities were engaged in an endless quest after bi-metallism * * *, but while the gold unit never varies in any part of Hellas, until a late epoch, the silver coins exhibit differences not merely between one district and another, but even between one period and another in the same city or state. There is incontrovertible evidence to prove that the same trouble was caused by the fluctuation in the relative value of gold and silver, as arises in modern times. DelMar also states that gold Greek coins remained constant while the silver ones varied, and had to be adjusted.

At present, it may be stated as a general truth, that all other things throughout the commercial world are now measured by gold, or very soon will be, as all the commercial nations of the earth, with a single exception, have taken steps looking to the adoption of the Gold Standard.

The Gold Standard is the evolution of the ages.

SECOND NIGHT

WHAT IS MONEY?

UNCLE SAM: At our talk last Wednesday evening we all agreed upon two facts, and these were fundamental to the consideration of a financial and banking system for me.

The first fact was this: that Gold is the Standard of Value all the world over, as well as our standard.

The second fact: that a Standard of Value was something by which the value of all other things is measured.

It must necessarily follow then, and be perfectly clear to all of us that everything we produce, and everything that we buy and sell is measured by Gold. In other words *that Gold is our money and that our money is Gold*.

MR. LAWYER: Uncle Sam, you say "Gold is our Money." Now, it seems to me as though there must be something done to gold to make it money, even though all our money is gold.

MR. BANKER: Yes, something is done to gold to make it money, and to circulate it as money. Just three things are done to gold to make it possible to circulate it as money.

First, we have established a degree of fineness. The gold coin we circulate as money is nine-tenths pure gold, or nine-tenths fine, and one-tenth of cheaper metal. This is added to give it an increased hardness so that the loss by rubbing the gold against other things will not be so great. This loss is called the abrasion of gold.

Second, we have established a unit of value in gold which is one dollar, composed of twenty-five and eight-tenths grains of gold, nine-tenths pure, or fine.

Third, Uncle Sam here cuts up the gold into pieces as follows: he makes a two dollar and a half piece, which contains two and a half times as much gold as our unit of value and stamps each piece two and a half dollars. It is known as a quarter eagle, being one-quarter of the ten dollar piece which is called the eagle. He makes a five dollar piece which contains five times as much gold as our unit of value and stamps each piece five dollars. It is also known as a half eagle. He makes a piece which contains ten times as much gold as our unit of value and he stamps it ten dollars. It is also known as the eagle. He makes a piece which contains twenty times as much gold as our unit of value and stamps it twenty dollars. It is also known as the double eagle. This is called making coins, or coining money.

These four gold coins constitute all the money there is in the United States, for Uncle Sam does not make pieces containing twenty-five and eight-tenths grains of gold, nine-tenths pure, or fine any more, and stamp them one dollar because this piece of gold was so small as to be inconvenient, indeed an actual nuisance. Uncle Sam stopped making these coins in 1890.

UNCLE SAM: That is right, and I don't make any more gold pieces now containing fifty times as much gold as my unit of value for the same reason that I don't make any of the dollar pieces. A fifty dollar piece was found to be inconvenient and in a way an actual nuisance.

MR. LABORINGMAN: Well, Uncle Sam, I would like to have a few of such nuisances, and if any of you fellows have any of these two nuisances, even the one dollar pieces about your persons, I wish you would allow me to relieve you of all you have of either kind. When it comes to getting rid of that kind of a nuisance, you don't seem to be in a hurry about it. However, just remember that I stand ready at all times to remove a nuisance of that kind, if it happens to be bothering any of you.

MR. MERCHANT: We will remember that and give you the first chance.

MR. LABORINGMAN: Well, you might as well forget it, for I'll never get the chance.

MR. MANUFACTURER: Mr. Banker, did I understand you to say that the four gold coins you have mentioned, the two and a half, the five dollar, ten dollar and twenty dollar gold pieces constitute all the money that there is in the United States?

MR. BANKER: That is precisely what I said, and I stand ready to prove it. Yes, to demonstrate it absolutely, and if I don't convince everyone of you that I am right, I'll eat all the other stuff you call money that you can bring me.

MR. LAWYER: Here is a gold certificate, isn't that money?

MR. BANKER: Mr. Lawyer, please hand me that certificate. Here is what it says on its face: "*This certifies that there have been deposited in the Treasury of the United States of America Ten Dollars in Gold Coin payable to the bearer on demand*." It is perfectly evident, Mr. Lawyer, that this is nothing but a warehouse receipt for ten dollars, stored in Washington subject to the demand of the holder. There is just the same difference between that and the gold coin as there is between a trunk and a trunk check. You would not hold up a trunk check, and tell me that it was a trunk. This certificate is no more money than a trunk check is a trunk.

MR. LAWYER: You are right, Mr. Banker. There is nothing so absolutely essential in our talk, as illustrated by this incident, as the use of correct, exact language. And I am very glad that you have impressed this fact so indelibly upon our minds at the outset.

MR. FARMER: Did you say, Mr. Banker, that all the money there was in the United States were the gold coins? Then you said that if you didn't convince the rest of us that that was the fact, you would eat all the other stuff that we call money that we would bring you. Now, it seems to me as though that was just one of your smooth, slick tricks of getting what we have got in our pockets, as usual. How does that strike the rest of you boys? Now, I have a few silver slugs here, Mr. Banker, that will keep you busy chewing until you pass over, if you try that game on us.

MR. BANKER: That is all right, Mr. Farmer, but you wait until you hear me out.

Now, let us agree upon one fact, and that is this, that Uncle Sam over there is not making or coining any other pieces of gold than the four pieces I have just described, and that none of the one dollar or fifty dollar pieces are now in circulation. Do you all agree that that is a fair assumption under the circumstances?

UNCLE SAM: Yes, that is a perfectly fair assumption that all of the gold now in circulation consists of the four pieces I am now making, the two and a half, five, ten and twenty dollar pieces. But, if they constitute all the money I have in circulation, I am mightily fooled, and it is high time I was put right.

MR. BANKER: Well, that is what I am going to do. I am going to put you right, for you have not only been fooled yourself, but you've been fooling the people long enough as well.

Three hundred and fifty years B.C., one of the greatest philosophers, and one of the wisest men that ever lived, described the development and evolution of money, and defined what money was better than any man ever has since, I think. That man was Aristotle. Aristotle's account of the origin and definition of money was as follows:

"It is plain that in the first Society (that is in the household) there was no such thing as barter, but that it took place when the community became enlarged: for the former had all things in common, while the latter, being separated, must exchange with each other according to their needs, just as many barbarous tribes now subsist by barter; for these merely exchange one useful thing for another, as, for example, giving and receiving wine for grain and other things in like manner. This kind of trading is not contrary to nature, nor does it resemble a gainful occupation, being merely the complement of one's natural independence. From this, nevertheless, it came about logically that as the machinery for bringing in what was wanted, and of sending out a surplus was inconvenient, the use of money was devised as a matter of necessity. For not all the necessaries of life are easy of carriage; wherefore, to effect their exchanges, men contrived something to give and take among themselves, which being valuable in itself, had the advantage of being easily passed from hand to hand for the needs of life—such as iron, or silver, or something else of that kind, of which they first determined merely the size and weight, but eventually put a stamp on it in order to save the trouble of weighing, for the stamp was placed there as *the sign of its value*."

Wilbur Aldrich says: "Gold, and no other thing, sustains all the functions of money. Gold is money as soon as it is taken from the earth, without smelting, without refining, without minting and without limitation."

Horace White says: "Nobody would give that which has cost him labor in exchange for something which he could obtain without labor."

MR. MERCHANT: Mr. Banker, you quoted a man there, Mr. Aldrich, I think it was, who said that gold alone possessed all the functions of money. Just what do you mean by the "functions of money"?

MR. BANKER: I am glad that you asked that very question, because those functions have determined the place of gold in the world's business, and made it the standard of value of the world, and consequently the money of the world.

Those functions are these:

First: Gold is a measure of value; that is, all other things are measured in gold.

Second: Gold is divided into units, such as our dollar, the English sovereign, the French franc, the German mark, and so determines prices.

Third: Gold is a medium of exchange.

Fourth: Gold is a storehouse of value; that is, the people of the world hold it as an absolutely safe form of property, varying less in value than anything else they can possess.

Fifth: It is such a permanent form of value that it is made the basis or standard of future or deferred payments: not only at the end of a year, but at the end of twenty-five or fifty years.

MR. MERCHANT: I would like to ask you whether you think there is anything in this claim that gold is cheaper today than twenty years ago? Whether it is falling in value, and as a consequence prices of everything else, which must be compared with gold, are rising?

MR. BANKER: No, sir, I do not think that the increased output of gold is the cause of higher prices. The increased prices can be more than accounted for in other ways. Think of it. There are:

1. The Trusts,
2. The Middleman,
3. Advertising,
4. Unscientific Management,

5. Overcapitalization,
6. Monopoly! Monopoly!
7. Extravagance,
8. Militarism,
9. Exhaustion of Soil,
10. High Rates of Interest on Agricultural Loans,
11. Unnecessary Disease,
12. Concentration of Population in Cities,
13. Shorter Hours by one-quarter,
14. Increased Wages by one-quarter at least; in some instances, 150%,
15. Shorter Hours for Women,
16. Child Labor Laws,
17. Minimum Wage Laws,
18. Workmen's Compensation Acts,
19. Insurance Against Unemployment,
20. Old Age Pensions.

Mr. Laboringman: Well, I don't know what you fellows think, but I am for everyone of these forward movements that make for a better humanity, morally, intellectually and physically; and I'm utterly opposed to the unfair advantages that any man, or corporation, has over any other man, or any other corporation. A just government rules its people through just laws, and guarantees equal opportunities under the operation of those laws.

Mr. Banker: So I think we all are, or will be, very soon. Every lover of his country, everyone who recognizes that the government exists for man—manhood and womanhood—must be for these purposes, but all these things will require a readjustment, and will take time. I am only saying that these things more than account for all your high prices, but let me finish.

21. During the past ten years, 10,000,000 of our people have shifted, or gone, from the country to the cities. Food producers have decreased, and food consumers have increased by 10,000,000. Our population has increased 47% and our food products only 30% since 1890.

22. The hundreds of millions that have gone into automobiles, not one dollar in a thousand of which produces anything but a good time, or a joy ride, is a burden on production, and has been affecting prices, because they are nothing but luxuries.

23. Then there are all the other conveniences of life, such as telephones, electric light, etc.

Again, gentlemen, let us note where the gold has gone to during the last ten years, the period of increase in price. Germany got only $40,000,000, although her business has expanded enormously. England took only $30,000,000, while France took $300,000,000, Russia $200,000,000, and we absorbed $1,100,000,000. During the same time India took $433,000,000. Will anyone say that the prices in these various countries have in any way shown or reflected the amount of gold taken or absorbed?

Let some one come forward and prove that gold has become cheaper by pointing out that prices in the various countries indicate its effects upon commodities. Lastly, let them explain the fact that while the banking resources of the world have increased from $16,000,000,000 to over $55,000,000,000, or increased three and one-half times, the gold for monetary purposes has only doubled, or increased from $4,000,000,000 to $8,000,000,000.

MR. MERCHANT: I am more than satisfied and pleased that I asked you that question, for I knew it would be constantly bobbing up and bothering us, as we went along. When I interrupted you, you were speaking of gold and its functions as money.

MR. BANKER: Yes, and I assert that no other substance or thing possesses these functions, qualifications or characteristics, at least in no such degree as gold. Does anyone here deny that?

MR. LAWYER: I think we must all agree to that, and further I would say that anything that did not possess all these functions, qualifications or characteristics in combination cannot very well be called money. To illustrate, if anything was used as a medium of exchange but depended upon its relation to gold for its acceptance it could not be called money.

I am fully aware that we speak of "cash" and "money," as anything we get in exchange for property, but this language does not mean anything definite, except as to the transaction.

I want to lay this down as an absolute rule, and something that no one of us should forget or overlook during our conversations.

"*We should be careful to avoid calling any kind of credit instrument money, no matter how much used as a medium of exchange.*"

Let me read that again.

UNCLE SAM: Now, let me see just what you mean by that. If I understand you, I think that is an attack upon me, upon my credit. For if my recollection serves me right, the United States Notes, or Greenbacks, have been called money, and treated as money ever since I issued them during the war, way back in 1862, I think it was.

MR. BANKER: Well, Uncle Sam, do you think calling a thing something which it is not makes it that thing? To say that the moon is made of green cheese does not make it so. Now, here's one of your United States Notes, or Greenbacks. Do you recollect what you printed on that at the time you issued it, and have been printing on it ever since? This is what it says:

"*The United States will pay the bearer $5.00.*"

That promise, or agreement, can mean but one thing, and that is that you will pay the bearer five times one dollar, or five times twenty-five and eight-tenths grains of gold, nine-tenths fine.

Now, it must be perfectly clear to you, indeed, the conclusion is incontrovertible, that that $5.00 United States Note, by which you agree to pay me $5.00 cash, can't be the $5.00 itself.

MR. FARMER: No, by jocks, I know that is true. Tom Jones gave me a written agreement to deliver me a horse last Monday morning. I sent my boy over with his written promise for the horse, and he refused to deliver the horse. Certainly, his promise was not the horse; that's perfectly clear to me, for I did not get the horse, and that's the same kind of a deal that this United States Note is.

MR. LABORINGMAN: Yes, but Uncle Sam is no such flunker as that.

MR. BANKER: Well, he flunked from 1862 until 1879, for about seventeen years, and he came within an ace of flunking again in 1894. He is liable to flunk any time it suits him, if he should get into a tight place.

UNCLE SAM: That's so, and the misfortune and the shame of it is, that I am left in a position where I am compelled to flunk.

MR. BANKER: I agree with you, but that only adds additional proof that this $5.00 bill, which is your promissory note, your I.O.U., or old due bill, given for boots, mules and ammunition during the war, is not money at all, but a mere promise to pay money.

As you have just said, it is most unfortunate that you have been left in this position by your boys who have been going to Congress for the past fifty years, apparently without the intelligence, or courage, to relieve you of this disgraceful situation.

UNCLE SAM: Well, if these United States Notes are nothing but my promissory notes, or due bills, agreeing to pay money, it is self-evident that they are not money. You have completely satisfied me on that point. Mr. Banker, how much of that kind of stuff have I got out?

MR. BANKER: $346,000,000.

UNCLE SAM: Great Scott, I presume if I should get into trouble with some first-class nation, and have to go to war for a few years, and the people began to wonder whether I was going to pull through and pay my debts, that is to doubt my ability to stand the bill, and all that $346,000,000, then that $5.00 United States Note would not pass for $5.00.

MR. BANKER: Precisely so; that very note passed for only $1.75 at one time in 1864, or only 35 cents on the dollar.

UNCLE SAM: Well, I wish Congress would get busy and pay these things off, so that I would be prepared for business, if anything should turn up compelling me to fight.

MR. MANUFACTURER: From what you have said, Mr. Banker, and what Uncle Sam admits, I guess we all agree that the United States Notes, or Greenbacks, are not money at all, but just ordinary debts, or demands for money, and therefore cannot themselves be money, of course. But what have you to say about this National Bank Note here? How does this differ from the United States Notes or Greenbacks? Don't you admit that this is some sort or kind of money?

MR. BANKER: I do not. It is no more money than the United States Note. Just read what it says:

MR. MANUFACTURER: I will. This is what it says:

"*The First National Bank of New York will pay the bearer $5.00.*"

Mr. Banker: Don't you see that that bill is a mere I.O.U. of the Bank, nothing but a promise to pay five times twenty-five and eight-tenths grains of gold, nine-tenths fine, to the bearer? It does not differ in the slightest degree from the United States Note except that one is the promise of the First National Bank of New York, and the other the promise of Uncle Sam to pay $5.00. You can no more say that a promise of a bank to pay money is money than you can say that a promise of Uncle Sam to pay money is money. Both are debts, and both are demands for money, and therefore neither can be money.

Mr. Farmer: Gentlemen, while I must admit that Mr. Banker has completely, yes, absolutely, gotten away with the United States Notes and National Bank Notes and convinced us that they are not money at all, just watch me choke him with this silver slug, weighing 412½ grains, and bearing two invincible superscriptions.

First: "In God we trust."

Second: "United States of America, One Dollar." Mr. Banker, what have you to say about our Silver Dollar? Do you mean to tell me it is not money? That's what I want to know. Think of it, this dollar of our daddies not money.

Mr. Banker: Well, Mr. Farmer, if you'll follow me for half a minute, I will only have to ask you whether you yourself think it is money; and I will abide by your own decision. But, what I would rather do is to put it to a vote of the crowd, and if it is not unanimous I'll give it up.

Here is a 1 cent piece, bearing one of your invincible superscriptions, "United States of America, One cent." We have more to trust God for in one of these cents than we have in your Silver Dollar, and therefore it was a grave oversight when Uncle Sam left off the other invincible superscription, "In God we trust," since this piece of bronze is worth only about one-thousandth part of a one-hundredth part of our Gold Dollar, or .0011890. Here is one of our nickels, bearing the same invincible superscription, "United States of America, V cents," which is worth about two-thousandths of one-hundredth part of a Gold Dollar, or .0026743. Here is a 10 cent piece, worth about 4 cents, or .04456, and here is a 25 cent piece, worth

about 11 cents, or .11141. Here is a 50 cent piece, worth about 22 cents, or .22283. Here is the sacred dollar of our daddies, worth about 47 cents, or .47651.

Now, all these pieces of metal belong to the same class of coin from the cent to the dollar included, and are merely token coins.

MR. MERCHANT: Well, what is a token coin?

MR. BANKER: A token coin is a piece of metal bearing the stamp of the Government, and passing at its face value, though the metal it contains is worth less than its face value.

This definition covers every piece of metal coin Uncle Sam makes except our gold coins, which are worth just as much and no more in the form of coin than they are in the form of metal, or gold bars. Now, Mr. Farmer, I want you to understand that the silver dollar is included in these token coins.

MR. MANUFACTURER: Well, please tell me why do people take these pieces of money at their face value, when they are worth so much less than they pretend to be?

MR. BANKER: For the very simple reason that Uncle Sam over there redeems all the coins, smaller than one dollar, when presented to him in sums of five dollars or more, and because it is made the duty of his Secretary of the Treasury to maintain the face value of our silver dollar with our gold dollar by exchanging gold dollars for silver dollars, if anyone asks him to do so.

If the Government should pass a law refusing to redeem our silver dollars with gold dollars, our silver dollar would then pass for just what the silver it contains would be worth from day to day. It is now worth 47 cents. In 1902 it was worth 40 cents. In other words, our silver dollar is not its own redeemer at 100 cents any more than the United States Notes or the National Bank Notes are their own redeemers. A silver dollar is a demand or a check calling for a gold dollar. The silver dollar, the United States Note, the National Bank Note all pass at their face value because they are convertible into gold, and are temporarily redeemed by Uncle Sam in gold, while gold is its own redeemer, and a ten dollar gold piece, or any other gold coin, is worth just as much, if hammered into a spike, or melted into a

slug, as when it bears the stamp of Uncle Sam, certifying its quality and its quantity.

MR. LAWYER: Mr. Banker, what are subsidiary coins?

MR. BANKER: All these token coins are properly called subsidiary coins. Let me read to you what Horace White says on that point:

"The word 'subsidiary' is usually applied to coins which constitute the small change of a country, and which are legal tender only for limited amounts. In the United States the silver dollar must be classed as subsidiary also; for, although it is full legal tender, the Government does not coin it for private individuals as it coins gold. It is subsidiary or subordinate to gold coin."

MR. LABORINGMAN: Uncle Sam, why do you make these token or subsidiary coins?

UNCLE SAM: I make token or subsidiary coins out of silver, nickel, and copper just as a matter of convenience to the people, and as a result of custom also.

MR. LAWYER: I think what Horace White says upon that point is particularly good, and answers your question, Mr. Laboringman, completely. White says:

"If subsidiary silver coins circulate at a value which is largely imaginary, the question may be asked, why not make them of some other metal, or even of paper? There are no reasons except custom and convenience. A coin, not heavier than a half dollar, is more convenient than a piece of paper; it is cleaner, and in the long run is probably cheaper, as it does not require frequent renewal. A cheaper coin might be made out of some other metal, but it is generally best to conform to the habits of the people. Having been always accustomed to a silver subsidiary coinage no good reason is apparent why we should depart from it."

MR. MERCHANT: Of course, you must use something besides gold to make the 50, 25, 10 and 1 cent pieces out of, because even a gold dollar would be found to be impracticable on account of its size. It would take a microscope to find a piece of gold worth only 5 cents.

MR. LABORINGMAN: And it would take a telescope to find a piece of gold worth only 1 cent.

MR. BANKER: Mr. White has this to say also about the silver dollar: "The silver dollar is a larger kind of subsidiary coin, and should be treated by the Government exactly as the smaller ones are treated. The Government has received the value of a gold dollar for every silver one emitted, and is therefore bound in equity to redeem the dollars as it redeems the halves, quarters and dimes.... There are additional reasons, however, for direct redemption of the silver dollar. One is that such coins are unlimited legal tender between individuals. Another is that there is a certain amount of public apprehension and lack of confidence touching any coin which passes for more than its metallic value."

"McLeod says that in 1691 in a posthumous work Sir William Petty pointed out that one metal only should be adopted as the standard unit, and other metals should be issued as subsidiary to the standard unit. The same doctrine was advocated with great force and at great length by Locke in 1693, and also by Harris in the middle of the last century, and was finally embodied in the great masterpiece of the subject 'Lord Liverpool's Coins of the Realm,' published in 1805."

Now, gentlemen, it must be apparent to everyone that a silver dollar is only another form of a debt of Uncle Sam over there, and that unless he continues to stand ready to exchange gold dollars for silver dollars, and so keep the silver dollars in circulation at 100 cents, they would circulate at their metal or bullion value, or at about 47 cents.

Mr. Farmer, do you think that stamping One Dollar upon that silver coin, added one-hundredth part of a cent to it, or affected its value in the slightest degree? Are you not convinced that it is not money at all, but a mere debt of Uncle Sam and that it is a mere demand for One Dollar in gold, and nothing more?

MR. FARMER: I am bound to admit that you have surprised me, indeed paralyzed me, for I thought the Silver Dollar was money, but it is certainly exactly the same sort of thing that the Greenback and the National Bank Note is, and if they are not money, neither is the Silver Dollar money.

MR. MERCHANT: I am sure we all agree on that point now, but what about this silver certificate? Do you pretend, Mr. Banker, that all our Silver Certificates are not money either?

MR. BANKER: That is just what I assert, but I claim still more than that with regard to the Silver Certificate; for, if you will read it, you will find that it is only a warehouse receipt for silver dollars, which have been deposited in the United States Treasury; and therefore is not a promise to pay anything, but simply to deliver so many silver dollars, which, as I have just demonstrated, must be redeemed in gold to keep them going for 100 cents on the dollar.

MR. LAWYER: I am going to ask one question in this connection, and that is this. The United States Notes are a legal tender for everything except to pay taxes on goods coming into the country and interest on the debt and silver dollars are a legal tender, unless the contract is made payable in something else. Does not the fact that the United States Note and the Silver Dollar are legal tender, make them money?

MR. LABORINGMAN: What's legal tender?

MR. LAWYER: Anything which can be lawfully used in payment of a debt, or which creditors are compelled to accept, is called legal tender currency.

MR. BANKER: The fact that the United States Note and Silver Dollar are legal tender does not change the real character of either of them. Don't you know that the very fact that you are compelled, or think you are compelled, to make anything legal tender, to make it go for something it is not, lowers its value and depreciates that very thing?

The price of the United States Notes or Greenbacks from the day they were issued, until January 1, 1879, the date Uncle Sam redeemed his promise to pay gold for them, was simply a quotation of the government credit. This credit ranged from $1.00 to 35 cents. White says: "The difference between these extreme quotations may be taken to represent changes in the public credit, or various vicissitudes and states of mind, dependent upon the war."

Again he says: "In 1864 Congress attempted to check the depreciation of the currency by closing the gold exchange, and prohibiting sales of gold or foreign exchange for future delivery. The premium on gold advanced more rapidly after the passage of this Act than before, and Congress repealed it two weeks later."

MR. LABORINGMAN: Now, men, let me see if I understand what this is all about. If I have caught on to just what you have been saying about gold,

which is all the money we have, and all these promises to pay money, these United States Notes, Bank Notes and Silver Dollars, the difference between gold coins and these promises is the same as the difference between a meal and a meal ticket. And when you come to the Silver Certificate that is only an order for a meal ticket.

UNCLE SAM: By Jove, he's hit the thing plump and square on the head, hasn't he, boys? But what I want to know now is how many of these meal tickets I've got out in one form or another? And, Mr. Banker, I want to know another thing. I want to know how many cans of pork and beans I have on hand to meet the meal tickets with?

MR. BANKER: Well, Uncle Sam, as I look at it you have 1,659,000,000 meal tickets out, and only 150,000,000 cans of pork and beans to meet the demand for meals.

UNCLE SAM: Great Scott, what unbounded confidence the people must have in me not to shove those meal tickets in, before I get ready to supply the meals. What is worrying me is this, if anything should happen to cause any suspicion on that score, the jig would be up with me, and I can see the end of my credit; but of course that wouldn't be my finish. Now, what I want done is this: I want to shift these meal tickets over to the banks where they belong, or make full provision for them myself, so that I can stop worrying, and shall be ready for business, if called upon to meet a first-class nation in a protracted war.

By the way, Mr. Banker, just how did you make those meal tickets amount to 1,659,000,000 and that I had on hand only 150,000,000 cans of pork and beans to meet the meal tickets with? You must remember it takes one can of pork and beans to redeem one meal ticket.

MR. BANKER: Uncle Sam, you will remember that you have $346,000,000 of United States Notes to pay. You have also $563,000,000 Silver Dollars to redeem, and there are $750,000,000 National Bank Notes, making a total of $1,659,000,000, all resting on your $150,000,000 of gold in the reserve of your Treasury.

UNCLE SAM: Yes, but I don't have to pay those National Bank Notes, do I?

MR. BANKER: Well, Uncle Sam, it's this way, you know, you have to pay them out of a 5% fund created by the bankers, but the bankers can turn right

around and ask you to redeem the United States Notes which you pay them for the National Bank Notes, in gold.

UNCLE SAM: Mr. Banker, tell me another thing. If these silver certificates are nothing but warehouse receipts calling for silver dollars, and the silver dollars are nothing but token coins, then all these silver certificates are nothing but token or subsidiary coins in another form.

MR. BANKER: That is literally true.

UNCLE SAM: And you say I have $563,000,000 of silver dollars out good for nothing but token or subsidiary coin?

MR. BANKER: Precisely so.

UNCLE SAM: Now, what I want to know is this. How much of this silver is needed today to supply the people with the token or subsidiary coin, up to and including the $2.00 bills; that is, the $2.00 bill, the $1.00 bill, 50, 25, 10 and 5 cent pieces?

MR. BANKER: There are in circulation today about $400,000,000 of these various forms of subsidiary or token coins, or about $4.00 for every man, woman and child in this country.

UNCLE SAM: What is the total amount of silver in the country then, of all kinds, silver dollars and pieces of silver less than one dollar? Tell me that.

MR. BANKER: There are, as I just said a moment ago, $563,000,000 of silver dollars and $147,000,000 of silver pieces less than one dollar, or a total of $710,000,000.

UNCLE SAM: Well, well, you frighten me, for at the rate of four dollars each, the amount necessary for the convenience of the people, I am stacked up ahead for at least fifty years, or until we have about 200,000,000 of people; for you say we have all told $710,000,000 of silver coins in the country now. I want to tell you gentlemen, right now, that I want to get out of this hole, and I want to keep your mind steadily on that point as we go along.

The whole situation is a most embarrassing one. Tell me how much gold coin we have scattered about everywhere over the country?

MR. BANKER: There is about $1,850,000,000 of gold available in the country.

UNCLE SAM: Then I am confident there is great plenty for the present, if we can devise some plan, or scheme, to avail ourselves of it.

MR. LAWYER: I am convinced of that also, but the trouble is going to be to bring it together, centralize it and so mobilize it that we can make the most of it. We have learned one great and most important lesson tonight, and that is that the only money we have is gold, and that we cannot substitute an agreement to pay gold, a debt, a mere demand for gold itself, for it. Such a proposal when you think of it is an absurdity, a contradiction of terms.

To state the result of our conversation, or our conclusion, as I understand it, it is this: Money must be coined out of a commodity that is just as valuable in the form of a commodity as it is in the form of coin. A piece of gold weighing just the same as a $20 gold coin, if as pure, is worth just as much as a $20 gold piece.

Last Wednesday evening we all agreed that, as the result of our conversation, gold was the standard of value of the entire world, and was our standard of value as well.

Tonight, as I understand the result of our talk, we all agree that the only money we have in this country is gold coin; that our money is gold coin, and that our gold coin is our money.

Next Wednesday night let us investigate our currency and ask ourselves "What is currency?"

Before we separate, I want to read to you what Webster says currency is, because I want you to be thinking over the matter in the mean time. Webster says:

"Currency is the state or quality of being current; a continual course or passing from person to person or hand to hand; general acceptance; circulation."

MR. LABORINGMAN: You mean something that everyone takes and is glad to get.

MR. LAWYER: Precisely so; it is that which is in circulation, or is given and taken as having value, or is representing value, as the currency of the country.

If we all keep this definition in mind, we shall have very little trouble next Wednesday evening in agreeing upon what currency is, and what it ought to be.

UNCLE SAM: I want you men to remember one thing, and that is this, that we want no currency in this country that isn't as good as gold, and currently redeemed in gold coin to prove it. Nothing will satisfy Uncle Sam but the best, and don't you forget it. On top of that I want to plant another proposition, and that is this: It's not my business to be exchanging gold for that currency either. Compel the banks to do that, for that is their business.

But first, we will settle what our currency is, and what it ought to be.

Good Night.

THIRD NIGHT

WHAT IS CURRENCY?

UNCLE SAM: Well, boys, when we parted last Wednesday night, it was agreed that we should take up for consideration and discussion tonight the question, "What is Currency?" And just before we left Mr. Lawyer read Webster's definition of Currency.

MR. MERCHANT: I am very glad that he did so because it gave me a start, and set me to thinking, and as a result I became very much interested in the subject.

MR. BANKER: I have made the question of currency a study now for several years, and regard it of prime importance in any financial and banking system; but especially so considering the peculiar conditions existing in this country with our vast extent of territory, and the many distinct commercial centers there are here, each specializing in some one kind of production or industry. But more particularly is a right form of currency essential in this country because of the great number of our individual, independent banks now exceeding 25,000.

MR. MANUFACTURER: Well, Mr. Banker, it strikes me that you are getting a trifle on to a side line. Let us get right down to business, and see if we can make any progress in determining just what Currency is, what kind we have and what kind we ought to have, if any change is to be made.

To my mind, and I have put all the spare time I had upon the question, that definition when fully understood described currency perfectly, and will help us amazingly in arriving at a clear idea of just what currency is as well as what it is not. Let me restate a part of it, which I think covers all of it. "Currency is that which is in circulation, or is given and taken as having value, or as representing value." That is, currency may have value in itself, as illustrated by our gold coin, or may only represent value, as illustrated by our gold certificate.

Again, the definition described another quality, when it said that "currency passes from person to person, or from hand to hand; general acceptance; circulation." To be a piece of currency then, a thing may or may not have actual value, as a gold coin, or as a gold certificate, which can be exchanged for the coin. But the thing must have general acceptance, that is, it must be received by the people generally, as a matter of course, and without hesitation, and without taking anything from it, or adding anything to it, such as a stamp, or a signature.

That is, a piece of currency having passed through a thousand hands, remains identically the same thing, except the ordinary wear to which it has been subjected.

MR. MERCHANT: Mr. Banker, taking that explanation as correct, what would you say that our currency consists of?

MR. BANKER: Our currency consists of the following things:

First: Gold coin, which is generally accepted, and has actual full value.

Second: Gold certificates, which are generally accepted, but have no actual value.

Third: All token, or subsidiary coin, including the silver dollar.

Fourth: Silver certificates.

Fifth: United States Notes.

Sixth: Bond-secured National Bank Notes.

MR. MERCHANT: I read an article recently in which checks and drafts were spoken of as currency. Can it be possible that they can properly be called "currency"?

MR. BANKER: Certainly not. They come under an entirely different head, and I hope we shall spend an evening considering them very soon. Checks and drafts never pass from person to person and from hand to hand and are not of general acceptance. Herein lies the mark of distinction. Checks and drafts do not pass from person to person and from hand to hand and are always of special acceptance, that is, they are considered before they pass. They are taken according to the strength of the makers, acceptors and endorsers and usually pass only by endorsement. We must make no such mistake because it will lead to a confusion of ideas.

MR. MERCHANT: Mr. Banker, you have just told us of what our currency consisted. Gold coin, gold certificates, token coins, silver certificates, United States Notes and our bond-secured Bank Notes. Taken altogether I presume you would call that our currency system. Do you call it a good system?

MR. BANKER: It is our currency system, but it is without doubt the worst currency system in the world, if you include only respectable commercial nations.

MR. MERCHANT: Well, Mr. Banker, what is wrong with it?

MR. BANKER: To tell you what is wrong with our currency system, I would first have to tell you what a right kind of currency system is. And I will proceed to do so in a word. A right kind of currency system consists of three forms of currency only.

First: Gold coin, or the gold certificate.

Second: Token, or subsidiary coin.

Third: A credit bank note or bank credit currency.

All these forms of currency are absolutely essential to a right currency system, as I shall proceed to demonstrate.

First: Gold coin, or its substitute, the gold certificate, is the very foundation of a right currency system, because there must always be present, or immediately available, a sufficient amount of gold to prove, protect and redeem, if necessary, all other forms of currency.

Second: Subsidiary coins are absolutely essential as a matter of convenience to carry on the small trade of the country.

Third: A credit bank note which will always spring into being, precisely as a check does, to perform some special transaction, is the most efficient and most economic form of currency in the world, because it always just equals the demand for currency, and costs no more than a deposit account, subject to check.

MR. MANUFACTURER: Just what do you mean when you say that a credit bank note currency will cost no more than a deposit account subject to check?

MR. BANKER: I mean just this, that if you had a deposit at a bank of $1,000, and the bank upon receiving your check for $1,000 could convert that book account, or book debt, into a note account, or note debt, by giving you its bank notes for $1,000, in exchange for your check, the bank note currency would cost only the interest on the reserve carried against the notes, which would be identical in amount with the reserve carried against the deposit.

To illustrate, if the bank were in the country it would carry 15 per cent reserve, if a National Bank, or $150 in cash against that deposit of $1,000. The interest on that $150 for one year at 6 per cent would be $9. Now, if that deposit were convertible into notes, and you kept the same reserve of 15 per cent against them, the thousand dollars in notes would cost only $9 per year, and could and would in turn be reconverted into a deposit, subject to check.

Not only does this form of currency cost only about one-sixth as much as our present currency in the form of United States Notes and bond-secured Bank Notes, but it is the only form of currency that will always be precisely equal to all the demands of trade. It will never be too great in amount. It will never be too small in amount. It will always just exactly equal the ever varying requirements of business and will always be as good as gold, because currently redeemed in gold.

The principle of converting bank book credits into bank note credits, in accordance with the requirements of the customers of a bank, is the bank credit currency principle and there is not a single instance in the history of banking where it has ever been tried and failed.

Let this be laid down as one of the eternal laws of banking. *Current coin redemption is the very soul and breath of life to bank credit.*

MR. MERCHANT: That is certainly most interesting and I must say a most impressive fact, if we can secure a currency, equal at all times to the requirements of trade, and always as good as gold coin, and at an expense of one-sixth of what our present currency costs us in the form of United States Notes and bond-secured Bank Notes. There are today outstanding $346,000,000 United States Notes and $750,000,000 of bond-secured Bank Notes, or about $1,100,000,000 in all. Now, since any bank must pay par, or 100 cents on the dollar, to get possession of either of these forms of currency, the cost of carrying either of them will be 6 per cent on the total of $1,100,000,000, or $66,000,000 per annum. Of course if the banks are compelled to use such an expensive form of currency, they will have to charge their customers accordingly, and in the end it comes out of me, Mr. Manufacturer and so on down the line, until, finally, the cost or burden reaches Mr. Farmer over there, or Mr. Laboringman over here.

Now, you assert that a credit currency would only cost the country one-sixth as much, or only eleven million per year, whereas the same amount of currency in United States Notes and bond-secured Bank Notes now cost us $66,000,000 a year, or $55,000,000 more than it should. Of course every cent of that must in the end come out of labor.

MR. BANKER: I said one-sixth for the country bank. The average reserve held by all the National Banks is 20 per cent, not 15 per cent. So that the unnecessary cost to the people of our present United States Notes and bond-secured Bank Notes is five times as much as it should be, or we are losing every year $53,000,000, every dollar of which must come out of labor.

MR. MERCHANT: Now, let me see whether I understand this matter correctly; to illustrate, let us suppose that your bank needed today $1,000 more currency than it has on hand to accommodate a customer. You would have to go out and buy it, and pay $1,000 for it, or obligate your bank to do so. With interest at 6 per cent it would average $60 per year to carry it, but

if you could exchange your bank's notes, amounting to $1,000, for your customer's note of $1,000, and carry a reserve against your bank notes outstanding of say 20 per cent or $200, and interest is at 6 per cent, it would cost you only 6 per cent on $200, instead of 6 per cent on $1,000; or you would make a saving of $48 on the $1,000 of currency. Am I correct in my understanding of the difference of cost upon these two forms of currency?

MR. BANKER: Yes, you are absolutely right. No one could state the principle better than you have.

MR. MERCHANT: Well, then, it is clear, that if there is a saving of $48 a thousand on $1,100,000,000, we are wasting annually on that one item alone $52,800,000.

MR. MANUFACTURER: But, gentlemen, let me call your attention to another fact. This country is losing several times as much as that every year on the average, because of our present rigid form of currency. Just as soon as there is any fear anywhere in this great country about a bank of any consequence, or about the business generally in the country, every banker from Dan to Beersheba begins to grab currency in whatever form he can get it, because he knows the amount is fixed and limited. It is not nearly so much a run on the banks by the depositors, as it is a run by the bankers on each other, just to accumulate cash. Everything comes to a dead stop, just as it did in 1907, and it always will under present conditions. Now, it seems to be perfectly plain that if the banks could convert their book credits into note credits, they could immediately meet the demand for cash, and so avert these commercial catastrophes, which set us back years. You know we are just now beginning to realize that we are getting over the panic of 1907.

Gentlemen, instead of the panic of 1907 costing us $53,000,000 a year, it costs the people of the United States more than ten times as much as that every year. God only knows what these commercial tragedies mean in the life of a nation like ours, and it is up to us to prevent them, if possible, and it must be possible. It looks to me as though Mr. Banker was on the right track.

UNCLE SAM: Well, you fellows have got to show me a thing or two, before we make the proposed changes, because I am from Missouri, as well as from forty-seven other unsuspecting states, and don't you forget it. In the first place, I want you to show me why my I.O.U.'s or the United States

Note, so-called Greenbacks, are not a good currency. In the second place, I want you to show me why the present National Bank Notes, which are secured by my bonds, dollar for dollar, are not the best currency in the world. I have been told this for the last fifty years, and if it is not true, it is about time I waked up.

MR. BANKER: Well, Uncle Sam, they've been fooling you, for both the United States Notes and these bond-secured Bank Notes are the worst form of currency in the world, and I can prove it.

UNCLE SAM: Well, you will have to prove it, that's all.

MR. BANKER: In the outset, I will tackle the United States Note, and incidentally, I will state all the other objections to them, as well as the objections to them as currency.

First: They are demand obligations against you amounting to $346,000,000, and you must stand ready at all times to redeem them in gold. This fact always has and always will imperil your credit. It was the same greenbacks that sent your credit down to 35 cents on the dollar during the war, and again they came within an ace of wrecking your credit in 1894 when the gold in the treasury went down, down and down, until there was only $41,000,000 left, between you and national dishonor. Don't you remember that you then sold $262,000,000 of your bonds to protect your credit which was being sapped by these very same United States Notes? Pretty expensive business that, when you could have had a currency that the banks of the country, and not you, would have been compelled to redeem in gold whenever necessary.

You will no doubt remember that in 1879 when you began to keep your promise, and redeem these greenbacks in coin, and make your old due bills as good as gold, you issued $100,000,000 of bonds for a corresponding amount of gold to establish your reserve or guarantee fund, in order that you might keep your promise good in the future. If you add this $100,000,000 to the other $262,000,000 you have issued since to protect your credit against these United States Notes, you will find that you have issued altogether $362,000,000 of your bonds, or $16,000,000 more than the total amount of the greenbacks, $346,000,000, and that you have also obligated yourself to pay interest on these bonds from first to last amounting to $362,000,000 more. Now, the astounding fact is that these old

due bills, these I.O.U.'s, these United States Notes, or so-called greenbacks, are still out and you still owe them, just as you did in 1879, when you began keeping your promise to redeem them in gold.

One of your expert clerks in the Treasury Department at Washington, the Chief of the Loan and Currency Division, published a calculation in the Congressional Record of April 29, 1908, Page 5638, that showed that, if the greenbacks had been funded on the 1st day of January, 1879, into 4 per cent 30 year bonds, and canceled and destroyed, the total cost to the Government for principal and interest to July 1, 1907, would have been $741,897,340, whereas the total cost and liability actually incurred on account of them has been $1,081,881,562; the difference in favor of converting into bonds being $339,984,222.

Now, don't you think, Uncle Sam, that as a matter of business you'd better get rid of these demand debts, these United States Notes?

Second: Don't let this most important fact escape your attention either; that if you should be called upon to use your credit extensively, as would be necessary in case of a great war, these demand notes would be a very black cloud upon your credit, and your loans would cost you vastly more, on account of the interest you would have to pay, because they were still outstanding. I hope that you are not hugging that sweet delusion that war is impossible.

Third: These United States Notes, as you are aware, are made legal reserves for the national banks, who hold them against their deposits. Now, if your credit goes to pieces, the credit of the banks will go with it of course; because precisely to the extent that the banks hold these debts of yours as reserves, they are driving gold out of the country, and therefore instead of being better able to help you, they will attack your credit by demanding gold from you for these old demand debts.

You are also, of course, familiar with Gresham's law, so-called, under the operation of which, the poorer money always drives out the better. I assert without any fear whatever of successful contradiction, that if you had paid off these United States Notes in 1879, you would not only have saved $340,000,000 by so doing, but that today there would be in the United States in our banks, and in circulation among the people, $346,000,000

more gold than we now have. In other words, instead of our gold amounting to $1,850,000,000, it would now amount to $2,196,000,000.

UNCLE SAM: Well, you have certainly demonstrated that I have made some very expensive mistakes. Let's see just what the net result of this blundering has been. I have lost $340,000,000 on account of the greenbacks and I have lost the great advantage of having $346,000,000 more gold to further strengthen the commercial credit of the country; and yet, I still owe every cent of these due bills and what seems to me equally certain is this: that if I should get into a great war, these very greenbacks will make me more trouble by injuring my credit in the future to a much greater extent than they ever have done at any time in the past. There is no doubt whatever about that. By the eternal, something must be done to get me out of this apparently bottomless pit.

But you have not told us yet why these I.O.U.'s of mine, or United States Notes, are not fit for currency, as you declare. You know that you sort of hurt my feelings, and for half a minute I was fighting mad, but as I said I am from forty-seven states, besides Missouri, and therefore I am ready to be shown.

MR. BANKER: I am coming to their use as currency right now. There are three distinct reasons why the United States Notes are a bad form of currency.

First: Any Government issue of bills, or of I.O.U.'s such as these are, must be very limited, if they are kept as good as gold.

Second: The United States Notes do not spring into existence in connection with business transactions, as the right kind of a currency always does.

Third: It costs those who use it, as currency, five times as much as currency should.

It is precisely as Mr. Manufacturer over there asserted a moment ago. Any system of currency that is of necessity limited in amount, and fixed as these United States Notes must be from the very nature of the case, breeds panics, because everybody realizing that the amount is limited, begins to scramble for cash upon the first intimation that there is any business trouble brewing. For this reason, they are utterly unfit as a system of currency.

Again, a right currency system is the natural product of business, and the amount of the currency will always rise and fall with the demands of trade. This can never be the case with the United States Notes, and they are on that account utterly unfit for currency.

And finally, certainly, if they cost the users of currency five times as much as the right kind of currency would, then we should replace them at once with the right kind of currency. Now, let me illustrate and demonstrate this.

If, over at my bank, we are compelled to furnish an average of $10,000 in currency a week, our average expense for the year will undoubtedly be $10,000 invested for that purpose. And if money is worth 6 per cent interest, it will cost us $600 to supply that amount of currency. If we can buy United States Notes as cheap as any other kind of currency, and we should carry them in stock, they will cost us $600 per annum. Now, our bank, being a country bank, we carry 15 per cent of all our deposits to meet current demands. Is it not a perfectly simple and self-evident fact that if instead of being compelled to buy this $10,000 of United States Notes every week, and so keep $10,000 invested all the year around at a cost to us of $600, the interest on $10,000, we could convert $10,000 of our deposit debts into $10,000 note debts of the bank it would only cost us 6 per cent on $1,500, the amount we are carrying as reserve against our deposits of $10,000, or only $90. In other words, we would save $510 on the transaction. Of course, if we have to pay out $510 more in the one way than in the other, we will have to get it back from Mr. Merchant here, Mr. Manufacturer, Mr. Lawyer, Mr. Farmer and Mr. Laboringman; and if we should collect it from Mr. Merchant and Mr. Lawyer, they will in turn take it out of Mr. Farmer and Mr. Laboringman.

MR. FARMER: You bet they will. We always get the gaff in the end.

MR. LABORINGMAN: Where do I come in? I don't come in anywhere except to carry the load, as usual. I come out at the little end of the horn, as always heretofore.

UNCLE SAM: Well, fellows, you see, don't you, that everything gets back, sooner or later, to the producer? He carries the load.

MR. MERCHANT: But we carry the worry.

MR. BANKER: I wish you did. You would have an easy time then, but—

MR. LABORINGMAN: You needn't say "but" to me. You have it on all of us. There is no doubt about that. However, Mr. Banker, I'm not going back on you, for you have helped me out of several tight pinches.

UNCLE SAM: Well, it does really look to me as if I had been living in a fool's paradise. Those dear old greenbacks they have been about as much of a fraud as the dollar of our daddies. I do declare this whole thing makes me half sick. But if you are actually finding out what really ails me, I'll get over that pretty soon, and, boys, if we stick to this job, and play fair and honest, we'll have the best banking system in the world yet, and don't you forget it.

But you forgot to tell me about the safest and best banking system in the world because every bank note was secured by one of my Government bonds. That's what they've been telling me, you know. Now, what about that?

MR. BANKER: Well, I could not interfere with your confession that you had been living in a fool's paradise, and dreaming dreams about making something out of nothing, while your credit was in peril, and you were losing hundreds of millions and furnishing the country a currency that was costing the people five or six times as much as the right kind of currency would.

Now, a word about your bond-secured bank note illusion, and I will be through. Uncle Sam, you remember that during the war, you were looking around in every direction to find some new method for obtaining means to carry on the war. You had busted your credit wide open with your United States Note issue, and the question was how to find some new resource. Your Secretary of the Treasury, Mr. Chase, concocted this scheme of giving the banks the right of issuing notes if they purchased Government bonds, and deposited them to secure the payment of the notes. It is very strange, but he did not get much from this source, as there were only $98,896,488 of notes out when the war closed. However, the scheme was started, and has been going ever since, precisely as it was inaugurated, a bond investment scheme. The amount of notes in circulation has never borne any direct relation to the demands of trade, as you can see by the following facts: In 1880 the notes outstanding amounted to $352,000,000, and in 1891, eleven years afterwards, they amounted to only $162,000,000, or about $100,000,000 less, although the country was growing and business

expanding all the while. We ought always to expand our currency during the fall months about $300,000,000, and we ought to contract it during the succeeding months, or during the springtime just as much. But a careful investigation shows that these bond-secured notes have decreased as often in the fall months as they have increased, and have increased in the spring months as often as they have decreased. This proves conclusively that the amount of notes outstanding has never borne any relation whatever to the requirements of trade. The scheme is today precisely what it was when first concocted, purely a bond investment affair.

UNCLE SAM: Well, well, now that is mighty strange, but my greatest Chief Justice, John Marshall, pointed out the necessity of having a currency directly related to the business of the country, when upholding the constitutionality of the Act incorporating the second United States Bank. He said: "The currency which it circulates by means of its trade with individuals is believed to make it a more fit instrument of government than it could otherwise be." One of my presidents, James A. Garfield, used this language: "*No currency can meet the wants of this country that is not founded on business.*" Boys, both of these great men must have referred to credit currency, and declared that it was essential to our business.

MR. BANKER: Furthermore, Uncle Sam, these bond-secured Bank Notes are indirectly just that much more of a burden resting upon the United States Treasury, upon you, if you want to know the truth, as I explained to you last Wednesday night.

The fact is, these bond-secured Bank Notes are only another form of Government credit put into circulation through the disguise of Government bonds.

Every single criticism and objection that I have made tonight to the United States Notes are applicable equally to these bond-secured Bank Notes.

First: For all banking purposes, economically speaking, they are practically rigid and inflexible, at least so far as current needs go.

Second: These bond-secured notes do not spring into existence, or into being, as checks and drafts do in connection with some business transaction, but are tied up with a bond speculation.

Third: They cost those who use them as currency from five to six times as much as the right kind of currency would.

Fourth: If we adopt the right kind of a currency system, it will set free $750,000,000 of capital which is now tied up in these Government bonds, and this vast sum which would be realized from the sale of the bonds will assist to an amazing degree in supplying much needed capital to the commerce of the country.

MR. MERCHANT: How is that?

MR. BANKER: The banks could then sell all the bonds now deposited to secure these bond-secured Bank Notes. They amount to $750,000,000.

That these bond-secured Bank Notes are a monument of our stupendous folly, and have been a curse to the business interests of the country, I am sure no one here will attempt to deny.

MR. LAWYER: The Japanese, thinking that we were a smart people, copied this bond-secured bank scheme from us, but immediately discovered that it was worse than worthless and repudiated it. No one else has been foolish enough to adopt it.

MR. BANKER: I challenge anyone here to urge a single reason in favor of either the United States Notes, or the bond-secured Bank Notes, which are only another form of United States Notes. No one can meet the objections raised to them. In fact, there are two objections to the bond-secured notes, in addition to those urged against the United States Notes. First, as stated, they have tied up $750,000,000 in the bonds. Second, they have proved such a successful delusion as to prevent any sane legislation until sad experience has driven us to take the matter up seriously and compelled us to act.

UNCLE SAM: Well, boys, so far as I am concerned, I am thoroughly convinced that you don't want any of my I.O.U.'s for currency. Nor do we want any bond-secured Bank Notes, which are really only another form of my I.O.U.'s. But I am still from Missouri, as I have not yet been convinced what we ought to do by way of a substitute. Mr. Banker has told us something about credit currency, and he declares that it is the only real thing in the way of currency.

Now, I suggest that we take that matter up next Wednesday night, and decide definitely whether we want to adopt that principle, and substitute that system, or some other. What do you all say to that?

MR. MERCHANT: I think that should be the programme. In the meantime, let us all dig into the question and go to the very bottom of it, and if possible stump Mr. Banker.

MR. BANKER: All right, gentlemen, I am ready for you, and if I don't convince you that the only thing for us to do is to adopt a credit currency system, I will retire in favor of anybody you name. Possibly you'll select Nelson W. Aldrich.

UNCLE SAM: No, you won't do anything of the kind. We'll look around a long time before we'll take him on. It is my candid opinion that he don't know a thing on earth about the question. I have known Nelse about thirty years. He came to my house after he had been engaged in the grocery jobbing business, and he has been a jobber ever since. A man who could stay in Congress for thirty years, declaring that we had the best banking system in the world, would not recognize an economic principle, on a cloudless day, walking down the middle of Pennsylvania avenue at noon time. Now, as I said, Nelse has always been a jobber, and he would detect a crooked political deal crawling down a gutter, lizard-like, in the densest fog at midnight. He was prominent in a way in my home town, but it was only as a broker in senatorial favors. He kept books with the rest of his associates, his fellow senators. He was the clearing house of the United States Senate. That's all. He would be the very last man in the United States, the very last to join in clear, intelligent, unselfish, patriotic thinking. He just couldn't do it. Why, boys, he had rather go down a ram's horn than a gun barrel. He likes the twisting sensation. We don't want him at any price. Mark my word. What we want is honesty, intelligence, patriotism, unselfish devotion to duty and some good hard work.

Let us hope that we shall find a way out.

Good Night.

FOURTH NIGHT

BANK CREDIT CURRENCY

UNCLE SAM: When we parted last Wednesday night, we had an understanding that everybody would give all the time he could to looking up Credit Currency. Now, I think before we take up that subject, it might be well to recall and review what we've settled among ourselves up to the present time.

First: We learned that gold is our standard of value.

Second: We all agreed that our money consisted of our gold coin alone.

Third: We agreed that our money, which consists of gold coin, is identical in amount with our gold currency; that they are one and the same thing.

Fourth: We found that we had at present a large amount of other currency, consisting of subsidiary coins (including the silver dollar), the United States Notes and our bond-secured Bank Notes.

Fifth: We came to the conclusion, however, after our last talk, that neither the United States Notes nor the bond-secured Bank Notes were fit for currency; and, in our quest for the best substitute possible, Mr. Banker proposed a Credit Currency currently redeemed in gold coin as the form of currency best suited to our condition. Indeed he asserted that it was the only form of currency we should think of.

I have gone over the road we have traveled so far and called attention to all the mile posts so that we should become perfectly familiar with them; for unless there is a complete harmony between our conclusions reached from time to time, our talks will in the end lead us to no practical results.

At our last talk it was decided, you will remember, that both on account of the peril to my credit, and because the United States Notes and the bond-secured Bank Notes were unfit for currency, we should tonight consider Credit Currency as a substitute.

MR. MERCHANT: Uncle Sam, I am more than gratified that you have called our attention tonight to just those things we have agreed upon, because unless we keep all these points constantly in mind, we will have trouble in the end in reconciling our views. On the other hand, it has began to dawn on

me that possibly what we have always considered beyond our comprehension may after all prove a comparatively simple matter, because I have discovered, since our talks began, that truth here as in all other subjects is simple when we arrive at and comprehend it. Our great problem in this connection is to disentangle the great or fundamental truths and make each one stand out in bold relief. So far, I think we have succeeded to a remarkable degree.

MR. MANUFACTURER: We must have done so, for we have not yet struck a single point upon which we have not unanimously agreed. Let us hope that we shall be as successful in the future. At present, I must say I am a little dubious about the results of tonight's discussion, for I have run up against a snag or two, which I half fear will stump Mr. Banker, when he tries to pull them. However, he has been pretty successful so far in holding his own, and he may surprise us tonight.

MR. BANKER: I have no desire, or hope, of surprising you, but I have perfect confidence in convincing all of you, that there is only one system of currency for us to adopt, or even think of adopting, and that is a pure Credit Currency.

Let us assume that two men, A and B, who are of equal and unquestioned standing in some country town, start in the banking business at the same time.

A begins by taking the deposits of his neighbors, and continues until he has received $100,000, and has loaned the same out to the people of the community. He now owes $100,000 subject to check, and he has $100,000 owing to him, as he has loaned out all his deposits.

B starts a banking business, but upon an entirely different plan, or basis. He takes no deposits in the ordinary way, but if anyone comes to him desiring to borrow, or sell him promissory notes, he will lend his credit, and take all good notes and checks offered him, and in exchange give his own notes in such denominations and form as are suitable for circulation as currency, until he has exchanged $100,000 of his notes for $100,000 of the notes of the same people who have borrowed the $100,000 from the other banker.

Now, this is not a strange thing for B to do, because the bankers of Scotland did this for one hundred and forty years before they took deposits subject to

check.

Now, let us return to A and B. As a matter of course, some of these notes of B will be deposited in A's bank, and B will have taken in some of the checks on A's bank. At 10 o'clock each morning A and B meet; A presents B's notes for redemption and B presents checks upon A for redemption, and the one pays the other the difference. Sometimes the balance is due to A and sometimes it is due to B. At the end of six months or a year, it will be at a stand off. A has paid B as much as B has paid A.

Now, can anyone of you men here tell me what difference there is in the transactions of A and B, except this, that the notes of B amounting to $100,000 payable to bearer on demand are outstanding, while the deposits at A's bank amounting to $100,000 and payable to order are outstanding. Those notes of B's amounting to $100,000 are a bank Credit Currency. They are issued against, or upon B's credit. They pass from person to person, from hand to hand and are currently redeemed every day. While the deposits at A's bank amounting to $100,000 are against A's credit, and the checks against them are redeemed every day. It is perfectly evident that if the capital of A and B combined is ample to meet the business requirements of that town, the form of credit offered by them will also adapt itself to the peculiar needs of each citizen. In other words, on a limited scale, you have a perfect banking system in that country town; bank credit being given to each person in precisely the form he wants it.

Now, let us go a step further. Let A and B unite and incorporate the A-B Bank with a paid-up capital of $100,000, each man paying in $50,000 and the bank, so organized, taking over the liabilities.

The one bank could then furnish the people of that community their deposit, or order credit, and their current credit, or currency at exactly the same cost to the bank; for the amount of the reserve will determine the cost of the note credit as well as the book credit. The bank being a country bank will carry a 15 per cent reserve, or $15,000 cash, to protect the deposit of $100,000 subject to check, and also a 15 per cent reserve, or $15,000 cash, to protect the $100,000 of demand notes outstanding. The actual cost to the bank in each case is 6 per cent on the reserve of $15,000 or $900 per annum.

If this bank should be located in the cotton-growing section of the country, and from August until January, the people needed more currency than at any

other time of the year to pay for picking and handling the crop, and the customers of the bank came in and drew their checks for $50,000 and asked the bank for currency for that amount, and the bank should, as it ought to be able to do, under such circumstances change its deposit debt of $50,000 to a note debt of $50,000, so that instead of owing $100,000 in deposits, it owed only $50,000 in deposits, and instead of owing only $100,000 in notes, it owed $150,000, would it make any difference whatever to the bank except the trouble of making a few book entries?

In the springtime, probably, the situation would be just the reverse. The notes having served the convenience of the cotton-planters would be returned to the bank by various people, and deposited to the credit of the depositors, so that now the deposits are $150,000, and the notes outstanding, or note debts, are only $50,000; the total debt of the bank being precisely the same all the time, $200,000. It has made no difference whatever to the bank, but the customers of the bank, and all the people of that community, have been perfectly accommodated at the smallest possible expense to them. Now, if that bank had been compelled to go to some financial centre and buy that $150,000 of currency in the form of United States Notes, bond-secured bank notes, or the notes of a central bank, it would have cost the bank at the rate of 6 per cent per annum on $150,000, or $9,000; whereas, it has only cost the bank 6 per cent on the reserves carried to protect the $150,000, at the rate of $15,000 for each $100,000, or six per cent on $22,500. The cost to the bank you will see would be only $1,550, as against $9,000, if compelled to buy the currency, or would result in an actual saving to the bank of $7,450, an item, gentlemen, well worth saving.

MR. MERCHANT: Mr. Banker, as I understand your contention from the illustration you have just completed, it is this, that there is absolutely no difference whatever, either in principle or in practice, between a bank book credit and a bank note credit, except as a mere matter of bookkeeping. That it is wholly immaterial whether there are 1,000 men walking about the streets of a town, each having a $10 bank note of the local bank in their pockets, or a thousand men walking about with check books from which they can issue 1,000 checks for $10 each. It is wholly a question of having a banking system that will adjust itself every hour of the day, and every day

in the year, to the requirements of trade in that town, at the least possible expense to the people.

MR. BANKER: You comprehend my contention perfectly.

MR. LAWYER: I will agree that your plan is structurally perfect to accomplish this purpose; but, before I can concede that the plan is all that can be desired, and all that we must insist upon having, I must know that your plan contemplates the current redemption of these bank notes in gold coin. For, as we have already agreed, our currency must be as good as gold coin, and this can only be demonstrated by daily gold coin redemption.

MR. BANKER: These bank notes or this Credit Currency will always be interchangeable with the deposits of the bank of issue, and, like the checks against the bank, will be daily redeemed over the counter of the bank, and also at some clearing house centre. The life of the notes will probably not exceed on the average thirty days. I hold that it is the duty of the bank to supply its customers with exactly that form of credit, either current credit in the form of notes, or book credits subject to check, which their business demands, and that both forms of credit must be kept as good as gold by giving gold if gold is demanded.

MR. LAWYER: With this point of current gold redemption covered and settled, I am willing to agree that theoretically you have completely convinced me. Now, what have you to offer in support of your theory by the way of any practical illustrations?

MR. BANKER: I am glad that you have demanded illustration and proof by way of banking experience; but, before taking up the historical evidence in support of my condition, I want to define a Credit Currency, so that you will have a concrete idea, if I may express myself that way, in your mind.

I define a Credit Currency as follows: *a note issued by a bank against its credit, without depositing United States Bonds, or any other kind of security, to guarantee its payment, is bank Credit Currency*.

In speaking of the marvelous prosperity of Scotland, MacLeod used this language in 1860 about the effect of Credit Currency in Scotland, where it has now been in use 217 years.

"All these marvelous results which have raised Scotland from the lowest state of barbarism up to her proud position in the space of 170 years are the

children of pure credit."

The great achievement of the Scotch system of credit notes is exceedingly well stated by Mr. Charles A. Conant in these words:

1. It has provided Scotland with an elastic currency adapted to the condition of her industries and adequate in volume to their changing needs.

2. It has enabled the people to carry on numerous commercial and agricultural transactions for which they could not have found the necessary quantity of coin, and has economized the locking up of capital in the precious metal.

3. It has made the use of notes of small denomination familiar and popular, and has taught the people the distinction between bank notes as the representatives of credit, and the precious metals as the measures of value.

4. It has brought into active use the available savings and capital of the country.

5. It has afforded an opportunity for entering upon business to thousands of poor, but honest men, and enabled them to lay the foundation of a comfortable home, and in many cases of a fortune.

6. It has convinced the people so conclusively of the value and safety of the banking currency system that no serious panic has ever lasted beyond a few days, or has ever affected any of the banks, except those which were justly the subject of distrust.

Horace White, describing the Scotch system, says:

"Notes are issued in denominations of five dollars, or one pound, and upwards. They are exchanged daily at the Edinburgh Clearing House, and settlements are made between banks by drafts on London. The notes remain in circulation on the average eighteen days after issue, the whole circulation being redeemed twenty times each year. Noteholders have a prior lien on the assets."

That is, if a bank should fail, the noteholders are paid first, and before anyone else gets anything.

MR. MERCHANT: What is that? Did you say that the noteholder had a first lien on the assets of the Scotch Bank: that is, that the noteholders are paid in

full before anyone else gets anything?

MR. BANKER: Yes, sir, and for the very best reasons in the world.

MR. LAWYER: Certainly, the noteholders should have a first lien upon the assets of the bank issuing them, because bank notes are a public convenience. Bank deposits, on the other hand, primarily are a private convenience. It is a matter of public importance that bank notes should flow through the channels of trade, pass from person to person and hand to hand unquestioned by any member of the public, and have ready as well as general acceptance. The man who selects his bank for the purpose of making deposits has time to investigate and decide deliberately which one he will choose. While a man in a transaction must accept the currency of the country offhand. At all events, it is a matter of the greatest public importance that he should do so without hesitation, and yet be protected, be absolutely safe in doing so.

MR. MERCHANT: Come to think it over, I believe you are absolutely right. Our present bank notes are made a first lien upon the assets of the bank issuing them. We were talking about that the other day over at the bank, and while I had never thought of it before, the cashier of the bank explained the matter fully to me, and gave the same reason for making bank notes a first lien that Mr. Lawyer has. When I told him that I did not quite understand the thing as he did, he satisfied me completely by using his own bank as an illustration.

He said, you will remember that we were a State Bank until about a year ago, when we became a National Bank. Our capital of $100,000 is all invested in this bank building which we occupy. Our deposits were $500,000. We took $100,000 of our deposits and purchased $100,000 of Government Bonds, which we deposited with the United States Government, and received in return $100,000 bank notes which we have put out, or, as we say, put into circulation. Now, since we actually took $100,000 of our deposits to buy the bonds with, and then placed the bonds up as collateral, to guarantee the payment of $100,000 of notes, it is perfectly clear that the noteholders will get their money, in case of our failure whether anybody else gets anything or not.

I then asked him this question: Suppose, for the sake of the argument, that the $100,000 of the United States Government Bonds should not sell for

$100,000? Say they sold for only $75,000, would the noteholders lose the other $25,000, and he replied as follows:

"No, if the bonds should sell for only $75,000, the remaining $25,000 due the noteholders would be taken out of our assets, before any depositor got a cent."

You see, therefore, gentlemen, that our National Bank Notes are a first lien upon the assets of the banks that issue them, and that they will always be paid in full, before the depositors get anything.

MR. MANUFACTURER: I am very glad this point came up, and has been explained so completely and satisfactorily, because during the week when I was studying up this question of a credit currency, that matter came up, but I found no explanation or reasons given for making the notes a first lien. It seems to me to be a fundamental principle that they should be, and the reasons are the soundest for making them a first lien. The bank note is a tool or instrument of trade for the benefit of the public, and is of general importance, while the bank deposit is a tool or instrument for the benefit of the individuals composing that general public, and primarily of individual importance. The distinction between the two must be very clear to all of you as it is to me.

MR. LABORINGMAN: That is just as it should be. The working people should always have a currency as good as gold, something that will not turn to ashes during the night; that cannot deteriorate to the extent of a single cent; for we are all practically compelled to take whatever is in circulation, or comes along, in the way of currency. It should certainly be as good as gold. I don't care how you fix it, but I do insist upon that. I say that it is one of the very first duties of the Government to the people; for, of all the ways of doing the laboring masses out of their earnings, and cheating them, a depreciated currency is positively the worst. Make your currency redeemable in gold, and so safe that no toiler can lose by holding it any length of time.

MR. MANUFACTURER: I am quite sure that we all agree that not only should the bank notes be currently redeemed in gold coin, but to make them doubly safe, safe beyond any peradventure, they ought also to be a first lien upon the assets of the bank issuing them.

During the week I read somewhere that the Scotch Banks had been in operation 217 years, and that they did not start the deposit and checking system until they had been in operation for 140 years. During all that time they simply exchanged their notes for the notes of the farmers, the shopkeepers, the manufacturers and anybody who was entitled to credit.

MR. BANKER: Now, if you will allow me, I will produce some further historical evidence.

The greatest financial genius that the United States has produced, and one of the greatest the world has produced, drew the charter of the first United States Bank upon which the second was modeled. Both of these banks were pure credit currency banks, and were founded upon the very soundest banking principles; but both of them were the victims of political strife and party feud. No man who has ever lived more clearly comprehended the principle of credit than did Alexander Hamilton.

The highest note issue of the first United States Bank was $5,900,000, and deposits were $5,000,000.

The highest note issue of the second United States Bank was $23,000,000, and the deposits were $2,600,000.

In 1800, under the inspiration of Napoleon Bonaparte, undoubtedly as great an economist as soldier, the Bank of France was organized, and is the most striking single example in all history of the bank credit currency principle. It has to all intents and purposes always had the right of unlimited note issue, as the limit is always fixed far beyond the requirements of trade. The amount of the notes outstanding are usually ten times as large as the deposits. The notes now exceed $1,000,000,000, while the deposits are only about $100,000,000. In a single week there has been a conversion of $75,000,000 of deposits into notes, and a reconversion of a corresponding amount of notes into deposits.

As a result of the destruction of the second United States Bank by a veto of President Jackson, there were established in various states of the Union banking institutions, largely modeled upon the work of Hamilton. These institutions showed remarkable strength and rendered most significant service to those sections of the country where located.

Probably the most noted of them all was the State Bank of Indiana, organized in 1834, which continued its almost matchless career until 1866. It was a pure credit currency bank, marvelously suited to serve the people of Indiana, under the conditions in which they lived. Its capital was $3,300,000; its maximum of note issue was $5,700,000, always currently redeemed in coin. In 1857, during the crisis when every bank in the State of Indiana, and all the banks in New York, except the Chemical, closed their doors, the State Bank of Indiana kept on redeeming its notes in coin. This Indiana State Bank had thirteen branches. The central office was at Indianapolis. Hugh McCullough, afterwards one of the wisest secretaries of the Treasury we have ever had, was President of the Fort Wayne Branch. He wrote this interesting paragraph:

"Fort Wayne was three good days' ride from Indianapolis, mostly through the woods. For fifteen years I made this journey on horseback, and alone, with thousands of dollars in my saddle bag, without the slightest fear of being robbed. I was well known upon the road, and it was well known that I had money with me, and a good deal of it; and yet, I rode unharmed through the woods, and stopped for the night at the taverns and cabins on the way in perfect safety."

Another most signal success of the same credit currency principle was the Bank Act of Louisiana, which was passed in 1842. It was a model, not only for those times, but for these as well. All the banks had to settle their balances every Saturday night in coin. In 1860 Louisiana, as a result of this law, held more specie than any other state in the Union except one. The very day that Gen. Butler took possession of New Orleans, the banks were redeeming their notes in coin.

I might, if it were profitable, describe in detail the Bank of the State of Ohio; the Banks of the State of Kentucky; the Banks of Virginia; the Bank of the State of Missouri; the Bank of the State of Iowa. Everyone of them were signal successes, and everyone of them models worthy of imitation, and all of them were established and operated successfully as credit currency banks.

But I want particularly to rivet your attention upon the Suffolk Bank System of New England, which was purely the product of experience, and I may say a perfect development of the law of evolution in banking.

MR. MERCHANT: My recollection is that the Suffolk System covered all the six New England States, and that there were then over 500 banks in the system, with capital varying all the way from $25,000 to $700,000 each. Two other facts must be kept constantly in mind in this connection; they are these: 1st, the combined authorized note issue of these 500 banks was $131,000,000, absolutely unlimited to all intents and purposes; 2d, there was then no means of communication or transportation except the stage lines and horseback mail carriers. There were no telephones in those days, nor telegraph lines, nor even railroads.

MR. BANKER: I am more than pleased, Mr. Merchant, that you have brought out these points, before I proceeded to explain what actually happened in the course of the development of what I regard as the most marvelous exhibition the world has yet furnished us with, what in principle was practically a perfect banking system, and what was in practice as nearly perfect as any human institution could be under the circumstances.

MR. MANUFACTURER: Well, Mr. Banker, that is unqualified, literally unmeasured praise. If we ever had so good a banking system actually in operation in this country, I don't see why we did not have sense enough to keep it. I hope you will be good enough to tell us why we lost it.

MR. BANKER: That is a very important and most pertinent question, and certainly most natural that you should ask it. I should have covered that point before, but it will do just as well now.

Uncle Sam, you will remember that when you passed the National Bank Act in order to get the advantage of all the bank note circulation and so increase the sale of United States Bonds, you put a tax of 10 per cent on all bank notes for the purpose of preventing any bank from issuing them, except National Banks. The result was that you killed the State Bank of Indiana and all the other banks to which I have referred, which were then issuing notes in the United States, including the 500 banks in the Suffolk System.

MR. MANUFACTURER: I ought to say right here, before you go on, that the 10 per cent tax on Bank Note issues, while doing a world of harm, precisely as you say, did some good, too, because it prevented a lot of banks that were not properly organized, and were not compelled to redeem their notes in coin, from issuing a good deal of worthless paper, or comparatively

worthless paper. It is usually known as "red dog," or "blue pup," or some other kind of dog paper.

There are two things that resulted from the National Bank Act that I think should not be overlooked, though the act may have proved an economic failure. It gave us a uniform currency throughout the country, and it was of equal value everywhere, passing without charge, and at no time worth less than the credit of the Government, or the current value of the United States Note.

Therefore, if we are wise enough to take advantage of these two important results, our experience will not be wholly in vain. That is, we want a uniform currency throughout the country, in all the different states, passing in at every bank window, at face value, without charge, and unquestioned by anybody, because currently redeemed in gold coin everywhere.

MR. BANKER: These interruptions have been splendid and I thank you for them. You fellows have undoubtedly been studying up on this question, as we used to say at school, "You've been cramming up."

Now, returning to the Suffolk System, I want to assert there is not a question that can be asked by anyone, nor a point that can be made by anyone in favor of a banking system, that the Suffolk System does not answer and illustrate and exemplify.

Let me outline the situation:

1. It covered six different states.

2. It covered a large territory.

3. The facilities for communication were bad. Some parts of New England were as far from Boston then as San Francisco is now.

4. There were 500 individual, independent banks.

5. There was no branch banking.

6. The permissive note issue to all intents and purposes was unlimited. The possible amount of issue was $131,000,000, but the maximum amount of notes out at any time did not reach 50 per cent of this total, while the average amount did not exceed 33 per cent of it.

7. The Bank Notes of the Suffolk System were universally accepted at par throughout New England.

8. They were redeemed every day at Boston, in coin by the Suffolk Bank.

9. They were accepted in all commercial centers of the West, Buffalo, Cincinnati, Chicago, Milwaukee and St. Louis at a premium of from 1 to 5 per cent, because redeemed at Boston *in coin.*

The Suffolk Bank was the clearing house for all the bank notes of New England, and they were accepted at par, and redeemed in coin if demanded.

Horace White says:

"It was the underlying principle of the Suffolk Bank system that any bank issuing circulation should keep itself at all times in a condition to be able to redeem it; that it should measure the amount by its ability so to do; and that the exercise at any time of the right to demand specie of a bank for its bills was something of which the issuing bank had no right to complain....

"Under the Suffolk System of Bank Note redemption specie was seldom asked for, but it was always paid when demanded; *the metallic reserve was the touchstone of the whole business*."

The following is Mr. White's description of the operation of the bank:

"In 1824 two clerks could do all the work. In 1855 seventy were required, and the redemptions reached $400,000,000 per year. As the circulation of the New England banks at that time was about $40,000,000, the whole amount was redeemed ten times each year, or about once in five weeks.

"Any person engaged in a legitimate trade in any part of New England could exchange his promissory note, running 60 or 90 days, for the notes of a bank with which he could pay the wages of his employees, or buy the materials for his industry in any part of the United States or Canada. The notes would remain in circulation about five weeks, and then find their way to the Suffolk Bank, where they were offset by the notes of other banks which took their rise in the same way. The man whose promissory note the bank had discounted, and by means of which it had put its own notes in circulation, had meanwhile sold his products. If he had sold them in Boston, his draft on the Boston merchant would pay his note at the local bank, and this would enable the latter to keep its balance good at the Suffolk. If he had

sold them in New York or Chicago, he would get his pay in a draft on Boston, which would answer the same end. If he had sold them at home, and had received New England Bank Notes in exchange for them, the local bank could use these to keep its balance good at the Suffolk. New England trade was carried on by an endless chain of offsets and book balances at the Suffolk Bank. The security for the notes consisted of the bank's assets, and the banker's moral character and business sagacity. Both notes and deposits rested upon the same security that deposits rest upon now, and the volume of both was determined by the wants of trade."

The interplay of bank book credit and bank note credit under the Suffolk System in the panic of 1857 is nowhere equaled in the history of banking; and that demonstration of the perfect adaptability of bank credit to the most sensitive, and at the same time the most extreme situation that can possibly arise, leaves no question unanswered as to its fitness under all circumstances to meet the requirements of the people.

A year before the panic, the note issue stood at $50,000,000, and the deposits were $32,000,000. As a result of the panic, there was an exigent demand for currency, and the note issue rose from $50,000,000 to $56,000,000, and the deposits fell at the same time from $32,000,000 to $25,000,000, showing a conversion of about $6,000,000 of book credits into note credits, or of deposits into currency.

A year afterwards, when this exigent demand for currency had subsided, and the reaction had set in, the notes fell from $56,000,000 to $35,000,000, and the deposits increased from $35,000,000 to $46,000,000. In other words, $21,000,000 of notes were deposited and took the form of deposits, subject to check.

I do not need to state the fact, except for the purpose of calling your attention to it, that this currency did not cost the people of New England any more than deposits; for the two were constantly changing places with each other, strictly in accordance with the needs of trade.

MR. MERCHANT: Mr. Banker, I think we are all under the very greatest obligation to you for this elaborate explanation. This splendid illustration, yes, absolute demonstration of the perfect adaptation of bank credit to our currency needs. I want to compliment you upon another thing, and that is, your position that it is the bank's business to make provision for coin

redemption. What do we have our banks for except to furnish us credit in just the form we need it to carry on our business, and to keep that credit, in whatever form it takes, just as good as gold. That is the natural business of a bank. I never caught on to that fact before, and therefore could not appreciate it.

MR. MANUFACTURER: Mr. Banker, I have been greatly interested. Now, if that plan worked so perfectly in New England, I cannot see for the life of me, why every other section of the country cannot work out the same system. If the New Englander could coin currency out of bank credit, based on codfish and cloth, why cannot the western man coin currency out of bank credit, based on cattle, cotton and corn?

The crux of the whole matter, the very heart of the thing, the vital part is, that the bank be ready to redeem its notes in gold. Why shouldn't it, that's the question?

MR. BANKER: Well, it should, that is the answer to your question, and the bankers around every natural financial center in the United States should get together, and form just what those 500 bankers had in New England before the war, a perfect banking system of their own.

MR. MERCHANT: Mr. Manufacturer, that's sound and looks mighty good to me. Do you see any objection to it, any flaw in it?

MR. MANUFACTURER: No, I do not, except to persuade the people, as Mr. Banker has persuaded and converted us. Of course we will be up against some legal difficulties, won't we, Mr. Lawyer?

MR. LAWYER: I imagine that we shall have no serious difficulties about the legal questions involved, if we can persuade Congress. You see we are up against Congress and for about every thought the average Congressman has concerning a question of this kind, he has several about how he is going to get back into Congress at the next election; that's the real difficulty.

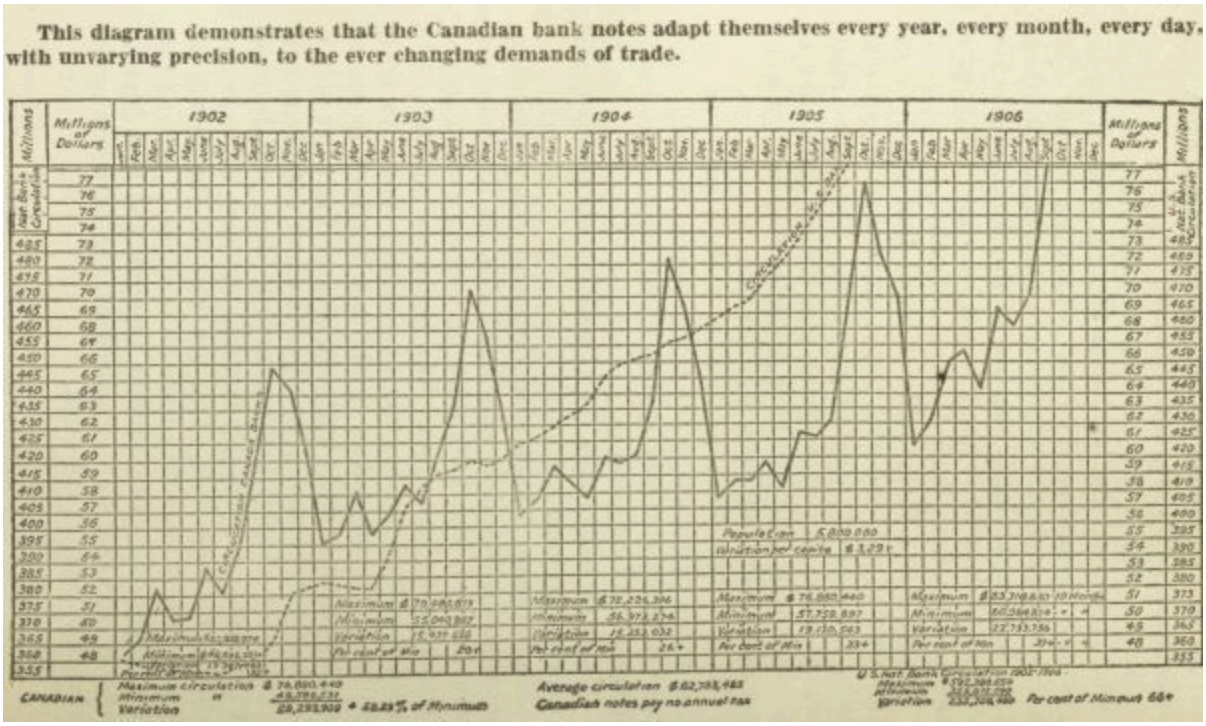
UNCLE SAM: Well, we'll see about that when we get this worked out, and we'll put it up to them before election, and find out where they stand. They must study this question just as we have, and if they can't show us a better way, they will have to come over, or they won't get over, that is all there is about that.

MR. BANKER: Well, gentlemen, when it comes to putting up an argument to the Congressman, we will shove the Canadian currency system under his nose, and keep it there until he gives in.

MR. MERCHANT: Are the Canadians using this credit currency system?

MR. BANKER: That's what they are. They started by copying the Massachusetts Bank Act, as it existed before the war, and have gone on making some changes from time to time since. The banks are authorized to issue regularly an amount of currency equal to their capital. The amount of capital has not been increased in proportion to their business, because there are only a few banks there now, 27 in all, with about 2,000 branches.

Here is a chart I had prepared to show you, because it illustrates so perfectly how the currency expands and contracts every Fall. You see that in the month of October every year they have an increase of about $3.80 per capita over the minimum amount, and that just as soon as the crops are disposed of, the currency again takes the form of a deposit.



This diagram demonstrates that the Canadian bank notes adapt themselves every year, every month, every day, with unvarying precision, to the ever changing demands of trade.

Total circulation of the chartered banks of Canada for each month of 1912 to Nov. 30th.

January	$88,065,521
February	88,920,598
March	95,918,404
April	95,145,371
May	93,819,333
June	102,011,848
July	95,827,534
August	101,501,270
September	104,334,287
October	110,696,877
November	115,473,098
Maximum issue	115,473,098
Minimum issue	88,065,521
Amount of Expansion	$27,407,577
Population of Canada	7,204,838
Per Capita Expansion	$3.80
Same expansion in the United States would amount to	$380,000,000

Under present conditions we do not have any note expansion whatever. Not one single dollar. Every "Fall" we have a tragedy, because we are compelled to use our reserve money to meet the increased demands for currency.

The above figures correspond in their *expansion and contraction* with the figures for many years previous, with one significant change in the date of maximum circulation, which has changed with the later farm demands due to the tremendous development in the great north-western territory. No stronger proof could be added to the marvelous way in which this bank credit currency automatically adjusts itself to any and every condition as it arises.

This currency goes to the Clearing House every day, precisely as the checks and drafts do, for redemption. And in those cities where there are no Clearing Houses, the banks present the notes they take in, to each other, and the notes are redeemed every day by the respective banks issuing them.

MR. MERCHANT: Gentlemen, isn't it marvelous how that currency adapts itself to the demands of the Canadian crop moving period? Why, if we had such a system working here, you would have an increase of currency every Fall exactly equal to our demands, probably $300,000,000. I have heard the amount variously estimated from $200,000,000 to $300,000,000. At all events, this principle would give us exactly the amount needed to meet the demands of trade.

MR. BANKER: That is precisely what would happen, and there would be no shipping currency to and fro, backward and forward from New York to Chicago and St. Louis, and then from these cities to a thousand other points; and then when the crops had been moved the currency must be shipped from the thousand points to St. Louis and Chicago and then on again to New York. The banks in every locality would create their own currency according to their respective needs, and at a cost of about one-fifth of what it costs them today.

As the matter now stands, gentlemen, if I want $10,000 currency I bundle up $12,000 or $15,000 of my commercial paper, and take it to my correspondent, and get the currency by giving my bank's note, and leaving the $12,000 or $15,000 of paper as collateral. Now, if you should ask my correspondent upon what he had loaned me $10,000 he would say, "my bank's credit and the commercial paper I left with him." But, gentlemen, why could I not issue $10,000 of my bank notes against my bank credit, and keep the $12,000 or $15,000 of commercial paper? Certainly if my bank's credit and the commercial paper were good enough for my correspondent bank to let me have $10,000 upon, they ought to be good enough to issue my own notes upon. The present situation is simply absurd and most troublesome, as well as most expensive.

MR. MANUFACTURER: I agree with you, it certainly is. I was talking the other day with a Congressman about the Canadian Currency system, and he said, "yes, it works fine up there, but they have a branch banking system up there, and only 27 banks." Well, I said, it works just as well in France with

one bank. It has been working in Scotland just as well with 12 banks for 217 years. It worked in Indiana with one bank and 17 branches. It was just as efficient and successful in Louisiana under a General Bank Act, where several banks were incorporated. And it worked in New England under the Suffolk system with 500 individual independent banks—why won't it work here? All he could say was, "Well, I don't know."

UNCLE SAM: Pinhead. Didn't know the difference between a principle and a fact, and he didn't even know the fact.

Now, boys, I am completely satisfied and if any one here is not, let him speak up, or forever hold his peace. I believe you must all be satisfied.

You must all be on time next Wednesday night so that we will not have to wait as we did tonight.

Good Night.

FIFTH NIGHT

WHAT IS EXCHANGE?

UNCLE SAM: Now, boys, let us see just what we have settled during the four nights we have been talking this matter over.

The first night we learned that gold was the standard of value, the whole world around.

The second night we agreed that gold coin was the only money we had.

The third night we agreed that the only currency that we had and ought to have was gold coin, the foundation and redeemer of all other currency and our token or subsidiary coins. We came to the conclusion and unanimously agreed that neither the United States Notes nor bond-secured bank notes were fit for currency, because not related to business transactions in their origin, that they were unresponsive to the demands of trade, and were five times as expensive as the right kind of currency.

The fourth night we agreed that the only true or correct currency was a credit bank note, currently redeemed in gold coin.

In other words, we agreed that gold was our standard of value, gold coin our money, and that our currency should consist of gold coin, the subsidiary coins and bank credit currency.

Tonight we want to find out, if we can, what Exchange is. This is a mighty important question for probably 90 per cent or nine-tenths of all our business is transacted in some form of Exchange. Mr. Lawyer, I want to put it up to you first. What is Exchange?

MR. LAWYER: Well, Uncle Sam, the best definition I can give, is to take one thing for or in the place of another. It is illustrated in a way by the old saw, "a fair exchange is no robbery." That describes the act of exchange, but I imagine that what you have in mind is the system or practice of exchange, as carried on today. That practice or system is only a multiplication of transactions where one man takes one thing in place of another. In this connection it means to take one credit in place of another credit; to take one debt in place of another debt. As now developed and applied to the commerce of the world, I would say that *the science of exchange is to substitute one credit for another credit, or to make one debt pay another debt*.

A debt is what is due from one person to another person. I have a deposit with Mr. Banker there, and I owe Mr. Farmer $20 for a load of potatoes; if I draw a check upon Mr. Banker for $20 in favor of Mr. Farmer, and hand it to him, I have paid my debt to Mr. Farmer with Mr. Banker's debt to me.

MR. MERCHANT: Now, Mr. Lawyer, just hold on a minute until I find out a thing or two before we go any further. In fact, I am sure everyone here would like in the outset to find out the same things, except possibly Uncle Sam, who ought to know everything, and is probably omniscient, Mr. Banker, who deals in these things, and you, Mr. Lawyer, who are presumed to know about them, and must know them, as a matter of necessity in your practice. What I want to know is:

1. What is a promissory note?

2. What is a check?

3. What is a draft?

4. What is an acceptance?

5. What is a bill of exchange?

Until we know precisely what these various terms signify, or mean in banking, when put into use, we shall soon be so far out at sea that we will not know what we are saying, because we do not know the meaning of the words we are using. This will be true of some of us at least. We must familiarize ourselves with these words, or terms.

MR. BANKER: If you will allow me, I will try and explain and tell you what these various terms mean, and what use we make of these several instruments in writing.

First: A Promissory Note is a written promise to pay some one a sum of money. It may be either to pay it immediately, or on demand, or at some future day; to pay it either with or without interest; or to pay it at some particular place.

MR. MERCHANT: It is just a written acknowledgment of a debt, isn't it?

MR. BANKER: It is a written acknowledgment of a debt, coupled with a promise to pay it. If A owes B $1,000, and gives his note for that amount, and B sells the note to C, the note has become exchange. It is not the usual form of what is called exchange, but is nevertheless just as truly exchange; for suppose that C owes A $1,000, he can then cancel the debt by delivering him the note for $1,000. C has paid his debt to A with A's debt to B.

Second: A check is a written order on a bank to pay money on demand. It may be drawn to cash, or it may be drawn to bearer, or it may be drawn to the order of some one. If A owes B $1,000 and A has a deposit at a bank for that amount, A can cancel his debt to B by giving him a check on the bank for $1,000. The check is exchange, though not in the usual form of what is known as exchange, for A has canceled his debt to B by giving B the bank's debt to him.

Third: A draft is a written order from one person to another to pay a third person a sum of money.

An acceptance is to write across the face of a draft, payable at a future time, the word "accepted," and the signature of the person accepting it.

If A is owing B $1,000 and C is owing A $1,000, the debt to B can be paid by A's draft upon C. The draft is identical in every respect with the check, the difference is in form only, and the use of them. A check is only used when the order to pay money is upon a bank. A draft may be, and often is used when the order to pay money is upon a bank. A check, properly or correctly speaking, is never used in an order to pay money upon an individual or corporation, but a draft is invariably used in such cases.

The transactions are identical in effect, though the conditions, or circumstances, are different. Both the check and the draft are exchange.

Fourth: When a draft has been accepted, it becomes the promissory note of the one accepting it, as he promises to pay it on the day named in the draft. An accepted draft is only another form of a promissory note, for if A owes B $1,000, and B draws upon A for that amount, and A accepts the draft, A is in precisely the same position as he would have been if he had sent B his promissory note for $1,000.

In the banking world a draft, after it has been accepted, is often called and known as an "Acceptance."

Fifth: A Bill of Exchange in its ordinary or usual sense, is an order of one person upon another to pay a third person a sum of money.

MR. MANUFACTURER: That is precisely what you said a draft was.

MR. BANKER: Just wait a moment, please, until I finish, and you will note the difference. The Bill of Exchange is the medium of settling accounts or debts between parties residing at a distance from each other, without the intervention of money by exchanging checks or drafts.

MR. MANUFACTURER: Then they are identically the same thing except a bill of exchange acquires its name from the fact that it settles debts at a distance.

MR. BANKER: That is the exact distinction, if one is to be made at all, and I think it will be well for us to make this distinction to save confusion in our conversation, although in the ordinary and usual language of the street, or the business world, the terms, or words, "draft," "acceptance" and "Bill of Exchange" are used indiscriminately the one for the other.

If the definition of Mr. Lawyer stands, and I think it is a very good one, when he said "the science of exchange is to make one debt pay another debt," the science of Bills of Exchange is to make one debt pay another debt at a distant point. This is not a distinction fully without a difference, because it helps us to classify the transactions and distinguish them in a way as we go along.

A simple illustration is this: A, who lives in Boston, owes B, who lives in San Francisco, $1,000, and C, who lives in San Francisco, owes D, who lives in Boston, $1,000. B and D could exchange drafts with each other; then B and D could collect each other's drafts. But B could sell his draft on A to C for $1,000 and C could pay his debt of $1,000 to D by forwarding him the draft on A. D would then collect the draft on A. It will be seen at once that this transaction has saved the expense of sending $1,000 in money from Boston to San Francisco, and also of sending $1,000 in money from San Francisco to Boston at great expense by express. This transaction between Boston and San Francisco is known and called a transaction in Domestic Exchange.

If A, who lives in New York, owes B, who lives in London, $1,000, and if C, who lives in London, owes D, who lives in New York, $1,000, B, the resident of London, can draw on A in New York, and sell the draft to C, who resides in London, and C could pay his debt to D, who resides in New York, by forwarding B's draft to D, who resides in New York. D could then collect the draft from A. It is perfectly clear that by means of this transaction, the expense of sending $1,000 in gold from New York to London, and also the expense of sending $1,000 in gold from London to New York, has been saved.

This draft would be Foreign Exchange, because the cities are in two different countries.

MR. MERCHANT: According to your illustration, Mr. Banker, if our sales of cotton, grain and meat to Great Britain should amount to $1,000,000,000 a year, and the sales of Great Britain to us of woolens, silks, cotton and cloth and other manufacturies should amount to $1,000,000,000, we would not have to transmit a single dollar of gold either way, because the debts would just cancel each other. If the debtors in the United States could find out who

the debtors in Great Britain were, then they could exchange debts with each other. The debts of the two countries would just offset each other.

MR. BANKER: That is absolutely true, and it is entirely possible that the $2,000,000,000 worth of goods in the two countries could be bought and sold without moving a single dollar's worth of gold either way across the Atlantic.

MR. MANUFACTURER: Well, that is just what we want to do and save the expense and trouble of transmitting the money, and it is up to you, Mr. Banker, to explain just how we are to accomplish this trick or feat, because it will save a tremendous expense, if this can be done.

MR. BANKER: Yes, and will bring other advantages to the business interests of the country of almost incalculable importance, as we shall soon see. Now, the question is how to gain these ends. Two things must be accomplished in this connection, if we are to profit by every advantage that can possibly be taken in our trade with each other, as well as in our trade with other countries.

First: The Bills of Exchange must be of such a high character as to invite those, who need them to pay debts with, to take them unhesitatingly.

Second: The Bills of Exchange must become known to those who may want to use them to pay debts with, instead of shipping the actual money.

MR. MERCHANT: Of course, you gentlemen are aware that our debts abroad are being settled in just this way today to a very large extent, and I do not think that you need worry very much about the Bills of Exchange not becoming known to those who need them to pay debts with, if they are made of such a high character as to command a market, for the market will at once develop and make itself felt. That is, I mean a general market for Bills of Exchange of unquestioned character. The only thing for us to do is to give our Bills of Exchange such a standing as to command ready and general acceptance in the commercial world. How can we do that?

MR. BANKER: That can be accomplished in a very simple, easy and natural way, if we will only adopt it. Let me illustrate what I mean.

Today, A, living in this country, sells a bill of goods, say for $50,000, to some one in Great Britain; the purchaser in Great Britain arranges with his bank to accept a 60 or 90 day bill drawn on it by the American shipper.

Such drafts are drawn on well-known bankers, and when accepted become virtually a time-deposit at the bank, and therefore can always be disposed of at the lowest current rate of interest. This arrangement is a very great advantage to the English business man, as it enables him to use the high credit of the bank in carrying on his business.

At the present time our National Banks are not authorized to accept drafts made in this way, but if they were authorized to do so, the credit of our banks would be given to the drafts made by one business man upon another whether the drafts were domestic or foreign. Such an obligation is the most desirable one for a bank or an investor to hold, as a temporary investment for the following reasons:

First: The draft arises out of a transaction where goods passing from buyer to seller are equal in value to the face of the draft. The goods are actually in transit, and the draft is economically a title to the goods.

Second: The seller is invariably good, or at least thought to be.

Third: The buyer is invariably good, or thought to be.

Fourth: The bank accepting the draft is invariably good, or believed to be. But above and beyond that no bank will engage in such a transaction, without making itself absolutely safe in some way.

MR. MERCHANT: Mr. Banker, if we should adopt that principle in this country, we would at once make every dollar's worth of goods in transit, or ready for shipment, a liquid asset, practically a cash asset, as we shall see, for the American merchant and manufacturer; because a large amount of capital would at once be attracted to this field for steady employment, or temporary investment.

MR. MANUFACTURER: There is nothing so essential to relieve the constant strain upon individual credit and mobilize the really liquid wealth of the country, as the creation of the kind of paper you have just described. Think of it for a moment; there are the goods in transit, the shipper, the buyer and the banker back of the paper that will be coming due within the next sixty or ninety days. You can hardly imagine anything safer, and more quickly convertible into cash.

Money available for the purchase of such paper would come from many sources, among them the following:

First: Corporations would immediately be organized to deal in such paper.

Second: All strong business houses, merchants and manufacturers would prefer to hold such paper instead of stocks or bonds, for their surplus funds during their slack seasons.

Third: Bankers of all classes, both in the country and city, would find such paper preferable to any other form of investment for a secondary reserve, and for their surplus funds during slack periods in their respective sections.

Fourth: If acceptances are limited as they should be to goods in transit, or on the road to consumption, the adoption of this principle will mark, indeed will accentuate, the strong, the fundamental difference between liquid assets and the more fixed forms of investment, such as bonds and stocks. Banking capital employed in this way can far more readily adjust itself to the exigent demands of liquidation in the case of a panic, or a commercial crisis.

Fifth: Undoubtedly, to a very large degree, foreign capital would be attracted to our market for this kind of paper, because its strength and liquidity has already been proved to the bankers and capitalists on the other side of the Atlantic. And whenever capital was required, the rate of interest would be such as to be inviting. In other words, the rates of interest would rise, correspondingly with our needs, and the entire commercial world would be our possible market for the commercial paper representing the economic title to the five or six billions of finished goods that are always passing from the producer to the consumers in this country, and to the consumers abroad.

MR. BANKER: Undoubtedly, we should soon have right here a general market to take care of all this kind of paper; and it ought to become soon the strongest and broadest market in the world for this kind of an investment, considering our vast commercial resources. All of our Bills of Exchange would be drawn in dollars, not francs, marks or pounds sterling, and we would put upon them the stamp of the eagle, and not the lion and the unicorn.

UNCLE SAM: I like that. It stirs my blood, warms the cockles of my American heart. That's business.

MR. MANUFACTURER: I understand that for such Bills of Exchange, those accepted by banks, there has grown up in London, Paris, Berlin, Amsterdam

and many other European centers, a large market, known as a discount market. Indeed, that this form of paper constitutes a very essential feature of the commercial transactions of all European financial centers.

MR. BANKER: That is true, and unless we follow them and adopt the same principle, and facilitate in the same way the protection, transportation and distribution of our commodities, needed for current consumption, we will continue to work under a very great handicap, as compared with our foreign competitors. Moreover, we will again find it difficult, if not impossible, to adjust ourselves to those periods of contraction which must come from time to time, without almost immeasurable losses, and the consequent stagnation in business that is sure to follow.

MR. MERCHANT: I appreciate what Mr. Banker has just said. I am confident from my observation during the panics of 1893 and 1907 that our greatest injury came from the shock to business due to the fact that there seemed to be no real relief from the strain until there was an actual breakdown all along the line. Now it is evident that if a large amount of capital were employed in the economic titles, as it were, to our consumable commodities in the form of Bills of Exchange and the market for them extended to the financial centers of Europe, as seems probable, indeed certain, whenever the rate of interest was high enough, we should pass through any future strain, without the usual tragic results. Of course this added facility to the investment of our Bills of Exchange will not be a cure-all, but it will certainly correct an obvious and a very great defect in our present method of doing business.

MR. BANKER: Certainly it will not be a cure-all, because it is only an added facility in our credit system, and therefore must be provided for precisely as a corresponding amount of loans should be. You see, don't you, that an acceptance by a bank is practically the same thing as a loan to the buyer and seller of the goods jointly, or to one of them with the other as an endorser. The only difference is this: that if a loan is made the money would be placed at once to the credit of one of them, subject to his check, while the acceptance is an agreement to pay the amount on a future day. The bank must take precisely the same precaution in securing or protecting itself, and should carry identically the same reserve against acceptances that it does against its deposits subject to check.

MR. LAWYER: That is true, for if the buyer and seller fail to make good, and meet the draft, the bank must pay it precisely as a bank must pay the checks of its depositors, even though the borrowers of those deposits do not pay their promissory notes when due. In reality and in fact the results are identically the same, therefore I agree with you, Mr. Banker, that a bank should carry the same reserve against its acceptance liability as against its deposit liability.

MR. MANUFACTURER: Mr. Banker, have Bills of Exchange and bank acceptances been used very long, or are they something quite new and modern?

MR. BANKER: The Lord only knows how ancient they are. However, it is undoubtedly true that the use of them, especially acceptances, has grown enormously in recent years. For it is now a universal practice at all financial centers throughout Europe.

The bank liabilities of the whole world were only $16,000,000,000 in 1890, while today they are upwards of $50,000,000,000, possibly as much as $55,000,000,000. This almost appalling increase is due not only to the growth of international trade and the expansion of the credit system in foreign trade, but to domestic production as well. Of course an acceptance is the natural counterpart of a Bill of Exchange.

Bills of Exchange, or something accomplishing the same purpose, were in use among the Greeks. The history of the subject is buried in much obscurity.

It is stated upon high authority that among the bankers of the Roman world there existed a certain method or means of effecting payments abroad.

MR. LAWYER: Here is what one author, Wilbur Aldrich, says:

"From the beginning of the Christian era the Jews became dispersed and, shut out from other trades and occupations, became usurers, or money-lenders at interest, a business which by the Canon law was forbidden to Christians. The Jews were united by such strong ties that their business assumed almost a corporate aspect. They bought, sold and transferred for collection part of the many debts constantly owed to them, and became practically an international exchange community. Their practice gradually evolved the Bill of Exchange.

"Rivals of the Jews, and more given to money changing, Lombard and other Italians naturally also became exchangers. Many large Italian houses included whole families, and had branches in many cities widely separated. The financiers from each city in Italy and from associated leagues of such cities, frequently united for exchange purposes. Italian finance thus grew into a great system of international exchange. Among the great fairs of the Middle Ages, under the influence of the Italians, some became connected chiefly with the business of exchange; Piazenca, the most noted of the fairs of exchange, was practically a clearing house for foreign exchanges.

"The Bill of Exchange was already in frequent use in the middle of the thirteenth century, but at this time its form was that of a document certified before a notary. At the end of the fourteenth century, it had approached the form now in use. It should be added that the Bill of Exchange was drawn only by the money changers and the bankers that had branches or agents.

"The business of bill broking grew up in England towards the end of the fourteenth century. The issuance of Bills of Exchange, based upon genuine business sales of goods, was recognized as a legitimate source of gain by the Canonists; or the ecclesiastic lawyers."

MR. BANKER: You *see*, Mr. Manufacturer, from what Mr. Lawyer has just read, Bills of Exchange, in practically the same form that we now have them, have been in use about 500 years. However, we are not now so much interested in a post mortem of the Bill of Exchange as we are in its place in our commerce. What we are most interested in is, just what part the Bill of Exchange is playing in the trade and commerce of today. What we want to get clearly fixed in our minds is what it is, and what it does, as distinguished from other instruments of trade.

First: For the purpose of a definite idea of just what exchange is, let us remember that exchange includes every written promise or order to pay money that is used to substitute one credit for another credit, or to make one debt pay another debt.

Second: That Bills of Exchange (sometimes called drafts, or acceptances, indiscriminately) are promises or orders to pay money which are used to substitute one credit for another credit, or to make one debt pay another debt, at some distant city. If the cities are in the same country, the Bills of

Exchange are called Domestic Exchange. If the cities are in different countries, the Bills of Exchange are called Foreign Exchange.

Third: Let us agree, gentlemen, that so far as we are concerned we should not, and shall not, consider the acceptance of any draft by a bank as legitimate, unless the draft has grown out of an actual sale and shipment of goods. In other words, what I want to impress upon you is that if the draft is the economic title to goods, which are moving from the producer to the consumer, the liability of a bank upon an acceptance is reduced to a minimum. Acceptances of drafts growing out of sales and shipments of goods will never be a source of dangerous expansion, because they will liquidate, or pay themselves out, as the goods will be wanted to eat, to wear, to use, or to go into other manufactures, almost immediately.

Fourth: I want to nail one fact down right here so that no one of you will ever overlook it, or forget it; and that fact is this: An acceptance is just as much a bank liability as a deposit subject to check, for if the seller and buyer, or the drawer and the drawee, don't pay the debt on the day named, the bank will have to pay it, just as much as it will have to pay the checks against its deposits, although the people who borrowed the deposits have not paid their notes. It is clear, therefore, that the same reserve should be carried to protect acceptances as deposits.

Mr. Lawyer: I am convinced of that, and I think we cannot insist upon this conclusion too strongly for two reasons. First, the credit facilities for trading, or carrying on business, are increasing at a tremendous rate, and this particular form of credit is probably increasing at a greater pace just now than any other. Second, there is no form of credit more indirect, subtle and liable to mislead than this; therefore, it will require double diligence to keep it as good as gold. We must remember that since gold is our standard of value, gold alone is the touchstone of all credit, acceptances as well as deposits and bank notes.

Mr. Banker: There is no question whatever about that. If we want an absolutely sound and impregnable financial and banking system, we must meet checks and acceptances with gold just as well as bank notes, for they are all identical and the same thing—only in different forms—bank credit. Gentlemen, if you place our banks in a position where they can pay gold no

one will ever ask for gold, except for some special purpose like that of export.

MR. MERCHANT: Is it not a fact that credit transactions in business are increasing every year?

MR. MANUFACTURER: Mr. Merchant, I presume you mean, relatively. That is, that the proportion of business transactions in credit as distinguished from cash is greater now than formerly.

MR. MERCHANT: That is precisely what I mean, of course. I am aware that there is on the average a great increase of business every year.

MR. BANKER: In some localities credit transactions are increasing, but in others they are practically at a standstill. For example, I suppose if you should take some country town in a cotton-growing district, the amount of cash used from August to January might be 75 per cent of all the transactions; for the planter pays the pickers and all the laborers cash, and they in turn pay the storekeeper; during other periods of the year, when accounts are running, the cash used is much smaller. The average amount of cash used gradually falls as the people come to use banks more and more, the bank checks taking the place of currency. Generally speaking, however, the average country community does about 60 per cent of its business with currency, while the medium sized cities, or towns, do possibly as much as 60 per cent of the business with checks. In the largest cities as much as 90 per cent of the business is done with checks, while the clearing houses settle their differences or balances with about 5 per cent of actual money, where money is used. Sometimes the differences or balances at the clearing houses are settled by checks or drafts on a financial center.

While we have no definite figures that justify a positive statement, it is generally estimated that about 90 per cent of all the business of the country is done with some form of credit instrument, checks, drafts, or bills of exchange.

MR. MERCHANT: Then all forms of exchange, promissory notes, checks, drafts and bills of exchange are really mediums of exchange in precisely the same sense that gold coin and currency are mediums of exchange.

MR. BANKER: Certainly they are all just as efficient as mediums of exchange, as gold coin and other forms of currency, although not as facile

for small trade. But, in large transactions they are far more expeditious, more convenient, cost much less, and involve less risk. These are the reasons they are used instead of cash to so large an extent.

UNCLE SAM: Boys, from the attention that you have given this subject it is evident that you are mightily interested, for you have had to work a good deal harder to understand what you were talking about than usual. But we have arrived, we have really gotten somewhere, difficult as Exchange is generally thought to be.

Now, in order to fix in your minds just what progress we have made during these five talks, I want to review what we have accomplished, or agreed to.

The first night we found out that our standard of value was gold. The second night we decided that our money was gold coin and that nothing else would do. The third night we found out that our currency was gold coin, token money, United States Notes and bond-secured notes; we also found out that the United States Notes and bond-secured bank notes were not fit for currency. The fourth night we determined that the only currency in addition to our gold coins and token coins worth considering for our purpose was a credit bank note, or bank credit currency. Tonight we have found out what Exchange is and that nine-tenths of our business is done in some form of it; but that we must keep it as good as gold by holding adequate reserves to protect this form of credit as well as any other.

Now, I call that going some.

MR. MANUFACTURER: Uncle Sam, last Wednesday evening, during our discussion, Mr. Banker frequently used the word "reserve" in connection with our currency, and insisted that the reserves should be such as to protect the currency, and tonight he has again used the word "reserve" in the same way in connection with exchange. While I know in a general way what he means, I am not at all sure that I comprehend fully what a reserve is in its true and broader sense.

MR. FARMER: Nor do I, and to confess the truth I am a little dazed on that very point, and I want to suggest that we spend the next night finding out what a bank reserve is. If all that Mr. Banker has been saying is true the reserve is certainly the hub of this wheel, and I want to tell you now that

unless the hubs of your wheels are all right, you won't have much of a wagon when you get through.

MR. BANKER: That's right. Your reserves are the very heart of the whole question, the hub of the wheel.

UNCLE SAM: Well, then, we'll have reserves up next Wednesday, and let us hope that our reserves will never get down, at least to a dangerous point.

Good Night.

SIXTH NIGHT

VALUE, PRICE, WEALTH, PROPERTY, CREDIT

UNCLE SAM: Well, boys, what about reserves?

MR. LAWYER: Uncle Sam, soon after we departed the other night, I began to think over the subject of reserves; but soon found myself considering several other points, which, it seemed to me, we should take up before reserves. Therefore, without consulting you, I telephoned Mr. Merchant, Mr. Banker, Mr. Manufacturer, and I saw Mr. Laboringman and talked the matter over with him. We all agreed that there were several other points that we should discuss tonight instead of reserves. I knew that Mr. Farmer lived on a Rural Free Delivery route, and that I could reach him by noon the next day or Thursday morning; so here we are ready to talk about something else. And we came to this conclusion without even consulting you, for which possibly we ought all of us now to beg your pardon.

UNCLE SAM: Well, there you go again. Really, I feel as though I were in about the same position that one of my wisest Presidents, Abraham Lincoln, said he was in, with regard to his influence over his Cabinet. You will remember he once said, "I don't believe I have any influence with the present administration, anyway." Of course, we all know that was one of Honest Abe's sly drives, because he knew deep down in his soul that in the end he was always the master of ceremonies. However, what is it that you want to talk about? Of course, you understand, that under the

circumstances, having made the arrangement to talk about reserve, "I am completely upsot."

MR. FARMER: Well, I'm the fellow that suggested that we talk about reserves tonight; but I am sure that the change made was most advisable. To use an ugly illustration, possibly ugly to this august assembly, we now have our horses representing the standard of value hitched up to our wagon which represents our currency and exchange, the things that carry the value, wealth, property, and all commodities that go by price, the trades having been made on credit, but calling for capital. I think with Mr. Lawyer that we had better find out just what these various words or terms mean before going any further. Otherwise we will certainly be using words whose meaning we do not know, or, at least, do not properly appreciate.

MR. MERCHANT: Now just what did you say; value, wealth, property, capital and credit? That all sounds very well, but I suggest that you include one more word that has always been a source of annoyance to me when I want to buy anything, and most unsatisfactory when I want to sell anything, and that is "price."

MR. FARMER: Oh, I had that in all right, but I will admit, in a sort of backhanded way.

MR. BANKER: All right, then, let us include price in the list; then the programme for tonight is, value, price, wealth, property, capital and credit.

MR. LABORINGMAN: Just what do you mean by the value of anything? That is, what is value anyway?

MR. MANUFACTURER: I have been studying over that very thing, and I believe I can give you a definition that will wash. The value of anything is measured by the use to which it is put, and is expressed in anything for which it is exchanged.

MR. FARMER: I have been mulling over this question of value a little myself, and I think that Mr. Manufacturer has that about right. I worked it out this way: I have an old horse down on the farm that I traded for, giving Hiram Johnson, my neighbor, a mule. That mule was a mighty handy animal. I could do anything with him on the farm, but he was a little too handy with his hind legs occasionally, so I traded him off to let him practice on my neighbor Johnson. Now the value of that mule was that horse that I got in

exchange for it; and the value of that horse was the mule. So, too, if I traded a hog for a sheep the value of the hog is the sheep, and the value of the sheep is the hog.

MR. MERCHANT: Hold on just a minute before you go any further, as I want to know whether anyone here can tell me what intrinsic value is. We heard so much about that during the campaign of 1896; and I want to know whether there is anything in it or not. I ran up against the same expression in one of the books that I thumbed away back in 1896. And today you sometimes hear men say that gold has intrinsic value. Now, according to your definition, if no one could use gold, or rather did not use it and you could not exchange it for anything else, it would not have value.

MR. BANKER: Precisely so. Nothing is more absolutely true than that. Gold, like everything else, gets its value from the demand for it, which comes from its use and its consequent exchangeability.

MR. LAWYER: That is undoubtedly true, all the value that gold has arises from its use and exchangeability, and its exchangeability arises from its universal use.

It may be said, possibly, that the value of anything is measured by the use to which it can be put; but I believe that it is all covered by the latter part of the definition given by Mr. Manufacturer: *The value of anything is any other thing for which it can be exchanged.* Anything has value when it is exchangeable; when it is not exchangeable it has no value. What is really more in keeping with our common everyday language, is the definition of the Roman Law, "The value of anything is what it can be sold for."

MR. BANKER: Yes, that is true in one sense, but I think we had better make a distinction between receiving money and something else. If you exchange anything for money, the amount of money received is more properly called its price.

MR. LAWYER: You are right; I think we should make just that distinction: "The value of anything is the thing you receive in exchange for it." *The price of anything is the money you receive in exchange for it.* Of course in everyday conversation, we are constantly using value and price indiscriminately. We ask, what is the value of something, when we want to know the price of it.

UNCLE SAM: Well, you have made short work of two topics or points raised already.

MR. FARMER: Yes, and if we keep our noses to the grindstone, our eyes on the sickle we are grinding, and our feet on the ground, we'll make headway right along.

MR. LABORINGMAN: I think anybody can understand this subject, at least so far anyway. We may get over our heads before we get through, but I know I'm all right yet.

UNCLE SAM: The great thing to do in a discussion of this kind is just what you do in any other matter. Talk common sense. Just talk horse sense. Do you know I flatter myself that the common sense of the American people is the wealth of the country?

MR. LAWYER: Wealth, did you say, Uncle Sam? Why that is just what we are going to talk about. It may be that common sense is the source of most of the wealth of the American people, but really, Uncle Sam, with all due deference to you, I do not think you can call it wealth. Aristotle said: "We call wealth everything whose value is measured by money."

MR. BANKER: That definition of Aristotle has never been improved upon, and today all students, scholars and economists have accepted it as correct. And, while others have talked without limit and written books without number about wealth, no one has improved upon what Aristotle said wealth was. Just keep this simple inquiry in your minds: "Can it be sold for money," and, remember that "whatever can be exchanged for money is wealth."

Let me illustrate just what I mean. If I have land, houses, cattle, horses, cotton, corn, or any other material thing that I can convert into money, they all constitute wealth. Again, if I were a lawyer, a doctor, farmer, bricklayer, engineer, musician, or painter, my services would be wealth because I can sell them or exchange them for money. Again, there is still another kind of wealth that may be described by the single word "rights," such as mortgages, bonds, stocks, bank notes, checks, drafts, bills of exchange, copyrights, patents, good will of a business, etc., all these various things are also wealth because they can be exchanged for money. They can all be bought and sold.

Let us remember this then, that all wealth is one of these three things:

First: Wealth is material, land, etc.

Second: Wealth is labor, work, etc.

Third: Wealth consists of rights, checks, notes, bonds, etc.

Mr. Lawyer: Then, if I understand you correctly, you say a man is wealthy because he has a good deal that he can turn into money. Of course I am aware that a man may be considered wealthy in one community, and in another community the same man with the same amount of wealth may be considered a comparatively poor man—in other words, everything is relative. A man worth $50,000 in some small country town may be considered, and properly so, a very rich man; but on Fifth Avenue, New York, he would be considered a comparatively poor man, because it might take $50,000 to pay a year's rent for a house.

Mr. Laboringman: You bet I can see that point all right.

Mr. Farmer: It seems to me as though you have made that perfectly clear, but I want to tell you boys that when I tried to study up on this question during the week, I got all balled up on the words property and wealth, for I cannot see the slightest difference between these two words.

Mr. Lawyer: Well, I think there is a very great difference; and I think I can demonstrate to you by an illustration right in your own neighborhood just what the distinction is between these two words. You will remember, Mr. Farmer, when that mill located over on Carroll River, and that big dam was put in, Mr. Adams, a man whom you and I both know very well, owned all the land in that neighborhood. You will remember that he proceeded to borrow money and build houses for the employees who wanted to come and work in the mill. I think he built as many as 150 houses for that purpose. You will remember the dam washed out and that they did not rebuild it; and as a consequence the mill closed down. The result was the employees all left, and Mr. Adams was involved to a very large extent, I think something over $200,000 all told. Now he still has the property, but the insurance company has the mortgages—in fact, Mr. Adams has a great deal more property now than he had before the mill located there, because he has the land and the 150 houses, but he has a good deal less wealth. For when the mill located there, Mr. Adams' wealth exceeded $100,000, but after the mill

closed he could not rent or sell the houses to anyone. Now the evident result was that he had increased the amount of his property, for he had 150 houses, but he actually had no wealth left. His property was what we lawyers call corporeal property, that is, material property, land, and buildings. The insurance companies which held the mortgages had a very different kind of property, called by the lawyers incorporeal property, that is, not material property but an interest in the real or material property.

I think you will all agree that while Mr. Adams still has all his property, all the wealth there is left belongs to the insurance company which holds the mortgages.

MR. MERCHANT: Mr. Lawyer, is it not true that you could and would say that a man had a lot of property if he owns say 100,000 acres of land worth only 25 cents an acre, even if it was not salable at all?

MR. LAWYER: Yes, I think that is true, and illustrates in another way that there is or may be a real difference between property and wealth; however, it may be said that in conversation we often use the words wealth and property without much, if any, distinction. It seems to me that we should note this particular difference. *Wealth consists of property convertible into money, and therefore implies exchangeability, while property may not mean wealth at all, because the property has no exchangeable value.*

MR. BANKER: Mr. Lawyer, I think that that last statement of yours will assist Mr. Farmer very greatly in understanding the real difference between wealth and property. The difference is certainly very evident.

MR. FARMER: Yes, I have caught on. There may be a very great difference between wealth and property, although we are in the habit of using these two words without any reference to the special meaning that really attaches to them. In our conversation we use them indiscriminately, and I don't know as that makes any difference; but for our purposes, that is, for the purposes of these discussions, I think it is very important that we should know the difference; because something may arise that will compel a recognition of the real difference between these two words.

MR. BANKER: I was just going to remark that the very difference between these two words suggests one of the other words we have agreed to consider

tonight, and that is the word "capital"; for capital is a form of wealth, although all wealth is not capital.

Wealth, as we have seen, consists:

(1) Of material things, such as houses, land, etc.;

(2) Of productive power, called labor, etc.;

(3) Of rights, such as checks, notes, bonds, etc.

The owner of these things may use some of them for his convenience. He may so use some of them as to produce a profit. Now, when anything is traded with, or so used as to produce a profit, or as we often say used productively, it is called capital.

Stephens defines capital thus: "Capital, the source whence any profit or revenue flows."

So Senior says: "Economists are agreed that *whatever* gives a profit is properly called *capital*."

Again M.D. Fontenay says: "Wherever there is a *revenue*, you perceive *capital*."

MacLeod says: "Capital is an economic quantity used for the purpose of profit." I would suggest that we say *Capital is anything used for the purpose of profit*.

MacLeod uses this language also: "If a person has a sum of money, he may expend it on his household requirements; or in gratifying his personal taste by buying books, or statues, or pictures, etc. Money spent in this way is not *capital*.

"But if he buys goods of any sort for the purpose of selling them again with a *profit*: Then the money so employed is '*capital*,' and the goods so purchased are also *capital*, because they are intended to be sold with a '*profit*.'

"So money let out at interest is *capital*.

"In a similar way any material thing may be used as capital. If a landlord lets out his land for the purpose of profit, it is capital.

"All modern economists class personal skill, ability, energy and character, as wealth, because persons can make a profit by their use. Hence they may be used as capital, as well as material objects.

"If a man digs in his garden for his own amusement such labor is not capital; or if he sings or acts or gives gratuitous lectures on any subject to his friends, such labor is not capital.

"But if he sells his labor in any capacity for money: then such labor is capital for him. Thus Huskisson says: 'that he had always maintained that labor is the poor man's capital.' So Mr. Cardwell addressing his constituents said 'labor is the poor man's capital.' And a writer in a daily paper, speaking of agricultural laborers, said: 'The only capital they possess is their labor, which they bring into the market to supply their daily wants.'

"So if a man expends money in learning a profession such as that of an advocate, physician, engineer, or a profession of any sort which he practices for profit, the money laid out in acquiring such knowledge is capital: and his skill, ability and knowledge are also capital. He makes an income which is measurable and taxable, just in the same way as if he had made profits by selling goods.

"Now, there are two fundamentally distinct ways in which capital may increase:

"1. By direct and actual increase of quantity; thus flocks, and herds, and all the fruits of the earth increase by adding to their number and quantity.

"2. By exchange.

"That is by exchanging something which has a low value in a place, for something which has a higher value.

"Now, it is clear that money produces a profit, and becomes capital, by the second of these methods. Money is used as capital by exchanging it for some goods or labor, the produce of which may be sold or exchanged again, for a greater sum than they cost."

MR. LAWYER: Mr. Banker, that is very simple and very clear, but it strikes me that a distinction which is of greater importance to us is the form that capital takes, and I would say, as preliminary to a distinction in the different forms of capital, that we should have a broad definition of what capital is, concretely expressed. *Capital is that part of the accumulated wealth of the country that is used for the purpose of profit. It is either Active, Passive, or Fixed.*

The Active Capital is that portion of the wealth of the country which is employed in the production, transportation and distribution of consumable

commodities, and is more accurately described as the commercial fund of the country.

The Passive Capital is that portion of the wealth of the country which is derived from the commercial fund in the form of earnings, profits, savings and income from investments, and is more accurately described as the investment fund of the country. It is represented by bonds, mortgages, and other investment securities.

The Fixed Capital is that portion of the wealth of the country which is represented by real estate, buildings and all permanent improvements, such as railroads, mill property, irrigation enterprises, etc.

If we transfer the Active Capital, or commercial fund of the country, to the Passive Capital, or investment fund, or what is still more serious, convert it into Fixed Capital, we can no more keep the people working and producing new wealth than you can keep a steam engine producing power without coal and water.

What invariably happens in the so-called good times but almost invariably what, by experience, proves "boom" times, is that business men and in fact everybody, not only take all of their spare money, and go into speculations, but they exhaust their credit as well; and what they have to pay so far exceeds what they have to pay with, that when the chain of credit breaks at any one point, the whole fabric falls.

It then takes years, usually, to catch up and reconstruct and reach a normal condition in which, after "paying for the dead horses," so to speak, the profits on business, savings from labor and the income from rents and investments again begin to supply investment funds. For example, it took at least four years to get the American people to thinking naturally and normally, after the panic of 1907—and the fact is some "dead horses" have not been paid for yet; but generally speaking, we are now ready to turn a considerable sum from various sources into the investment fund of the country, or into bonds, construction of new work, and into fixed investments, lands, buildings, railroads and other permanent improvements.

MR. BANKER: I think that you will all perceive from what Mr. Lawyer has just said with regard to the various directions into which capital may be turned and the fatal mistake that is ever and ever recurring—the transfer of

active or productive capital, or the commercial fund, into the investment fund, or fixed forms, is what invariably, as he said a moment ago, breaks the chain of credit at some point.

You can readily see, indeed it takes no argument to show, that nothing in the business world should be guarded so jealously as the commercial fund of the country, in order that credit may be maintained and labor steadily employed.

MR. LAWYER: Our discussion has brought us most naturally to the last word suggested for our consideration, and that is the word "credit." I remember what Daniel Webster once said in a speech when speaking on the continuance of the charter of the United States Bank in 1837. It was this: "Credit is the vital air of the system of modern commerce. It has done more, a thousand times, to enrich the nations than all the mines of all the world." And again in another place he says: "We owe more to credit and to commercial confidence than any nation which ever existed; and ten times more than any nation, except England. Credit and confidence have been the life of our system, and powerfully productive causes of all our prosperity. They have covered the seas with our commerce, replenished the treasury, paid off the national debt, excited and stimulated the manufacturing industry, encouraged labor to put forth the whole strength of its sinews, felled the forests and multiplied our numbers, and augmented the nation, so far beyond all example, as to leave us a phenomenon for other nations to look at with wonder."

MR. BANKER: That might have been true in 1837, but today other commercial nations could truthfully reverse that comment, for they have in some respects and in some places passed us in credit facilities—they have beaten us as it were at our own game, that is, in having worked out a more highly developed use of credit.

MR. MANUFACTURER: When you recall the fact that between 90 and 95 per cent of our business is carried on in some form of credit, you realize that we have become so accustomed to this marvelous device that we have lost appreciation of its power for human achievement and advancement.

MR. BANKER: You are right. Do you know that I regard credit as one of the three greatest instrumentalities of modern civilization?

MR. LAWYER: Well, no, I never thought of credit in that connection. That suggestion is so unusual that I am quite interested to know what you regard as the three and in what order of importance you would place them.

MR. BANKER: I regard the invention of printing as the greatest influence in the world's advancement, because it opened up the paths of knowledge to the poorest as well as the richest, and completely destroyed the supremacy of wealth in the acquisition of knowledge. We have observed what gigantic strides have been made during the past twenty years, and with what increasing and amazing facility information is now being disseminated, the progress of the last ten years outstripping the imagination itself. Everybody can now know everything, if they have the time and ability to acquire it.

MR. FARMER: How absolutely true that is. There are no less than ten magazines on my table at home. They cover every conceivable subject from electrical science, in which my son is deeply interested, to the fashion plates of the latest style of women's dresses, current events, current literature, fruit growing, intense farming, stock breeding, eugenics and euthenics.

MR. LAWYER: Hold on there, Mr. Farmer, or you'll prove conclusively that you fellows out in the country know more than we do in town.

MR. FARMER: Well, between you and me, I think that's so.

MR. BANKER: The second most powerful agent in the advancement of the human race is that instrumentality by which all the resources of the human mind have been developed and brought into requisition in meeting the ever-increasing demands of mankind throughout the world. It has destroyed the supremacy of money, and provided the means by which the most humble of the race can place his foot upon the ladder of opulence. That instrumentality is credit.

MR. LAWYER: I doubt whether such a proposition was ever thought of, certainly it has never been advanced to my knowledge before; but when you stop to think of it, I do not believe that anyone can successfully controvert that statement. Look about you, and imagine, if you can, what the condition of the people would have been without the advantage of credit. Who of all your acquaintances has not made his way to success by means of credit. Credit is certainly the gateway to opportunity, and opportunity is the everlasting hope of the world.

MR. BANKER: Mr. Lawyer, unless you stop your flow of eloquence upon this newly discovered means of human happiness, I will not get a chance to state the third greatest contributing cause to the uniform and universal development and advancement of mankind. It is steam and its modern companion electricity. Through the application of steam to ocean craft and railroads, transportation has brought the people of the whole world practically into one market zone, and we are now all eating the same food and wearing the same clothes, and to the last degree, every people, and broadly speaking, every man, is doing that which he can do most efficiently and profitably.

MR. MANUFACTURER: Mr. Banker, you have certainly opened up an entirely new strain of thought to me; and yet when you grasp the full force of the idea, and comprehend fully these three elements or forces: printing, the general transmission or diffusion of thought or knowledge; credit, the fullest use of all our talents by opening up a world of opportunity; and transportation, the fullest exchange of all the products of the mind and hand of man, you have actually covered the realm of human life up to date. And yet, who ever thought of placing this relative importance upon credit. We have been discussing the comparative importance of gun powder that brought the knight and soldier to a common level, the cotton gin, electricity, the telegraph, the telephone, chemistry, surgery, wireless, printing and steam, but whoever heard of credit in this connection?

MR. MERCHANT: What you say is distinctly true, but all these other things I can readily see are only additional facilities in making the three great fundamental instrumentalities for the advancement of the human race more efficient; and the more one thinks it over, the more impressive Mr. Banker's statement becomes.

First: Printing, the means of spreading knowledge;

Second: Credit, the fullest opportunity of developing and using the powers of mind and body;

Third: Steam and electricity, the means of distributing on land and sea the products of all mankind.

These three, printing, credit and power are certainly the three greatest forces of modern civilization.

MR. BANKER: Now, gentlemen, having convinced you as I assume I must have done, of the tremendous part that credit is playing in the world of today, let us try to find out and comprehend just what credit really is, and how it happens to be so essential to our present life.

The word "credit" means, "I believe," "I trust." That is, I believe in a man, in a man's character, and in his ability, and therefore I trust him to do something tomorrow, three months from now, six months from now, nine months from now, one year, or possibly a longer time, which he cannot do today. That is credit. What a limitless field of opportunity and then of speculation this confidence of man in man opens up. Credit is to money what steam is to water, and credit like steam must always be kept within control, and within safe bounds, as in the case of steam, or there will be an explosion of credit, a most direful thing. Now, there never will be an explosion or crisis in the world of credit, so long as credit is subjected constantly to the test of coin redemption, that is, the conversion of credit into money, gold. So long as credit can be extinguished by payment in gold, it is under control. But, gentlemen, when gold redemption becomes impossible, look out! Let me read what MacLeod says about that:

"It is unextinguished credit which produces those terrible monetary cataclysms which scatter ruin and desolation among nations. It is by the excessive creation of credit that overproduction is brought about, which causes those terrible catastrophes, called 'commercial crises,' and the inability of credit-shops to extinguish the credit they have created, commonly called the failures of banks, is the cause of the most terrible social calamities of modern times."

MR. LAWYER: Now, we have the other side of the picture. On the one hand, we have Daniel Webster painting the possibilities of human achievements through credit—its tremendous power for good, when under control, and, on the other hand, the words of MacLeod pointing out the awful danger, the tragical consequences of credit beyond control. The years of 1873, 1893 and 1907 are illustrations of what happens when credit has passed the boundaries of control.

MR. BANKER: Precisely so, and what we want to do is to prevent the recurrence of those commercial tragedies which interrupt the currents of

prosperity, spreading desolation and death throughout the length and breadth of the land.

MR. LABORINGMAN: It is to be hoped that we can do it, for no class suffers so much as the working masses during these periods of disaster, depression and distress. Don't you see that if any one of us has succeeded in laying aside by painful saving a little nest egg, in some savings bank, that it is wiped out, and he has to begin all over again? And if one of us fellows has accumulated enough to start some little business of his own, ninety-nine times out of one hundred he is cleaned out, and through no fault whatever of his own.

MR. FARMER: In this very connection I want to call your attention to another thing, and that's this. These men who have the intelligence, ambition, perseverance and moral courage to pinch and save, even if they have to starve to get a start for themselves, constitute the true and the greatest ultimate source of wealth of this nation. They are the chaps that make two blades of grass grow where only one grew before. You don't want to forget that. They are not only the hope of every community in which they live, but they are a constant inspiration to the young.

MR. MANUFACTURER: Now, gentlemen, you are talking sense. If we can devise some scheme to keep business from running away with us, and running off the track, and down the embankment every few years, and plumb over the precipice, we'll be doing something worth while. In a word, what we want, it seems to me, is to keep business on a more even keel, if possible; and if we could only get control of credit, and keep it within reasonable limits, always subject to a current gold test, we will be in a fair way to accomplish it.

MR. BANKER: That is just what we are after; to find some way to keep credit within reasonable limits. You have struck the keynote of this whole question.

In the first place, I want to call your attention to the fact that there are several kinds of credit, and that we must familiarize ourselves with all of them, in order that we may know how to deal with them. A doctor, you know, is a mighty poor stick, if he cannot diagnose your case, and tell you just what ails you, and yet proceeds to give you some kind of medicine, any kind of medicine for the right or the wrong disease. Indeed, he's about the

most dangerous individual to have in a community. Now, unless we can become convinced that we are proceeding along right lines, because we have actually discovered the evils from which we are suffering, we had better let things alone. But our case is not hopeless, for the disease from which we are suffering has a well-known specific antidote, and it is up to us to first find out what ails us, and then to administer it.

The treatment of the credit phase of the situation, or what may be in a way termed the mental aspect of the case, is probably as important as any other, and I will now try to analyze and describe credit, so that we can understand it, at least from my point of view.

There are five well defined forms of credit.

First: Credit granted to aid production.

Second: Credit to distribute production.

Third: Credit granted upon accommodation paper.

Fourth: Credit granted upon real estate.

Fifth: Credit granted to the Government, or forced by the Government.

UNCLE SAM: Say, Mr. Banker, do you know what time it is? Don't you see it's half past ten o'clock? It will take you till morning to tell all about credit, and I don't know but what it would take you until "Kingdom Come."

MR. LABORINGMAN: Well, I've got to be up at six o'clock in the morning, and be at my job by seven, and I want to go home. I move, we adjourn.

MR. FARMER: So do I, for I've four miles to go yet tonight.

MR. LAWYER: What difference does that make? The trolley goes right by your door, and you'll be there in twenty minutes.

MR. FARMER: That's all right, Mr. Lawyer, I don't get my breakfast at nine o'clock as you do, but I've got to be up in the morning at five o'clock to feed my stock. I'm a-going, so good night.

UNCLE SAM: This is a rather informal break-up, but I guess it will be of no use to call in the police, so good night.

SEVENTH NIGHT

COMMERCIAL CREDIT, LAND CREDIT, GOVERNMENT CREDIT

UNCLE SAM: Mr. Farmer isn't here yet. He left in such a huff the other night, possibly he is sore—no, he is not, here he comes.

MR. LAWYER: When our meeting broke up last Wednesday night, Mr. Banker had just outlined the different forms of credit, and I was very glad that he did, because it gave me an opportunity to read up on the subject and be prepared to listen intelligently, at least, to what any of you may say tonight.

MR. MERCHANT: I did some investigating, too, and found the subject far more interesting than I supposed it could possibly be. Indeed, that is true of any subject. Your interest is always measured by your knowledge, and many matters that seem to us difficult to understand, become exceedingly simple as you get into them, and comprehend them. How often the apparently impossible task completely dissolves under persistent attacks.

MR. BANKER: I am more than pleased that you gentlemen have given your spare time to this subject. Simple in function it is, but it is immeasurably great in its possibilities, extent and responsibilities from the standpoint of the banker.

Just as we parted last Wednesday I had described or defined the different forms of credit, so far as they enter into banking directly or indirectly. As I then stated, the first and simplest use of credit is that granted for the production of something to eat, wear or use—what we call consumable commodities, that is, credit granted to aid in production.

If Mr. Farmer over there should come into my bank now as he used to before he got rich, and ask for a thousand dollars to pay his expenses while he was planting, cultivating and harvesting his crop, and then in the fall should come again and ask me for three thousand dollars more to buy some steers and hogs with, because he thought he could make more money feeding than by selling his corn outright, and I had let him have the total amount of $4,000 from time to time as he wanted it, because I believed in his honesty and intelligence, and also because I regarded the venture as a

good one, that would be granting credit for the production of beef and pork, food products—the very necessities of life.

Just as soon as his steers and hogs had become fit for market, and had ceased to gain anything to speak of, by holding them and further feeding, he must sell or lose the cost of holding on the chance of a rise in the market. But even this delay must be temporary. Virtually he is compelled to sell from the very nature of the case. When he sells his steers and hogs, suppose he should receive $5,000. First, he pays me the $4,000 and interest, and has about $1,000 profit on the transaction. You will all perceive and understand, that as I gave Mr. Farmer this credit of $4,000 from time to time, he gave me his promissory note for an equal amount, so that as fast as I granted credit he created a debt. I acquired the right to demand payment of $4,000 and he incurred the duty or obligation to pay $4,000.

So for every credit granted a corresponding debt is created; and if every debt is paid every credit will be canceled. Though the credit granted to Mr. Farmer was for the production of the necessities of life, it was not the safest kind of a loan to make as we shall soon see—his personal responsibility aside of course; because after I had given the $1,000 he might have to replant his corn. The summer might be dry and the frost might come early and cut off his crop; but passing over these possible dangers to his crops, if we assume that his crop is the biggest he ever raised, and that that very fact makes it desirable to borrow the additional $3,000, pleuro-pneumonia might strike his cattle, and cholera might seize his hogs and the transaction might result in a loss of $1,000 instead of a profit of $1,000; or even a greater loss than $1,000.

It is these risks that the banker takes in making loans to farmers that justifies higher interest rates than are charged under some other circumstances. Again it is these risks that lead a banker out of caution to take real estate loans in addition, to cover the accidents of crop raising, although the National Bank Act forbids making loans upon real estate.

MR. FARMER: Under such circumstances, I think it ought to be possible for a bank to take real estate loans. I believe it would help the farmer to get his money at a trifle lower rate of interest.

MR. BANKER: I agree with you, and provision should be made for just such cases; but the rule of the National Bank should still prevail with regard to

loans upon real estate so far as a regular business is concerned, unless the bank is doing a savings bank business or a trust company business, in which event it would be entirely proper to use such funds for that purpose.

MR. MERCHANT: Mr. Banker, a moment ago you said that the loan to Mr. Farmer, apart from his personal standing, was not the safest kind of a loan to make. Just what did you mean by that?

MR. BANKER: I am glad that you asked that question, for it should be explained right here. Suppose that you, Mr. Merchant, should purchase $4,000 worth of pork and beef in the barrel, at some distant point, and should come to me for the money to pay for it. In all probability I should ask you for the bill of lading covering the shipment, and also insist upon your getting an insurance policy on the goods before giving you the money. In this case, I am loaning money upon the necessities of life, consumable commodities, and unless the insurance company fails, and the goods are destroyed, I cannot possibly lose a cent. I have, humanly speaking, eliminated all chances of loss. You will observe that if I should hold the bill of lading and the insurance policy, I have the title or ownership of the pork and beef, in any event. In such cases, comparatively speaking, the rate of interest ought to be the lowest possible, as far as the risk goes.

MR. MANUFACTURER: But this kind of a transaction constitutes a comparatively small part of the commerce of the country.

MR. BANKER: Yes, that is true, and if credit was limited to such transactions, credit crises would be very few, indeed, probably never would arise as a result of over trading under such circumstances; trade would be greatly hampered, and business curtailed to a destructive degree.

MR. MANUFACTURER: That is certainly true. You men all know that I am a manufacturer of high class clothing. I want to give you an illustration of how business is being carried on today in the way of multiplying credit.

A manufacturer of woolen goods at Lancashire, England, sold to a wholesale merchant on the other side, $10,000 worth of goods on three months' time. The wholesale merchant sold the goods for $12,000 to an English exporter on three months' time. The English exporter sold the goods to an American importer for $20,000, duty paid; the importer sold them to an American jobber for $22,000; the jobber sold them to me for $24,000.

All these sales occurred within thirty days, and not a single man paid a cent of money on account of his purchases. By way of payment, this is what happened. I gave my note due in ninety days to the jobber, and he discounted it at his bank. The jobber gave his note due in ninety days to the importer, and the importer discounted it at his bank; the English exporter sent over a draft upon the American importer at ninety days sight, and he accepted it and it was returned to England, where the exporter discounted it at his bank. In the meantime, the wholesaler drew a draft on the exporter at ninety days sight, and he accepted the draft, whereupon the wholesaler discounted the draft at his bank. At the same time the manufacturer drew on the wholesaler at ninety days sight, and the draft was accepted by the wholesaler, and was discounted by the manufacturer at his bank. Thus we see that goods which sold originally for only $10,000 went through five different hands and became the basis upon which credits were granted for $88,000, and debts were created for $88,000. Every single debt was sold just as though it was so much woolen goods. Every man had his money and not one of them had paid his debt, and yet every transaction was legitimate and in the ordinary course of business.

Within sixty days I shall have turned these goods into clothes and sold and delivered them, giving my customers in turn credit upon my books, or will have accepted their promissory notes, which I may discount at my bank if I should need the money in my own business. Now mark and note this. If I should deliver to the American jobber my check today, and he should send his check to the American importer and the American importer should send a draft to the English exporter, and the English exporter should deliver his check to the wholesaler, and the wholesaler should send his check to the manufacturer, debts amounting to $88,000 would have been paid and credit amounting to $88,000 would have been canceled; and yet not a single cent of cash in the form of coin or currency has been used.

Every one of the checks, notes or drafts taken in the transaction is property, just as much as the note taken for a single sale of the goods would have been property. Indeed, every one of the five notes or drafts was just as much property as the goods themselves were, and could be bought and sold just as well as the goods themselves could be bought and sold. Now it must be evident to all of you that in the production, transportation and distribution of commodities, credit performs exactly the same function as money. So far,

therefore, credit is in all respects equivalent to money. So long, therefore, as the operations through credit are successful, everything goes well.

MR. BANKER: Precisely so, Mr. Manufacturer, so long as the operations are successful, everything goes well; but it is the sudden breaking of the chain of credit that brings or precipitates a disturbance.

MacLeod uses this language in referring to the destruction of confidence: "It is the sudden failure of confidence and extension of credit which produces what is called in commercial language, 'a pressure on the money market' and which causes money to be 'tight.' When money is said to be scarce, it does not mean that there is a smaller quantity of money actually in existence than before; there may be more, or there may be less in the country; no one can tell what the amount of money in existence is, but a great amount of credit which serves as a substitute, and was an equivalent of money, is either destroyed altogether, or is suddenly struck with paralysis, as it were, and deprived of its negotiable power, and therefore, practically useless. A vast amount of property is expelled from circulation, and money is suddenly called upon to fill the void."

It must be observed and noted right here, therefore, that streams of gold, of gold, I say, must be constantly and swiftly running through the channels of trade, and so intimately connected with a practically unlimited supply or an inexhaustible reserve of gold, in the form of a central reserve for the whole country, to immediately extinguish any conflagration of credit as soon as it breaks out, precisely as a flood of water extinguishes a fire when it first makes its appearance.

For the past ten or fifteen years, the banks of England have realized the necessity of pursuing this principle, by carrying their own individual reserves, and accordingly have been gradually accumulating cash reserves of their own, instead of depending upon the Bank of England, except as a last resort.

Germany, too, within the past year, has suffered severely because adequate reserves have not been present in her channels of trade; and having discovered this weakness in her banking practices, appointed a commission to pass upon that and other questions. The commission reported that the individual banks should carry their own reserves; and Herr Havenstein, President of the Imperial Bank, a short time ago demanded that the banks of

Germany should carry their own cash reserves up to 15 per cent of their liabilities.

How much more important, then, gentlemen, must it be that we, when you consider the extent of our country, our vast and varied banking interests which are being carried on by 25,000 or 30,000 individual or independent banks, should require everyone of these banks to be in a position to test its credits with the touchstone of gold, and at the same time take the precaution of protecting itself by a central reserve of gold far beyond any possible demand that may be made upon it.

MR. MERCHANT: Mr. Banker, from what you have been telling us it is perfectly clear that every promissory note, check, draft, or bill of exchange, which are acknowledgments of debt, are just as much property as land, houses, cattle, corn, iron, or anything else material that can be bought and sold. Credit itself is merchandise and the subject of a gigantic commerce of its own.

"A well-managed credit amounts to tenfold the funds of a merchant; and he gains as much by his credit as if he had ten times as much money." This maxim is generally received among all merchants. Credit is, therefore, the greatest wealth to every man who carries on commerce.

Demosthenes says: "There being two kinds of property, money and general credit, our greatest property is credit."

Again he says: "If you were ignorant of this, that credit is the greatest capital of all toward the acquisition of wealth, you would be utterly ignorant."

So Melon says: "To the calculation of values in money, there must be added, the current credit of the merchant, and his possible credit."

So also Dutot says: "Since there has been regular commerce among men, those who have need of money have made bills, or promises to pay in money. The first use of credit, therefore, is to represent money by paper. This usage is very old; the first want of it gave rise to it. It multiplies specie considerably. It supplies it when it is wanted, and which would never be sufficient without this credit; because there is not sufficient gold and silver to circulate all the products of nature and art. So there is in commerce a

much larger amount in bills than there is specie in the possession of the merchants."

MR. BANKER: While it is true, as a general principle, that by the sale and transfer of the same property, as we have seen in the case of the woolen goods, many credits are granted and a corresponding amount of debts are created, it is also true that a single debt in the form of a promissory note, check, draft or bill of exchange, may be the medium of exchanging or transferring many different pieces of property. This is just the reverse of the transaction that Mr. Manufacturer has explained to us.

MR. FARMER: That is right. I want to tell you fellows something. One day about six months ago I was thinking of taking an automobile trip, but hesitated on account of the weather signs. I hung around town here for an hour or two and happened to drop into the office of a certain lawyer (I never go there any more now). We talked politics. While there, I asked him what he thought of the weather, and the political situation, and then went out. At the end of the month I got a bill from that lawyer for $50. I called upon the gentleman (I suppose I have got to call him a gentleman on account of his neighbor here) to find out what his bill meant, and he claimed that while we talked about politics, the Presidential election prospects and the weather, that I had pumped him about some very important legal matters upon which he had given me valuable advice. Upon my soul I never knew it, but what could I do. My only possible escape was to pay some other lawyer, possibly Mr. Lawyer over there, $100 to defend the case. As is the practice nowadays, I took the short cut and paid it by sending him my check. That lawyer indorsed and gave that check to a neighbor of mine for a Jersey cow. My neighbor indorsed and gave the check to a country grocery store out there and paid his bill with it. The country storekeeper indorsed and gave the check to Mr. Merchant over there for $50 worth of boots and shoes. Mr. Merchant indorsed and gave the check to Mr. Manufacturer for $50 worth of clothing. Mr. Manufacturer indorsed and deposited that check with Mr. Banker, right here, who charged it up to my account. Now, by Jove, you wouldn't think that was possible, but here is the check with those five indorsements.

Mr. Manufacturer has just given us an instance where the same identical property worth only $10,000 in Lancashire, England, was sold five times, and that credits amounting to $88,000 were being granted, and a

corresponding amount of debts were created. Now here is a case where my debt to that blasted lawyer acknowledged by my check, paid him $50; paid my neighbor for a Jersey cow $50; paid the country grocery store for groceries $50; paid Mr. Merchant for boots and shoes $50; paid Mr. Manufacturer for clothing $50; paid the bank on account of Mr. Manufacturer's debt $50; or six separate debts in all, amounting to $300. And the joke is, I never ought to have given the check at all. This is the reverse side of the use of credit. The instance given by Mr. Manufacturer was one illustrating the tremendous expansion of credit. The instance I have given is one of the contraction of credit.

MR. BANKER: Right on that point Mr. MacLeod says that sixty years ago almost the entire circulating medium of Lancashire, England, consisted of bills of exchange in no way different from Mr. Farmer's debt, and that they sometimes had as many as 115 indorsements upon them before they came to maturity. So that the useful effect of a bill of exchange is indicated by the number of indorsements upon it, supposing that every transfer is accompanied by an indorsement, which is not always the case. We see here the fundamental difference between bills of lading and bills of exchange, because the indorsements on the former denote the number of transfers of the same identical property; the indorsements on the latter denote the number of transfers of distinctly different property.

MR. MERCHANT: Mr. Banker, in every form of credit granted so far and debts created, we have certainly been dealing only in a legitimate way with consumable commodities, the necessities of life, and ordinarily, if not always, this kind of credit will take care of itself. And yet the marvelous facility and power of credit has been illustrated so vividly, that I am sure all of us appreciate it and can readily see how it might be abused and lead to disaster if not confined to the actual production of articles of food, clothing and daily use, or, in a word, to the production of the necessities of life.

MR. FARMER: I object to your including that lawyer's bill as one of the necessities of life.

MR. LAWYER: I beg your pardon, but we lawyers are a necessity. Possibly necessary evils, but nevertheless, I insist that we are necessary.

MR. BANKER: Passing over this little quarrel between Mr. Farmer and Mr. Lawyer, Mr. Merchant has hit upon the vital distinction that should always

be maintained in commercial banking as distinguished from investment banking as we shall soon see.

MR. LAWYER: There is not one man in a thousand that comprehends the distinction that you have just called our attention to, and I include the bankers when I say that, too. I did not appreciate it myself a week ago, but it is fundamental and must not be overlooked. I want to call your attention to one form of credit that does not grow out of actual transactions in the production and distribution of consumable commodity, and that is accommodation paper.

MR. LABORINGMAN: Accommodation paper? It strikes me as though that was just the kind of paper I wanted. I certainly will take any accommodation that Mr. Banker over there will give me.

MR. LAWYER: Speaking of accommodation paper, Mr. MacLeod says: "We now come to a species of credit which will demand great attention, because it is the curse and plague spot of commerce, and it has been the great cause of those frightful commercial crises which seem to occur periodically; and yet, though there can be no doubt that it is in many cases essentially fraudulent, yet it is of so subtle a nature as to defy all powers of legislation to cope with it."

The obvious distinction between accommodation paper and promissory notes or bills of exchange here referred to, and all legitimate commercial paper, is this: the accommodation paper represents a future transaction, something to be done, while the true commercial paper represents a past transaction, or something that has been done; for example, goods that had been manufactured and are ready for sale or have been sold and shipped.

MR. BANKER: Mr. Lawyer, will you allow me to illustrate that distinction?

MR. LAWYER: Certainly.

MR. BANKER: If Mr. Manufacturer there should make ten different sales of clothing of $5,000 each, and then send out ten drafts to his ten customers, who accepted them and returned them, these ten drafts would be called real bills of exchange, or let us call them true commercial bills, because the ten men have purchased and agreed to pay for the goods received by them. Should the ten men have sent their promissory notes to Mr. Manufacturer,

they would be identically the same thing as the drafts which they had accepted, and answer identically the same purpose.

The real beneficiaries in these ten transactions are the ten purchasers of the goods which they have received; and if Mr. Manufacturer should sell me these ten bills of exchange or promissory notes as the case might be, with his indorsement, the ten men would all individually regard themselves as primarily liable; and they will, therefore, each of them, prepare to pay his note when it comes due, although Mr. Manufacturer is the guarantor. But if Mr. Manufacturer should go to these same ten men and ask each of them as a favor or *accommodation* to him to accept the draft or indorse his note for the same amount of $5,000, each due in 90 days, no goods having been purchased by any one of them, all these drafts would be accommodation paper, and no one of these men would look upon his note as his debt, and therefore would expect that Mr. Manufacturer would take care of the paper when it came due.

In the latter case, Mr. Manufacturer, having gotten the money and the ten men having no interest in the transaction, except as an accommodation to Mr. Manufacturer in the form of a favor, Mr. Manufacturer becomes the real maker of the ten notes, and the ten men who are indorsers are, as I have said, without any interest in the transaction, except that of accommodation acceptors.

Mr. MacLeod has described this whole transaction so fully and forcibly I want to read it to you: "There is in fact only one real principal debtor and ten sureties. Now these ten accommodation acceptors are probably ignorant of each other's proceeding. They only give their names on the express understanding that they are not to be called upon to meet the bill: and accordingly they make no provision to do so. If anyone of them is called upon to meet his bill, he immediately has a legal remedy against the drawer (or the note maker). In the case of real bills, then, the bank would have ten persons who would each take care to be in a position to meet his own engagement; in the case of accommodation paper there is only one person to meet the ten engagements. Furthermore, if one of the ten real acceptors fails in his engagement, the bank can safely press the drawer: but if the drawer of the accommodation bill fails to meet one of the ten acceptances, and the bank suddenly discovers that it is an accommodation bill, and they are under large advances to the drawer, they dare not for their own safety

press the acceptor, because he will, of course, have immediate recourse against his debtor, and the whole fabric will probably tumble down like a house of cards. Hence the chances of disaster are much greater when there is only one person to meet so many engagements, than when there are so many each bound to meet his own.

"We see, then, that the real danger to a bank in being led into discounting accommodation paper is that the position of principal and surety is reversed. They are deceived as to who the real debtor is, and who the real surety is, being precisely the reverse to what they appear to be, which makes a great difference in the security to the holder of the bills...." In carrying on a legitimate extension of credit, the bank never permits the advance to exceed a certain definite limit; but it never can tell to what length it may be inveigled to discounting accommodation paper until some commercial reverse happens, when it may discover its customer has been carrying on some great speculative operation with capital borrowed from it alone....

"This is the rationale of accommodation paper; and here we see how entirely it differs from real commercial paper. Because with real commercial paper, and bona fide customers, though losses may come, still directly the loss occurs, there is an end of it. But with accommodation paper the prospect of a loss is the very cause of a greater one being made, and so perpetually in an ever-widening circle till at last the canker may eat into a banker's assets to any amount almost."

"The insurmountable objection, therefore, to this species of paper, is the dangerous and boundless facility it affords for raising money for speculative purposes."

MR. MERCHANT: That is absolutely true. Accommodation paper and speculation go hand in hand. They are twin sisters. Siamese twin sisters. Pardon me, if I take a moment to demonstrate its terrors by relating the experience of a friend of mine who was led into an irrigation scheme:

"My friend was in the grocery business in a western town and had a stock of groceries worth $75,000, and he had $25,000 cash in the bank. The dam and water ditch was to cost $100,000. My friend sold off a part of his goods, realizing $25,000 of additional cash. He moved the balance of his goods out to the point where the dam was to be located, forty miles away,

and began operations. He succeeded in finishing the dam after paying out for work all that he had, and in securing indorsers up to $100,000 upon accommodation paper in the city where he had carried on the grocery business. Two hundred thousand dollars had been paid for groceries and clothing. The laborers had gone to his store and obtained food and clothing during the two years he was engaged in constructing the work, and they had consumed all their wages in living, and more, too. He put an issue of bonds on the dam but could not sell them; therefore he could not pay the banks. His indorsers could not pay the banks, and most of them were ruined because of their indorsements for accommodation purposes. He was wiped out. He turned over everything to the bank, bonds and all. The banks had to carry those bonds ten years before they could sell them."

MR. BANKER: Mr. Merchant, you have given a splendid illustration of the result of accommodation paper, but you have proved far more than you set out to demonstrate. You have not only shown the ruin wrought by the $100,000 of accommodation paper, but also the extreme danger accompanying accommodation paper, when the proceeds go into a real estate investment or improvement; especially an irrigation enterprise that usually requires a long time to reach results. The same is true with regard to railroad investments, town lots, or any kind of real estate investments. Your friend put into that grocery store from first to last $200,000 worth of groceries and clothing, and the laborers who did the work ate up the groceries and wore out the clothing.

MR. MERCHANT: That is just what they did, for he simply gave them credit at the store for their wages, and they were charged for what they bought, and at the end of two years, the $200,000 worth of groceries and clothing were consumed and converted into that dam and ditch. He used to say he was ruined by the dam ditch.

MR. BANKER: Now you have proved another thing by your illustration and that is this. When the $200,000 worth of food and clothing represented by two years' work of 100 men were converted into a real estate improvement, instead of into consumable commodities, the necessities of life, you have, so to speak, destroyed that much commercial capital, by converting or changing it into fixed capital. This is true because your friend could not begin and build another dam, for he had no money with which to do it.

MR. MERCHANT: But, Mr. Banker, he could sell his bonds.

MR. BANKER: If he could, yes, but you just said he could not, and that he turned everything over to the bankers and that they carried the bonds for ten years. Now suppose that a flood should have come and taken out his dam and destroyed his irrigation ditch, it would then be perfectly clear to all of us, would it not, that $200,000 worth of food and clothing had gone down the stream and had been forever lost; completely wiped out, just as completely as if the goods had been consumed by fire.

MR. MERCHANT: That is perfectly plain, but suppose that he could have sold the bonds, he would have gotten his money back, would he not?

MR. BANKER: Yes, we would say in that case, that he had gotten his money back, but he could not get the $200,000 of food and clothing back, for they are in the dam and ditch. The $200,000 he gets for his bonds, if he sold them for that price, is an entirely different $200,000, as you must admit after a moment's thought. Your friend had groceries and clothing which he could sell for $200,000 in money. Now, suppose that you had had at the same time, $200,000 in your business. Your $200,000 with the $200,000 your friend had put into the dam, when finished would amount to $400,000. Now, if he had come to you to dispose of his bonds, and you had thought well enough of them to sell out your business and buy them, your $200,000 bonds would represent the food and clothing in the dam and ditch, and are no longer cash capital any more than a farm is cash capital, and it might take you longer to sell your irrigation bonds than to sell a farm. You said it took the bank ten years to get rid of them.

MR. MERCHANT: Oh, I see that now. We have simply converted $200,000 of cash capital into $200,000 of passive or fixed capital. Before he built the ditch he had $200,000 and before I sold out my grocery business I had $200,000, making $400,000 of cash capital. Now he has $200,000 of cash capital and I have $200,000 of fixed capital, possibly an eternal investment in the bonds. That is what you would call a permanent investment, I suppose, for it might take me twenty years to demonstrate the value of the enterprise as it did the bankers.

MR. BANKER: Now, Mr. Merchant, I want you to mark and remember this; in fact, I want all of you gentlemen to set this down in your memories so that it can never be dislodged. These irrigation bonds would continue as

passive or fixed capital until the earnings or sale of the property, covered by the ditch, should not only pay the interest upon them, but should pay off the principal as well, even if it took a thousand years to accomplish this result.

MR. LABORINGMAN: That is nothing but a straight real estate loan as far as I can see, and not a very good one at that.

MR. BANKER: That is just what it is, and for the very same reason a banker should no more buy such bonds or loan on such securities, his commercial deposits than he should loan money on real estate. The principle is the same. If we bankers loan on cotton, cattle, hogs, wheat, corn, or manufactured goods of any kind, we know there is a constant and ready market at some price for these things, for they are all in current demand at some price, somewhere, while a real estate loan, however good it may be, is not what we call a quick asset, or liquid asset; that is, something that you can turn into money at once. A commercial bank should never take a real estate loan, except as additional security for money advanced for some legitimate commercial purpose as distinguished from an investment. The commercial funds should be used for the production of crops, or goods of some kind, and if a real estate mortgage is taken in addition, it should be only within reasonable limits, for it is the easiest thing in the world to tie up all a bank's capital and deposits in real estate loans; that is, to turn the capital and deposits into passive or fixed capital, mortgages or real estate, which might be selling readily in boom times, but which are utterly unsalable when the break comes.

MR. LABORINGMAN: What do you mean by tying up the capital and deposits of a bank in mortgages and real estate?

MR. BANKER: I will explain that to you in such a way that I am sure you cannot fail to understand and appreciate it. Suppose that I had $100,000 in cash in my bank to meet the demands of my depositors; but should give it to farmers in exchange for mortgages upon their farms. I could not pay my depositors the mortgages; they want money. I might not be able, and probably would not be able, to sell the mortgages in time to pay the depositors their money; and if money happened to be scarce, possibly not for a long time would I be able to pay them their money. I would have that $100,000 tied up in mortgages. This is granting credit on land. Now, these mortgages will continue in existence until the farmers can make enough out

of their crops to pay the interest upon them from year to year, and finally to pay them off; it may take ten or twenty years. If I had loaned $100,000 on cotton or cattle, the products of the farm, they could have been converted immediately into money at some price to meet the demands of my depositors.

MR. LABORINGMAN: I see now that you bankers must keep the money you receive from us depositors, either in cash or in something you can instantly convert into money, and when you don't do that, you have tied it up, as you say; and if we happen to find it out we are apt to want our money; and if we all want it at the same time, you call it a run on your bank. Now when you say a banker is ready for a run, you mean, as I now understand it, that he has all his deposits on hand in cash, or has all his deposits invested in something that he can turn into cash: good notes that have been taken in the course of business, that is, in the production and transportation of consumable commodities, the necessaries of life. Of course, anybody must understand that if a bank bought a lot of farms or a lot of farm mortgages (and it might be worse off if it bought city mortgages with our deposits), he could not convert them or turn them into money on demand. I am on to this thing now; neither mortgages nor land can be considered what you described a minute ago as quick assets, or as liquid assets, because you cannot convert them into money practically on demand.

MR. FARMER: I grasp that idea now myself. Do you know I have always thought, until within an hour, that we farmers ought to be able to get something to pay out in the shape of currency that represented our land, or in exchange for a mortgage, just because I knew a mortgage was good or worth its face; but I see now that a bank must not only have something that is good and worth its face, but it must be exchangeable for, and convertible into, real money or gold, at any time, or the bank must shut up. And you can't turn all our farms into some form of currency, and expect the banks to redeem it any more than you can sell a farm every hour. I have been trying to sell one farm for ten years. Now I see that would not make very good currency. Since I cannot sell it, the only way for me to convert that farm into cash capital is to take the net earnings, and lay them aside until they equal its value or what it cost me; that might not be within twenty years, as I might not be able to save for that purpose more than 3 per cent or 4 per cent a year which, at compound interest, would about make it. It is perfectly

clear to me, now, that real estate is not a proper basis for a currency, which must be currently redeemed in gold. It cannot be done; that is a sure thing.

MR. LAWYER: Mr. Farmer, you have reasoned out for yourself a thing that has fooled many a man, and the world has had many bitter experiences trying to do the very thing you now so clearly see cannot be done; that is, make currency out of real estate, or, rather, as you would say, make money out of real estate, when, as we have already seen, gold is the only money we have or can have, so long as gold is our standard of value.

Jevons, a great English writer, has well said: "Land is doubtless one of the best kind of security for the ultimate repayment of a debt; and it is therefore very suitable when money is lent for a long time. But representative bank notes purport to be equivalent to gold, payable on demand, and nothing is less readily convertible into gold in an emergency than land."

MR. FARMER: And we cannot have any more currency than we can redeem daily in gold. Therefore we can't make currency out of all of our real estate, even our agricultural land, which is according to our last census worth sixteen billions or $160 for every man, woman and child in the United States. The average value per acre is $15.57. Now, at first thought, anyone would say that it would be safe to issue money for this value, or sixteen billion dollars; but who would redeem it? That is the question. One hundred and sixty dollars for every man, woman and child. That would certainly be absurd; and yet I have always thought that we could do that very thing until tonight. I see how it is, currency must be currently redeemed in our standard of value, or it will become first worth less than 100 cents on the dollar, and if the thing goes far enough, it would actually become practically worthless, although it might be based upon valuable real estate. How perfectly simple and plain this all is now.

MR. LAWYER: Indeed, it is simple and plain, but do you know that that scheme of making currency or money out of real estate, or converting real estate into currency or money, was tried twice in France upon a most gigantic scale? First, John Law, in 1717, worked out a scheme whereby he tied the government of France to a land enterprise in the United States, the "Mississippi Scheme," covering a large French grant, and through his plan issued money, Government money, that represented about one-quarter cash and the balance real estate. But everybody has heard of John Law and the

"Mississippi Bubble," so I won't say any more about that. Nearly a century afterward the same scheme was tried again, and strange as it may seem, in France, too.

From 1789 to 1796, during the French Revolution, the credit of the French Government was added to vast real estate holdings, so that the security was doubled, such as it was. I have just looked this matter up with a good deal of care, and the best description I found was substantially as follows:

Assignats were a form of paper money issued in France from 1789 to 1796. Assignats were so termed because land was assigned to the holders of them. The financial strait of the French Government in 1789 was extreme; coin was scarce, loans were not taken up, taxes had ceased to be paid, production and the country were threatened with bankruptcy. In this emergency Assignats were issued to provide a substitute for metallic currency. These Assignats were originally of the nature of mortgage bonds on the National lands. These lands consisted of the church property confiscated on the motion of Mirabeau by the Constitutional assembly on Nov. 2, 1789, and the Crown lands which had been taken over by the nation on Oct. 7th. Subsequently the lands of the Emigres, the princes and royal followers, 30,000 of the nobility who were exiled from the soil of France, were added to the list of lands against which the Assignats were issued.

These Assignats were first to be paid to creditors of the State; with them the creditors could purchase National land, the Assignats having for this purpose a preference over other forms of money. If the creditor did not care to purchase land, it was supposed that he could obtain the face value for them from those who desired land. Those Assignats which were returned to the State as purchase money were to be canceled, and the whole issue, it was argued, would consequently disappear, as the National lands were distributed.

A first issue was 400,000,000 francs or ($80,000,000) worth of Assignats, each note being 100 francs or $20 value and bearing interest daily, at 5 per cent. They were to be redeemed by the product of the sales, and from certain other sources, at the rate of 120,000,000 francs ($24,000,000) in 1791; 100,000,000 francs ($20,000,000) in 1792; 80,000,000 francs ($16,000,000) in 1793 and 1794, and the balance in 1795. The success of this first issue was undoubted, as all such first issues are.

Mirabeau was a strenuous advocate of the Assignats. "They represent," he said, "real property, the most secure of all possessions, the soil on which we tread. There cannot be a greater error than the fear so generally prevalent as to the overissue of Assignats, reabsorbed progressively in the purchase of the national domain; this paper money can never become redundant."

In 1790 the interest was reduced to 3 per cent, and as the Treasury had again become exhausted, a further issue was decided upon; it was also decreed that the Assignats were to be accepted as legal tender, all public departments being instructed to receive them as the equivalent of metal money. The second issue amounted to 800,000,000 francs ($160,000,000) and carried no interest. It was solemnly declared in the decree authorizing the issue that the maximum issue was never to exceed one billion two hundred million francs (1,200,000,000) ($240,000,000). This pledge, however, was soon broken, and further issues brought the total up to three billion seven hundred and fifty million francs (3,750,000,000) ($750,000,000). The consequence of these further issues was instant depreciation, and the note of 100 francs ($20) sank to less than 20 francs ($4) in coin. Recourse was then had to protective legislation. The first step was to decree the penalty of six years' imprisonment against any person who should sell specie for a more considerable quantity of Assignats, or should stipulate a different price for commodities, according as payment was to be made in specie or Assignats. For the second offense, the penalty was to be twenty years' imprisonment (August 1, 1793). For this the death penalty was ultimately substituted (May 10, 1794). This severe provision was, however, repealed after the fall of Robespierre. Notwithstanding these precautions, the value of the Assignats still declined, till the proportion of specie had become that of sixty to one. Then came the passing, by the convention, on May 3, 1793, of the absurd maximum. The decree required all farmers and corn dealers to declare the quantity of corn in their possession and to sell it only in recognized markets. No person was to be allowed to lay in more than one month's supply, a maximum price was fixed above which no one was to buy or sell under severe penalties. These measures were soon stultified by further issues and by June, 1794, the total number of issued Assignats aggregated nearly eight billion francs ($1,600,000,000), of which only two billion four hundred and sixty-four million francs had returned to the Treasury to be destroyed. The extension of the maximum price to all commodities only increased the confusion.

Trade was completely paralyzed and all manufacturing establishments were closed down. Attempts by the convention (legislature) to increase the value of the Assignats were of no avail. Too many causes operated in favor of the depreciation; the enormous issue, the uncertainty as to their value, if the revolution should fail; the relation they bore both to specie and commodities which retained their value and refused to be exchanged for money of constantly diminishing power. Even between the Assignats themselves there were differences. The Royal Assignats themselves, which had been issued under Louis XVI had depreciated less than the Republican ones. They were worth from 8 per cent to 15 per cent more, a fact due to the hope that in case of a counter-revolution they would be less likely to be discredited.

The Directory was guilty of even greater abuses in dealing with the Assignats.

By 1796 the issue had reached the enormous figure of forty-five billion francs ($9,000,000,000), and even this gigantic total was swollen still more by the numerous counterfeits introduced into France by the neighboring countries. The Assignats had now become totally valueless, the abolition of the maximum the previous year, 1795, had produced no effect; and, though by various payments into the Treasury, the total number had been reduced to about twenty-four billion francs ($4,800,000,000), their face value was about thirty to one of coin. At this value they were converted into eight hundred million francs ($160,000,000) of land warrants or Mandats Territoriaux, which were to constitute a mortgage on all the lands of the republic. These Mandats were no more successful than the Assignats; and even on the very day of their issues were at a discount of 82 per cent. They had an existence of six months, and were finally received back by the State at about the 70th part of their face value in coin. That is, the State gave one dollar in coin for seventy dollars in the paper.

This experience of France has been the experience of practically the entire world, Italy, Russia, Germany, Great Britain. The South American countries are now going through it. Even the very best of them, Brazil and Argentina, although their notes are not backed up by the land as those of France were, have suffered the same consequences of their folly. They are the notes issued by the Government against their own credit. They were issued as fiat

money, but are gradually being retired just as the Assignats were as depreciated currency.

MR. BANKER: Well, we haven't anything on the South American countries to speak of ourselves from Colonial times down to the present day.

UNCLE SAM: Now, Mr. Banker, just hold up; you can't get into that tale of woe tonight, for I always have a bad dream when I think of it; a veritable nightmare. We must quit for tonight. Mr. Farmer over there has gone to sleep on my hands already.

MR. FARMER: No, he hasn't; not on your life, and I hope it's a very long life, Uncle Sam.

MR. LABORINGMAN: Mr. Farmer, you are the first man I ever saw who snores when he is awake. You snored loud enough to wake the dead. Your snoring actually kept me from going to sleep.

UNCLE SAM: Well, boys, let me see whether I can recollect just what points we have made tonight.

First: There is credit, which is the result of confidence and trust. It is the right to demand payment.

Second: For every credit granted, a debt is created.

Third: If every debt is paid every credit will be canceled.

Fourth: Credit is never excessive no matter what its absolute quantity is, so long as it always returns into itself; that is, cancels itself.

Fifth: Credit from a commercial point of view, when granted to create consumable commodities, the necessaries of life, is filling its proper function.

Sixth: Credit granted to facilitate the sale, transfer and distribution of consumable commodities, the necessaries of life, is filling its proper function from a commercial point of view.

Seventh: Credit extended in the form of acceptances of checks, drafts or bills of exchange, growing out of the actual production and distribution of the necessaries of life, is filling its proper function from a commercial point of view.

Eighth: Credit obtained through accommodation acceptances or indorsements is a bane to and peril of commerce, especially if such credit is used in real estate investments, and more particularly in speculation.

Ninth: Credit granted upon real estate securities should depend entirely upon the investment fund of the country for its cancelation. So far as such credit is canceled by appropriating the commercial fund of the country, labor will be thrown out of employment, production and consumption will cease to a corresponding degree, and this will measure the amount of human suffering that is sure to follow.

Tenth: Real estate is not a proper basis for currency, because it is not a consumable commodity with a ready market where it can be converted into gold and because the value of real estate from the standpoint of our currency needs is unlimited and therefore necessarily not convertible into gold coin which is always essential to a sound currency.

The history of credit granted to our Government or forced by our Government from the people will furnish plenty of food for our appetites, humble our pride, and recall most sickening experiences one week from tonight. Don't you think so, Mr. Banker?

MR. BANKER: I certainly do.

MR. LAWYER: So do I. And even then we cannot do the subject half justice; but I suppose that we must get through some time.

UNCLE SAM: I see that Mr. Farmer is now wide awake, but that Mr. Laboringman over there is starting for the land of nod, because Mr. Farmer is not keeping him awake by his snoring, so I think I'd better say good night.

EIGHTH NIGHT

COLONIAL CREDIT MONEY

UNCLE SAM: When we parted last Wednesday night, we all agreed to make our experiences in Government issues of money the subject of inquiry

tonight, and I presume you have all been spending your days and nights in studying American history, that is, in studying me.

MR. MERCHANT: I have put more work into the question of our Government issues of money than into any subject in my life in the same length of time, principally because I knew Mr. Farmer used to be what we called a Greenbacker some years ago and I wanted to be ready if he happened to still entertain those ideas and was still subject to those fits of madness that came over him before he paid off the mortgage on his farm. But that's ancient history now, and he's holding the mortgage on the other fellow's farm. Now, Mr. Farmer, don't get hot, for I don't mean any disrespect to you, but only to recall that craze for fiat money when you and I were much younger than we are now. Then again, you seem to have had a real revelation during our last talk, and to have been converted to the principle that there could be too much paper money.

MR. FARMER: That's all right, Mr. Merchant, but I well remember that I was not alone when I used to advocate greenbacks without limit. Mr. Banker over there was in the same boat with me.

MR. BANKER: Right you are, Mr. Farmer, and there was not a man in this immediate neighborhood then except old Judge Jones who did not agree with us, but we've traveled some since then.

MR. LAWYER: Well, gentlemen, I am a little surprised to find you all so completely convinced that Government issues of money are to be condemned before a fair trial. I half imagine that Mr. Manufacturer over there will sympathize with me in my contention for the constitutional power, and the wisdom of issuing United States Notes.

MR. MANUFACTURER: You are very sadly mistaken about me; I am ready to prove that you are mistaken, both as to the wisdom and constitutional right of the Government to issue money even if you are a lawyer, and ought to know all about the constitution. I don't claim to know very much about the money question, generally speaking, but like Mr. Merchant I have made a special study of this particular feature of it. I am convinced there is only one side to this question, however many sides there may be to some other phases of it, and we do not have to leave the history of our own country for overwhelming proof of the folly of it. I for one do not believe that the Government has any constitutional right to issue money.

MR. LAWYER: Well, Well!

MR. MERCHANT: We'll make you say "well, well" before we get through with you, if it takes till morning.

MR. MANUFACTURER: It won't take until morning and when we get through with him, he will be finished for fair, I think.

MR. LABORINGMAN: We are evidently going to have some fun tonight. You seem to think that you have Mr. Lawyer in chancery. Now, blaze away. I want you to nail Mr. Lawyer on the greenback question, if you can; for he has been getting the best of you on several occasions; personally, I hope I will never get any less of the greenbacks as they are good enough for me.

MR. MERCHANT: But they are not good enough for you, Mr. Laboringman, nor for anyone else, if they are not worth one hundred cents on the dollar; or if they are ever liable to be worth less than one hundred cents on the dollar; or if they are teaching an economic falsehood, so long as they remain in existence; or if they are positively doing the business interests of the country actual harm by excluding a corresponding amount of gold, and finally, if they have no legal right for existence today, even though one may admit for the sake of the argument that it was necessary to issue them to save the nation, an admission which I will not make.

MR. MANUFACTURER: Good for you, Mr. Merchant, that statement has the right ring to it. The greenback is guilty of every one of the charges that you make from my point of view, and so it must always be with every Government issue of money.

You may go back to the very first Government issue of paper money in this country, and follow the practice down to this very hour, and it has left a trail of dishonesty, disaster, ruin and misery unmatched by any other single cause. In my contention for this statement I am going to rely for my historical facts upon George Bancroft, the greatest American historian of our earlier period.

In the fall of 1690, upon the return of an unsuccessful expedition which Massachusetts had sent out to capture Quebec, the general court, the then legislative power, ordered an issue of "£7,000 ($35,000) of printed bills of equal value with money." And the balance of the cost which was £40,000 or $200,000 was issued the following day.

In July, 1692, within nineteen months of the earliest emission, the first legislature under the new charter which transformed the self-governing colony of Massachusetts Bay into a direct dependency of Great Britain, made "all these bills of public credit current within this province in all payments equivalent to money, excepting specialties and contracts made before the publication" of this new law. Their credit was supported by receiving them in all public payments at a premium of 5 per cent.

Immediately all the coins then in Massachusetts were exported to England and the new stock followed as fast as it came in from abroad. The vain sorrow of the province expressed itself in 1697 by the prohibition of "the export of coin, silver money or bullion." In June, a joint committee of the Council and representatives, to be aided by the advice of merchants and others, was appointed to consider how to revive trade, and find out some suitable medium to supply the scarcity of "money"; and it is to be noted that the word "money" in all colonial legislation was used exclusively for gold and silver coin.

The first issue of Bills of Credit of Massachusetts, after it became a Royal Province, was in November, 1702, for £10,000 in value "equal to money," but to be accepted in all public payments at the advance of 5 per cent.

The passion for borrowing spread like flame on the dry prairie. In November, 1714, Massachusetts ordered £50,000 to be let out by trustees to the inhabitants of the province for five years on real security, at 5 per cent per annum, to be paid back in five annual installments. The Act was a sacrifice of the public interests to borrowers, who were to return their loan only after a lapse of time, sufficient to insure the very great depreciation of the paper in which it was to be paid. Moreover, the borrowers needed an enforcement by law of the circulation of the paper which they borrowed: swiftly, therefore, in December, 1715, under a pretext "to prevent the oppression of debtors" a stringent statute made the bills legal tender for all debts that had been, or should be contracted, between the 30th of October, 1705, and the 30th of October, 1722.

The loan of Bills of Credit by Massachusetts in 1714 was managed at the seat of Government. But why should Boston be favored? "That the husbandry, fishery and other trades of the province might be encouraged and promoted," Bills of Credit on the province to the amount of £100,000

were in 1716 ordered to be distributed to a loan office in each county. But why should borrowers in the smaller townships be forced to travel to their shire towns? Let a public money lender be near every man's door. By the statute of March, 1721, £50,000 were distributed among borrowers in each of the several towns according to its proportion in the last province tax. Again in 1728, £60,000 in Bills of Credit were proportionately loaned among the several towns, even on personal security, at the rate of 6 per cent for six years, after which repayment was to be made in five yearly installments. Of course, "money" disappeared; not even a single penny was to be had; the small change became of paper.

The next development of the colonial system of paper money was a partial repudiation, so far as Massachusetts was concerned. In February, 1737, less than forty-seven years after the first emission of Bills of Credit by Massachusetts, that colony issued £9,000 of a new tenor of which one dollar was to be equal to three of the old, and which, after five years, was to be redeemed at par in silver and gold. When the time of redemption came around they were not paid off, but by a further repudiation four pounds for one was made the rate in exchanging the old tenor for the new.

On the 9th of January, 1739, the general court in Massachusetts made this confession: "The emissions of great quantities of bills of public credit, without certain provision for their redemption by lawful money in convenient time, have already stripped us of all our money and brought them into contempt to the great scandal of the government; for the remedy thereof this province hath fixed the value of their bills in lawful money, and the time of their redemption in 1742 new style."

But that year went by and relief had not been found. In 1744, James Allen, the preacher of the annual election sermon, from the pulpit, addressed the Governor in this wise: "Be the means of delivering us from the perplexing difficulties we are involved in by an unhappy medium, uncertain as the wind and fluctuating like the waves of the sea, through the unrighteousness thereof the land mourneth, and the cries of many are going up into the ears of the Lord of Sabaoth."

In 1745, people of Massachusetts took the largest part in the brilliant enterprise which ended in the Louisburg campaign, and were to receive

from the British Parliament some payment for their extraordinary expenses in the expedition.

In February, 1748, Massachusetts, while awaiting its share of this remuneration, invited the governments of Connecticut, New Hampshire and Rhode Island to join in abolishing the use of Bills of Credit; but as no one of the three gave effectual heed to the summons, the people of Massachusetts proceeded alone. It was estimated that about £2,200,000 of their Bills of Credit would be outstanding in the year 1749, that is, $11,000,000. In January of that year an act was passed redeeming the bills of the old issue or tenor at the rate of 45 shillings, those of the new issue or tenor at the rate of 11s. and 3d. for one Spanish dollar; a rate which somewhat exceeded their market value at the time.

The Bills of Credit of New Hampshire, Rhode Island and Connecticut were excluded by most stringent laws, and Massachusetts, with its quickened industry and established credit, "sat as a Queen among the Provinces."

MR. MERCHANT: Mr. Manufacturer, you must have gotten your information from the same source that I obtained mine; all that you've said sounds very much like George Bancroft, whose history of this question I've just read. Since my ancestors came from Connecticut, I am going to tell her tale of woe.

In June, 1709, Connecticut put forth £8,000 of bills, or $40,000; then soon followed that by £11,000 more, which were "to be in value equal to money, and to be accordingly accepted in all public payments."

In October, 1718, Connecticut, to prevent oppression by the rigorous exaction of money, declared its Bills of Credit legal tender for debt contracted between the 12th day of July, 1709, and the 12th day of July, 1727. The time for the operation of the law was afterwards extended to 1735.

In the year 1733 Connecticut loaned interest-bearing bills for nearly £50,000. In May, 1740, it issued £30,000 of a new issue of which £22,000 were to be loaned to freeholders of the colony on mortgage, or personal security, to be repaid one half in four years, the other half in eight years in current bills, or hemp, or duck, or canvas at their current market price. These bills were made legal tender in all payments. But this provision was

censured by the lords of trade in England, and in the following November it was repealed.

Roger Sherman, the greatest statesman of Connecticut, gave his mind to the questions about money and mediums, commerce and exchanges, and having mastered them in 1752, under the name of Philoeuonomos, "the lover of just laws," he addressed to the men of Connecticut "a caveat" against injustice or an inquiry into the evil consequences of a fluctuating medium of exchange. These are some of his words: "The Legislature of Connecticut have at length taken effectual care to prevent a further depreciation of the Bills of this colony; the other Governments (meaning New Hampshire and Rhode Island) not having taken the like prudent care, their Bills of Credit are still sinking in their value...." "*Money ought to be something of certain value it being that whereby other things are to be valued* ..." and this I would lay down as a principle that can't be denied that a debtor ought not to pay any debts with less value that what was contracted for, without the consent of, or against the will of the creditor.... "If what is used as a medium of exchange is fluctuating in its value, it is no better than unjust weights and measures, both of which are condemned by the law of God and man; and, therefore, the longest and most universal custom could never make the use of such a medium either lawful or reasonable.

"We in this Colony are seated on a very fruitful soil, the product whereof with our labor and industry and the divine blessing thereon, would sufficiently furnish us with and procure us all the necessaries of life and as good a medium of exchange as any people in the world have or can desire. But so long as we part with our most valuable commodities for such Bills of Credit, as are no profit, we shall spend a great part of our labor and substance for that which will not profit us; whereas, if these things were reformed we might be as independent, flourishing and happy a colony as any in the British Dominion."

In May of the same year, the famous traveler, John Ledyard, and twenty-five other merchants of Connecticut caught up the theme, and in a petition to their legislature said: "The medium of trade whereby our dealings are valued and weighed, ought to be esteemed as sacred as any weights and measures whatever, and, to maintain justice, must be kept as stable, for as a false weight and a false dollar is an abomination to the Lord, a false and

unstable medium is equally so, as it occasions as much iniquity, and is at least as injurious."

The Connecticut Assembly supported these memorialists, excluded the bills of paper money of Rhode Island, and overcoming every embarrassment, at last, like Massachusetts, redeemed every nine shillings of its paper money with one shilling in specie. After the first day of November, 1756, all accounts in Connecticut were kept in lawful money.

MR. MANUFACTURER: The experience of the other New England States is practically the same as that you have just recited in Connecticut. In 1717 the Council of New Hampshire was zealous to follow the fashion of issuing paper money by loan and issued £15,000.

Rhode Island, also, in July, 1710, on its first emission of Bills of Credit, declared them equal in value to "money," and made them receivable in all public payments. In November, 1711, Rhode Island discharged a claim by a loan of its Bills of Credit to the amount of £300 for four years free of interest.

New Jersey, too, tried its hand at the same scheme, following the lead of Pennsylvania. In December, 1783, it issued £31,250, and in 1786, it struggled hard to issue a larger amount, but William Patterson, who was afterwards a member of the Supreme Court, resisted the proposal with inflexible courage, and here are some of the words which he employed: "An increase of paper money, especially if it be a tender, will destroy what little credit is left, will bewilder conscience in the mazes of dishonest speculations, will allure some and constrain others into the perpetration of knavish acts, will turn vice into a legal virtue, and sanctify iniquity by law. Men have, in the ordinary transactions of life, temptations enough to lead them from the path of rectitude; why then pass laws for the purpose, or give legislative sanction to positive acts of iniquity? Lead us not into temptation is a part of our Lord's prayer worthy of attention at all times, and especially at the present."

In March, 1723, when there was universal peace, borrowers undermined the scruples of Pennsylvania, and that colony issued bills of credit for loans to individuals, and not only compelled creditors to receive the bills at par, or "lose their debts," but ordered sellers to receive them at their nominal value

in the sale of goods, or lands, or tenements or "forfeit a sum from 30 shillings to £50."

Again, on March 21, 1783, Pennsylvania, which hardly knew what it was doing and had not yet gathered up the strength of its will, was the first to renew in peace the evil usage of the times of war, and issued $300,000 in what was called Treasury Notes, the lowest of one-quarter of a dollar, the highest at twenty dollars. Two years later, but after great resistance, its legislature issued £150,000, the lowest note of 3 pence. But in the decisive hour Pennsylvania, too, proved the implacable foe of paper money.

In 1733, £90,000 in its bills of credit were brought into circulation by loans of 4 per cent by the legislature of Maryland.

Virginia was involved from May, 1755, in measures of war, and immediate and increasing issues of paper bills were made which from the beginning were a lawful tender for private debts. For the new "notes" of April, 1757, it was further ordered that any seller who should demand more for his goods in notes than in gold or silver coin, should "forfeit 20 per cent of their value." ... In 1781, in the month of March, Virginia directed the emission of £10,000,000 and authorized £5,000,000 more; and the Continental paper currency and its own were made a legal tender in discharge of all debts and contracts, except contracts which expressly promised the contrary.

In 1780 North Carolina directed the emission of more than £1,000,000, and such further sums as the exigencies of the state might require; in the next year gave authority at one dash to issue $26,250,000 of paper dollars bearing 6 per cent interest. Again in 1783, North Carolina emitted £100,000, declaring each pound of the emission equal to two and one-half Spanish milled dollars, and a tender in all payments whatever. In 1785, the state emitted £100,000 more.

South Carolina, too, as late as 1785, permitted itself to be persuaded to lend among the constituents of its legislature £100,000 in paper bills of the state, which were to pass in payments to the treasury of the state but were not otherwise made legal tender. The state soon perceived that the paper banished more gold and silver than the amount of the bills which were to take their place.... This was done, although its legislature on the pretext of creating a fund to sink former Bills of Credit, and to encourage trade and commerce in July, 1712, had ordered £52,000 in new bills of credit to be

stamped and put out at interest in loans. In December, 1717, they passed this statute: "It is found by experience that the multiplicity of the Bills of Credit hath been the cause of the ruin of our trade and commerce, and hath been the great evil of this province, and that it ought with all expedition to be remedied."

Finally, the great Empire State, with all the rest, entered eagerly into the defense of its northern frontier, and in November, 1709, for the first time involved itself in the use of Bills of Credit. In 1770, the legislature of New York passed an Act for emitting £120,000 in Bills of Credit to be put out on loan. Again in April, 1786, the opening year of the final great movement for a closer union of the state, it placed an emission of £200,000 in Bills of Credit with loan officers, to be loaned on mortgage security; and they were made a legal tender in any suit for debt or damages, and the costs of suit. The bills were further to be received for duties to be collected at the Port of New York by the state. Gen. MacDougal, the brave soldier and patriot, though sick unto death, insisted upon being carried to the Senate, that, as the last act of his public life, he might give his voice against the proposal to emit paper money.

In 1780, the United States began repudiation by issuing a new paper dollar equal to forty of their previous issues. After their new constitution was established, all that remained of the bills of the Continental Congress were called in at the rate of one dollar in silver for one hundred dollars impressed on paper.

MR. FARMER: While you gentlemen were studying Bancroft, I have been reading Horace White upon this question of Government issues of money, and thought I would not give myself away until after you exposed your hands. You've piled up facts, but you've given us a very slight impression of the effect that these money issues had, and therefore I am going to give you the benefit of my explanation which I think throws another and very important light upon the subject.

Mr. White refers to a pamphlet circulated in 1743, which speaks of the Bills of Credit in New England issued on loan "to themselves, members of the legislature and to other borrowers, their friends, at easy and fallaceous Lays, to be repaid at very long Periods; and by their provincial laws made a tender in all contracts, trade and business, whereby currencies, various and

illegal, have been introduced which from their continued and depreciated nature in the course of many years, have much oppressed widows and orphans and all other creditors."

The same writer gives special attention to the colony of Rhode Island, which had "defrauded more in a few years than any of the most wicked administrations in the several nations of Europe have done in several centuries. A contract made thirty years ago for £100,000 sterling in value is at present reduced to a nominal 32 shillings."

White says that in addition to legal tender acts there was a great variety of laws to compel people to sell their property at the same price for bills of credit as for silver. The debtor class was not satisfied with forcing depreciated paper upon creditors for past obligations, but insisted that they ought to be able to buy as much property with the paper as with specie. Those who had been forced to take the paper for past debts naturally joined in this demand, and the legislatures agreed with them. Hence we find in nearly all the colonies severe penalties on those who charged more for their goods, lands or services in Bills of Credit than in money. In some cases the penalty was a fine, in others imprisonment, in others confiscation of property offered.

The usual course of events where Bills of Credit were issued was as follows: (1) emission; (2) disappearance of specie; (3) counterfeiting; (4) wearing out of bills; (5) calling in and replacing worn and counterfeited issues with new ones; (6) extending the time for old ones to run, especially those which had been placed on loan; (7) depreciation; (8) repudiation of early issues in part and the emissions of others called "New Tenor."

Dr. Douglas says that Massachusetts had at one time "old tenor, middle tenor, new tenor first, new tenor second." Rhode Island had an indefinite number of tenors.

All sorts of opprobrious epithets were heaped upon them. They were called invidious statutes, old, worn, torn, tattered, shattered, ragged, mutilated, defaced, obliterated, illegible and "unfit to pass."

The depreciation of the Colonial bills varied in the different colonies. In Massachusetts the maximum depreciation was 11 for 1 (the standard being "proclamation money"). In Connecticut it was 8 for 1. In 1763, the value of

the New Hampshire shilling was a little less than a half penny; in 1771, it vanished altogether. Rhode Island owed tenor bills in 1770 that were worth 26 to 1. Those of North Carolina were 10 for 1; of South Carolina 7 for 1.

Here is Mr. White's graphic description of the times: "The pamphlets and records of the colonial period are filled with accounts of the distress and demoralization caused by depreciated paper made legal tender. As all loans were so payable, the accumulations of age, and the inheritance of orphans dwindled. So, too, did the earnings of the wageworker. In order to avoid the losses from a depreciating standard of value, resort was had by working men to 'store pay,' and here they were generally cheated. Trustees and executors, who had money in their hands which belonged to other people, and who saw how things were going, often postponed the payment on frivolous pretext, since each delay enabled them to settle their accounts with less value, thus devouring widows' houses. Not only was bad blood stirred up by the resistance of the Royal Governors, but a spirit of lawlessness was engendered against the local assemblies, if they showed a disposition to resist the demands of the *green-backers* of that day. Even after the revolution the legislature of New Hampshire was mobbed because it refused to legal tender bills. One of the demands of Shays' rebellion in Massachusetts was for more paper money. In Rhode Island, after the revolution, a general system of repudiation of debts, public and private, was undertaken, and carried through by means of legal tender paper in spite of the decisions of her courts."

However bad these colonial bills of credit proved to be, if it were possible those of the revolutionary period were still worse.

Even before the Continental Congress assembled the separate colonies began to issue Bills of Credit. When the Continental Congress met in June, 1775, Franklin urged that the bills should bear interest, in order to prevent depreciation. He even urged that the interests should be payable in "hard dollars," but this was voted impracticable.

All seemed to be in confusion, and in this unsettled state it was voted in July, 1775, to issue due bills for 2,000,000 Spanish milled dollars, to be sunk by taxes in four successive years, beginning November 30, 1779, the taxes to be levied and collected by the states in proportion to their population. These bills were not legal tender at the time of their issue. The

Congress had no power to make them so, but in January, 1777, it was recommended that the States should do so, and this they did, one after another, in one way or another. Before the two millions were issued, another million was wanted, and was authorized with three million more, before the end of the year; and still they came nine millions more, or until fifteen in all were out, before independence was declared. This was called Continental Currency to distinguish it from the issues of the separate states. Mr. White says from this time the demon of "fiat money" had possession of the country, and worked its will on the inhabitants. The issues ran on in an increasing volume till they amounted to $240,000,000 in the year 1779. In 1781 the whole mass became worthless. On this subject the essays of Pelatiah Webster have become classic. Mr. Webster, it is thought by some, was the author of the Constitution. He was a merchant of Philadelphia and an ardent patriot. He wrote "we have suffered more from this than from every cause of calamity; it has killed more men, pervaded and corrupted the choicest interests of our country more and done more injustice than even the arms and artifices of our enemies."

Professor Sumner says that when the depreciation was going on rapidly a man might lose his whole wages while earning them.

Naturally, the next thing in order was the establishment of prices, for which purpose conventions were called. The first one held at Providence was composed of delegates from the four New England states. It fixed the prices at which imported goods might be sold, but an exception was made of arms and ammunition in order to encourage their importation.

Of course the proceedings in Connecticut were substantially the same. This state, however, had a law to prohibit persons from buying any more goods than the select men, or county commissioners, should judge to be necessary for the use of their respective families. Anything like prudence in laying in supplies was thus forbidden.

A Price Convention of the six Middle States was held at York, Pa., in March, 1777, but was unable to agree upon a single point.

When the Price Conventions failed of their object, new ones were held fixing new limits, for example fourfold the prices of 1774, then eightfold, then tenfold, then twentyfold—terrorism being applied in each case to enforce the decrees. Country folks accused town folks of extortion, and

threatened to come in and take what they wanted by force. Town folks accused country folks of withholding their produce, and so laws were enacted against withholders. Anonymous hand bills and broad-sides were circulated threatening vengeance on merchants.

As a result of such irrational business disturbances, Boston was, in October, 1779, on the verge of starvation; money transactions had nearly ceased and business was done by barter.

A soldier's pay had dropped by depreciation from $7.00 per month to 33 cents, although it had been twice raised by Congress. Washington could not move his soldiers to Yorktown till Robert Morris had borrowed hard money from Rochambeau for their back pay.

In March, 1780, Congress tried the colonial experiment of "new tenor" in a very awkward and roundabout way, and declared that "old tenor" to be worth 40 to 1; the actual depreciation being 60 for 1. As it was supposed that $200,000,000 of Continental money was out, this was a repudiation of all but $5,000,000 of it. The depreciation then went on more rapidly than before. The "new tenor" bills started at a depreciation of 2 for 1, which became 3 for 1, even before they reached the army, and dropped to 6 to 1 in a few months. Old tenor went at a galloping pace at 500 for 1 in Philadelphia, when it ceased to circulate. In the remoter districts of the South, it continued in circulation nearly a year longer, and until the depreciation had reached 1,000 to 1. The southern people, when they learned that they had been using the stuff long after it had become worthless in the North, thought that they had been cheated by the Yankees, thus intensifying the sectional distrust which was already so dangerous.

Continental money was now an object of execration and afterwards of derision. "Not worth a continental" became a synonym for absolute worthlessness, and remains an axiom to this day. In the Act of Congress approved August 4, 1790, authority was granted for funding the bills in 6 per cent bonds "at the rate of $100 in the said bill for $1.00 in specie." Only $7,000,000 turned up to take advantage of this provision.

MR. BANKER: I want to be perfectly frank with the rest of you men. Last Thursday I was over at Mr. Lawyer's office and we got into a discussion about this matter. I was literally astounded to find him in favor of Government issues of money, and that he actually thought such issues were

constitutional. I knew how Mr. Merchant and Mr. Manufacturer stood, for we had talked the matter over some time ago. So we got together and divided up the work we should each of us do in order to convince Mr. Lawyer that he was wrong on both points.

From what has been shown with respect to the facts I am sure that Mr. Lawyer must be convinced that the principle at least of Government issues of legal tender paper money is unsound; for all the evidence, as we have seen for 100 years, from 1690 to 1790, is all on one side. Indeed not a single exception can be found anywhere. You will remember that everyone of the thirteen original states tried fiat legal tender paper money, and then when they all united under the Continental Congress, they tried it altogether; but the result was precisely the same.

First: You will remember, came the issuance of the Bills of Credit, as they called them, or Greenbacks, as we call them, paper money.

Second: And immediately all the gold and silver disappeared because driven from the channels of trade, with something cheaper with which the debtor could cancel his obligations.

Third: Dishonesty, dishonor, fraud, disaster, ruin and repudiation followed each other in quick succession.

Fourth: Then came the return to sound conditions when paper issues were discarded and the effort to make something out of nothing was abandoned.

Mr. Lawyer, I want to ask you now whether you do not think we have made a case against you so far as the unwisdom and utter folly of Government issues of paper money is concerned.

MR. LAWYER: I must admit that the facts are overwhelming. I had never taken the time nor trouble to investigate the subject, but had assumed that one of the functions of our Government was the issuance of money, even paper money, if you like. It seems from what has been shown here and last Wednesday night as well that this scheme of issuing paper money has been tried, not only by everyone of our thirteen Colonies and the Continental Congress, but by practically every country of the world at some time or other. It was tried in Austria, England, France, Germany, Italy, Russia and is now going on in nearly every one of the South American countries with the same experience, I am informed, that other countries have suffered. Now, so

far as the facts have been disclosed, there is not a single instance in which the scheme has been tried that has not resulted in precisely the same way—complete failure and ultimate dishonor and repudiation if persisted in as a principle.

Under the circumstances I must say, as every fair-minded man must, that the practice has been an absolute failure, and therefore it must be admitted that the principle must be unsound, for it seems to have worked nowhere, although tried under every conceivable condition. Of course I am compelled to give in on the unsoundness of the scheme. Now, you understand, that my admission as to the unsoundness and unwisdom of the practice does not carry with it my admission that the United States Government has no constitutional right or authority to issue paper money if it chooses to do so.

MR. BANKER: I understand perfectly well that your admission of the one point has nothing whatever to do with the constitutional question, but I wanted to know your conclusion after a consideration of the facts as presented first.

I think everyone here will agree that the disastrous experiences of the colonies and of the Continental Congress in issuing paper money must have forced this question upon the minds of the framers of the Constitution, as one of the very greatest importance to be settled by them. Certainly what they thought about it would indicate what they intended to do. I will first show this by what they said, and then I will demonstrate what they intended to do by what they actually did do in the Constitutional Convention.

Alexander Hamilton, in June, 1783, set forth explicitly in a resolution for a new Constitution of the United States of America his deliberate opinion in these words: "To emit an unfunded paper as the sign of value ought not to continue a formal part in the Constitution, nor ever hereafter to be employed; being in its nature pregnant with abuses and liable to be made the engine of imposition and fraud; holding out temptations equally pernicious to the integrity of Government and to the morals of the people."

In 1786, Thomas Paine, the author of "Common Sense," in an opinion on Paper Money used this language: "The laws of the country ought to be the standard of equity and calculated to impress on the minds of the people the moral as well as the legal obligation of political justice. But tender laws of any kind operate to destroy morality and to dissolve by the pretence of law

what ought to be the principle of *law* to *support*, reciprocal justice between man and man; and the punishment of a member who should move for such a law ought to be *death*."

In the summer of 1785 Richard Henry Lee, then president of Congress, warned Washington of a plan formed for issuing a large sum of paper money in the next assembly of their state, adding as his opinion: "The greatest foes in the world could not devise a more effectual plan for ruining Virginia. I should suppose every friend to his country, every honest and sober man, would join heartily to reprobate so nefarious a plan of speculation."

Washington replied to Lee in these words: "I never have heard, and I hope I never shall hear, any serious mention of a paper emission in this state. Yet ignorance is the tool of design and is often set to work suddenly and unexpectedly."

In 1787, on the 9th day of January, Washington wrote to Jabes Bowen as follows: "Paper money has had the effect in your state that it will ever have, to ruin commerce, oppress the honest, and open the door to every species of fraud and injustice."

To Mr. Stone, a member of the Senate of Maryland, who appealed to Washington to allow his opinion on this subject to be made publicly known, Washington wrote just three months before the opening of the Constitutional convention, as follows: "As my sentiments thereon have been fully and decidedly expressed long before the assembly either of Maryland or of this state was convened, I do not scruple to declare, that if I had had a voice in your legislature, it would have been given decidedly against a paper emission upon the general principles of its utility, as a representative and the necessity of it as a medium.

"To assign reasons for this opinion would be as unnecessary as tedious. The ground has been so often trod that a place hardly remains untouched. In a word the necessity arising from the want of specie is represented as greater than it really is. I contend that it is by the substance, not with the shadow of a thing, we are to be benefited. The wisdom of man, in my humble opinion, cannot at this time devise a plan, by which the credit of paper money would be long supported; consequently, depreciation keeps pace with the quantity of the emission, and articles for which it is exchanged rise in a greater ratio

than the sinking value of the money. Wherein then is the farmer, the planter, the artisan benefited? An evil equally great is the door it immediately opens for speculation, by which the least designing, and perhaps most valuable part of the community are preyed upon by the more knowing and crafty speculators."

In 1785, George Mason wrote "they may pass a law to issue paper money, but twenty laws will not make the people receive it. Paper money is founded upon fraud and knavery."

On the first day of August, 1786, Washington wrote to Jefferson: "Other states are falling into the very foolish and wicked plans of emitting paper money."

In May, 1788, Charles Pinckney, in a speech in the Convention of South Carolina, said: "I apprehend these general reasons will be found true with respect to paper money; that experience has shown that in every state where it has been practiced since the Revolution, it always carries the gold and silver out of the country, and impoverishes it."

John Marshall, the greatest of all our Chief Justices, the man who breathed into the dry bones of a constitutional contract, the soul of nationality, expressed himself at various times in these words: "He had 'an unabated zeal for the exact observance of public and private engagements.' He rightly insisted that the only ways of relief for pecuniary 'distresses' were 'industry and frugality'; he condemned 'all the wild projects of the moment; he rejected as a delusion every attempt at relief from pecuniary distresses' by the emission of 'paper money' or by 'a depreciated medium of commerce.'" George Bancroft said: "These were his opinions through life. He gave them to the public in 1807, and twenty-four years later in a revised edition of his 'Life of Washington,' he confirmed his early convictions by the authority of his maturest life."

James Madison, who was probably more responsible for the Constitution than any other single individual, used these words in addressing the delegates of Virginia in the year 1786: "Paper money is unjust; to creditors, if a legal tender; to debtors, if not legal tender, by increasing the difficulty of getting specie. It is unconstitutional, for it affects the rights of property, as much as taking away equal value in land. It is pernicious, destroying confidence between individuals; discouraging commerce; enriching

sharpers; vitiating morals; reversing the end of government, and conspiring with the examples of other states to disgrace Republican Government in the eyes of mankind." As the result of his words and the well-known opinions of Washington, Lee and Mason, the House of Delegates of Virginia on the first day of November resolved by a vote of 85 against 17 that an emission of paper money would be "unjust, impolitic and destructive of public and private confidence, and of that virtue which is the basis of Republican Government."

Disquieting symptoms having appeared in Virginia, Madison, in April, enjoined Monroe, a member of its assembly, to battle paper money.

Madison enumerated among the evils for which the new Constitution should provide a remedy, the "familiar violation of contracts in the form of depreciated paper, made a legal tender." In his notes for his own guidance in the Federal Convention, he laid down the principle that "Paper money may be deemed an aggression on the rights of other states," and just five weeks before the time for the meeting of the convention, he wrote from Congress, then sitting in New York, to Edmund Randolph, as follows: "There has never been a moment since the peace, at which the federal assent would have been given to paper money."

In conclusion, Mr. Lawyer, I want you, because you are a particularly good reader, and ought to be more interested in this subject than anybody else, if you are wrong, to read the story of the Constitutional Convention as related by George Bancroft.

MR. LAWYER: I will very gladly do so.

"The convention of the states for the reform of the confederacy organized itself by electing as its president George Washington, who of all the public men in his day was the most decided in his convictions and the most outspoken in his words on the inherent dishonesty of irredeemable paper bills.

"Virginia took the lead, and Randolph, its governor, in his opening speech drew attention to paper money by reminding its hearers that the patriotic authors of the confederation did their work 'in the infancy of the science of constitutions and of confederacies, when the havoc of paper money had not been foreseen.'

"Among the delegates from Connecticut were Oliver Ellsworth, who in the Federal Congress had repeatedly served on committees for the reform of the federal constitution, and Roger Sherman, who, in 1752, had published his conviction that good laws and poor money are irreconcilable. They agreed to insist in the convention 'that the legislatures of the individual states ought not to possess a right to emit bills of credit for a currency, or in any manner to obstruct the recovery of debts, whereby the interests of foreigners or the citizens of any other state may be affected.'

"The refusal of the convention to confer on the legislature of the United States the power to emit bills of credit or irredeemable paper money in any form is so complete that, according to all rules by which public documents are interpreted, it should not be treated as questionable; but as the truth in this case is of infinite importance, and has been questioned by those in authority, the wrong done to the Constitution may justify a simple narrative of the facts, which ample and indisputable records establish, and which no power can alter.

"The journal of the convention for framing the Constitution was kept under the supervision of its members, and its authority is vouched for by Washington, not only as the presiding officer of the convention, but as President of the United States in a special message to Congress.

"By a clause in the ninth article of confederation of the United States of America, and only by that clause, the confederated states had authority 'to emit bills on the credit of the United States.'

"Of the legislature of the United States, under our present constitution, the court insists that 'Congress is clearly authorized to emit Bills of Credit.' But is it so?

"The eighth clause of the seventh article, in the first draft of the Constitution, was as follows: 'The legislature of the United States shall have the power to borrow money and emit bills on the credit of the United States.' The journal of the convention for August 16th makes this record: 'It was moved and seconded to strike out the words "and emit bills," and the motion to strike out these words "passed in the affirmative. Yeas: New Hampshire, Massachusetts, Connecticut, Pennsylvania, Delaware, Virginia, North Carolina, South Carolina, Georgia—9. Nays: New Jersey, Maryland —2." So the convention by a vote of more than four to one, refused to grant

to the legislature of the United States the power "to emit bills on the credit of the United States.'"

"For the interpretation of this record, Madison, the best possible witness, has left this note: 'Striking out the words cut off the pretext for a paper currency, and particularly for making the bills a tender either for public or private debts.'

"Madison was the chief author of the new Constitution. Its opponent, Luther Martin, the attorney-general of Maryland, a delegate to the Federal Convention and present at the debate, read to the Maryland House of Delegates a paper, in which he gave his account of the purpose of the Convention; his evidence agrees exactly with that of Madison, and for nearly a hundred years his fidelity as a witness was as little questioned as that of Madison. Here are two witnesses: Madison, who approved the prohibition, and Martin, who condemned it; the court pushes the testimony of Madison aside as if he had 'not explained himself,' though on the point in question his words are as clear as sunlight. The address of Martin the court rejects as a 'philippic,' though it contains not a word of invective against any individual, and does contain the clearly expressed wish of its author 'not to wound the feelings of any person.'

"We have a record of what was spoken and of what was done in the Federal Convention kept by Madison, who took upon himself the most solemn engagement to preserve the truth for the instruction of coming generations, and whose opportunity, capacity, and integrity no one questions. His report of what was said and done on the 16th of August in the Federal Convention preserves the testimony of many witnesses, taken down as it were by the most capable notary.

"The question before the Convention was: Shall power be granted to the legislature of the United States 'to emit bills of credit'? The first witness is Gouverneur Morris, a man free from illusions; a delegate from the state which contained Philadelphia, then the most opulent city in the thirteen states; and as by its interests he was nearly connected with the city and state of New York, he thoroughly represented the interests of commerce. He moved to strike out the grant of power to 'emit bills on the credit of the United States,' saying: 'If the United States have credit, such bills will be unnecessary; if they have not, will be unjust and useless.' The seconder of

Gouverneur Morris was Pierce Butler, a delegate from South Carolina, then the richest commercial state in the South. He remarked in the course of debate that 'paper is a legal tender in no country in Europe,' and he was urgent to withhold from the Government of the United States the power to make it so.

"Madison interposed: 'Will it not be sufficient to prohibit the making' the bills 'a tender'? Gorham, in reply to Madison, held that no accompanying prohibition was sufficient to make it safe to grant to the legislature of the United States the power to emit bills of credit. He spoke absolutely 'for striking the words out,' saying: 'If the words stand, they may suggest and lead to the measure.'

"The words of Oliver Ellsworth, our third chief justice, were: 'This is a favorable moment to shut and bar the door against paper money. The mischiefs of the various experiments which have been made are now fresh in the public mind, and have excited the disgust of all the respectable part of America.'

"Randolph expresses 'his antipathy to paper money'; but, 'could not agree to strike out the words, as he could not foresee all the occasions that might arise.'

"James Wilson, in concurrence with Ellsworth, said: 'It will have a most salutary influence on the credit of the United States to remove the possibility of paper money. This expedition can never succeed whilst its mischiefs are remembered; and, as long as it can be resorted to, it will be a bar to other resources.'

"George Reed spoke for Delaware: 'The words, if not struck out, would be as alarming as the mark of the beast in Revelation.'

"John Langdon, of New Hampshire, conforming to the wise instructions of the towns of his state, said: 'I had rather reject the whole plan than retain the three words "and emit bills."'

"Madison, agreeing with the journal of the convention, records that the grant of power to emit bills of credit was refused by a majority of more than four to one. Eleven men took part in the discussion; and every one of the eleven whether he spoke for or against the grant of the power, Gouverneur Morris, Pierce Butler, James Madison, Nathaniel Gorham, George Mason,

John F. Mercer, Oliver Ellsworth, Edmund Randolph, James Wilson, George Reed and John Langdon, each and all, understood the vote to be a denial to the legislature of the United States of the power to emit paper money. Take the men, one by one, and see how weighty is the witness of each individual; take them together and add the consideration that they, every one of them, unanimously support each other and are contradicted by no one, and who shall dare question their testimony? The evidence is perfect; no power to emit paper money was granted to the legislature of the United States.

"By refusing to the United States the power of issuing bills of credit, the victory over paper money was but half complete. The same James Wilson, who twelve days before, with Oliver Ellsworth, had taken a chief part in refusing to the United States the power to emit paper money, and the same Roger Sherman, who in 1752 had put forth all his energy to break up paper money in Connecticut, jointly took the lead. The first draft of the Constitution had forbidden the states to emit bills of credit without the consent of the legislature of the United States; on the 28th of August they jointly offered this motion: 'No state shall coin money, nor emit bills of credit, nor make anything but gold and silver coin a tender in payment of debts,' making the prohibition absolute. Roger Sherman, animated by zeal for the welfare of the coming republic of countless millions, exclaims in the debate: 'This is the favorable crisis for crushing paper money.' His word was the will of the convention, and the states, by a majority of eight and a half against one and a half—that is, by more than five to one—forbade the states, under any circumstances, to emit bills of credit. This is the way in which our Constitution 'shut and barred the door against paper money' and 'crushed' it.

"Nothing is wanted to the perfect strength of the truth, that the constitution put an end to paper money in all the United States and in all the several states.... 'No suggestion of the existence of a power to make paper a legal tender can be found in the legislative history of the country. Had such a power lurked in the Constitution, as constructed by those who ordained and administered it, we should find it so recorded. The occasion for referring to it has repeatedly arisen; and had such a power existed, it would have been recognized and acted on. It is hardly too much to say, therefore, that the uniform and universal judgment of statesmen, jurists, and lawyers has

denied the constitutional right of Congress to make paper a legal tender for debts to any extent whatever.'"

Thomas Jefferson's opinion: "The Federal Government—I deny their power to make paper a legal tender."

MR. BANKER: Now, Mr. Lawyer, you undoubtedly with all your profession will recognize Daniel Webster as the greatest expounder of the Constitution. I want you to read what he says and then my case will be closed on the constitutional right and authority of the Government to issue paper money.

MR. LAWYER: I will gladly do so. "Most unquestionably there is no legal tender, and there can be no legal tender, in this country, under the authority of this Government or any other, but gold and silver, either the coinage of our own mints, or foreign coins, at rates regulated by Congress. This is a constitutional principle, perfectly plain, and of the very highest importance. The states are expressly prohibited from making anything but gold and silver a tender in payment of debts; and although no such express prohibition is applied to Congress, yet as Congress has no power granted to it, in this respect, but to coin money and to regulate the value of foreign coins, it clearly has no power to substitute paper, or anything else, for coin, as a tender in payment of debts and in discharge of contracts. Congress has exercised this power, fully, in both its branches. It has coined money, and still coins it; it has regulated the value of foreign coins, and still regulates their value. The legal tender, therefore, the constitutional standard of value is established and cannot be overthrown. To overthrow it would shake the whole system. The constitutional tender is the thing to be preserved, and it ought to be preserved sacredly, under all circumstances."

MR. MERCHANT: Well, Mr. Lawyer, what do you really think about the constitutional question now?

MR. LAWYER: In the light of the facts preceding the Constitutional Convention, the personal opinions of those who framed it, and what they actually did in the convention, I will admit I have not a leg to stand on. The story of our experience so well told by you gentlemen demonstrating the utter unwisdom of government issues of money, and the overwhelming evidence on the constitutional question has completely converted me to your contention. But I was relying in a sort of a blind way upon the fact that

our Supreme Court has held that the United States notes were lawfully issued. How about that? Have you investigated it?

MR. BANKER: I have, but the story of the Greenback will take the best part of another night. Therefore, I move we adjourn. It is enough glory for one night to have a layman knock out a lawyer upon a constitutional question.

MR. LAWYER: There is no humiliation in being shown that you are wrong upon so great a question; I regard it as a piece of disgraceful cowardice for a man to persist in holding to a position when he is clearly wrong.

UNCLE SAM: That is the way I like to hear my boys talk. This is really the longest siege we have had, and you all look as though you had been undermined, and so we had better say good night.

NINTH NIGHT

UNITED STATES NOTES

UNCLE SAM: Here we are again and all present. Not a single man has been sick or even reported as indisposed or indifferent since we began these discussions. You must all be thinking that we are engaged in a religious duty, a patriotic service, or you are mightily interested in the subject.

Before we begin, let me recall what was so fully presented last Wednesday night so that we can keep the mile posts constantly before us.

We then learned that during a hundred years, from 1690 to 1790, every one of the thirteen colonies experimented with "Bills of Credit," "Legal tender" "paper money," or "Greenbacks," as we call them, and that they issued fiat or "legal tender money" in almost every conceivable shape, form and way. They issued money against their own credit; they issued it against real estate mortgages, that is, in the form of loans secured by mortgages; they issued it against the personal credit of men in the form of ordinary loans; they issued it under the authority of the Continental Congress when the Colonies were all united. But in no case did any one of them, or all of them combined, escape the certain and universal fate of all such efforts. The

order of events was always the same: (1) Emission of paper money; (2) depreciation of the issue; (3) disappearance of coin; (4) emission of more paper money to make up for the depreciation of that already issued; (5) defrauding of creditors; (6) repudiation; (7) cancelation; (8) reappearance of gold and silver; (9) resumption of species or coin payment; (10) a return of that degree of prosperity that the times and the conditions of the country justified.

Then came that review of the opinions of the framers of the Constitution and the vote in the Constitutional Convention to strike out the power to issue "bills of credit" by the general Government by the decisive vote of 9 to 4, backed up subsequently by the opinions of Thomas Jefferson and Daniel Webster.

As a result of the night's discussion, Mr. Lawyer was forced to admit the unwisdom of any such issue of legal tender money, and that in the light of the evidence, such an issue was without authority of law and unconstitutional.

MR. BANKER: Uncle Sam, I think it should be stated right here that every President of the United States and every successive Congress of the United States down to 1862 recognized the fact that it was the intention of the members of the Constitutional Convention "to shut and bar the door against any such issue." Here is what Horace White says: "During the war of 1812, the Government of the United States issued Treasury notes to the amount of $36,680,794. All except $3,392,994 were payable to order and payable at a definite time and bore interest at the rate of five and two-fifths per cent. About two-thirds of them were of denominations of $100 or more. They did not become a part of the circulating medium and were not intended to. They were paid to such creditors of the Government as were willing to receive them, and they were generally at par until specie payments were suspended in September, 1814. On November 12, 1814, Mr. Hall, a member of Congress from Georgia, introduced a bill into the House for an issue of Treasury notes to be legal tender. The House, by vote of 42 to 95, and without debate, refused to consider this bill. No other attempt was made to pass a legal tender bill until 1862.

"In the panic and crisis of 1837-43, during a portion of which time specie payments were suspended, the Government issued Treasury notes to the

amount of $47,000,000 to meet deficiencies of revenue. All of these notes bore interest, and were payable at a fixed time. They did not become a part of the circulating medium. A few were issued by the Secretary of the Treasury in 1842, bearing only a nominal rate of interest (one mill per $100 per annum). Such notes had not been contemplated by Congress. The Committee of Ways and Means of the House, to whom the subject was referred, reported that the Secretary had exceeded his authority, but Congress took no action on the report. It was the opinion of the Committee that these notes were 'Bills of Credit' within the meaning of the Constitution, and that Congress had no power to issue 'Bills of Credit.' In 1847, during the war with Mexico, Treasury notes to the amount of $26,122,100 were issued. They bore interest at the rate of five and two-fifths and six per cent. They did not enter into the circulation, and were not intended to. The foregoing issues of interest bearing Treasury notes were merely Government loans, of which the securities were in small denominations and had only short periods to run.

"When specie payments were suspended in 1814, and again in 1837, silver and small change disappeared because it was worth more per dollar than the bank notes in circulation. On both occasions private notes and tickets or less denomination that $1.00, and copper coins were issued and put in circulation by bridge, ferry, and turnpike companies and by tradesmen and manufacturers. One hundred and sixty-four varieties of private copper coin of the period of 1837 have been preserved in numismatic collections. Most of them bore the names of the issuers who promised to redeem them.

"Prior to the Civil War, the fiscal operations of the Government were transacted exclusively with coin, by its own officers, without the intervention of banks."

MR. MERCHANT: Now it seems to me an interesting question why after maintaining this policy for more than seventy years from 1789 to 1862, a fundamentally different view was taken in 1862.

MR. LAWYER: I think I can answer that question, if you will allow me. You see, I have been looking this matter up since our last discussion, when you fellows knocked me out, and I am now loaded for bear myself.

Salmon P. Chase, Secretary of the Treasury, probably knew as little about finance as any man of his great ability could. He did not seem to be able to

think in the terms of economics at all. When the war broke out he happened to do the natural thing by first going to the bankers of New York, Philadelphia and Boston, and making loans amounting to one hundred and fifty million dollars. Though prior to that time the Secretary of the Treasury had had no authority to deposit the Government money in the banks, Congress then authorized him to do so, and he was enabled to leave it in the banks until he wanted it; but he did not know enough to do that even. He required the banks to pay the gold into the Treasury at New York at the rate of $5,000,000 per week. Fortunately, the public creditors knew more about this question than he did, or had more confidence in the country than he seemed to have; and so when they received the gold they immediately returned it to the banks. Chase's utter incapacity to deal with the question in his report as Secretary of the Treasury in the fall of 1861, and a threatened war with Great Britain, growing out of the Trent affair, so shocked public confidence that by January 1, 1862, our national finances were in a state of complete and utter collapse, and the consequence was that specie payments were suspended. I do not see how anyone can fail to conclude, after a careful study of the situation, that had Chase allowed the bankers to finance the war, we should have fared very much better than we did. We should probably have saved thirty-three per cent of the cost of the war, or approximately one billion dollars ($1,000,000,000), the total cost of the war being three billion two hundred million ($3,200,000,000).

MR. BANKER: I agree with you absolutely, Mr. Lawyer, Chase seemed to be as unfit to run the Treasury Department, as a fish is to run a foot race. If he had allowed James Gallatin, Moses Taylor and George S. Coe, three great New York bankers, who arranged the first loan to formulate a financial policy for him, the war could undoubtedly have been carried on without issuing greenbacks, or any "legal tender money." But after specie payments had been suspended, the situation was certainly critical, and became more difficult to manage. However, there were those who thought, and I agree with them, that it was never necessary at any time, even then to resort to "legal tender money," or greenbacks.

MR. FARMER: How do you think it could have been avoided? How do you think James Gallatin, Moses Taylor and George S. Coe would have provided the money for carrying on the war?

MR. BANKER: By selling the bonds of the Government upon the best terms possible, as to rates and interest and time, and by such a system of taxation, as would help produce the necessary means for prosecuting the war. These bankers had already furnished one hundred and fifty million dollars ($150,000,000), and stood ready to go on and finance the war as they certainly could have done, if they had been permitted to do so.

When they, in August, 1861, arranged to furnish the first $150,000,000, the banks of New York, Philadelphia and Boston held gold amounting to $63,200,000, and on December 7th, they held practically the same amount, or $58,100,000, although they had already furnished $100,000,000 of the $150,000,000 they had loaned. However, Chase was both ignorant and obstinate and the result was a crisis in our national affairs.

MR. LAWYER: That is the fact, and as you said a moment ago even then there were those, and they were among the greatest of our public men, who were convinced that it was unwise, dangerous, unconstitutional and unnecessary to issue "legal tender money," or greenbacks, as they are called. Just hear what some of them said. Justin S. Morrell used this language in the House of Representatives: "If this paper money is a war measure, it is not waged against the enemy, but one that may well make him grin with delight. I would as soon provide Chinese wooden guns for the army, as paper money alone for the Treasury.

"What is it that we most need? Clearly we lack money, and wish to inspire our own people with that confidence that will induce them to lend the requisite amount. But the very first step we propose is one to destroy whatever of confidence yet remains among those who have a dollar to lend. We proclaim by an engraved advertisement—to be forced into the pockets of every man by the fiat of the Government—that we will hereafter liquidate all of our debts with paper only....

"I object to this bill on the ground of its utter impolicy. I admit that from the contracts entered into—many of which are now due—I regret have not been paid as promptly as they deserve to be, and from the heavy monthly disbursements to our armies, that the Government can flood the country with even $150,000,000 of paper dollars. But from that amount, you would vastly increase the cost of carrying on the war; prices would go up and the addition we should pile upon our national debt would prove that it might

have been even wiser to have burned our paper dollars before they were issued; the inflation of the currency would be inevitable....

"It will be conceded that the power is no where contained in the letter of the Constitution, and that, in all our history since the adoption of the Constitution, it has never been exercised.... By making paper a legal tender, no more specie will be seen, except through offers of rewards to draw it from its hiding places, until we emerge from our present difficulties, and not for an indefinite period perhaps, thereafter. The $300,000,000 of specie said to be in the country, though I think there is not quite so much, will be hoarded and remain useless and idle for the rest of the war. I am for keeping this, the vital fluid of commerce, in healthy, active circulation."

Charles Sumner used this language in the United States Senate: "Is there not bad faith toward creditors who are compelled to receive what is due to them in a depreciated currency? Is there not bad faith toward all abroad who, putting trust in our integrity, national and personal, have sent their money to this country, in gold or its equivalent? And, surely, just in proportion as this is so, you cannot doubt that we shall suffer alike in character and resources; for what resource is greater to a nation, or to an individual, than a character for integrity?... Is it necessary to incur all the unquestionable evils of inconvertible paper, forced into circulation by an Act of Congress—to suffer the stain upon our national faith—to bear the stigma of a seeming repudiation—to lose for the present that credit which in itself is a treasury —and to teach debtors everywhere that contracts may be varied at the will of the stronger? Surely there is much in these inquiries which may make us pause. If our country were poor or feeble, without population, and without resources, if it were already drained by a long war, if the enemy had succeeded in depriving us of the means of livelihood, then we should not even pause. But our country is rich and powerful, with a numerous population, busy, honest and determined, and with unparalleled resources of all kinds, agricultural, mineral, industrial and commercial; it is yet undrained by the war in which we are engaged; nor has the enemy succeeded in depriving us of any of the means of livelihood. It is hard—very hard—to think that such a country, so powerful, so rich and so beloved, should be compelled to adopt the policy of even questionable propriety."

James A. Bayard, of Delaware, used this language: "The thing is to my mind so palpable a violation of the Federal Constitution, that I doubt whether in any Court of Justice in this country, having a decent regard for its respectability, you can possibly except that this bill, which you now pass, will not, whenever the question is presented judicially, receive its condemnation as unconstitutional, and void in this clause."

Roscoe Conklin used this language in the House: "I propose to assign my reasons briefly for voting against the attempt by legislation to make paper a legal tender. The proposition is a new one, no precedent can be found in its favor; no suggestion of the existence of such a power can be found in the legislative history of the country; and I submit to my colleague as a lawyer, the proposition that this amounts to affirmative authority of the highest kind against it. Had such a power lurked in the Constitution as construed by those who ordained and administered it, we should find it so recorded. The occasion for resorting to it, or at least referring to it, has, we know, repeatedly arisen, and had such a power existed, it would have been recognized and acted on. It is hardly too much to say, therefore, that the uniform and universal judgment of statesmen, jurists and lawyers has denied the constitutional right of Congress to make paper a legal tender for debts to any extent whatever....

"It will, of course, proclaim throughout the country a saturnalia of fraud, a carnival for rogues. Every agent, attorney, treasurer, trustee, guardian, executor, administrator, consignee, commission merchant, and every debtor of a fiduciary character, who has received for others money, hard money, worth 100 cents on the dollar, will forever release himself from liability by buying up for that knavish purpose, at its depreciated value, the spurious which we shall have put afloat. Everybody will do it, except those who are more honest than the American Congress advises them to be. Think of Savings Banks, entrusted with enormous aggregates of the pittances of the poor, the hungry and the homeless, the stranger, the needle woman, the widow and the orphan; and we are arranging for a robbery of 10 per cent, if not of 50 per cent, of the entire amount, and that by a contrivance so new, as never to have been discovered under the administrations of Monroe, Adams or James Buchanan....

"Such a step, if it should ever be taken by a Government, should be taken when everything else has failed, and the last extremity has been reached. It

is the last expedient to which kings and nations can resort."

William Pitt Fessenden, of Maine, used this language:

"With regard to the particular bill now before the Senate, we all know that it was resorted to as a temporary measure, not in the beginning, but in consequence of the necessities of the treasury, arising from a greater expenditure than the Secretary could have imagined, and arising from the necessary delay with reference to other measures. Can it be said that a measure like the one now pending before the Senate and the country is a measure of a day or an hour? Why, what does it propose? It proposes something utterly unknown in this government from its foundation; a resort to a measure of doubtful constitutionality, to say the least of it, which has always been denounced as ruinous to the credit of any government, which has recourse to it; a measure, too, about which opinions in the community, as perhaps they never have been divided upon any other subject; a measure which, when it has been tried by other countries, as it often has been, has always proved a disastrous failure....

"Everybody who has spoken on this question, I believe without an exception—there may have been one or two—but all the opinions I have heard expressed, agree in this: that only with extreme reluctance, only with fear and trembling as to the consequences, can we have recourse to a measure like this of making our paper a legal tender in the payment of debt....

"A measure of this kind certainly cannot increase confidence in the ability, or the integrity of the country. It can make us no better than we are today, so far as the foundation of all public credit is concerned.

"Next, in my judgment it is a confession of bankruptcy. We begin and go out to the country with the declaration that we are unable to pay or borrow, at the present time, and such a confession is not calculated to increase our credit.

"Again, say what you will, nobody can deny that it is bad faith. If it be necessary for the salvation of the Government, all considerations of this kind must yield; but to make the best of it it is bad faith, and encourages bad morality both in public and in private. Going to the extent that it does to say that notes thus issued shall be receivable in payment of all private

obligations, however contracted, is in its very essence a wrong, for it compels one man to take from his neighbor in payment of a debt that which he would not otherwise receive, or be obliged to receive, and what is probably not full payment....

"Again, in my judgment it must inflict a stain upon national honor. We owe debts abroad. Money has been loaned to this country, and to the people of this country, in good faith....

"Again, it necessarily changes the values of all property. It is very well known that all over the world gold and silver are recognized as money, as currency; they are the measure of value. We change it here, what is the result? Inflation, subsequent depression, all the evils which follow from an inflated currency....

"Again, a stronger objection than all that I have said to this proposition—I am stating the objections which everybody must entertain, because I suppose these facts are palpable—is that the loss is to fall most heavily upon the poor. I believe it never was disputed, it cannot be in the light of experience, that those who are injured most by an inflated currency are the laboringmen, the poor.... The poor laborer suffers in the first place more than all; then small capitalists, if I may so call them; and the rich capitalist, last of all. Such is the necessary result and consequence always of this system."

Thaddeus Stevens used this language in the House:

"This bill is a measure of necessity, not of choice. No one would willingly issue paper currency, not redeemable on demand and make it a legal tender. It is never desirable to part from that circulating medium which by the common consent of civilized nations forms the standard of value. But it is not a fearful measure, and when rendered necessary by exigencies, it ought to produce no alarm."

John Sherman used this language:

"I agree that this measure can only be justified on the ground of necessity. I do believe there is a pressing necessity that these demand notes should be made a legal tender, if we want to avoid the evils of a depreciated, dishonored paper currency."

E.G. Spalding, the reputed father of the legal tender act, used these words:

"These are extraordinary times, and extraordinary measures must be resorted to, in order to save our Government, and preserve our nationality....

"This being accomplished I will be among the first to agitate a speedy return to specie payment, and all measures that are calculated to preserve the honor and dignity of the government in time of peace."

MR. MERCHANT: From what transpired there was undoubtedly an overwhelming opinion that there was a necessity, and therefore the issue of United States Notes was justified. No one will deny this power, if placed upon that ground, that the issuance of the Notes was essential to the preservation of the life of the Nation. But certainly that reason no longer exists, and therefore we should now act as we would then have acted, if we had not believed that it was a national necessity.

The measure for the first issue of $150,000,000 of United States Notes was passed and signed by the President February 25, 1862. The second issue of $150,000,000 came very soon, on July 11, 1862. The third issue of $150,000,000 followed on March 3, 1863, making a total issue in about a year of $450,000,000. If the result of the war had been doubtful and long continued, God only knows what the results would have been, as these United States Notes came very near reaching the zero point, as it was. The astounding fact, as the result of having practiced the law of making something out of nothing, followed in 1868 when one of the great political parties in the hot pursuit of political success declared in its platform that it was in favor of paying off the national debt with the I.O.U.'s of the Government or United States Notes. Of course, this action would have been the natural and necessary prelude to national repudiation.

MR. FARMER: What I want to know is how much those greenbacks actually depreciated.

MR. BANKER: I have a sheet here furnished by the Government showing precisely what they were worth from February, 1862, to January 1, 1879, when we resumed specie payment, and began their current redemption in gold coin. It shows that they were worth 97 cents on the dollar in February, 1862, when the President signed the bill; in one year, or February 15, 1863, they were worth 60 cents on the dollar; and in a little more than a year afterwards, in July, 1864, they were worth only 35 cents on the dollar. That

is, if you had bought a horse for $100 in January, 1862, and given a note due in July, 1864, you could have paid for the horse with $35.

You will perceive that every creditor was defrauded going down hill until you struck the bottom on that July day in 1864, when it took $2.85 of United States Notes to buy $1.00 of gold coin, and you defrauded every debtor climbing up that long hill from that July day in 1864, when the United States Notes were worth 35 cents, until January 1, 1879, when they became worth 100 cents. It took us just two years to go down the hill, and fifteen years to reach the top of the same hill, only to find the crater of a sleeping financial volcano beneath our feet; for if war clouds should now encompass us, or we should take one single step in the wrong direction, our National Credit would again be shattered, and must fall into utter ruin.

MR. FARMER: Well, it then came out just as those men said it would, didn't it?

MR. BANKER: Certainly, and I want to call your attention to another thing, and that is that the additional cost of the war, because of issuing United States Notes, was greatly increased precisely as they predicted it would be.

MR. FARMER: Oh, yes, we must find out about that. You remember we investigated the cost of the greenbacks since the war, and that Mr. Banker then demonstrated to our entire satisfaction that the United States Government would have been better off by $339,984,222, if at the close of the war we had issued bonds, bearing 4 per cent, and taken up these United States Notes and paid them off. Now, it would be mighty interesting to know just how much the war cost because we issued these United States Notes, and went off the Gold Standard.

MR. LAWYER: I have something here right on that point. Let me read it: In his work on Public Debts, Prof. H.C. Adams computes the extra cost of the war to the tax payers in consequence of the depreciated currency at $850,000,000. And Mr. Wesley Hill, in the "Journal of Political Economy," March, 1897, computes the net cost of the war, due to this cause at $528,000,000. Now to be fair and take the average of these two estimates or $689,000,000, and add the cost of meeting greenback redemption since the war, or $339,984,222, we have $1,028,984,222, or about one-third of the cost of the war which, as I told you a while ago, was three billion two

hundred million dollars, proving everything that was said by those who were opposed to issuing the greenbacks.

MR. MANUFACTURER: I beg your pardon, sir, except one thing, Mr. Lawyer. According to the decisions of the Supreme Court, up-to-date, and that is, that they are constitutional. You remember, of course, that the question of the constitutionality of the Legal Tender quality of the United States Notes has been before the United States Supreme Court three different times.

This question came up in the case of Hepburn vs. Griswold, December, 1869, and was held by five judges against three, the Court then consisting of eight judges, the opinion of the Court being delivered by Salmon P. Chase, himself, who was then Chief Justice, "that the making of the Notes, or Bills of Credit, a legal tender in payment of pre-existing debts, is not a means appropriate, plainly adapted, or really calculated to carry into effect any power vested in Congress; is inconsistent with the spirit of the Constitution, and is prohibited by the Constitution."

MR. FARMER: Well, this man Chase, who was then Chief Justice, was Secretary of the Treasury, and favored the issuance of these same United States Notes, didn't he?

MR. LAWYER: Yes, he is the same person. But you must remember that he was a politician in the one case, and a Chief Justice in the other. Possibly, I should have said a statesman in the first place, but Thomas B. Reed said that a statesman was a dead politician, and probably, you might say, according to his theory, that Chase is a statesman now.

Chase also held that the clause in the Acts of 1862 and 1863, which makes United States Notes legal tender in payment of all debts, public and private, so far as it applies to debts contracted before the passage of these Acts, is unwarranted by the Constitution: "The legal tender quality," Chase said, "was valuable only for the purpose of dishonesty, every honest purpose was answered as well without it."

Just one year afterward, in December, 1870, the question of the legal tender of the United States Notes was again before the United States Supreme Court, which now consisted of nine members. In a decision of five against four, the above decision was reversed; one judge had died, and a new judge

had been created, and these two joined the three formerly in favor of the Act.

MR. MANUFACTURER: That looks a little as though General Grant wanted that kind of a decision, and had picked out the right kind of men to get it. Possibly it was more this decision than pressure of business that called for the creation of an additional member of the Court—was it not?

MR. LAWYER: A great many have thought so, and that makes it look as though the Supreme Court does some legislating occasionally on its own account. However, the same question came up again in the case of Juillard vs. Greenman, and was decided the same way in March, 1884. It was then held that Congress has the constitutional power to make Treasury Notes of the United States a legal tender in payment of private debts in time of peace, as well as in time of war.

Justice Gray uses this language: "The power is incident to the power of borrowing money, and issuing Bills or Notes of the Government for money borrowed, of impressing upon those bills or notes, the quality of being a legal tender for the payment of private debts was a power universally understood to belong to sovereignty in Europe and America at the time of the framing and adoption of the Constitution of the United States." It appears that he based his decision upon this fact, but George Bancroft, the historian, reviewed this opinion in both its legal and historical aspects. And referring to the statement quoted above, this great historian declared it to be a stupendous error, and further affirmed that no such power was understood to belong to sovereignty in Europe at the time of the adoption of the Constitution, that is, in 1788.

MR. MANUFACTURER: Well, I assume that we have another guess coming yet, haven't we? You know this same Court has guessed four times already on the Sherman Anti-Trust Law. In the Knight case, they declared that manufacturing was not and could not be considered as United States Commerce. Then came the Trans-Missouri case, then the Northern Security Co. case, and last the Tobacco and Standard Oil cases, wherein this august body ran amuck the word "reasonable," although that very word was not in the Act at all, and although it had been impossible to get Congress to put it into the Act. But after all, is it not the very soul of the whole question? And is it not a fact that the Supreme Court of the United States ought to be

constantly interpreting the Constitution of the United States in the light of changed conditions, and ever advancing public opinion?

MR. LAWYER: It looks as though it might be well to give the Supreme Court one more chance to guess; they might possibly guess right next time. It is certainly "reasonable" to hope so, both in accordance with the Constitution, and in accordance with economic law, and in accordance with the experience of the whole world.

MR. MERCHANT: Well, what would happen if, when the Supreme Court guesses again, it should guess right? Would the fact that the Court declared that Congress had no power to make paper money a legal tender render the greenbacks unfit for reserves, or illegal, as reserves?

MR. BANKER: Congress cannot, by law, make anything fit for reserves, which by economic law is unfit for reserves; but Congress may make anything, however unfit for reserves from an economic point of view, a legal reserve; they might make potatoes, wheat, corn, a bale of cotton, or a bundle of hay reserves. Therefore, although the Supreme Court should declare the Legal Tender Act unconstitutional, as it ought to, the United States Notes might still be held as reserves. The silver certificates and the gold certificates are both legal reserves, but neither of them are made legal tender by law, nor should they be, as nothing but gold, which is our standard of value, should be made legal tender. However, all of these barbarous forms of currency, United States Notes, Silver Certificates, bond-secured National Bank Notes should, and must be maintained upon a parity with gold, if possible, as they now are; because the faith and honor of the Government is at stake. It is this very fact that is the source of our weakness from a national point of view, for the United States has no assets with which to meet these enormous liabilities. The United States has no resources, such as a bank has. It has nothing to sell in the way of grain, meat, cotton, or manufactured goods, or personal property of any kind. It has no capital, and no deposits, as our banks have, whose resources today exceed twenty-five billion dollars ($25,000,000,000). The individual deposits of the United States today exceed seventeen billion dollars ($17,000,000,000). Every month about three billion dollars' worth of notes come due. Compare this situation with the condition of the United States Treasury, and its ability to meet obligations. The Treasury does not control a single dollar's worth of

assets, except the incoming taxes, which are more than pledged every year to meet the current demands arising from the expenses of the Government.

MR. LAWYER: That is correct, as we learned upon a former evening. The United States is bound for more than one billion seven hundred million of demand liabilities, directly and indirectly, and has only one hundred and fifty million of gold with which to meet them. All the Government has is the power to tax the property of the people. Of course it can anticipate this taxing power by selling bonds to meet an emergency; but let us imagine for a moment what may happen. This very night we may be looking out upon a perfectly clear and peaceful sky, and even so soon as tomorrow morning war clouds may curtain the rising sun, and before nightfall blacken the zenith of the heavens, and hang low and lowering the whole horizon round, presaging the most titanic and wicked struggle in blood that has ever stained the history of the human race. What do you think the effect would be upon our credit, with all these demand obligations outstanding? Would not that fact, coupled with a great war on our hands, impair our credit to a very great degree, compelling us to sell our bonds at much lower prices, and at rates of interest far higher than could be possibly necessary, if there was no question whatever about our remaining steadfastly upon the Gold Standard instead of resorting to fiat paper money, as we did the very last time we had to meet a similar difficulty, or crisis?

MR. BANKER: There is no doubt whatever about the imperative necessity of our relieving the United States Treasury from the load it is now carrying, and placing the United States Government in the same position precisely that every state and municipality is in, so far as its credit is concerned; for the treasury of the Government, when filling its normal and proper functions, is no more fit to carry on the banking business than a man who may be wealthy in land, but has no cash assets; or a township, city, county or state is. And until the United States Government divests itself of these unnatural burdens, which it is unfitted to carry, we shall continue to suffer immeasurably whenever called upon to use our national credit to any great extent.

Let me explain this principle a little more fully so that we will all get it so thoroughly fixed in our minds that we shall not forget, or overlook it, as we go on. A farmer, however wealthy in lands and prosperous he may be, even though he may be worth half a million, or a million dollars, should not have

demand obligations outstanding for any considerable amount because his resources are in lands or fixed investments. If he borrows to enable him to produce his crops, he should make his notes come due when he can meet them with the money he receives from the sale of his crops, and the balance, or his profits, will go to pay the interest on the mortgage, and possibly reduce it. So a township, a city, county, or state has no personal property worth considering to meet demand obligations. It has no liquid property of any kind, in fact, nor any resources whatever, except its power to tax the property within its jurisdiction; and therefore, if it needs money, it may borrow to meet expenses; but it will make its notes come due when the taxes come in, precisely as the farmer times his notes' maturity with the sale of his crops. If a municipality has no demand obligations, and its bonded debt is low, it can borrow on its bonds at a low rate of interest. But if its demand obligations are enormous in proportion to its ready cash, high rates of interest, and possibly even bankruptcy, will always be staring it in the face. Granting or assuming that the United States Government has no power to issue legal tender, or fiat money, which is the greatest peril and most unmitigated curse that ever hung over any country, the United States Treasury is in precisely the same position, or situation, that the farmer is, whose property is in land; that the township, the city, the county and the state is in, and should always keep itself in a position where, in case of war, or any other great emergency, it could use its credit to the best possible advantage to itself; that is, to us, the people who must pay the taxes to liquidate whatever debt it may incur.

Mr. Farmer: I for one want to thank you for this explanation, for I have always had a sneaking idea that the United States Government owned everything, and was, as we say, the richest Government on earth, when it could not possibly mean anything except that the people who constitute the nation are the richest people on earth. Of course the Government doesn't own anything worth speaking of, and cannot take any property, without due process of law, that is, either through the process of taxation or through condemnation proceedings, for public uses. It is perfectly plain to me now that the United States Government is no more fitted to carry on the banking business than Lorrain township, where I live, nor this city, this county, nor this state, except that it operates on a bigger scale, that's all. Do you know that's as clear as a pike staff to me now.

MR. MANUFACTURER: Now, gentlemen, I want you to correct me if I don't state this credit question right, from beginning to end; for I'm not sure that I have followed all that has been said with sufficient care to understand it perfectly. I appreciate the fact that we must grasp this question of credit, and comprehend it very clearly, if we are going to prepare a banking bill in which credit must play a most important part.

First: We have credit, which is the result of confidence and trust and gives us the right to demand payment.

Second: If credit is granted for the purpose of producing and distributing consumable commodities, it should be for a short period, proportioned to the time involved to complete the transaction.

Third: If credit is granted upon real estate, it should be for a long period, because the security is not readily convertible into cash.

Fourth: Credit granted to a Government, by purchasing its bonds, should be for a long period, unless for some temporary purpose.

Fifth: Neither real estate nor Government credit are a fit basis for currency, because neither is a fit security for a demand debt, nor cash credit, such as consumable commodities are.

Sixth: Government credit should never be used in the form of legal tender money, because it must itself be redeemed in coin. It never has been, and never can be its own redeemer, and is always subject to unlimited abuse which must necessarily result sooner or later in repudiation.

MR. BANKER: Mr. Manufacturer, you have summarized the discussion upon credit remarkably well, I think.

MR. MERCHANT: So do I, and I am sure that we all understand what constitutes the difference between the right and wrong basis of demand obligation—convertibility or non-convertibility—quick assets or slow assets—the commercial fund and the investment fund. If we keep this thought steadily in view it will help us amazingly when we come to draw a banking bill demanding the recognition of this fundamental distinction.

MR. LAWYER: Gentlemen, don't you see that the very nature of things forces the recognition of this fundamental distinction, because you can keep your currency, if of the right kind, and all your credit used in the production and

distribution of consumable commodities convertible into gold coin. But you cannot keep all the railroad bonds, all the municipal bonds and all the real estate of the country convertible into coin, practically on demand. That is impossible, and has been proved times without number, as we have already seen.

MR. LABORINGMAN: Mr. Lawyer, I have been sitting here with a very hazy kind of an idea about this credit matter, until this moment, but that last point you made seems to me to clinch things, for I saw in the "Evening Journal" last night that there was about one hundred and twenty-five billion dollars' worth of property in the United States. Of course you can't cash that all in tomorrow, nor next week, nor next month, nor next year even, and the fortunate thing about it is that the owners don't want to. When you come to think of it, there is a mighty small part of it that the people want to turn into cash each day.

MR. BANKER: Mr. Laboringman, that is the point exactly, and our problem is to make it absolutely sure that those who have a right, and want to demand cash, can always get it. This can only be accomplished by two things, adequate gold reserves to protect all current demands, and such assets or commercial credits as can be converted into gold, at once to meet any extraordinary demands—yes, even satisfy the panic-stricken mob, and carry the country through such crises as 1893 and 1907 without unnecessary loss, indeed, prevent the recurrence of any such experiences again.

MR. LABORINGMAN: Do you really think that that can be done? What a blessing that would be to labor.

MR. BANKER: I certainly do believe it can be done; indeed, I know it. But every banker must be compelled to do his part; that is, be ready at all times to carry his proper share of reserves against his deposits. One half of the bankers of this country cannot ride the other half, that is certain.

MR. MERCHANT: Mr. Banker, what amount, or percentage of reserves do you think a banker should carry?

MR. FARMER: Now, hold on, just a minute. You can't get into that subject, because I want to hear it, and I've got to go home right now.

MR. BANKER: Very well, gentlemen, we will put it off, if you say so, until next Wednesday night.

UNCLE SAM: This is the second time you men have said that you would take up reserves. Indeed, it has been so long since you talked about taking it up before, that I was afraid that it would be overlooked entirely, and yet nothing but the standard of value itself is more important. Now, mark this, we want the right kind of reserves, and plenty of them.

Good Night.

TENTH NIGHT

RESERVES

UNCLE SAM: Here we all are, every man in his accustomed place for the tenth night. Not a man has been late on a single occasion, although Mr. Farmer just got in under the wire one night by the skin of his teeth. It is most agreeable and satisfying to note that there has been no lagging in interest since we began. Indeed, there seems to me to have been a most pronounced gain in your enthusiasm, at times amounting almost to religious fervor.

MR. LABORINGMAN: That's the way it always is; the more you know about anything, the more interesting it becomes.

MR. MERCHANT: Certainly the man who has a fad or who is even a crank upon any subject, enjoys life a good deal more than a dead level commonplace fellow, who never takes any particular interest in anything—just passes the time. Every man for his own pleasure, if for no other reason, ought to have something in which he is interested outside of his regular employment. It may be a good horse, a good cow, a good dog, or some fine chickens—a good garden, a fine front yard, or just some flowers, or some subject affecting the welfare of his fellows. Every man ought to have something; it doesn't matter so much what it is, so long as he is devoted to it intensely. Of course, if he can profit by it, or help his fellows at the same time, so much the better. However, we have our hands full just now with a subject which has become mighty interesting, I think, to all of us, and I hope that our work will prove not only interesting to us, but profitable to

our fellows. At all events, it can do no one any harm, and will better fit everyone of us for our duties as citizens. There is too little work of this kind done all over the country; men can accomplish so much more, if they only get together in small groups like this, instead of plugging along alone. It's a good deal like the football game, where team work counts for so much. It may be that what we are now doing will inspire thousands of other little groups to get together and discuss this, the greatest, the most important business question that can possibly come before the American people, and then when this is finished, they will, as a matter of habit, take up others, in precisely the same way.

UNCLE SAM: Hold on there, Mr. Merchant, you've lectured us long enough this evening, now let us get down to business. You know if there is anything that your Uncle Samuel is noted for all the world over, it is business, and business is business, you know. But, before we tackle the tenth topic, tonight, I am going to retrace the road we have traveled, and see if you can all recall and recognize the mileposts we've passed.

First: There was the Standard of Value, gold.

Second: Money, our only money is gold.

Third: Currency, the wrong kind.

Fourth: Currency, the right kind.

Fifth: Exchange by which one debt is made to pay another.

Sixth: Value, the value of anything is measured by the thing for which it is exchanged.

Price, the amount of money received for anything.

Wealth, what can be exchanged for money.

Property, the right of ownership.

Capital, anything that may be so used as to result in a profit.

Credit, result of confidence and trust; creates a debt, and is the right to demand payment.

Seventh: Land or Government credit is unfit as a basis for money or currency.

Eighth: Our Colonial experience proved that land and Government credit were unfit as a basis for money or currency.

Ninth: Our United States Notes again demonstrated the fact that Government credit should never be used as a basis of legal tender money. Tonight we are to discuss Reserves, which are the protection or guarantee of credits granted or debts created.

Is that a correct definition of reserves?

MR. BANKER: Uncle Sam, I don't think anyone could give a better one.

UNCLE SAM: By way of encouragement to you men, before you begin to discuss the subject of reserves, I want to gamble the prophecy that if you will work out some method or plan that will make it possible for the banker to pay all his deposits on demand, and at the same time will enable him to continue to use practically all of them in profitable employment, I will guarantee you now the support of every banker for your plan, when you've completed it.

MR. MERCHANT: I don't think you assume any risk in that guarantee, Uncle Sam.

MR. LABORINGMAN: Uncle Sam, you say that you will guarantee that every banker will support it. That insurance policy won't be any risk at all. Won't cost you a cent. I tell you now that if you can work out a plan that will amount to an absolute guarantee of deposits, as a matter of administration, I will guarantee the support of every depositor in the country, and if I could prove it to their satisfaction, every depositor would gladly pay me from one-quarter to one-half per cent on his deposit. Do you know what I would get at that rate, say at one-quarter per cent, only $42,000,000 every year; for our deposits you say are now seventeen billion ($17,000,000,000).

Have you men ever looked up bank failures in the United States? Here is something I stumbled upon yesterday.

Our country is so extensive and our banks are so numerous that nothing whatever is thought in one part of a bank failure in another part. Especially is this so since they occur so frequently. Like the operation of the guillotine during the French Revolution and the automobile manslaughter of today, bank failures in the United States have become mere passing occurrences. Is this putting it too strongly? Let us see.

Since the establishment of the national system in 1864, 518 national banks have failed, with liabilities reaching $244,000,000. The direct losses of the failed banks amount to $38,000,000.

Two thousand and fourteen state and private banks have failed since 1864, with liabilities amounting to $825,000,000, and probable losses of $200,000,000.

The total liability of all banks, national, state and private, failing since 1864 is $1,069,000,000. Their aggregate is 2,532 banks. In other words, fifty-six banks have failed every year on an average, or nearly five banks every month, and more than one bank every week.

Three hundred and fifty-one national banks have failed since 1890, with liabilities aggregating $174,000,000.

One thousand four hundred and six state and private banks have failed since 1890, with liabilities aggregating $694,000,000.

The total liabilities of all banks failing since 1890 aggregate $898,000,000.

The total number of all banks failing since 1890 is 1,757. In other words, eighty-eight banks have failed every year on an average, or more than seven banks every month, and one bank about every four days, during the last twenty years.

But who can estimate the indirect losses or depict the consequences of these bank failures?

If this tragic condition can be obviated, it is a crime against the people of the United States, it is a crime against civilization itself, to permit its continuance.

MR. BANKER: No, indeed, neither Uncle Sam nor Mr. Laboringman assume any risk in their guarantees. They certainly do not, and I will go still further, and under those circumstances will guarantee the support of every merchant, manufacturer, farmer, laboringman, and every man, woman and child, whether depositors or not, as we would be the greatest benefactors of the human race, if we could devise a plan that would remove all risk from every deposit. And yet, humanly speaking, I am not sure that this very result, the absolute guarantee of all deposits may not be accomplished, and the chief factor in the accomplishment of so great a blessing to the people is

locked up in the principle of reserves, assuming, of course, that the administration of the banking business is such as to keep it sound.

If all the deposits made with the bank were in gold, or were convertible into gold, and held to meet the deposits when called for, the problem would be simple indeed, and would be solved already. But such a plan would be impracticable and archaic. Indeed, it would preclude all profit, unless a charge were made for such service, and would reduce a bank to a safe deposit company. It would exclude the use of all credit, and therefore destroy the possibility of doing approximately more than nine-tenths of the business carried on today, unless we should go back to actual barter. Our problem is to make the business of banking absolutely safe and yet preserve the great credit structure by which the business of the country and the world is carried on.

MR. MERCHANT: For the purpose of this discussion we must assume that the business is honestly managed, and is, therefore, ordinarily sound, and confine ourselves to just the single subject of reserves, which my study leaves me to think, may be considered; 1st, from the standpoint of the single bank; 2d, from a standpoint of the community or a single city; 3d, from a standpoint of the whole country; 4th, from the standpoint of the whole world or our relation to the rest of the commercial world.

Now, generally speaking, we mean by reserves in banking that part of the capital which is retained in order to meet the average demands upon deposits. But this, of course, varies with every bank to some extent; and, while 5 per cent cash would be ample reserve for a high-class mutual savings bank, a commercial bank, in equally good standing, may require from 10 per cent reserve up to 50 per cent, according to the character of the business carried on. A country bank dealing with the farmers might require the smaller amount, while a bank dealing entirely with bankers would require the largest possible reserve, to meet any emergency at any time. Each individual bank must be judged by itself and its reserves adjusted accordingly. In the second instance, as suggested, the locality or environment must be taken into account; in many instances the character of the neighboring banks and their peculiar business are all factors of great importance, and no one of them can be overlooked. So also when the bank credit is considered as a unit of the structure of the nation, the general situation from one end of the country to the other has a bearing upon it, and

from some cause terror may sweep over the entire land in a single day, and every nerve of trade be paralysed.

Then, finally, if our nation is an integral part of the commercial world, we must devise some method that will conserve our reserves when possibly for a hundred of various reasons, they may be steadily leaving us or be drawn away by foreign influences.

MR. BANKER: Your statement of the condition and forces that are always playing upon every center of credit from the single bank in the country town to the largest and strongest in our financial centers makes it necessary for the welfare of the whole people, that we should develop in the United States an atmosphere of absolute confidence that nothing can shake. Unless we can do this we shall continue to have commercial earthquakes of ever increasing violence and destructiveness.

How to develop, establish and retain a defense of impregnable confidence should be then our purpose, and if we succeed, this must be our great achievement.

Speaking of the matter in a more definite way, we must assume that from the primary form of reserve, which is what we started out with, such a part of our capital in gold as will always prove equal to the average demands upon deposits must be kept constantly available.

We must have what are aptly called secondary reserves, which will meet all ordinary, yes extraordinary, or unusual calls; but, finally we must have such access to an almost incomprehensible store of gold, as to impress and overwhelm the imagination, and place its possible exhaustion beyond human conception.

Mark this, your cash on hand of the reserve order, that is in gold coin, ought under all circumstances, to be ample to care for current requirements, while your credits, subject to call, with other banks, or arrangements for credit, ought to be ample to meet all ordinary, or seasonal, or periodic demands—and your general assets, which most of necessity be your ultimate reserve, must be of such a liquid character that if a panic comes, and the necessity arises, they can be converted into cash, of the reserve order; that is gold coin.

You perceive, of course, that such a condition assumes two things; first, that gold should always be running through the channels of trade in sufficient quantities to touch and characterize the quality of all credits; book credits, as well as note credits; both must always be equal to gold, and commerce must be kept conscious of that fact by the persistent presence of gold.

There must be kept before the business eye, the people's eye, the national eye, such a vast horde of gold concentrated for the purpose as to compel even the most timorous to feel safe, beyond a peradventure. There must be a conviction everywhere that the system cannot break down or fail.

MR. MANUFACTURER: Mr. Banker, your position, or statement, is in perfect accord with Bagehot, the great banking economist of England. Here's what he said: "I have tediously insisted that the natural system of banking is that of many banks keeping their own cash reserves, with the penalty of failure before them if they neglect it." In another place he says: "Of course, in such a matter the cardinal rule to be observed is that errors of excess are innocuous, but errors of defect are destructive. Too much reserves only means a small loss of profit, but too small a reserve may mean ruin. Credit may be at once shaken, and if some terrifying accident happens to supervene, there may be a run on the banking department, that may be too much for it, as in 1857 and 1866, and may make it unable to pay its way without assistance, as it was in those years." And again he writes: "Why should a bank keep any reserve? Because it may be called upon to pay certain liabilities at once and in a moment."

Upon the same point I want to support your position by another great English economist, Stanley Jevons. He says: "There is a tendency to frequent severe scarcities of loanable capital, causing sudden variations of the rate of interest, almost unknown thirty years ago. I will therefore in the next chapter offer a few remarks intended to show that this is an evil naturally resulting from the excessive economy of the precious metal which the increasing perfection of our banking system allows to be practiced, but which may be carried too far, and lead to extreme disaster." Again he says: "The vast trade of the country cannot be placed upon a sound basis, until the force of public opinion among bankers imposes upon each member the necessity of holding a cash reserve, bearing a fair proportion to the liabilities incurred. It matters little who holds the reserve, provided it actually does exist in the form of metal, and is not evaporated away, *by*

being placed at par, or deposited with other banks which make free use of it. In the absence of some common action among bankers, it is certain that the sensitiveness of the money market will increase, and it is probable that commercial crises will from time to time recur, even exceeding in their violence and disastrous consequences those whose history we know too well."

The want of the conservation of proper gold reserves is what has led to the weakness of the German situation today and compels them to take steps to strengthen the reserves of the individual banks in accordance with the finding of the commission appointed to revise the banking laws of Germany. The individual banks of England have also been increasing their cash reserves for several years past, recognizing the force of what Jevons wrote several years ago.

MR. FARMER: That's all right, Mr. Banker, as a statement of principles, and I think it is perfectly clear to me just what you mean; but there is one point that I would like to have settled, and that's this: what is a reserve in the United States? That is, what can you call a reserve? You know I am a director of our little bank down in the village below. The other day I asked them what they held for reserves and the cashier brought out this list; $3,000 silver certificates; $3,500 of United States notes, or greenbacks; $4,500 National bank notes; $2,500 gold certificates; $1,500 gold coin; and some silver change. As quick as I saw that bunch of stuff, I said to myself, just what you pounded into me some nights ago, that those bank notes ought never to be held as reserves, because they were nothing but another bank's debts, nothing but another bank's I.O.U.'s. Do you know that idea never penetrated my cranium until that very minute. Now, that is an absolute absurdity, that one bank's debts should be used as another bank's reserves. Just imagine what a high old time we would have, if the banks went around the country exchanging their debts with each other for the purpose of creating reserves. The sky would be the limit. Just think of it; where would it stop?

MR. BANKER: Well, Mr. Farmer, that is precisely what the bankers of this country are doing. I know of one National banker who took $3,000,000 of his own bank notes, and put them into the reserves of a Trust Co., and all the stock of the Trust Co. was owned by his bank, and was locked up in the safe of the bank. I know another National bank that got a large Trust Co. to

bury $3,500,000 of its notes down at the bottom of its reserves, so that they could not get out; and this is a fair sample of just what is going on all over this country today. This is done just to keep their notes out, so that they can make the extra 1 per cent or 1¼ on the notes in circulation, as we call it. Some one of you may say, well! these notes are secured by Government bonds. Yes, suppose they are, what of it? Congress has just passed a law providing for $500,000,000 more just like these present National Bank Notes, which are to be secured by State Bonds, Municipal Bonds, Railroad Bonds and Promissory Notes and what not, and the boast of that wonderful economist Aldrich was that you could not tell them apart. Any fraud, apparently, would suit him, so long as no one found it out. Now, I assert, and challenge any man to deny it, that if any good debt is fit to be used for reserve money, then every good debt is equally fit. If a Government debt is good reserve money, then New York State debts, Pennsylvania, Illinois, and all state debts; and if all state debts, then New York city, Philadelphia, Chicago and all city debts; and if New York, Chicago and Philadelphia debts are good reserve money, then the United States Steel, Standard Oil and all corporation debts; and if all corporation debts are good reserves, then the debts of J.P. Morgan, John D. Rockefeller, Andrew Carnegie and all private debts are good reserves. When you stop to think of it, what a preposterous proposition it is to make any debt a reserve for another debt. The State of California has just waked up, and will not permit her state banks to hold a National Bank Note as reserve; but the great State of New York specifically provides that her banks may hold National Bank Notes as reserves.

MR. MERCHANT: I must confess that I never knew that before; such a scheme as that is perfectly rotten, and it seems to me as though something ought to be done to correct so obvious an evil. Why, gentlemen, these men who are using bank notes as reserves, must have known that they were driving just that much gold out of the country, and weakening the basis of credit to just that extent.

MR. BANKER: I don't know whether they know enough to know that or not, and I don't know whether it would have made any difference with them if they did. When a man's cupidity and greed make a slave of him, they drive all patriotism out of his soul, just as debts, promises to pay, or wind money drives the gold out of the country.

MR. MANUFACTURER: This scheme of banks exchanging their promissory notes or their debts for the purpose of making reserves is a new one to me, too. But, if any one thing can be much worse than another, it must be this scheme.

Gentlemen, a true reserve must be the measure and touchstone of credit, therefore a reserve cannot be a credit itself nor a debt created by granting credit. Now, what is the thing by which we are measuring the value of all credit? Indeed, the thing by which we are measuring the value of everything? It is gold, is it not? Then certainly gold is the only thing that ought to be considered as a reserve.

MR. BANKER: Right you are, Mr. Manufacturer, no greater economic truth was ever uttered, or better said, than you have just put this one. In support of that, I want to read something just written by Joseph T. Talbert, Vice-President of one of our greatest banks. It is this: "What is a Bank Note? It is the available gold behind a Bank Note that gives it value. Substitution of any form of credit paper, the greenback, for instance, is a substitution of a deferred promise of a thing, for the thing itself. A statute which forces such notes upon the people as a legal tender, works a fraud and vitiates all reason in regard to money and banking. It perverts the moral sense of right and justice."

MR. FARMER: There is no doubt whatever that all the true reserves that that little country bank really had, was only the gold and gold certificates amounting to $4,000 out of the total of $14,250, the rest being only a substitution of some form of credit which must itself be redeemed by gold which is certainly the only redeemer. We settled that a long time ago, but it never came home to me until right now. This thing is growing on me so rapidly that I shall soon be a real, unregenerate Gold Bug. I guess I am that now. But, how plain and self-evident that truth is when we get close to it. We are living and teaching a gigantic economic fraud, an economic lie.

MR. BANKER: Some reference may have already been made to this fact; however, it will do no harm to repeat it right here because of its force and great importance. Under the English Bank Act of 1844, permission was given to count silver as one-quarter or 25 per cent of the reserves of the Bank of England; but it has never done so, since it is regarded as an economic falsehood. The reason is obvious. If the bank today held

$50,000,000 of silver and $150,000,000 of gold, the gold would not only have to carry the $50,000,000 of silver, which is nothing but another form of credit money, because actually worth only 50 cents on the dollar in bullion, but the gold would also have to carry $150,000,000 additional; that is, all the credit based upon this $50,000,000 of silver, a condition that is wholly misleading; for the silver instead of being a reserve at all, as it seems, or pretends to be, would actually be, so to speak, a bundle of dynamite under the whole structure of English credit.

So, in the United States our $346,000,000 of United States Notes, or greenbacks, instead of being an actual reserve to that extent, are not only a burden resting upon our gold, to the amount of their face value; but the burden our gold is carrying is multiplied to the extent of all the credit that is resting, or is based upon these United States Notes, which may be anywhere from one billion to three billion according to the per cent of the reserves the banks using them carry. They may be used as a 5 per cent reserve, and carry twenty times the amount of the reserves, or more than six billion; it is possible that they may be carried as a 17 per cent reserve, the average of all the National Banks, or only 7 per cent, the average reserves of all the other State Banks, excluding the Mutual Savings Bank.

MR. MERCHANT: What's that? Do you mean to say that the State Banks do not carry more than an average of 7 per cent reserve, and that the National Banks carry an average of two and a half times as much or 17 per cent cash?

MR. BANKER: I have the statement of the Comptroller right here, which shows that the average cash reserves of all the State Banks is 5 per cent, including the Mutual Savings Banks, but excluding them, only an average of 7 per cent, and that the average reserves of all the National Banks is 17 per cent.

The report of the Comptroller also shows this fact, that while all other banks than the National Banks, excluding the Mutual Savings Bank, hold only 7 per cent cash reserves of their individual deposits, or demand liabilities, they have 24 per cent of their assets invested in bonds and other securities, which must of necessity be slower than current commercial paper, while the National Banks, which hold 17 per cent in cash of their

individual deposits, have invested only 17 per cent of their assets in bonds, or other securities.

The inconvertibility of a great per cent of the assets of the State institutions is another burden then, thrown upon the total cash bank reserves of which the National Banks carry $996,000,000, with $5,825,000,000 individual deposits, while the other banks, excluding the Mutual Savings Banks, have only $577,000,000 cash reserves, with individual deposits amounting to $7,589,000,000.

The average cash reserves of the United States therefore are only a trifle over 11 per cent, when they should not be less than 16 per cent under any circumstances at the low level, reaching nearer 20 per cent at the high level. That is, reserves should be held for use, not ornament. There should be such an elasticity in the use of reserves, as to enable any community or section of the country to adjust itself to the ever-changing conditions of trade.

Let me make this point perfectly clear by giving you an illustration. Under the law of today, our bank carries 6 per cent cash, which amounts to about $120,000. There are times of the year when I could carry $180,000 or even $200,000 a good deal easier than I could carry $60,000, or even $50,000 at another time. Common sense would say that I ought to be able to adjust my business and my reserves somewhat to the varying conditions, but no, I am tied down by a cast-iron rule, so that I cannot bend without breaking the law. There is no doubt that my reserves ought to average for the year fully 6 per cent cash. In addition to this, I ought to carry at least 10 per cent more that I know absolutely is available at any time. Yes, and this should be so carried with the combined reserves of my fellow bankers all over the United States, as to make any amount available that could possibly be necessary at any time under any circumstances. *This is the principle of the elasticity of reserves.*

The wide variation between the State reserves and the reserves of the National banks is not difficult to explain. There are eighteen states today which have no reserve requirements at all. In the remaining states, the reserve requirements range all the way from 5 per cent to 25 per cent. The reserve laws in some of the states are excellent, just as good as that of the National Bank Act, while in an adjacent state, there may be no provision whatever requiring reserves. The result is that half of the banks of the

country which are compelled to carry adequate reserves are carrying the other half, a condition that is unfair, unjust and manifestly unsound.

MR. MERCHANT: It is not only manifestly unfair as between the bankers themselves, but such a condition imperils the banking situation as a whole, and more than any other single cause, brings on a general commercial disaster, as things now stand. The banking of the United States and all the productive and transportation interests are, comprehensively speaking, but one single business, so intimately associated and interwoven are their affairs. The banks put up their capital as an insurance fund, to protect their customers, and should handle their resources, and should keep such an amount of reserves on hand or at their command as to guarantee the payment of all depositors upon demand, or in accordance with their contracts. Since the banks, commerce and the people are all bound up together, the contracts of the banks with the people should take one common form, and each bank, from one end of the country to the other, should be compelled to assume its proper share of the burden, both as to paid-up capital and as to reserves.

It is interesting to note that the capital of the 7,312 National banks amounting to $1,033,000,000 is just about equal to the capital of the other 17,804 banks, outside the National System reporting, and the estimated capital of $70,000,000 of the non-reporting banks, $1,047,000,000.

The surplus of the National banks is 92 per cent of their capital, and strange and fortunate to say, excluding the Mutual Savings bank, the surplus of all other state banks is exactly 92 per cent of their capital.

That is, the National banks have $1,983,000,000 capital and surplus to insure $5,825,000,000 individual deposits and $2,178,000,000 due to the other banks, or a capital and surplus to all deposits of nearly 25 per cent, while all the other banks have $2,010,000,000 capital and surplus to insure individual deposits $5,089,000,000 and $454,000,000 due to banks, or a little over 24 per cent. Insurance expressed in capital and surplus, therefore, is about equal, but a great and serious divergence comes, as we have seen, in the average cash reserves of the two classes of banks.

MR. MANUFACTURER: This is the weakness of the present situation from the standpoint of reserves, and some of the states are beginning to realize the importance of protecting the well-conducted banks from the consequences

of those recklessly or dishonestly managed; and they are passing laws compelling all persons or firms doing a banking business to submit to State supervision and control. They are compelling them to incorporate their business within a reasonable time. These States do not propose to have the innocent depositors swindled through a misuse of funds; nor do they propose to permit bankers to so conduct their banking business within their borders, that they can, if they so desire, commit gigantic frauds, or by the misuse of the people's deposits, bring on bank panics and a complete paralysis of business. I think that Ohio has just passed such a law and that Illinois is about to put the same kind of a statute into operation. The people of all the states are beginning to understand that banking is a quasi-public business, and that the banker, though not strictly speaking a trustee, is in fact a quasi-trustee, and must conduct his business upon that basis.

Mr. Banker: Mr. Manufacturer, you are quite right in what you have said, but you have not gone far enough; nor as far, I am sure, as you will be inclined to go when I have outlined the necessity of a police regulation of the banking business, from a National rather than from a State point of view. Just stop and think the matter over. To use your own observation with regard to the action of the state, no one will deny that a state has the right to supervise every person, firm or corporation that takes deposits under the name of bank, or banker, with a view of protecting the people against foolish or dishonest bankers. By the same course of reasoning, the United States, or National Government, has the right, and it is clearly its duty, to protect one state against the unwise and dangerous course of some other state and one section of the country against misconduct in the banking business in some other section of the country. Bad banking is not only a local mishap, but a national misfortune. Nine-tenths of the country might be under such supervision and control of its banking business as to insure practical immunity from such conditions and practices as breed panics and the remaining tenth be so conducted as to preclude the possibility of a day's freedom from the danger of a commercial cataclysm.

Will anyone say that such a condition should continue for a day, or a year, or for ten years, or for a hundred years, or for a thousand perchance, because the general Government has no right or power to act in the matter for want of constitutional authority? Let me ask you, Mr. Lawyer, whether there is anything that will so certainly conserve the peace, the prosperity

and the "general welfare" of the United States as a sound and uniform financial banking system extending over the whole country.

MR. LAWYER: I certainly cannot conceive of anything of so much importance as a sound and uniform banking system for the whole country. If there is one single factor in our life that is distinctly national in its character and scope, it is this.

During the past week, I devoted much time to that phase of this question, because, as we have gone along during the last two or three months, and this problem has been under discussion, I have become more and more impressed with its vast importance, and above all with its distinctly national character. I have not butted in tonight, as you will observe, as I was anxious to see how you gentlemen would treat this subject of Reserves, whether from a standpoint of individual banks, or from the standpoint of the community, the commercial center, or our country as a whole, or upon the broad proposition that gold today constitutes the world's banking reserves and that we are a very great part of that commercial world. For my own part, I had come to the conclusion that there could not be a system of reserves established that would be efficient and of the highest use, and really protective unless it were national in its extent, and universal in its application. Therefore, realizing the absolute necessity of some common power to control all reserves, in order to compel each bank to perform its part by carrying its share of the burden that commerce imposes, I have been unable to find any solution, except in a uniform national system; and why not? Certainly the National Government could compel every bank to carry certain specified reserves, and failing to do so to pay a tax of 10 or 20 per cent per annum upon all deposits not so protected; that is, upon all deposits in excess of the required reserve. This could be done under the taxing power of the Government, precisely as a tax of 10 per cent was put upon all bank notes. Would any patriotic banker refuse to coöperate with his fellow bankers in such a reform, unless he wanted some unfair advantage by compelling the other bankers to carry his load for him?

You gentlemen will remember that the National Government was given jurisdiction of the Postal Savings Banks under these words which it was understood at the time were written by the President: "Sixty-five per cent of the deposits could remain with the banks as a working balance, and also a fund which may be withdrawn for investment in bonds or other securities of

the United States, but only by direction of the President, and only when in his judgment 'the general welfare' and the interests of the United States so require." Similar words could be used with regard to a per cent of the surplus of the banks, and if the one was tenable, certainly the other would be especially so, since the latter involves seventeen billion of individual deposits, of which six billion four hundred and eighty million ($6,480,000,000) are savings deposits. Again Article I, Section 8 of the Constitution, empowers Congress "to regulate commerce with foreign nations and among the several states and with Indian tribes."

Upon this clause of the Constitution rests the Anti-Trust Law. What have we not done under this clause of the Constitution and the general welfare clause?

We have passed the Food and Drugs Act, giving the Government power to stop the use of poisonous substances in food products and drugs:

The Insecticide Act, giving the Government power to determine what kind of poison shall be used to annihilate bugs:

The Plant Quarantine Act, giving the Government power to regulate the importation of nursery stock and other plants and products and to enable the Secretary of Agriculture to establish and maintain Quarantine Districts for plant diseases and insect pests:

The Livestock Quarantine Act, to enable the Secretary of Agriculture to effectually suppress and extirpate contagious pleuro-pneumonia, foot and mouth diseases and other dangerous infectious and communicable diseases in cattle and other live stock:

The Meat Inspection Act that, for the purpose of preventing the use in Interstate, or Foreign Commerce, of meat and meat food products, which are unsound, unhealthy, unwholesome, or otherwise unfit for human food, the Secretary of Agriculture at his discretion may cause to be made, by inspectors appointed for that purpose, an examination and inspection of all cattle, sheep, swine, and goats before they shall be allowed to enter into any slaughtering, packing, meat-canning, rendering or similar establishments in which they are to be slaughtered, and the meat and meat food products thereof are to be used in interstate or foreign commerce.

The twenty-eight Hour Law by which the Government compels the humane treatment of cattle:

Employers' Liability Act:

The Safety Appliance Act:

The Hours of Service Act:

The Transportation of Explosives Act:

The Newspaper Publication Act:

The White Slave Act.

Can anybody doubt that we shall have a "National Health Act" by which the Government can stop the invasion of this country by yellow fever, cholera, bubonic plague, or any other scourge that may possibly visit our shores, and sweep over the land?

Can anybody doubt that we shall soon have a National Child Employment Act by which the childhood and youth of the land may be protected against those labor practices that imperil our chief national resource, the human resource?

Can anyone doubt that we shall soon have a National Woman's Employment Act that future generations may not be pauperized in health, strength and character?

Can anyone doubt that we shall soon have a National Workmen's Employment Act to the end that American citizens in all parts of the United States engaged in our productive industries shall have equal opportunities in matters of hours of labor?

The general welfare of this nation demands strength, power and greatness; but the strength, power and greatness of this nation reside and consist in the character, health, strength and power of the people, and therefore conservation of our greatest national resource is the conservation of our human resource. The citizen is a national asset.

Can anyone doubt that justice between the employers of labor in our various states, and the general welfare of this republic, demand uniform health and labor laws to the end that the citizenship of this republic may be the best product of the human race?

Gentlemen, if all these things are done, can be done and ought to be done by the National Government, can anyone doubt the soundness of this proposition: That it is interstate commerce to ship by mail, or freight, any kind of property?

What is property? "Property is a thing or things subject to ownership; anything that may be exclusively possessed and enjoyed; chattels, lands, possessions." Gold, gold certificates, silver, silver certificates, United States notes, checks, drafts, promissory notes are all certainly within this definition.

H.D. MacLeod, the highest authority I know of on banking economics, says: "Property, therefore, in its true sense, means solely a right, interest or ownership, and consequently to call goods or material things property is as great an absurdity as to call them right, interest or ownership.

"To call goods themselves property is, comparatively speaking, a modern corruption, and we cannot say when it began."

Therefore, property is primarily and essentially the very things with which banking is solely concerned.

Will anyone deny that gold is property? Remember that when gold is shipped in large quantities, it is by weight and not by count.

Will anyone deny that gold certificates are property?

Will anyone deny that silver is property?

Will anyone deny that silver certificates are property?

Will anyone deny that United States notes are property?

Will anyone deny that promissory notes are property?

Can anybody have the hardihood to say that if a note broker in New York ships a million dollars' worth of commercial paper to purchasers in the west upon a commission of a quarter or a half per cent, and receives his payment, for the sake of the argument, let us say, by a shipment of gold coin, that such broker is not engaged in Interstate Commerce? Does this transaction become a different transaction, forsooth, because it is carried out by a banker?

Will anybody deny that checks and drafts and bills of exchange are property?

Will anybody deny that a bank has property, although it may be the owner of one million dollars' worth of promissory notes?

Will anybody declare that a bank has no property when it has a million dollars' worth of gold coin in its vaults?

If a bank in Chicago should by any chance own one million dollars' worth of wheat, and should sell and ship the same to a New York bank, and the New York bank should ship the Chicago bank one million dollars' worth of gold, will anybody deny that they are engaged in interstate commerce? Now, suppose that the Chicago bank should sell the wheat in Chicago to Mr. Armour, instead of shipping it, for his promissory note for one million dollars, due in thirty days, and that the Chicago bank should then sell, and mail the note to the same New York bank, and the New York bank should ship the Chicago bank one million dollars in gold, in payment for the note, will anyone have the hardihood to assert that this transaction is not interstate commerce?

Will anyone deny that the sale and shipment by note brokers of billions upon billions of promissory notes from one state to another every year is not interstate commerce, but that to ship eggs, apples, potatoes, chickens, grain, cotton and live stock is interstate commerce?

I assert that it is just as proper and important that the National Government inspect this paper, and the banks that create it, or ship it, or buy it, as it is to inspect the sheep, hogs, cattle, slaughterhouses and the meat they turn out in order that it can protect the people of the United States. If the paper so shipped is infected by the hand of a rotten maker, commercially speaking, and the bank sending it out and responsible for it is not carrying an adequate reserve to meet the paper, should the maker fail to pay it, the harm done is vastly greater than that resulting from slightly infected meat. How much infected meat would it take to do the harm, the damage to the American people that resulted from the panic of 1907? And yet, if we had had a wise, national financial and banking system, we need never have passed through that harrowing, wasting panic that resulted in destroying property values into the billions; in the death of thousands of the people directly and indirectly; in the ruined health of tens of thousands more; in the non-employment of hundreds of thousands; and in the unknown and immeasurable suffering that ensued.

Such a national system must be supported by every banking unit; by every individual bank carrying its part of the commercial burden, and providing its proper share of the insurance of commercial safety by contributing its proper proportion of the necessary reserves, both local and national.

MR. MERCHANT: Mr. Banker, I heartily approve of every word that you have said, and there can be no possible doubt about the result of a discussion of this phase of this question by the American people.

There is one question, however, that I desire to ask you before we pass on, as we may overlook it. Is it not true that our National Banks are now carrying 20 per cent reserves of which 17 per cent are cash? Are not these reserves large enough to meet all emergencies?

MR. BANKER: I presume you gentlemen all know just how the National Banks carry their reserves; but fearing that you do not, I will explain the system to you. All so-called country banks are required to carry 15 per cent

reserves; that is $15,000 cash against every $100,000 of deposits; that they may send 9 per cent or $9,000 for every $100,000 of deposits away to what we call reserve cities. Now, there are 320 banks in 48 of these reserve cities. These reserve cities are required by law to carry a reserve of 25 per cent, or $25,000, for every $100,000 deposits; but they may send away 12½ per cent, or $12,500, for every $100,000 of deposits to a central reserve city, of which there are three: New York, Chicago and St. Louis.

These central reserve cities must carry 25 per cent cash reserves or $25,000 in cash for each $100,000 of deposits. Experience shows that these 320 banks in the 48 reserve cities and these 55 banks in the three central reserve cities keep all of their money loaned out all of the time; that is, right up to the reserve limit. Since they have no margin, when called upon for anything more than the usual daily current requirements, something extraordinary must be done to meet the demand. Loans must be called in and paid off. But since these same banks that are calling loans are supposed to be carrying the real, the final, the ultimate reserves, a deadlock follows, and the borrower is up against it; rates go almost anywhere that the banks want to put them; from 1 per cent to 10 per cent, to 20 per cent, to 100 per cent, or even 1,000 per cent; I believe that's the record rate. In other words, we have no true, final reserves in this country at all, for you cannot break the Government limit fixed by statute, and therefore we have a complete lockup all along the line, until through straining, something breaks somewhere.

There is absolutely no use of sending a part of your reserves away, if you cannot get them when you want them; for then it is no reserve at all, and that is the actual position or situation in the United States today. Our so-called central reserves are not reserves; it may be written down as a purely fictitious scheme, for there cannot be found a single year in which any substantial arrangement has ever been made by running the reserves up in the central reserve cities until they amounted to an average of 35 or 40 per cent, which would be the only practical way of providing for the crop-moving period.

If there is one thing more barbarous in our banking practices than a bond-secured currency, it is our system of superimposed bank reserves, especially in connection with the fixed limit, established by the Government. What would you think of a railroad company which ran out through the wheat country, having one-quarter of all its freight cars idle all the time as a

reserve, and yet when thrashing time came, refused to use them, although the wheat was rotting on the ground, because the management of the road demanded that the railroads should always have at least one-quarter of the cars idle, as a reserve to meet the demands during the crop-moving period. Wouldn't you think that that was idiotic?

MR. LABORINGMAN: Well, I should say so.

MR. LAWYER: Mr. Banker, there is another point in that connection, and that's this. You started off to get a central reserve, a true reserve, as I supposed, as distinguished from the reserves of the National Banks that are all loaned out all the time. Then, your reserves were all broken up in the end, first into three hundred and twenty banks, and at the end into fifty-five banks, located in New York, Chicago and St. Louis. What we must have, it seems to me, is a real central reserve in the form of unloaned gold, and then permit the banks to use their cash reserves, if by any chance they needed them in part at least.

I notice that you carry about $100,000 in accordance with the legal requirement. Now, just as you said a while ago, there are times of the year when you could easily carry $200,000; but again there are times when you want to use a part of the $100,000, possibly as much as $75,000 of it. Why should you not do it, and then accumulate the necessary excess in the slack time to make up your average for the year.

MR. BANKER: That is precisely what we ought to be permitted to do.

MR. LAWYER: Then, Mr. Banker, instead of sending as you now do, 9 per cent of your deposits, or $175,000, to a reserve city, and that city in turn sending a part of it to some central reserve city, your balance with your reserve city should be sufficient to carry your exchange account, and the balance go to a great central gold reserve, upon which you and your fellow bankers throughout the country could rely absolutely when the emergency came.

MR. MANUFACTURER: I have been listening to you gentlemen with intense interest, and must say that you have worked this plan out completely and practically.

I see what an enormous advantage it would be to a bank to use its reserve as a reserve should be used, and what an absolute guarantee of protection it

would be to have all the reserves of all the banks centralized, and ready to help anyone of them in need of gold, because the gold was actually on hand, and had not been loaned out as the banks now do; but I have been wondering where the State Banks and Trust Companies were going to get 10 per cent more reserves of their demand deposits to put up in this central gold reserve. You must remember that they have five billion of deposits.

MR. BANKER: I can tell you how to do that; that is very easy.

When the State Banks come into the National system as they certainly will, if you have the right kind of a system, they will exchange their notes for the gold or gold certificates that are now in circulation, as they come in over their counters. You see that all the gold and gold certificates that are now held by the banks only amount to $879,000,000, although there is in the country $1,850,000,000 of gold, practically one billion of gold, or $10 of gold for every man, woman and child out in the corn, cotton and wheat fields; in the mining camps, when as a matter of fact, this gold should be in the reserves of our banks, protecting our bank credits; and bank notes should be in the corn, cotton and wheat fields, in the mining camps filling the true function of currency, and where gold, or gold certificates are not at all needed.

MR. LAWYER: Now, wait a moment, Mr. Banker, and let me see if I grasp that. It is very important that we should all understand this. I am exceedingly anxious to, and it strikes me that we are at a mighty interesting juncture of this subject. If a State Bank with a reserve of $70,000 came into your National system and had to increase its present reserve, which is only 7 per cent, by as much as 10 per cent, it could do so by simply retaining the gold and gold certificates as they were deposited from day to day, and pay out its bank notes to the extent of one hundred thousand dollars. The result would be that the bank would increase its liabilities by $100,000, but it would also increase its reserves by $100,000. That is certainly a perfectly sound proposition. Before the bank came into the system, its reserves were only 7 per cent, or $70,000, since its deposits were $1,000,000. After it goes into the National system, it has changed $100,000 of its notes for $100,000 of gold, or gold certificates, as they came in over the counter; it now owes $1,100,000, of which $100,000 is of notes, but it now has $187,000 of reserves of all of its demand liabilities, or 17 per cent, instead of $70,000, or 7 per cent, as before.

MR. MERCHANT: Isn't that a simple and very easy thing to do? And what tremendous strength it would give to the whole banking situation immediately.

MR. MANUFACTURER: Then when you think of it, what a stupendous piece of folly it is, to have all this gold floating around the country, doing no possible good, when a piece of credit paper, or bank note, would do the work just as well.

MR. LABORINGMAN: Anybody can see that. A man that can't ought to be arrested for want of brains. He'd have to plead guilty. Putting that gold that you need in your bank reserves at the rate of one dollar of gold for five or six dollars of credit into the streets, cotton fields, corn fields and in the mines, is no greater piece of folly than it would be to send a six-horse team to haul Mr. Farmer home, when one horse would do just as well.

UNCLE SAM: Mr. Laboringman has got this thing dead right. In fact, in my judgment, he has the horse sense of this crowd. Give him a show, I'll bet on him every time, he always takes a short cut, and hits the nail square on the head.

MR. MERCHANT: Suppose, Mr. Banker, that all the banks of the country should come into the National system, and put up, say 10 per cent, as you suggested a while ago, of their demand or individual deposits, and 5 per cent of their savings deposits, what would your central gold reserve amount to?

MR. BANKER: On June 14, 1912, the Comptroller of the Currency reported that the individual deposits amounted to ten billion five hundred million ($10,500,000,000), and that the savings deposits, outside of the mutual savings bank, amounted to two billion eight hundred and seventy-two million ($2,872,000,000).

If the State Banks and Trust Companies should become National Banks, and bring their reserves up to the National standard, by exchanging their notes for gold; that is, exchanging $468,000,000 of their notes for that much gold, the result would be as follows:

Individual Deposits	$10,500,000,000 @10%	$1,050,000,000

Savings Deposits	2,872,000,000 @ 5%	143,600,000
Bank Notes	1,219,000,000 @10%	121,900,000
Making a total central gold reserve of		$1,315,500,000

This is just double what the gold reserve of France is, the largest gold reserve in the world today, but when you consider the fact that our banking resources are 45 per cent of the total banking resources of the world, it should be even more than that. It is interesting to note that in making this readjustment for a central gold reserve it would be just $100,000,000 larger than our bank note circulation.

With this central reserve of gold created, the United States could then control the inflow and outflow of gold to and from the United States, precisely as England controls the movements of gold today by fixing the rate of discount or a price for the use of gold.

UNCLE SAM: Well, boys, if there is one phase of this question that you have treated with a greater thoroughness and more satisfactory results than any other, to my mind, it is your plan for protecting our bank credits with ample gold reserves. They are so disposed of as to keep at all times all bank credits in touch with gold, and therefore as good as gold; at the same time have developed a great central gold reserve in harmony with the practice of the great commercial nations of the world, and commensurate with my importance as a banking power in the world. You have made this subject so clear and conclusive that I need not restate the points you have made.

I hope our next night will be as satisfactory as this has been.

Good Night.

ELEVENTH NIGHT

THE BANK

UNCLE SAM: At our last meeting you considered the very important element in banking, of reserves, and seemingly the final factor that enters into the structure of a bank. You have run the whole schedule off, I think. Standard of value, money, currency, exchange, capital, credit, government credit as money and as currency, land credit as money and as currency and reserves. What else can there be?

MR. BANKER: I do not think there is any particular topic for us to tackle now, but the bank itself, and I want to be permitted in the outset to describe just what a bank is, and what it does. I do not think there is any single thing in business life that is so misunderstood. People think of a bank as a kind of mystery.

The banker is a merchant in money and credit, and precisely as you can say that a man is a hardware merchant, cotton goods merchant, grain and flour merchant, so you can say that the banker is a money and credit merchant. He deals in these two things.

Let me illustrate this in a simple way. If Mr. Farmer should come to me to borrow a thousand dollars for three months, and I should make him the loan, as we say, I, as a banker, would buy his note, due in three months. That is just what happens every time a bank makes a loan; it simply buys the note. Now, in all probability I would not give Mr. Farmer any actual money, but would simply give him credit for one thousand dollars on the books of the bank, so that he could draw his check against it. In other words, I would owe him one thousand dollars. I have created a debt to him of one thousand dollars; in short, I have traded debts with him. He has given me his note, which is a debt for one thousand dollars due in three months, and I have given him credit on the books of the bank, a debt due to him on demand. The transaction does not differ in the slightest degree from the trade of horses for cattle. Let me demonstrate this. Suppose that Mr. Farmer came to me and offered me two of his Jersey cows for my horse and buggy, because he does not want the cows, but does want the horse and buggy to do a lot of running around. I want the cows to milk, and so make the exchange with him. He gets something that meets his pressing needs in the horse and buggy, and I get something from which I receive an income,

the cows from which I get milk. This corresponds to the interest on his note, and by the way, the cream would be my profit.

MR. LABORINGMAN: That's it; you bankers are always milking the public, and the interest you get is all cream; all profit.

MR. BANKER: Oh, no! it is not as bad as that. Don't make such a mistake. The average cost to the bankers of the country, outside of any losses, is about 4 per cent upon their deposits for interest paid on deposits, rent for building, clerk hire and other general expenses. So you see that it is not all profit by any means.

But let me get right back to what I was saying. The banker is nothing but a trader who keeps an open shop for the purpose of trading his debts for the debts of his depositors; or to put it in another way, for the purpose of exchanging his credit for actual money which is deposited with him, or for checks and drafts that are deposited with him, or for promissory notes which he buys when he loans money to his customers, and gives them credit on his books for the amount of the loans. All these different things, money, checks, drafts and promissory notes are bought by the banker with his credit, and the greater the amount he buys with his credit the greater will be his debt. But, you will probably say these are his deposits. Very true, but his deposits are his debts. Don't forget that.

MR. LAWYER: Mr. Banker, you have accurately described the situation, just as it exists today, and that, of course, is what we are interested in; but it seems to me as though it would be a great help to us to follow the development of banking, as we have it now.

MacLeod, the highest authority upon banking credit, and the theory of banking, used this language: "The first business of a banker is not to lend money to others, but to collect money from others."

Bagehot used this language, in describing the business of the bank: "Thus, a banker's business—his proper business—does not begin while he is using his own money; it commences when he begins to use the capital of others."

Many writers have maintained that a bank should only be allowed to create exactly as much credit as the specie paid in, and that its sole function should be to exchange its credit for coin, and coin for credit; and that the quantity

of the bank's credit should always be exactly the same as the coin it displaces. This principle is called the currency principle.

Many banks in the world's history have been constructed on this principle, especially those famous banks at Venice, Hamburg, Amsterdam and several others.

These cities, small in themselves, were the centers of great foreign commerce; and as a natural consequence, an immense quantity of coin and denominations of all sorts of different countries was brought by the foreigner who resorted to them. These coins were, moreover, greatly clipped, worn and diminished. The degraded state of the current coin produced intolerable inconvenience, disorder and confusion among merchants, who, when they had to make or receive payment of their bills, had to offer or receive a bag full of all sorts of different coins. The settlement of these bills, therefore, involved perpetual dispute—which coins were to be received, and which were not, and how much each was to count for. In order to remedy this, it finally became absolutely necessary that some fixed uniform standard of payment should be devised, to insure regularity and a just discharge of debts. In order to do this, the magistrates of those cities instituted a Bank of Deposit, in which every merchant placed all his coins of different kinds and nations. These were all weighed, and the bank gave him credit, either in the form of notes, or a credit on their books, exactly corresponding to the real amount of the bullion deposited. The owner of this credit was entitled to have it paid in full weighted coin on demand. These capital credits, therefore, always insured a uniform standard of payment; and it was enacted that all bills upon these respective cities, above a certain amount, should be paid in these Bank Credits, which were called *Bank Money*. The consequence was evident, as this Bank Credit, or Bank Money, was always exchangeable for money of full weight on demand; it was always at a premium.

These banks professed to keep all the coin and bullion deposited with them in their vaults. They made no use of it in the way of business, as by discounting bills. Thus the credit created was exactly equal to the specie deposited and their sole function was to exchange specie for credit and credit for specie.

These banks were examples of the currency principle; they were of no further use to commerce than this, that they served as a safe place to keep money in—and they insured a uniform standard of payment for debts. They made no profit by their business, but those who kept their accounts with them paid certain fees to defray the expenses of the establishment.

Later and during the civil war in Great Britain the goldsmiths of London began to receive the cash of the merchants on deposit. They not only agreed to repay it on demand, but to pay 6 per cent per annum for the use of it. Consequently, in order to enable them to do that, the deposits necessarily became their property to trade with as they thought best.

When, therefore, these goldsmiths received this money on deposit, they gave in exchange for it, or issued to their customers a credit, or right to demand back an equal amount of money at will. And it must be noted that it is this banker's credit which in banking language is termed a deposit. The money itself is called an asset, or resource.

MacLeod says that in practice it will be found that in ordinary times a banker's balance in cash will seldom differ by more than one thirty-sixth part from day to day. So that if he retains one-tenth part of his cash to meet any demands for payment that may be made, that is ample and sufficient in ordinary times.

The banker, therefore, can see that if an amount of cash was sufficient to support ten times the amount of his liabilities, he might safely buy debts to several times the amount of cash in his hands.

From this you see clearly by evolution a banker is a trader, just as Mr. Banker said a few moments ago, whose business consists in buying money and debts by creating other debts. If he has taken actual money on deposit, he has bought it, and if he has received checks and drafts on deposit, he has bought them likewise with his credit.

Thus, it is seen that the essential and distinctive feature of a bank and a banker is to issue credit payable on demand, and that this credit may be put into circulation and serve as money.

First: They might demand payment in cash; if they did so, the banker canceled his debt.

Second: The banker, if his customer wished it, gave him his promissory note to pay him or the bearer on demand such sum as he might wish; this neither created nor extinguished a deposit, it merely recorded it on paper for the convenience of transferring it to someone else. This promise to pay was at first called a "Goldsmith's Note," and is now called "A Bank Note."

Third: If the customer wished to make a payment he might write a note to his banker desiring him to pay the money to some particular person, or to his order, or to bearer. These notes were then called "Cash Notes," but are now called "Checks."

Now, it is perfectly clear that neither a bank note, nor a check creates any new right; it merely records on paper a right to have money which already exists, and it is used for the purpose of transferring that right to have money to someone else.

It will be noted now, and I want you to keep this observation clearly in mind, that all banks are banks of issue, that is issues of credit. MacLeod says that the very meaning of the words "To Bank" is to issue a right of action or a credit, in exchange for money or other debts; and when once the banker has issued this right of action, or right to have money, to his customer by writing it down to his credit, it makes not the slightest difference as to his liability whether he delivers his own promissory note, that is a bank note, to his customer, or whether he merely creates the credit, and gives him the right to transfer it to someone else by means of a check.

When a person deposits money at the bank, it is not his intention to deprive himself of the use of it; on the contrary, he means to have as free use of it as if it were in his own purse. The depositor, therefore, lends his money to his banker, but yet at the same time has the free use of it, as the bank employs that same money in promoting trade; upon the strength of the money being deposited with the bank, it buys debts with its promises to pay, either in the form of "Bank Notes," or of credit on its books, several times exceeding the amount of the cash placed with it; and the depositors who sell the bank their debts, have the free use of the very same coin which the depositor has the right to demand; thus the lender that is, the depositor, and the borrower that is, the banker, have the same right at the same time to the free use of the same money. All banking depends on the calculation that only a certain small portion of each set of depositors will demand the actual cash, but that

the majority will be satisfied with the mere promise, the "Bank Notes" or the credit on the books of the bank.

Banking is a species of insurance; it is theoretically possible that a banker may be called upon to pay all his deposits at once, just as it is theoretically possible that all the lives insured in an office may end at the same instant; or it is theoretically possible that all the houses insured may be burned at the same hour. The depositors and noteholders of the Bank of England could demand payment the same day. All the depositors and noteholders of the Bank of France could demand payment the same day. All the depositors of any bank could demand payment the same day. But all banking, as well as all insurance, is based upon the expectation that these contingencies will not happen, and the average experience of life proves that they do not happen. A banker multiplies his debts to be paid on demand and keeps buying a sufficient amount of cash to insure the immediate payment of all claims which are *likely* to be demanded at one time. If a pressure comes upon him he must sell some of the securities he has bought, or borrow money on them.

When the customer discounts a note at his bank he parts with the property in it, just as when he sells any other article. The note becomes the absolute property of the banker and he may sell it again, or pledge it, or deal with it in any way that suits his own interests best.

The notes in the safe of a banker are exactly similar to the goods in the shop of a retail dealer. The retail dealer buys the goods from the wholesale dealer and sells them at a higher price to his customers; and, as he makes a profit by doing so, the goods are *capital* to him. Notes likewise are goods, or merchandise, which the bank buys from its own depositors at a discount, or bearing interest for a time, and as the bank makes a profit by so doing, the notes are *capital* to the bank precisely in the same way that the goods in the shop of the retail dealer are *capital*.

Now, lest we shall be misled, I want to call your attention to an error which is very common. Many persons not being aware that the word "*Deposit*" in banking language means the credit created in exchange for money, checks, drafts or notes bought, when they hear or read that a bank has such an amount of deposits conceive or suppose that the bank has that amount of cash on hand to trade with.

When it is said that a bank has $10,000,000, $50,000,000 or $100,000,000 or $200,000,000 of deposits, they are not deposits in cash at all; they are almost entirely pure credit, and are exactly equivalent to just as many "Bank Notes." They are nothing but an enormous superstructure of *Credit* built up on a comparatively small basis of reserves exactly like the note circulation. These figures do not show the quantity of cash at the command of the bank that can be traded with; but they show the quantity of business the bank has done, and the debts or liabilities it has created. These deposits, then, which so many think are cash, are in fact nothing but the credits the banks have created in exchange for the cash and notes which figure on the other side of the balance sheet as assets or resources.

This play of bank credit has been graphically described by Joseph T. Talbot, the Vice-President of one of our largest National Banks; he says: "A customer holding a bank note may present it for deposit and credit, instead of demanding redemption in cash. In this case, there is a conversion from the circulating form of credit, payable to bearer, back to a 'Book Credit,' payable to order, as was ordinarily the case. Thus it will be seen that all these forms of 'Bank Credits' are interchangeable, one for another, at the pleasure of the holder of the credit. The difference between these several forms of credit involves no changes whatever in the bank's liabilities. They amount to about the same difference which exists, let us say, between a coupon bond and a registered bond. The one is payable to bearer, the other is not. At one time a bank note may best serve a customer's needs; at another time he might prefer a deposit in the bank; or again he might prefer 'exchange.' All these interchangeable uses of credit actually and continuously take place. It will now be clear that a circulating 'Bank Note' in the hands of the public does not differ essentially from a 'Deposit Credit' on the bank's books.

"If one of your local bankers were asked how much he allowed his bank to issue in cashier's checks, he would tell you that he issued whatever sums his customers wanted; either against their balances, or against new loans. He would tell you the same in respect of the amount of exchange he issued; his sole rule and guide being the amount of such credit which his customers require, and which he is in position to lend afresh, and to maintain against, or to redeem in cash, if demanded. If asked how long these obligations were allowed to remain outstanding, he would tell you that he had no control

whatever over the period of their circulation; that these obligations stood out just as long as the holders wanted to use them in that form, and no longer; that his only concern was in being prepared to redeem the obligations on demand in cash.

"Thus it is that the volume of bank credits, whether in the form of deposits, checks or notes, responds in a rise or fall according as there is legitimate trade demand; and over this the bank has no control, except by ceasing to make loans. This is why deposits increase as loans increase, and these increase as the volume of business increases."

Now, if we understand the real nature of these so-called deposits, the reason for their diminution is plain. Deposits fall because loaning stops. When you stop loaning, you stop creating credit. You can readily see that it is not a diminution of deposits in cash, but it is a contraction of credit, a refusal to make loans.

This erroneous notion of the real meaning and nature of deposits in banking language may lead to very great mistakes in estimating the stability of a bank. That a bank's stability depends on a due proportion being kept between the deposits or the liabilities and the cash; and it may very well happen that while the deposits are apparently mounting high, and might lead many persons to believe that the actual quantity of cash was increased, it might be nothing, perhaps, but a dangerous extension of credit. And if this were carried too far, the bank might be in the most dangerous position just when it was apparently most flourishing.

Now, let us consider how a banker who has purchased either money or notes from his customers by creating deposits or debts, may be used by his depositors. That is how the depositors may use these credits. Of course, every banker does business exactly in the same way, or practically so, and when their customers begin to use checks these different results may follow:

First: The actual money may be drawn out.

Second: The credit may be transferred to the account of another depositor of the same bank.

Third: The check may be an order to pay another bank. But in this case, if the first bank is ordered to pay the second bank so much, the chances are

that the second bank will be ordered to pay the first bank practically the same amount. If the claims of the two banks on each other were exactly equal, the respective checks or orders are interchanged, and the credits readjusted to the different customers' accounts accordingly, without any payment in money. If it should happen that the claims of all the banks against each other exactly balanced, any amount of business might be carried on, without requiring a single dollar of gold coin. If the mutual claims of the different banks against each other do not exactly balance, it is only necessary to pay the differences in coin.

Now, exactly to the degree that banks are brought into a closer relationship with each other by such means, the smaller is the quantity of coin required to carry on the business of the country; or the more gigantic is the superstructure of credit which can be reared upon a given reserve.

From what I have already said, you must all see that a merchant deals with credit; but a banker is a dealer in credit. A merchant brings his notes or debts, that are payable some time in the future, to the banker for sale, and the banker buys them for credits in the form of deposits, or debts payable instantly, which have precisely the same effect in commerce as so much gold. He reaps exactly the same profit by creating a credit in favor of his depositor as if he gave him the actual cash. The checks drawn against these credits so created by the banker circulate commodities in trade precisely in the same way that bank notes do which circulate commodities precisely in the same way that gold coin does. Consequently, these bank credits so created by the banker, whether upon his books subject to check, or in the form of bank notes, are exactly equal in their practical effects, so far as exchanging commodities is concerned, to the creation of so much gold coin.

This being true, you must realize how absolutely essential it is that every bank credit must be kept as good as gold by current redemption in gold everywhere, whenever demanded.

Mr. Banker: Mr. Lawyer, in all that you have said you have only affirmed what I said in the outset; the banker is a shopkeeper, a trader exchanging his credit for money and debts.

The development of the banking business in the United States is most interesting, and its growth has been simply marvelous.

On Feb. 25, 1863, almost fifty years ago, when the National Banking System was inaugurated, there were in the eastern states, including New York, New Jersey and Pennsylvania, what are known as Mutual Savings Banks. These institutions are run solely for the benefit of the depositors. This is upon the theory that those using savings banks are the wards of the state. These Mutual Savings Banks have no capital and the trustees, or directors, serve without pay. There are today in the United States 650 of these Mutual Savings Banks, with deposits amounting to $3,608,000,000. Practically all of these Mutual Savings Banks are located in the east, there being only thirty-one west of Buffalo. These few got a start before the present conditions of banking grew up. Today it is quite impossible to start a Mutual Savings Bank anywhere, because the State Banks and Trust Companies are able to pay such high rates of interest, owing to the fact that they can conduct the Savings Bank business as a part of their regular commercial business, or as a part of their Trust Company business. That is, the Savings Bank business is incidental to their regular business, and requires no separate and special organization. If there are any extra charges they would be nominal at most. The savings business being conducted over the same counter, this particular branch of banking may be regarded as done at no cost to them. Under the circumstances it is very easy to see how the State Banks, and those banking institutions more recently organized, known as Trust Companies, have absorbed all the savings business where the Mutual Banks had not already been permanently established.

Another reason that has enabled them to do this is the fact that in most states there are no prescribed rules for the investment of savings bank deposits, and the banks are using the savings deposits for commercial purposes, and also in speculative ventures, particularly in the way of underwritings where the profits are much larger than could be realized from such funds if they were limited to investments of the highest order where, as you know, the rates of interest are comparatively much lower.

MR. MERCHANT: How many such institutions are there?

MR. BANKER: There are today thirteen thousand three hundred and eighty-one State banks, with four hundred and fifty-nine million of capital and two billion nine hundred million of deposits.

Side by side with these state banks are 1,292 State Savings Banks, with seventy-seven millions of capital and eight hundred and forty-three millions of deposits. These State Savings banks differ only in name from the regular State banks. The only point to be noted in this connection is that the local statutes, or the laws of the State where the bank is located, always determine whether the name will be a State Savings bank, or a State bank. It may be assumed that whatever the name, the business carried on is practically the same all over the United States, with here and there some slight difference, but no substantial variance.

MR. MANUFACTURER: These institutions you have named do not include the Trust Companies, do they? There seems to be a perfect craze to start Trust Companies now. Why is that?

MR. BANKER: Within the past twenty-five years there has grown up, almost as if by magic, the class of banks you have just mentioned, differing from State banks and State Savings banks only in one single respect, but that is an all-comprehending one. Enterprising men in almost every state have secured the passage of laws for what they call a Trust Company business. Generally speaking, what you cannot do under a Trust Company Charter is some kind of a business that has not yet been thought of.

There are 1,410 of such Trust Companies, so called, with capital amounting to $419,000,000 owing individual deposits amounting to $3,674,000,000 with $450,000,000 additional liabilities, or something over four billion dollars, all told.

This vast business has grown up outside of the National banking system, simply because the National bank could not, but these other institutions could develop along natural lines of business progress.

Notwithstanding these obstacles, however, there is no kind of a banking business that the National banks of the country are not doing in some way or other. Of course, they are not all of them doing all kinds of business, but they have worked out methods by which they can, if they desire to do so. Of the 7,397 National Banks, nearly half of them, 3,039, are now doing a regular savings bank business, without any express authority of law, and 2,340,226 depositors have deposited with our National banks $659,500,000.

Who is there who does not know that either downstairs in the same building, or upstairs in the same building, or around the corner in some other building, with the back ends of the two buildings adjoining, many, if not all, the National Banks have attachments, where they are carrying on the Savings bank business and the Trust Company business under state charters. National banks are under National supervision, while the State banks and Trust Companies, owned and manipulated by them, are under State supervision, or possibly under no supervision at all.

There are many National banks holding the stock of other banks, either Savings banks, State banks, or Trust Companies in their treasury, and some of them are holding the stock of two or more banks. Only recently it was discovered that a National bank had invested ten million dollars, directly or indirectly, in other banks throughout the country; possibly an examination would show that this ten million was partly the stock of other National banks, and partly the stock of state bank institutions such as Savings banks, State banks and Trust Companies.

Now, if there is one holding company more to be criticised, and more to be abjured than any other, it is a bank holding company, controlling the stock of a great many other banks, particularly so under different supervision.

When we behold the malformation of banking as now carried on in this country, due to the struggle of the various institutions to adjust themselves to these new conditions and to take advantage of all the opportunities in modern business, it reminds one of the crooked, twisted, knotted, and sadly misshapen tree-trunk that has grown up amidst and between huge rocks, that stand in the way of an upright and symmetrical development. These huge bowlders and rocks are the obsolete laws on our statute books, our ignorance, our selfishness, our prejudice, our political cowardice and our demagoguery.

Like our mutual savings banks, the original idea was that a Trust Company could only do a Trust business in the strict sense of that word. They could hold a railroad mortgage, and pay interest to the bondholders, perform similar functions for other corporations, and could act as a trustee in case of estates. Today you may assume that no kind of business will escape the scope of the charter of the so-called trust company, from the care of estates and the execution of corporate trusts to banking in all of its forms, and

agencies of every conceivable kind. In other words, the all-round charter of the American Trust Company, popularly so called, permits it to do anything that the varied affairs of the American citizen may by any chance require.

Just as there are in the east mutual savings banks, which are relics of former days, so the Trust Companies, with their limited powers, are only a landmark in the evolution of American banking, and must disappear as a separate institution in time.

The growth and development in fifty years has produced in the United States a banking unit, doing in a conglomerate way what it ought to be doing as a departmental business, with four distinct functions: viz., a commercial business, the manufacturing of credit; a savings bank business, accumulating the savings of the laboring masses, which is a sacred trust fund that should be placed in high grade investments; a trust company business, executing trusts, and carrying on agencies of every kind; a note-issuing business, which is only another form of the commercial business, as the bank note is in fact only another form, as we have learned, of a deposit —a circulating credit in place of a check credit for the convenience of the people.

From Feb. 1, 1863, the birth of the National Bank Act, down to the present time there has not been one single change in the National Bank law worth mentioning. It is true we have dotted an "i" here, and crossed a "t" there; but as for a substantial change there has not been a single one made. Now, this is truly a most marvelous fact, when you consider how great have been the changes, especially since 1890, or during the past twenty-two years. Our banking resources have increased fourfold. In 1890 they were about six billion, today they are more than twenty-five billion.

Mr. Lawyer: This growth in our banking power is not so strange because it only reflects the growth of our business. The clearings of the United States in 1890 were only thirty-seven billion, while the clearings this year must pass the hundred and seventy billion dollar mark. The productions of the United States in 1890 were only seventeen billion. The productions of the United States in 1912 will exceed thirty-five billion dollars. The wealth of the United States in 1890 was only sixty-five billion dollars. The wealth of the United States in 1912 is estimated at about one hundred and twenty-five billion dollars. The imports in 1890 were seven hundred and eighty-nine

million; the imports the present year will be one billion eight hundred million; the exports in 1890 were eight hundred and forty-five million; this year our exports will exceed two billion three hundred million dollars.

MR. FARMER: And do you mean to say with this vast, almost incalculable increase of production and wealth and consequent increase of banking resources, there has not been a single step taken by the National Government to facilitate it?

MR. BANKER: Mr. Farmer, there has not been a single change made to facilitate the handling of this vast business. On the other hand, there seems to have been such a profound ignorance on the part of Congress, or such an abject fear, lest they might aid business, that every progressive movement of a legislative character has been left to the states, which have given us laws as varied as Jacob's coat of many colors; indeed, rivaling the fifty-seven varieties of the famous pickle man.

Not only have they left the banking business to just "grow up" like Topsy in Uncle Tom's Cabin; but the Government itself has been one of the greatest obstructionists to the national growth of our banking business in its interference with the natural movement of the money of the country which by every economic law, and business right, belongs in the channels of trade, and not in the strong boxes of the Government.

MR. MANUFACTURER: That is absolutely true. I was greatly impressed only yesterday by a statement made by the Secretary of the Treasury right on that point of Government interference with current business by withdrawing money from circulation and piling it up in the vaults of the treasury. In the light of what we have learned during our talks, it is simply appalling; indeed, it does not seem possible in a civilized country.

Secretary MacVeagh says in the outset, "No reform of your banking and currency system can be adequate which does not take the United States Treasury out of the banking business," and then adds:

"When the independent Treasury system was established the idea was that all the funds of the Government should be stored in the Treasury vaults in the form of money, just as the mediæval war lords kept their treasures in strong boxes. The independent Treasury system was established in troublesome financial days, when the State banks were not the safest places

for the deposit of money. The people decided that the public funds must be kept in Government vaults for safety.

"In this country, with our rigid laws fixing the minimum reserves the banks must hold, any loss of cash by the banks means an instant contraction of their loaning power. If the banks of New York and Chicago lose $100,000,000 cash, they must at once reduce their liabilities by $400,000,000. This means that they must reduce by that amount their loans to the business community.

"With the volume of bank credit moving in the reserve cities four times as fast as the volume of cash, and throughout the country ten times as fast as the volume of cash, it is plain that the machinery of credit is extremely sensitive to variations in the amount of cash held by the banks. For this reason, an institution like the United States Treasury, alternately accumulating and disbursing many millions of cash, is likely to create widespread disturbance in the money market.

"The funds held by the great European Governments vary from $25,000,000 to $50,000,000. The coin, bullion, and paper money held as assets in the United States Treasury during the present Administration has varied from $300,000,000 to $350,000,000. In other words, nearly one-tenth of all the money in the country is held idle in the Treasury vaults. If this money were all deposited in the banks it would increase their reserves 20 per cent.

"The receipts and disbursements of the Treasury are most irregular. The Treasury receipts in 1907 exceeded the disbursements by $91,000,000. Two years later the disbursements exceeded the receipts by $118,000,000. For the past two years receipts have again exceeded disbursements. The general fund in the Treasury was $272,000,000 in 1907; three years later it had fallen to $106,000,000. Under our present system of keeping a large surplus Government fund idle in the Treasury these wide variations in the yearly balance not only seriously disturb the money market and the business of the country, but force the Secretary of the Treasury to enter actively into the money market as a paternal overseer of the machinery of credit.

"It not infrequently happens that surplus revenues accumulate in the Treasury just at a time when the banks are straining their resources to grant all the credits needed to finance a business boom. The Treasury then takes

money out of the banks and hoards it just at the time when the country most needs it. If the business boom goes so far as to strain credit to the breaking point, then the Treasury must come 'to the relief of the situation,' by depositing some of its hoarded cash in the banks. In recent years the Treasury has been carrying a large surplus, and it has been in a position to relieve financial tension by depositing funds in the banks. In December, 1907, following the money panic, the special deposits in the banks by the Treasury had reached $256,000,000. Three years later they were reduced to $4,000,000. In the fiscal year 1908-1909, the Treasury withdrew $100,000,000 from the banks.

"This state of affairs places in the hands of the Secretary of the Treasury a power greater than any American should have. The power of the Secretary to influence the money market by deposits or withdrawals of public funds is always dangerous. No Government officer should have this power. It has been a great burden, I believe, on the shoulders of every recent Secretary of the Treasury Department.

"If the people realized how dangerous is the power in the hands of the Secretary of the Treasury, they would insist that the Treasury be at once taken out of the banking business. Accustomed as we are to Government interference with the money market, few of us realize how the Treasury in the past few years has exercised the central-bank function of regulating the discount rate. The Treasury, by alternate deposits and withdrawals of the public money in the banks, as well as by other devices, has attempted to regulate the discount rate.

"The Treasury Department should be divorced from the money market and from the banking business, and the way to effect the reform is plain. We should have in this country a quasi-public institution not only to hold the ultimate cash reserves of the banks and to regulate the rate of discount, but to act as the fiscal agent of the Government. Such an institution would hold the Government balances as deposits, and the Government could check against them just as any large business concern checks against its balances in bank. With the Government balances deposited in such an institution the business of the country would never be disturbed by the Treasury hoarding up cash, and the Secretary of the Treasury would no longer be forced to meddle in the money market.

"As long as we have the present banking and currency system, we shall have panics—and no longer. Does not this alone create a state of emergency? What doubt should there be of the urgency of this legislation? Why should it take another wasteful and degrading panic to impress Congress? Why cannot 1907 suffice? There are many other things of prime importance to be secured through monetary reform, but if nothing were to be secured but emancipation from panics there would be abundant imperative reasons for immediate action by Congress."

MR. MERCHANT: This statement of Secretary MacVeagh proves absolutely just what you said a moment ago, that the situation was appalling, and when you realize that this practice has been kept up ever since 1846, when the sub-treasuries were established, it is unbelievable.

The Act of Aug. 5, 1846, declared it a felony to deposit public money in banks.

The United States Government has been committing an economic felony ever since. It has been committing an economic crime against commerce and the laboring interests of the country ever since that Act was passed, and is doing it this very hour.

The Act of Feb. 25, 1863, establishing National Banks, authorized their use as depositaries of the public money except "receipts from Customs." Forty-four years later the Act of March 4, 1907, struck out the words "except receipts from customs." By the Act of March 2, 1911, bank checks were made receivable for Customs dues, but no step has been taken by the Treasury of the United States to make them so at New York, Baltimore, Boston, Chicago, Cincinnati, New Orleans, Philadelphia, St. Louis, San Francisco and Washington, where the United States Government still has its morgues for our money. Every day the checks are presented which are sent in in accordance with the law, and the actual money is withdrawn from the channels of trade; that is, the United States Government withdraws reserve money to the full extent of every dollar that is due it.

MR. LAWYER: While Mr. Manufacturer was reading what Secretary MacVeagh said, I have been wondering what the people would do if the United States Steel Corporation, the Standard Oil Co., J.P. Morgan or John D. Rockefeller, or any of the railroad companies, or any other great interest,

should collect and hold in safe-deposit boxes hundreds of millions of money, just as the United States Treasury does.

Mr. Farmer: I'll tell you what we would do. We would blow them up mighty quick, and hang them to boot, that's what we'd do.

Mr. Merchant: Gentlemen, just think what it means to withdraw these hundreds of millions of reserve money from the channels of trade, say in the fall, keeping in mind that every dollar that the Government grabs and withdraws, will support from five to ten times that amount of credit. The withdrawal, as Mr. MacVeagh said, of one hundred million dollars, means the contraction of from five hundred million to a billion dollars; this is not only a fool's practice, but it is an actual crime against the commerce of the country; a crime against the producers, a crime against the laboring men of the country.

Mr. Lawyer: How long, O Lord, how long, shall we remain the laughing stock of the rest of the world? But, let us see, can any man here give me a single reason why the United States Government should not deposit its money with the banks, precisely as all the other governments of the world do? It seems to me perfectly clear that the United States Government should treat its income precisely as this town does, this county does, this state does. Is there any conceivable reason why it should not act in this matter precisely as New York City, Chicago, New York State and Illinois, and every city and every state does?

Mr. Banker: Not one in the world.

Mr. Manufacturer: This discussion upon the development of banking in the United States and the present treasury situation brings out the necessary reforms most vividly to my mind from these two points of view, the banks, and the treasury.

First: Assuming that we are all agreed as to the result of our talk last Wednesday night upon reserves, that they must be national to be equal and adequate, our conclusions now are inevitable, (1) we must give to the National banks the power to do a Savings bank business, as well as a Commercial business; (2) we must give our National banks the power to do a Trust Company business; (3) we must give our National banks the power to issue a pure credit Bank Note precisely like that issued by the Scotch

Banks and the Canadian Banks, and was issued by the five hundred banks in New England before the war. These notes will go to the Clearing Houses every day with the checks and drafts to be cleared at precisely the same time, and precisely in the same way.

Second: We must take the United States Government out of the banking business, so that its transactions will cease to be a disturbing factor in the everyday affairs of the commercial world.

MR. BANKER: You have outlined these necessary reforms splendidly, but there are just two more points in this connection that must not escape our attention. They are these:

First: All these various forms of banking are distinct in character and economically the funds of each perform a peculiar function that must be recognized and observed or we shall make a great fundamental error in constructing what we hope will prove a sound financial and banking system. We must provide that the commercial function, the savings function, the trust function shall be kept apart by separating the funds arising from each, and keeping them completely segregated, in order that the country may always know just what its commercial fund is, as distinguished from its investment fund.

Second: There is such a great demand for Farm Mortgage Loans by those who are pursuing agriculture that I am convinced that some provision should be made whereby the farmers of this country could obtain money upon their lands, as cheaply as our great railroads and other corporations are able to do. I have given this matter much study, and as you gentlemen are aware, I am a member of the Committee appointed by the American Bankers' Association to investigate and report the best method possible to accomplish this purpose. Therefore I think that we had better consider it here.

MR. LAWYER: I am in perfect accord with what you are aiming at, but it is almost eleven o'clock.

MR. LABORINGMAN: I have been waiting patiently to see whether you gentlemen were going to provide in some way for coöperative credit, but up to date, you've not peeped a word.

MR. MANUFACTURER: Both of these subjects are really outside of a financial and banking system, the particular thing we set about creating. However, I am perfectly willing to take a night to discuss them, and if we should find that either or both of them should constitute a part of our plan I am ready to adopt them.

MR. BANKER: All right, I am agreed, and I think we all are agreed that it is not only fair, but advisable, that we take up the whole subject next Wednesday night.

UNCLE SAM: Do you know, boys, I am really proud of the work you are doing; you've gotten on swimmingly. You have shown such fine moral courage in caving in when you found out that you were wrong instead of playing the part of the jackass that has not intelligence enough to discern when he is in error, and too obstinate to change, if he happens to find out by accident that he is wrong.

MR. MANUFACTURER: Uncle Sam, I am a Democrat, and I look upon that as a personal stab.

UNCLE SAM: Just wait a minute, or playing the part of the elephant, that is so turgid, or possibly designedly stupid, or so calm and by self-satisfaction lulled into a conservatism that amounts to reaction, and therefore refuses to move.

MR. MERCHANT: Well, I'm a Republican, and that looks like a slap at me. However, I guess Uncle Sam is just in for a housecleaning tonight.

UNCLE SAM: You're both all right, personally, but your organizations have been in wrong until just now there seems to be a patriotic soul-awakening, and it's up to you to redeem them, or there will be a housecleaning, and don't you forget it. I want men; men who have intelligence and conscience; men who are capable and have convictions; men who have moral courage; men who will fight if necessary to have peace; I mean that peace that rules only when right prevails and justice reigns.

Good Night.

TWELFTH NIGHT

LAND CREDIT BANK

UNCLE SAM: Boys, by unanimous vote we agreed at our last meeting to devote tonight to the subjects that seem to lie close to the hearts of Mr. Farmer and Mr. Laboringman. You will remember that Mr. Farmer insisted that our work would not be complete unless we included in our plan a Land Credit Bank, while Mr. Laboringman declared that he had waited patiently to hear what we had to say about coöperative credit, but in vain.

Since Mr. Farmer is a member of the committee appointed by the agricultural society of his State to investigate the subject of Land Credit Banks, I presume he is loaded to the guards and can tell us all about it, and convince us, too, that he is right in his contention. I suggest that we let him lead off tonight.

MR. FARMER: Well, gentlemen, I can assure you of my confidence of my ability to convince you of the importance of recognizing my contention; but I shall have to ask you all to be patient and agree to assist me in working out the plan that is best adapted to our needs and conditions. In studying this aspect of the banking problem, I think it will be well to follow the steps of development up to date, just as we have in considering other phases of this question, because experience is our surest guide to tell us what not to do as well as what we ought to do.

In the outset, however, I want to call your attention to the fact, that there is no subject of broader interest and more world-wide discussion than the productivity of the soil. You are all aware, no doubt, that there has been established at Rome the International Institute of Agriculture, and that last summer fifty different governments were represented there. Hon. David Lubin, of California, represented this government. The President of the United States became intensely interested and with the help of our foreign representatives, particularly Hon. Myron T. Herrick, Ambassador to France, a vast amount of most valuable information has been gathered, studied, digested and classified. I think that we are now ready to take the matter up and legislate upon it. Our interest ought to be greater and more intense than that of any other nation on account of the number of our people engaged in agriculture and the staggering interest rates they are paying. Think of it.

The 12,000,000 farmers of the United States are adding over $8,400,000,000 to the national wealth each year. They are doing this on a borrowed capital of $6,040,000,000, on which $510,000,000 of interest is annually paid. Counting commissions and renewal charges, the rate averages at 8½ per cent for this country as against 3½ or 4½ per cent for Germany. If the American farmers had a thoroughly organized system of coöperative associations they would not only save this difference of $200,000,000 or $250,000,000 to themselves individually, but in the course of time the entire debt would be transferred to the societies, the interest paid to them, an economic waste stopped, and this stupendous sum restored to agriculture. The assertion is neither fanciful nor extravagant. It is below the actual ratio obtained by a comparison with the German figures.

There is practically no limit to the amount of capital that could be advantageously employed for rehabilitating worn-out and abandoned farms, opening up new areas, and introducing modern methods of cultivation; and it is of vital importance that this capital be obtainable at once in sufficient volume and on easy terms. The world-wide problem caused by the pressure of population upon the means of subsistence now confronts the United States in the very face of its matchless natural resources and vast acreage of arable lands still remaining untouched by the plow. The $385,000,000 of foodstuffs exported last year barely equaled 76 per cent of the annual interest charges on the debts the farmers owe.

The cause of the trouble is the lack of capital, and the remedy lies in financing the farmer and the landowner. This is the indisputable conclusion logically reached from examination into the actual conditions and from comparisons furnished by recent European history. The solution of the problem concerns the general welfare as much as does the currency and monetary reform, and it is gratifying to note that it seems destined to go side by side along with this undertaking. For as soon as the alarm was sounded the best talent of the nation became enlisted, and now bankers, merchants, professional men, legislators, and private individuals in town and country, many impelled purely by patriotic and disinterested motives, have combined their efforts to better the situation before it pass to the acute and critical stage.

The only instrument by which land-mortgage banks can finance themselves, draw money from the public for investment in loans, are the debenture

bonds, but these bonds will not circulate freely nor far from the place of issue unless they are known to have the same underlying values and give the same rights to the holder, regardless of whether they be secured by mortgages in Texas, Massachusetts, or in any other State. But possessed of these characteristics as guaranties of law, there is no reason why debentures of large mortgage banks should not be listed in stock markets and sold, negotiated, and exchanged as readily as railway and municipal securities, and thus equalize and reduce interest rates for farmers throughout the country.

For our guidance that we may escape all cost of experience that has been paid for by others, I am going to give you the benefit of my study of the Government report upon this important subject and quote it extensively as the best authority we have.

You must all realize that this almost complete organization of land and rural credit in advanced European nations was not a haphazard and spontaneous growth. It was brought about by the insistence of public and private individuals, philanthropists, scholars, bankers, legislators, agricultural societies, government commissions, and national assemblies, all studying and working in a common cause. The history of their efforts in the middle of the past century reads much like an account of the agitation which has been started in the United States by the American Bankers' Association, the Southern Commercial Congress, the Federal authorities at Washington, and other bodies and individuals, for financing the farmer, improving agricultural conditions, and encouraging the movement back to the soil. In Europe the agricultural banks and credit facilities were created before agricultural or even general education was attempted. The United States began at the opposite end. The American colleges and systems for teaching agriculture are among the oldest and best in the world, and millions of dollars have been appropriated by the Federal and State Legislatures since the passage of the Morrill Act in Lincoln's administration to aid this science in one way or another. Incalculable good has come therefrom, but the results would have been far greater if financial education had gone hand in hand with this work. It would have led to the study and introduction of the rural banking methods of Europe generations ago, and so familiarized the American farmers with the uses of credit that the lack of capital and

excessive interest rates would not now be interfering with the agricultural development of the country.

The development and history of Land Credit banks in Germany is most interesting and is as follows:

The land-mortgage banks are either joint-stock corporations or societies of borrowers. These latter are typified by the well-known German Landschaften, and are the originals of all land banks. Before them the private money lender reigned supreme. The organization of land credit, in fact, began with them. They undoubtedly also suggested the coöperative idea to Herr Schulze, because five, with nearly $60,000,000 of mortgage loans, were in existence in 1848, when he was trying to start his personal-credit society at Delitzsche. These peculiar institutions are associations of landowners, and have no shares and pay no dividends, the profits, if any, going to reduce the loans; and since they and their borrowers are identical, and managerial services gratuitous, they have been able to lend money at lower rates than any other kind of companies.

The establishment of the old Landschaften was the outcome of the indebtedness and distress of the nobility, and their membership in Germany is still composed mainly of that class and large landed proprietors. After the Seven Years' War the nobles, who owned nearly all the land, lacked the working capital necessary to repair and cultivate their damaged estates, and so were unable to pay their creditors. Frederick the Great ordered the suspension of interest on all estate debts for three years. The period was subsequently extended. The result was the withdrawal of the money lenders from agriculture, the rise of interest to ruinous rates, and a financial stringency that involved the public welfare. In order to relieve the situation this autocratic King decided to adopt plans that had been submitted by Herr Bühring, a Berlin business man. Accordingly, in 1769, by a royal fiat, he forced the nobles of Silesia to join an association whether they wished to borrow or not, and their lands were made jointly liable without limit for all loans granted by the association. Loans were granted only upon the consent of the directorate elected by the members themselves. Great care was naturally exercised, so no losses occurred, while immense credit came to the association.

This was the first Landschaft. Others were formed in the same fashion. Nine more were formed by the Provinces and one voluntarily. Then two companies were organized on the coöperative principle, so that there are now twenty-five Landschaften. The mortgages held by them, all on farm lands, exceed $500,000,000, and the interest rate runs as low as 4 per cent and 3.5 per cent per annum. The bonds by which the money for these loans were obtained are secured by the mass of underlying mortgages and general assets of the issuing association, and ultimately by the unlimited liability of all its members. The collective guaranty and the fact that loans are made only to members constitute the characterizing features of a true Landschaft; but there is a growing tendency to limit this liability and substitute reserves in place of it.

Originally a Landschaft did not give cash to a member in exchange for his mortgage. It gave him a bond which simply contained a promise to pay in the event the interest and principal could not be collected from the debtor. The bond was of the exact size of the mortgage, primarily secured by it, and made payable to bearer on a few months' notice. In case of default the holder had to resort to foreclosure proceedings, so the bonds had only a limited circulation, and were often sold below par. This was but a slight advance on private money lending. Later the associations undertook to collect the interest and principal. Finally they assumed direct responsibility, and began to give cash to members for their mortgages, raising funds for this purpose by issuing and selling bonds of even denominations for large and small amounts. The practice of requiring mortgages to be paid in lump was abolished, and in place thereof the loans were made repayable by annual installments running through a long period of years, and the installments were set aside for redeeming the bonds. These steps brought about a complete revolution in land credit and marked the beginning of the land-mortgage business as it is known today. The whole theory of the organization of land credit is based upon this debenture bond and system of amortization and sinking funds devised and introduced by the Landschaften. One without the other two is useless. The three must be combined, and also coupled with strong management under wise laws in order to attract a steady flow of cheap money to agriculture. It is remarkable that this truth has never been realized nor applied in the United States to farm-mortgage loans. In spite of the example of practically every nation in Europe for generations, the lending of money on mortgage in America still

remains largely a mere brokerage business unrestricted by proper governing laws, either by individuals or corporations, while mortgages continue to be drawn up for three or five years, when experience shows that the average life of a loan is far in excess of that period and needs to be renewed time and again, with added expense to the debtor and trouble for the creditor. Had the European amortization system been employed the companies dealing in western farm mortgages between 1890 and 1894 probably would have escaped the misfortunes that brought them down to ruin.

Amortization is simply a method of paying off a loan by returning a little of the capital each year. These payments are called annuities and are composed of the interest and contributions to the sinking fund and the cost of conducting business. They are calculated for periods of ten to seventy-five years, and at the end of the period the mortgaged debt becomes extinguished and the property returns to the owner free and clear of all encumbrances. The prevailing interest rate on amortizable mortgages in France at present is 4.3 per cent. But by adding a little over 3.2 per cent to this, and paying 7.5 per cent a year, a French farmer can extinguish his debt within twenty years and obtain a satisfaction piece in full from his creditor. Thus, suppose he borrowed $10,000. He pays $750 annually twenty times for the interest, sinking fund and expenses. This makes a total of $15,000, interest included, and his debt is paid off. A farmer in the Southwestern States would pay this much for interest alone, and his debt would still be unsatisfied. Amortization has a two-fold value. It lessens the debtor's burden year by year and increases in an equal ratio the security of the lender, provided, of course, the sinking fund created by the accumulated annuities be properly and honestly kept for the redemption of the debentures. The Landschaften were very particular in this respect. Hence, their debentures obtained the confidence of the public, and through their means they were able to draw capital from all parts of the country for distribution among their members at the lowest rates on record. If a holder of a bond wished his money back he had merely to sell his bond in the open market. In this way fluidity was given to real estate securities for the first time in history and the dream of "mobilizing the soil" accomplished at last. For these reasons the Landschaften hold the most prominent place in the literature on land credit, and everybody who studies that subject must begin with them.

The old Landschaften, however, have many characteristics peculiar to their own localities and dates of their foundation. They are in fact governmental institutions, and their head officers are public functionaries clothed with summary executive and judiciary powers over the property, and, to some extent, over the actions of their associate members. These powers were simply an enlargement of the feudal and manorial rights possessed by princes in early times, and so, in many respects, are contrary to modern ideas. But the new Landschaften, which have adopted the best principles, present points worthy of careful study. A description of these latter institutions is taken from the excellent report of Sir F.A. Nicholson to the Madras Presidency in India.

These new institutions are of different patterns. Several are annexes to the older societies, but most are independent and resemble ordinary mortgage banks, except in the essential point that they have no share capital, earning dividends. They are, as the old societies, simply syndicates of borrowers formed to supply proprietors with capital on the lowest possible terms and repayable in the easiest manner. They are gratuitous intermediaries between the outside capitalists and the borrowers, and while performing services of the highest importance in testing the security offered by the borrowers and in guaranteeing to the public the safety of the capital lent by them, they charge absolutely nothing for their services beyond a small commission, perhaps one-fourth of 1 per cent, or even one-tenth of 1 per cent, to cover actual expenses. It is usual for each association to be restricted to a particular area of operations within which every proprietor, whether noble or peasant, may obtain a loan if he can offer sufficient security. There is always a minimum limit either to loans or to the value of property on which loans will be given. This is usually low. In the new Brandenburg Landschaft, affiliated to the old Kur-und-Neumark Landschaft, loans may be granted on property having a net income of only $25. The minimum limit is seldom even approached.

Members are those who borrow from the bank. They are generally responsible in all their property, not merely for their own borrowings, but for the debts of the society to the outside public. But in some cases only the property pledged to the society is responsible; in others they are bound, in case of need, to pay a sum proportionate to the amount of their own borrowing. There are no shares to be paid up except in two societies. These

two resemble coöperative societies, for the shares are personal and nontransferable, are of unlimited number, varying with the number of members, and their value is claimable by a withdrawing member. The share seems to be demanded simply to provide a first working capital and the nucleus of a reserve. The amount of the share is frequently a certain percentage of the amount of the loan required. Some societies demand an entrance fee of a few cents, which goes to the reserve. This reserve will be dealt with below.

The societies in general, having no share capital, do not lend their own funds. The candidate for a loan asks that debentures may be issued against a mortgage of his property. This is then examined. If the security is approved the candidate executes a mortgage deed to the society, which thereupon issues debentures which are placed on the market and, being sold, provide the funds for the loan. In the old banks the debentures are simply handed to the borrower, who sells them for himself. In the new land banks either this is done or the bank sells them and pays the borrower the value if below par, or if they sell above par then the face value, the surplus going to the reserve; or they simply issue debentures on the market and pay the borrower the amount of the loan as settled. It will be seen, then, that the banks have no capital and no need for it.

The debentures are for the usual class, secured not by the particular mortgage on which they are issued, but by the whole mass of mortgages held by the bank and by all its proper forms of security, viz., the property of the members, the reserve or guaranty fund, and even the sinking funds. In some banks a debenture holder has the right (never needed, however) of requiring a court to assign a particular mortgage against his debenture as a specific security in case the bank should fail to pay him his interest or capital due. A debenture holder cannot demand payment of his debenture, except when it is drawn for payment. But the bank can call in any at six months' notice, besides withdrawing them by lot in the usual way. These debentures enjoy an excellent position, the 4 per cents selling usually at or above par. Since cheapness of loans is the sole object of the bank, it is customary to call in debentures selling at a premium and issue a fresh series at a lower rate.

Loans are usually applied for to the district committee which each bank has, with a statement of the property, the amount required, and all documents

necessary to prove title and freedom from encumbrance. Properties may be valued by a special valuation, or a multiple of the net income as assessed to the land tax may be taken. In both cases, however, an inspection of the property is necessary unless under a special rule. Half to two-thirds of the estimated value is allowable as a loan. The interest paid by the borrower on the loans is that paid by the bank on the debentures, the bank being merely an intermediary between the borrower and the actual lending public. But where the bank pays the loan in cash it charges such interest as it thinks proper, in order to make up any loss should the debentures sell below par. Loans are repayable almost entirely by amortization, usually in about fifty-three years. Some short-term loans are granted, with corresponding debentures. The bank cannot demand repayment of a loan except in case of waste, deterioration, or the like. On the other hand, the borrower is at liberty to repay in whole or in part whenever he pleases, but must pay the entire interest for the half year in which he repays. The loan is repaid by an annuity consisting of the interest, sinking fund (usually beginning at one-half of 1 per cent), with a contribution to the reserve or guaranty fund, and another for the expenses of administration. The annuities have totaled 6 per cent, but they now average around 4 per cent or lower; e.g., interest being 3 per cent, sinking fund one-half of 1 per cent, guaranty fund one-fourth of 1 per cent, and expenses one-fourth of 1 per cent. Some of the banks also require a lump payment on the grant of the loan of 1 or 2 per cent, to be credited either to the working or to the guaranty fund. The working fund is formed by the contribution made for the expenses of management and any special sources.

Hungary is the only nation outside of Germany that has a true Landschaft of the original type. But modified forms exist in Russia, Austria, Switzerland, Denmark and Roumania, where they have been useful in supplying agriculture with cheap capital. There is no older principle in land credit than the Landschaften idea. It has been tested and proved by over one hundred and thirty years of success, and could undoubtedly be employed to advantage by water users' associations in the irrigated regions of the West and in other parts of the United States where landowners might unite to raise funds for drainage or other improvements for their common good. Some of the banks of Switzerland and the credit associations of Denmark, with the laws governing them, perhaps furnish the best models, as appears

from the reports of the American ministers to those countries that have been forwarded to the Secretary of State.

The most noticeable fact revealed by the investigation of the European land-credit institution is the all-pervading presence of the state in every nation. Most of the older joint-stock corporations have a public character equal to that of the German Landschaften. Every one that dates back to 1850 or 1860 was directly organized by the state or brought into existence by a Government fiat or favoring legislation, subsidized in some way or other and granted special privileges. The supervision now exercised over them all is most stringent, going into the minutest details and varying from direct control to surveillance by state officials, usually by special laws that impose heavy penalties for malfeasance or even neglect of regulations. Continental Europe is accustomed to state intervention. Commercial credit was organized by means of central banks connected with the Government, and so this régime was naturally followed in organizing the land credit. For this reason the results obtained, at least in some instances, cannot be used by way of comparison to illustrate the possibilities of organization along the lines of private and independent endeavor.

But whatever may be the opinion entertained for the State intervention in the land-credit system of the Continent, there can be no doubt that the working principles and business methods of the European land-mortgage banks are the best ever devised, and that they will have to be introduced into the United States if it be hoped to make the farm mortgage a fluid and popular form of investment and direct a flow of capital in sufficient volume to agriculture to enable it to keep pace with the progress of the Nation. The main features of this system are the limitation of the interest rate that can be charged, the amortization of the debt, and wise and equitable regulations and restrictions relative to loans and the issuance of debentures which protect the farmer from extortion and thriftless borrowing, and at the same time bring safety and a feeling of confidence to the investing public. These features, with modifications and additions, appear in all European land banks, whether they be semipublic, as they are in France, Spain and Russia, or of a private character, as with some cases in Germany, or of the mixed type of Switzerland and Italy, but are best exemplified in the great Crédit Foncier of France—the largest and most successful land bank in the world.

But Germany has progressed very decidedly beyond the so-called Landschaften as exemplified by her great mortgage banks which, though of comparatively recent operation, largely exceed in business that of the Landschaften type, and it is here that we find many vital suggestions for our guidance. Germany has general laws under which these mortgage banks operate, but the rules of operation and supervision are of the strictest kind. The mortgage banks of Europe may be classified generally as public or semipublic, and as strictly private institutions. The first have just been described. The latter are all those which, whether they consist of lenders or only of borrowers, operate under general laws and have absolutely no privileges. The State, however, does not leave these companies entirely to their own devices. They are limited in the conduct of their business by strict rules and regulations, and are subject to the most scrutinous supervision. The best law of this kind is that enacted in Germany in 1899. It is the last word in legislation for private joint-stock mortgage banks, and with slight modifications could be easily adapted to the United States, as it was framed to overcome the troubles occasioned by the conflict of authority between the sovereign Provinces of which the Empire is composed. Remarkable as it may seem, these companies in Germany have outstripped the old established and specially privileged public banks. They now have $2,618,000,000 loaned out on mortgage, or over five times more than the Landschaften. The capital is $170,563,000, the smallest being $238,000 and the largest $14,000,000. The bonds in circulation amount to $2,548,009,000, with interest at 3½ or 4 per cent per annum, while the average returns on mortgage loans are 4.22 to 4.33 per cent per annum. As 6 per cent and even 14 per cent dividends are yearly declared, the figures again furnish a favorable comparison with the Landschaften and Crédit Foncier. The provincial head, however, selects the president of one of these newer German banks, while the Imperial Government watches over them all. The supervision is carried out by royal commissioners and extends to the minutest detail. These inspecting officials have the right to verify the securities and cash on hand, and demand information regarding every separate transaction. They may also send a representative to general meetings of stockholders and to sittings of boards of directors and take all measures that may seem fit to enforce the proper conduct of business. They also approve the appointment of the auditor and assistant auditor, who are

charged in each bank with the duty of seeing that debentures are issued only upon the conditions and within the limits legally prescribed.

It will be observed that the mortgage business in Germany, as carried on today, is an evolution. The same fact is evident in the changes that have taken place in the Crédit Foncier, the greatest mortgage bank in the world. The history of this great institution is as follows:

It was formed in 1852 under the law enacted that year for organizing land credit and improving agricultural credit facilities. It was immediately placed under Government control, given a subsidy, and granted a monopoly for twenty-five years. The monopoly was not renewed, but all its original special privileges remain, which perhaps accounts for its being the only land bank in France. Its relation with the State is very close, and many of its most important features were taken bodily from the Landschaften. Inasmuch as the institution has been the model for all Europe and is now being widely discussed in the American press, I will describe it at length.

The governor and two subgovernors of the Crédit Foncier are appointed for life by the President of the Republic. It is subject to the surveillance of the Treasury Department of the Government, and three of its directors must be high officers of the department. It may use the Government treasuries for the receipt of its dues and the deposit of its surplus funds and enjoys a reduction in stamp and registration duties.

Its debentures are registered or payable to bearer, and the claim of a third party to them cannot be made in court except in case of theft or loss. Trust and public funds may be invested in them. Its mortgages are exempt from the decennial registration and consequent charges required of other mortgages. It has a cheap and speedy method of "purging" the title of real estate in case of disputes. In the event of default the courts cannot grant the debtor any delay and payments due it upon loans cannot be garnished or attached. It is allowed summary proceedings for attaching mortgage property in case of violation of contracts. If dues are not paid or if the property deteriorates it may attach and sell the property simply upon notice and publication. During attachment proceedings it has a right to all returns from the estate. The sale may be by auction in a civil court or at a notary public's office, if the court permits, and no adverse claim to the proceeds of the sale can be allowed until its claims are fully satisfied.

The regulations under which the Crédit Foncier transacts its business are very strict. The mortgage loans must be first liens. The property must have a clear and unencumbered title and yield a certain and durable income. Loans and theaters, mines, and quarries are not accepted. The amount loaned on any property must not exceed half its value, or one-third the value for vine-yards, woods, orchards, and plantations. Factory buildings are estimated without regard to their value for particular purposes. A borrower cannot bind himself to pay a greater annuity than the total annual income of the property mortgaged, while on the other hand the society is not allowed to charge borrowers 0.6 per cent over the rate at which it obtains money on its debentures issued at the time of the loans. An excess of only 0.45 per cent is allowed on loans to municipalities. The outstanding loans and debentures issued must exactly correspond in amounts.

After paying a 5 per cent dividend the Crédit Foncier must set aside between 5 and 20 per cent of the balance of the profits each year for the obligatory reserve, and continue to do so as long as the same does not equal one-half of the capital stock. The investment of this reserve is left to the board of directors. The capital stock of the society must be always maintained at the ratio of one-twentieth or more of the debentures in circulation and is the primary guaranty of its obligations, especially the debentures. The capital at present is $40,000,000, divided into 400,000 shares of $100 each; but authority has been obtained to increase the same to $50,000,000, represented by 500,000 shares, which will be done before the debentures in circulation pass the legal limit. One-fourth of the capital must be invested in French rentes or other treasury bonds; one-fourth in office buildings of the society, or by loans to French colonies, or in securities deposited with the Bank of France as a guaranty for advances. Shares cannot be issued at a price below par. They are nonassessable. The surplus may be loaned on mortgages or to municipalities or may be used in other mortgage business allowed by the statutes; and for buying its own debentures, making advances to borrowers in arrears, or purchasing mortgaged property in foreclosure; and for acquiring commercial paper acceptable by the Bank of France or securities to be deposited with that bank.

The governor of the Crédit Foncier most be the owner of at least two hundred shares of stock of the society. He receives a salary of $8,000. The

subgovernors must hold one hundred shares each. Their salaries are $4,000. They perform such functions as are delegated to them by the governor, and in order of their nomination fulfill his duties during his absence on account of illness or other causes. The governor appoints and dismisses all agents of the society and superintends the organization of the service in Paris and elsewhere. He countersigns the debentures and signs the share certificates and all other papers and documents and must strive to promote the interests of the society in every way. The governor is the head of the board of directors, which is composed of himself, the two subgovernors, the auditors, and twenty to twenty-three directors. This body possesses the administrative powers of the society and is beholden only to the laws and the general assembly of the stockholders for the proper exercise of the same. The three auditors are the guardians of the society. Their duties are to watch, investigate, and make reports. The only power they have is to call extraordinary general meetings of the shareholders.

The general assembly of the stockholders meets regularly once a year. It consists only of the two hundred largest stockholders, of whom forty make a quorum if they hold one-tenth of the stock of the society. Each member has one vote for every forty shares of stock held, but cannot cast more than five votes in his own name, nor more than ten in his own name or by proxy. He has, however, a right to one vote even though his shares be less than forty in number. The general assembly receives the report of the governor, and also of the auditors, if any. It elects the directors and auditors and decides on all resolutions or proposals for the increase of capital, the amendment of the by-laws and constitution, and generally on all matters not otherwise specifically provided for.

The only places outside of France where the Crédit Foncier can do business are Algiers and Tunis. Under a clause in its charter which allows it, with the sanction of the Government, to enter into projects for improving the soil, developing agriculture, and to extinguish existing debts on real estate, etc., the society has been authorized to finance drainage projects and to advance money on the paper of the Sous-Comptoir des Entrepreneurs, an incorporated association of builders. It may also receive deposits up to $20,000,000, one-fourth of which must be kept in the Government treasury and the balance invested in Government paper, treasury bonds, or high-class

bankable commercial notes and securities. In connection with its banking house it has large deposit vaults.

The Crédit Foncier is permitted to take short-term mortgages and does a big business in that line. But the true purpose of its existence and the greatest part of its operations are the granting of long time loans. These are made on mortgages to individuals and without mortgage to municipalities and public establishments. The periods run from ten to seventy-five years. The annuities required to be paid for amortizing the loan for the average period used are so small as to appear insignificant. The success achieved by the Crédit Foncier in popularizing the amortization principle for real estate loans is the chief cause of its great renown. At present its interest rate for mortgage loans is 4.3 per cent per annum, for public establishments 4.1 per cent, and 3.85 per cent for municipalities. The total annuity, including both interest and amortization sum, for a twenty-five year mortgage loan is a little over 6.5 per cent. With this small annual payment the debt is gradually wiped out, and nothing is left to be paid at the end of the term. The longer the term the smaller the annuity, and vice versa. The loans now exceed $870,000,000. Here is an amortization table of the Crédit Foncier:

Annuity of a capital of $100, interest at 4.3 per cent, payable semiannually.

Duration.	Annuities.
5 years	$22.440405
10 years	12.409111
15 years	9.115217
20 years	7.504843
25 years	6.566976
30 years	5.964436
35 years	5.552593
40 years	5.259040
45 years	5.043495
50 years	4.881753
55 years	4.758395
60 years	4.663140
65 years	4.588881

70 years	4.530558
75 years	4.484483

The Crédit Foncier is obliged to keep the interest and amortization payments in separate accounts, the latter going to create a sinking fund for the retirement of outstanding debentures. As stated above, the amounts of the loans and debentures must balance each other; consequently, as loans are paid up debentures must be paid off. Borrowers have the right to pay in advance, which they frequently exercise, so the proper adjustment of the balance is beyond the control of the society. It is for this reason that the debentures, although calculated to be redeemed synchronously with the loans they represent, have no fixed time for maturity and are recallable at option. In each issue a certain number are repayable by lots, with prizes for the lucky holders. A bond last year drew a prize of $40,000. The right to give prizes at the lottery drawings is one of the special privileges of the society. The debentures are of two kinds—those representing the mortgages are called "foncières" and those representing the loans to municipalities and public establishments are called "communales." They are issued in series. The smallest denomination is $20. They may be bought by installments and are the most popular form of investment in France, being held largely by farmers and poor people in the cities. The issue of 1912 for $100,000,000 at 3 per cent, payable within seventy years, was oversubscribed eighteen times. The total land mortgages and municipal indebtedness in France is figured at $2,800,000,000. Nearly one-third of this is represented by the loans of the society.

Such is the Crédit Foncier of France. The control exercised over it by the State through the appointment of its head officers, the simplified foreclosure proceedings, and the other judicial, administrative, and fiscal privileges accorded to it are common practices in continental Europe. As mentioned above, all the older banks are specially privileged, and consequently have a practical monopoly of the mortgage-bond business in some of the nations.

Now, gentlemen, I have gone into these details not to be slavishly copied, because I think we would make a very great mistake to load down our legislation with so much detail. It will be far better to allow the managers to work out a system of operation that will he suited to our conditions. In this

way we will not be handicapped by red tape that is ill adapted to our situation. The same penal laws that are in force with respect to our national banks with any additions that the peculiarities of this business call for ought, it seems to me, to suffice.

My suggestion would be a comparatively simple organization with broad powers to the board of directors. In this way we will soon have an American system of Land Credit Banks superior to any in the world, even though we do start after all others have begun. Indeed, if we are wise, this is the very reason why we should surpass all others.

Now, if you will recall with me the points of change and progress made, you will find that the tendency is away from unlimited liability, as originally provided, and now toward a dependence upon capital and reserves solely for protection to the debenture holders.

In my judgment we should adopt the following as the basis of our Land Credit Bank:

First: We should confine the business to loans upon improved agricultural lands.

Second: We should make the institution strictly coöperative, but with a limited liability to the amount of the paid-up capital.

Third: Every local association, or primary unit, should be an association of men within a restricted locality and the business should also be confined to the immediate vicinity of the association.

Fourth: I do not believe that the membership of a primary unit should be less than twenty-five, nor more than fifty.

Fifth: I think that the capital of a primary unit should not exceed $25,000, and that the shares should be $100 each. No person should own more than two hundred and fifty shares, or 10 per cent of the capital.

Sixth: All loans made should be recommended by the local association. In case of a loss by the sale of property taken over, one-quarter of such loss should be borne by the primary unit, of local association, making or recommending the loan upon which the loss was made.

Seventh: All expenses connected with the examination and recommendation of a loan shall be paid by the primary unit, or local association.

Eighth: The application for a loan should then go to a state organization, which should be created by a union of all the local associations. I suggest a central organization in each state for the purpose of lessening the expenses over the entire state, as the laws affecting real estate in the several states have some peculiarities to those states.

Ninth: Each state organization should have charge of all the business done in that particular state; the examination and final approval of the security; the examination and approval of the title; the collection of all interest; the payment of all taxes and insurance, and the final repayment of the loan.

Tenth: The state organization should be a union of all the local associations in any particular state, and should hold one-quarter of the capital of all the local associations as its own for the purpose of carrying on the business of that state.

Eleventh: All property upon which loans are made should be conveyed absolutely to the state institution where located with a waiver of all rights of foreclosure; but, providing for the advertisement and sale of the property, as if a judgment had been rendered. This is essential to save the cost of foreclosure.

Twelfth: In case of a loss, as the result of the sale of any real estate taken over, one-quarter of it shall be borne by the state organization.

I make this provision because no local association could carry all its losses, and yet it should be responsible for a sufficient amount of loss to impose a serious obligation upon the local association recommending the loan, and also a serious obligation upon the state institution for having finally approved and completed the loan.

Thirteenth: All the expenses of the state institution incurred by way of caring for the business of all the local associations should be paid by a percentage charge on all the business done in the state. This is desirable so that the mortgages shall go to the national organization, free and clear from any charges and obligations whatever.

Fourteenth: I would have a national organization which should fix the rate of interest to be paid by the borrowers, and the rate of interest of all the bonds and debentures sold. All bonds and debentures should be sold by the national organization, which should be under national supervision for the

purpose of giving to the debentures the highest possible credit wherever they may be offered for sale.

Fifteenth: I think that one-half of all the capital of all the local associations in the United States should be transferred to the national organization, and be held and treated by it as if it were its own capital. And such capital shall be holden to the debenture holders as a guarantee, and for the purpose of securing the best possible credit for the national organization.

Sixteenth: The national organization, and all state associations, and all local associations, shall be under the supervision, and be examined by an auditor appointed by the President of the United States.

Seventeenth: To secure unqualified success for a Land Credit Bank in the United States, no business should be attempted until the capital paid in shall amount to at least $25,000,000; that is, until the national organization shall have a cash capital of its own of $12,500,000 in order that its debentures may bear the lowest possible rate of interest that a large capital with a national organization under national supervision will insure.

Eighteenth: The debentures of a national organization should be free of all taxes, local or national.

In general these are my recommendations, which I hope will be incorporated in the measure we are to prepare.

MR. MERCHANT: Mr. Farmer, I notice that you propose to confine the loans to agricultural land. Don't you think that a good and equally helpful business could be carried on by loaning money on city and urban property?

MR. FARMER: Possibly that is so, but I do not think so, and in any event, I never would combine these two classes of loans. If we are to have national Land Credit Banks doing a country and city or urban business, let them be kept entirely separate. The general business permitted and carried on by the Crédit Foncier is a just ground for severe criticism. It is permitted to take deposits. An American Land Credit Bank should have no such power. It should be confined, in my judgment, with extreme strictness to loaning money upon improved agricultural land. Mind you, I do not say that there should be no other Land Credit Bank to do some other kind of business. That is a matter for future and separate consideration.

Mr. Laboringman: Mr. Farmer, in all that you have said you have not once even mentioned Credit Unions or Mutual Credit societies. I had been betting on you to help me out in my fight for a recognition of the principle of coöperation, but it looks as if you had deserted me.

Mr. Farmer: No, Mr. Laboringman, on the contrary, I will do anything in my power to help you or anyone work out the great saving principle of coöperation; but since I have been attending these talks two or three things have stuck in my crop and I could not get them out even if I tried, and one thing in particular applies especially to the agricultural societies, called credit unions.

Mutual credit societies or credit unions are organized to furnish capital for production; that is, it is commercial capital, or credit for commercial purposes, not for investment purposes at all. Not a single dollar of a credit union should ever be loaned upon real estate. Not a single dollar! Not a single cent!! Such a practice would literally destroy the principle upon which they are founded; mutual aid to assist in production, not investment. Don't you remember how Mr. Banker pounded that into us; and convinced us all, too? But more convincing than anything else as to this great economic truth, that not one single dollar of credit union money should ever be loaned upon land, is the history of them. We must not forget that they were organized to secure personal credit and to depart from that practice is a perversion of their purpose and just to that extent must result in failure.

The coöperative idea for personal credit was originated in Germany by Francis Frederick Schulze, a little before the middle of the nineteenth century. It passed over into Austria and Hungary in 1851, into Italy in 1860, into Belgium in 1864, into France in 1883, into Scotland in 1889, and into Ireland in 1894. These dates are given to show the order of advance and the recentness of the movement in some parts of Europe. The first German association was formed in 1849 by Frederick William Raiffeisen. Herr Schulze did not get his started until the following year.

Herr Raiffeisen was poorly educated but deeply imbued with religious feelings. He lived among peasants in a sparsely settled and impoverished locality, and his object was to help the lowest classes. The associations which grew up under his guiding hand were mutual societies confined to small farming districts. The thought of profit was discarded and they were

managed by the gratuitous services of their members. Herr Schulze was a talented writer and speaker, and when he took up his life work was holding a judicial post in his native town of Delitzsche. His philanthropy, although intense, leaned to the practical side. He believed in paid services and fair returns for money. The associations formed under his leadership were located mainly in towns. They were managed by salaried officers, and membership was dependent upon the purchase of shares on which dividends were allowed. But both kinds were founded upon the fundamental principle of combining persons together and using the credit created by their united guaranty for providing funds for members who might wish to borrow.

In the early days the mutual credit associations were formed simply by articles of agreement in the nature of a partnership contract, and members were jointly and severally liable without limit for all the loans that were made. In course of time, when the Government began to take official recognition of the associations, some of the followers of Schulze favored a limit to this liability. Hence the mark of distinction became clearly defined between "Raiffeisenism" and the "Schulze-Delitzsche" propaganda. The German law, as it now stands, requires mutual banks to have share capital, but allows them to be organized upon the limited or unlimited liability plan. All true Raiffeisen banks, in order to preserve their character, have shares of only a nominal value and devote dividends to educational or charitable purposes. In Germany these local banks are grouped under central banks, which in turn are linked together by two general central banks, and their funds are made to move freely for agriculture throughout the Empire. The centralization of the system has also been inaugurated in France.

Personal credit in agricultural Europe is obtained usually by means of the coöperative credit associations. They are also used by artisans and small tradespeople in the towns and cities. These associations are in fact the only banks which the farmers will patronize for short-time loans in the nations where they abound in the greatest numbers. With their aid poverty and usury have been banished, sterile fields have been made fertile, production has been increased, and agriculture and agricultural science raised to the highest point. Their educational influence is no less marked. They have taught the farmers the uses of credit as well as of cash, given them a commercial instinct and business knowledge, and stimulated them to

associated action. They have encouraged thrift and saving, created a feeling of independence and self-reliance, and even elevated their moral tone.

The picture can hardly be overdrawn. Every traveler who visits the places where these little associations exist speaks in glowing phrases of the prosperity and contentment that prevail. They are organized on such simple lines that their management requires only ordinary intelligence. Failures have rarely occurred. In France and other countries they hold a record of having never lost a cent. The working capital and number of members of individual associations are so small as to be insignificant, yet they do one-third of the banking business of Italy; while the combined amount of their operations in Germany equal that of the commercial banks. But the mutual banks, both in town and country, are looked upon with favor in the financial world because they keep millions of dollars of petty sums in circulation which, except for them, would be idle and hoarded. They are, in fact, feeders for the commercial banking system.

In 1909 in Belgium 458 banks, with a membership of 25,762, had outstanding (roughly calculated) $4,000,000 of loans; in France ninety-six regional banks did upward of $25,000,000 of business on a capital of $2,983,646, while the 2,983 local banks, with a membership of 133,382 farmers, had $2,622,241 of capital and a record of over $20,500,000 of operations. There were nearly 6,000 banks in Austria. The membership was over 725,666, and the loans ran over $86,500,000. In Italy 690 banks that furnished reports had a working capital of over $170,091,946. In Germany there is one bank for every 1,600 of the population, and the total business done was over $4,888,000,000. In one Province there is a bank for every 3,000 acres of land; and so on for all other nations that have coöperative credit institutions. The rate of interest charged was one or two points lower than in commercial circles, yet these banks, with a few exceptions, made a fair profit on the turnover of their capital. In some instances it ran as high as 5 per cent and 7 per cent.

With this striking array of figures to show its stability and usefulness, it is remarkable that the farmers of the United States have been so slow to adopt this system of banking for temporary loans on personal security. It has existed in Canada for twenty-two years. In the Province of Quebec there are a number of mutual banks that have loaned hundreds of thousands of dollars. But Massachusetts is the only State in our country that has made an

attempt to encourage its introduction. It already has a law allowing the incorporation of credit unions. It was passed in 1909 after a careful study of European legislation, and furnishes an excellent example for the other States. The first concern to start under this law was the Myrick Credit Union at Springfield. In twelve months it had one hundred and five members, a capital of $3,000 and $10,000 of outstanding loans. Interest rates have been low, yet it paid over 6 per cent dividends on its capital. Thirteen new unions were formed in 1911 and have $25,000 of capital. A pamphlet issued by the State bank commissioner gives a comprehensive description of the fundamental principles that a mutual association for personal credit must adhere to. I cannot do better than to quote from it. They are as follows:

First: The association shall be organized on coöperative lines. As the members may be either borrowers or lenders, according to circumstances, its affairs must be conducted in such a way as to give fair and equitable treatment to both classes.

Second: The association shall be one of persons and not of shares. To this end each shareholder has one vote, irrespective of the number of shares he holds. Furthermore, a limit is set to the number of shares or the amount of deposit which a member may have in the association, in order that no one person may have a too dominating influence or be able to damage the association by suddenly withdrawing large sums.

Third: Loans shall be made only for the purposes which promise to result in a saving or a profit to the borrower. Each applicant for a loan must state the object for which he desires to borrow, in order that the credit committee, which passes on all loans, may rigidly exclude thriftless and improvident borrowing.

Fourth: As loans are made only to members and as any member may become a borrower, care must be taken to admit to membership only men and women of honesty and industry.

Fifth: As personal knowledge of the character of the members is essential, the membership in an association must be restricted to citizens of a small community, or of a small subdivision of a large city, or to a small group or organization of individuals.

Sixth: Every provision must be made to bring the association within the reach of the humblest citizen. The par value of the shares should be small (it averages about $5), and they should be payable in very small installments. Loans of very small amounts should be made and should be repayable by installments if desired.

Seventh: In making loans it should be recognized that character and industry are the basis of credit, and a loan may be made to a member who has not adequate security to pledge for it, provided he can obtain the guaranty of one or more other members, but no member is obliged to guarantee the loan of another member unless he desires to do so.

Eighth: Borrowers must carry out to the letter the conditions of repayment and agreed upon at the time their loans are made. Prompt payment of obligations is a fundamental requirement of these associations.

It should not be inferred from the great success and good accomplished that the coöperative credit associations could be taken as models in their entirety or that the establishment of such societies would act as an immediate panacea for all the troubles that beset agriculture in America. They seem to be adapted only for localities where the population is fixed and settled and welded together in close relation by community of interests.

Let me call your attention to what the Government report says in support of this position. The Germans have had their sad experiences and it would be the height of folly for us to travel over the same road again, only to learn by our own experience what we can now know without paying for it.

Too much emphasis cannot be laid on the fact that these small credit societies are not organized for making loans on real estate. The deposits and funds received by them are withdrawable on short notice. This privilege must be allowed in order to attract the capital needed. But as loans to members yield interest considerably under the ordinary market rate, the only way they have of paying for the use of this capital is by making quick and numerous turnovers with it. In Germany they have taken long-time mortgages, but the practice is strongly denounced by all students who have investigated into the cause of the remarkable success of the Raiffeisen and Schulze-Delitzsche systems as contrary to the theory on which they are founded. Credit is indispensable to every business. It is the means whereby $1 is made to do the work of $50, as the saying goes, but its classifications

and limitations cannot be ignored without danger. A loan to acquire something merely for consumption is not tolerated, no matter what may be the security offered. The loan must be strictly for a creative purpose. This is the first cardinal principle, and so rigorously is it adhered to in Europe that the credit societies invite to their circle only those who are producers of wealth.

Another principle is that personal and real credit are inherently and irreconcilably separate and distinct, and each must have specially adapted institutions for carrying on its operations. This is only a reaffirmation of what we have already decided over and over again.

The recognition and observance of these principles have done much to prevent thriftless debt among farmers, and are undoubtedly the reasons why the land credit is so thoroughly organized on the European Continent. A loan on chattel or character security should naturally be for a short time and for temporary purposes, for such security is perishable and subject to loss or change. The long-time loan requires an unchanging and permanent security, and the only thing possessing this quality is mother earth herself. But when capital is once sunk in land it becomes fixed and can never be recovered except from the income created thereby or the amortization sums paid in representation of that income. A debtor should not be called upon to pay back the loan in a lump or in advance of his receipts from the land. To do so leads only to further borrowing, usually on more burdensome terms, when the mortgage expires. On the other hand, a private individual cannot be expected to take his money back in driblets or wait long years for its complete return. So private lending on real estate is a theoretical and also a practical wrong. The proof of this lies in vast numbers of foreclosures and the excessive interest rates of farm mortgages in western United States, where they are largely held by persons. The smallness of the annual payments and the length of an ordinary loan in Europe are shown in the tables of the Crédit Foncier, which have been given already. A glance at them makes it apparent that amortization, the basic principle of a land loan, can be brought into full play only by the aid of large corporations or associations with charters perpetual or lasting a long time.

MR. BANKER: It does not seem to me, under the circumstances, as though we could treat the Mutual Credit Associations or Credit Unions wisely.

Indeed, I am of the opinion that legislation by us would interfere with and retard the progress of such associations.

UNCLE SAM: Mr. Laboringman has waited patiently to have his say about coöperation.

MR. LABORINGMAN: Yes, I have been biding my time, for I have something to say that ought to interest all of you, as a possibility at least, and if it is reasonable to do so, I hope that you will include some sympathetic laws by way of encouragement.

England was the birthplace of modern industrialism, as you all know. There, too, was started the great movement of modern coöperation. Small and insignificant was the beginning. In 1844 the Rochdale pioneers put all their little savings into the pot, and they amounted to only $140. With this they started a store. By 1845 they had seventy-four members and $900 of capital, and did $3,500 worth of business, by keeping their little business open only two evenings a week. They were an object of derision and all sorts of jibes.

S.P. Orth describes the situation as follows: Last year the British Government made a careful and complete report on coöperation in England, and found more than three million persons in the membership of the various societies, and over three times that number under the immediate sphere of coöperative influence. That means that one person in every five in the United Kingdom is now interested or influenced by this vast association of producers and consumers. During the past ten years, the increase of membership has been 55 per cent and the trade 75 per cent.

The productive and distributive business alone amounts to $640,000,000. The retail societies have $200,000,000 of capital. "Last year the sales of these retail societies totaled more than $352,000,000, or about $142.50 per member." It is most significant that the societies, in their own mills and factories, produced nearly 50 per cent of these goods themselves; that is, production and distribution are going hand in hand. They began by making boots and butter; now they make cloth, iron and all sorts of things.

The average profits for the last ten years have been nearly 15 per cent and there is now a serious discussion whether the cost of articles to the customer should not be lowered.

In some of the districts, notably some of the mining districts, the coöperative stores have a virtual monopoly, and their system of banking or keeping the surplus credits for the customer is a great boon. But in other very poor districts, keeping up the prices has worked some hardship. It is now proposed by some of the stronger societies to open special stores in the poorer districts and cut the prices.

All business, until a few years ago, was done on a strictly cash basis, but recently the insidious credit system has crept in, and it may lead to serious consequences.

Last year, out of its surplus, the Union of Coöperative Societies, a federation of all English coöperativists, voted $230,000 to charity, $450,000 to education, i.e., libraries, lectures, and concerts, and $50,000 to propaganda.

The early retail societies found it hard to get good terms from wholesale houses, owing to the enmity of the private merchants. The law did not allow them to amalgamate and start a wholesale business of their own. But in 1862 the law was changed, and at once two coöperative wholesale societies were organized, the English and the Scotch. They are the models for the world. The two societies are virtually one, although maintaining different officers, rules, and stockholders. In fact, the wholesale societies are the federation of the retail and productive societies of England and Scotland. The English society requires the constituent societies to hold one $25 share for every five of its membership; the Scotch society one $5 share for every one of its members: i. e., an English coöperative shoe factory of two hundred members wishing to join the English Wholesale Society would take forty $25 shares, or two hundred $5 shares in the Scotch Society.

These Wholesale Societies are the grand Clearing House of nearly all the coöperative shops and factories of the kingdom, and the suppliers of all the coöperative retail stores.

And they are monumental institutions. In 1907 they had a membership of more than 2,615,000, a capital of more than $169,000,000, a surplus of $85,000,000. Their annual sales amount to more than $600,000,000, and their profits more than $60,000,000.

The English Society is the larger. It is a corporation that not only engages in wholesale trade but is a manufacturer, banker, importer; it packs meat, cures bacon, refines lard, binds books, grows tea, blends coffee, founders iron; it manufactures flour, butter, biscuit, sugar, pickles, cocoa, tobacco, candles, glycerine, starch, saddlery, furniture, clothing, corsets, underwear, brushes, crockery, tinplate, woolens, carpets and almost everything else that an average British home may need. It deals in coal, apricots, and wheat; has offices in New York, Toronto, Rouen, France; Denia, Spain; Copenhagen and Guthenberg, Sweden; has twenty-seven creameries in Ireland, tallow and oil works in Sydney, Australia; a "bacon factory" in Denmark, a tea plantation in Ceylon, and fruit farms in Shropshire and Hereford. Besides, it owns four steamers for the trade between Rouen and Manchester.

Its main offices on Balloon Street, Manchester, are enormous and palatial. Together with warehouses and stores, they cover a number of city blocks. Their offices in London compare favorably with any private establishment, and for efficiency they are second to none. Nearly 20,000 men are employed by this society. Some of its factories are large, e, g., the Leicester Shoe Works employ 1,446 men; the Irlam Soap Works, 702 men; Long Sight Printing Works, 941 men; the Middleton Pickle Works, 564, etc.

The chief offices of the Scotch Society are on Morrison Street, Glasgow. They manufacture umbrellas, tweeds, paislies, oatmeal, Aberdeen finnan-haddie, and other characteristic Scotch merchandise. Its capital is about $17,000,000.

Germany and Belgium, too, are furnishing successful coöperative associations. Mr. Orth describes them so well that I want to read what he says.

There are about two thousand of the coöperative supply societies among the farmers, with nearly one hundred and fifty thousand members. There are also about three thousand coöperative dairies, with two hundred and thirty thousand members, and one hundred and sixty coöperative wine cellars and two hundred and fifty-five coöperative warehouses and grain elevators.

It was natural that retail stores should be established next, on a coöperative basis. For some reason they did not thrive until about ten years ago. At that time a split occurred in the coöperative ranks, due to politics, and two federations or unions of Coöperative Societies were organized; the General

Union or Liberal Union, and the Central Union or Socialist Union. The former is remaining stationary, the latter growing by leaps and bounds.

In every large city the coöperative retail society has a central plant. It usually includes a warehouse and bakery. The one located at Berlin is a good type. It is situated at Lichtenberg, a suburb. Here you see splendid buildings, in good architectural style, fitted up in the most modern manner; telephones to all departments, electricity, central heating plant, a uniform clock system for keeping time, etc. The whole plant cost $1,750,000. The great warehouse is full of groceries.

Although only a year in the buildings, they are already overtaxed and additions are planned. This central supply house looks after the sixty coöperative grocery stores in Berlin. It has a string of fine delivery autos. Any one can become a member by paying fifty pfennigs (12-1/2c.) admission, and forty marks ($10) a year. This, however, is taken out of his dividends.

The society also owns a fine row of apartment houses, which are leased to members at a low rental. The goods used are bought in the open market, or are supplied by the German Coöperative Wholesale Society of Hamburg. There is very little productive coöperation in Germany. There are 2,311 retail societies, more than two million members, and more than $5,000,000 in their reserve fund.

The Wholesale Society had a hard time of it until the spurt in favor of coöperation began a decade ago. Now it thrives, doing about $12,000,000 business a year.

There are a great many local coöperative building societies, with two hundred thousand members, and many other evidences that the spirit of coöperation is abroad in the land. In 1908 there were 4,105,594 persons actively interested in one form or another of German coöperation. In 1911 the number had increased to nearly five million.

In the little land of Belgium coöperation is at its best; not at its greatest showiness, nor maximum figures. But here, in this land of congested population, of illiteracy, of low wages and depressing conditions, the abject workingmen have taken hold of their own problems, asking neither

sympathy nor favor, and have worked out a scheme of industrial coöperation that is a genuine achievement.

In 1873 bread was very dear in Ghent. Times were very hard. So high was the price of flour that many workingmen went hungry. A few of these workers united to do what they could to supply loaves at cheaper rates. They had $17 capital. They found an old cellar with an old oven in it, hired an old baker, and peddled the bread in baskets. Today there is a fine workingmen's clubhouse in Ghent, called "Vooruit." Across the façade stands the motto, "The Brotherhood of Workingmen Means Peace on Earth." This is the outgrowth of the cellar bakeshop. "Vooruit" stands for everything that is superb in coöperation. Here is not only a large lecture hall and café and offices of the unions; here is the studio of Van Biesbroeck, the workman-sculptor; here is a library, and in the neighborhood are stores, ware-rooms and shops. A few years ago it was found that many women were ruining their health by the long hours of service at the looms. "Vooruit" started a coöperative weaving shed, where the women work eight and three-quarter hours a day.

The bakery now does almost $1,000,000 worth of business a year; it makes 110,000 loaves a week. The eight thousand members of "Vooruit" have six drug stores, coal yards, many grocery stores and meat shops, a dry goods store, and other industries. All done by workmen in thirty years, workmen who were never highly paid and who trained themselves to do these things.

They meet every year, the eight thousand members, and vote on the price of bread. Sometimes it is one cent higher than the commercial rate, but their dividends more than cover this.

In Brussels is the famous "Maison du Peuple," the House of the People. It, too, began with a small bakery, employing two men and turning out five hundred and fifty-two loaves the first week. Today the "Maison" has twenty-five thousand members, two great bakeries, six warehouses, four butcher shops, twenty-five grocery stores, and numerous shops where various articles are made.

This "House," standing on Rue Joseph Stephen, cost $375,000 and was paid for by the Brussels workingmen out of their coöperative funds. The café, seating eight hundred people, is an animated place; every one seems content. The office of the savings bank is doing a rushing business, women

and children bringing in the savings of the family for the week; the committee rooms are full of workmen planning some new enterprise. In the evening the lecture hall or theatre is crowded, the two thousand five hundred seats all taken, to see a play produced by an amateur company, all members of the "Maison."

All this, and more, in the form of coöperation. In 1907-8 the "Maison" made a profit of $134,000; of this about three-quarters was distributed as personal dividends to shareholders. The rest was spent on social benefits and a reserve fund.

In Belgium, then, you find all the coöperative activities united in each city under one general management. It includes groceries and clothing, medical aid, insurance, savings bank, clubhouse privileges, lectures, libraries, entertainments.

There are one hundred, and sixty-one distributive societies with 119,581 members; sixteen productive societies with 1,583 members. The Productive Societies include weaving, printing, cabinetmaking, tobacco and cigars, hardware and bakery. The total coöperative business is $6,800,000 a year, a large amount when you consider the diminutive size of the country and the poverty of the people.

The fact that in all of these countries coöperation is growing at a rate of increase of 20 per cent to 40 per cent proves that a need for it exists.

Now, Uncle Sam, we are starting these coöperative stores here, and the question with us and the one we are constantly asking, is what protection are we going to have from the trusts and monopolies which can, if permitted to do so, destroy us with low prices at any point, while they rob the people at some other point, to make up the losses, while ruining us. What we must have is legislation, to protect us, and if we can get it into this bill, I want it.

UNCLE SAM: I do not see how any phase of what you have said can be governed by a financial and banking bill. It is true, that incidentally you may do a banking business in your coöperative societies. So far as you do, you ought to conform your practices with whatever we may decide upon in the way of banking laws. So far as you buy and sell, or manufacture, you are engaged in production and commerce, and not in the banking business.

Under the circumstances, you are entitled to an answer, although a little aside from the subject in hand. Let me tell you, however, right here, and you may set it down as settled. That, if you start any coöperative associations for the production or distribution of goods of any kind, you shall have a square deal. I have been waiting patiently, but getting ready all the while, to put some of the managers of these monopolies in jail. You can take my word for it. You are going to have equal opportunities under the operation of just laws, if there is any way of giving them to you. And if your Uncle Samuel understands the situation, I think there is. Unfair chances, special privileges and monopolies cannot naturally and properly have any place in a country where all men are born free and equal under the law. The fact is, the law is sufficient now, but there is not a public sentiment strong enough to compel the courts to put men in jail for robbing their fellows through the forms of law; even if it is known that the laws by which they rob their fellows or are permitted or enabled to rob their fellows were passed expressly for that purpose. That is the fault of the times through which we have just passed. The time is now at hand when all this is to be reversed. The people have come to realize and appreciate the fact that it is ethically, morally, and justly speaking, as wrong to rob a man through the forms of law, as for the bully to fell a man in the streets and pick his pockets. The people are forming new ideals, and the judges are getting new ideas. These new ideals, and these new ideas, will soon handcuff and incarcerate the business culprits, the business bullies, just as the ancient ideals of the people, and the old ideas of the judges have, in the past, put the physical bully and the material thief in the dark, dank dungeon. I have altogether too many men, who are always inquiring how near they can go to the jail door and not get in. You mark my word, I am going to push some of them in very soon now. What I want is a nation of men who are imbued with a sense of justice and fair play in business; and who will regard business relations as moral obligations, and paramount to the technical letter of the law. When that day comes, one banker will not want his fellow-bankers to carry his reserves for him. The principle is the same, whatever the relation of men may be; therefore, you can take my word for it, that all those who want to coöperate to secure a greater degree of the profits of their labor, a greater degree of justice among their fellows, will find Uncle Samuel coöperating with them, in the preparation and execution of those laws which will make for a juster Government. Since this Government

springs from the people, and belongs to the people, no part of the people, certainly no small part of the people, should be able to take unfair advantages and undue profits, by any legalized special privileges, or by the power of monopoly. I say to you now, that these should be, and will be destroyed, and that all men shall be equal before and under the law. This is the predestined purpose of this Government, and it will never come into its fulfillment until you learn, my boys, that you are your brother's keepers.

MR. MERCHANT: Uncle Sam, that's pretty good preaching; but how are you going to apply it to this banking question?

UNCLE SAM: Did not Mr. Laboringman just appeal to me to find out whether coöperative societies were going to have a fair show? I have just told him "Yes," and I intend they shall have it, and I know of no better place to begin than here and now. I am going to construct two or three pieces of machinery —a guillotine for the monopolies, and an electric chair for special privileges, and concoct a barrel of anesthetics for stealthy, statutory stealing.

MR. LAWYER: But all this kind of legislation must come under the sphere of the Sherman Anti-Trust Law. I think no one will contend that any aspect of coöperation, as represented by Mr. Laboringman, should be incorporated in our banking bill.

MR. BANKER: I agree with both Mr. Farmer and Mr. Lawyer, that we cannot make any provision for it at this stage of its development in this country; but who shall prophesy about a movement that has spread over the world, as this has, and is now growing at such a rapid rate? It is estimated that at least ten million in Great Britain are interested in it; more than five million in Germany, and that the outstanding coöperative investments in Continental Europe must exceed $5,000,000,000 by this time. Of course, these figures mean some banking sooner or later, in this country, when the movement once gets under way.

MR. FARMER: Yes, I agree to that, but any attempt on our part at this time to legislate in advance, would do more harm than good.

MR. LABORINGMAN: That is probably true, as it might interfere, as you say, with the movement. All I ask then, is that we have a fair field, so that we can develop along natural lines, and be protected in the exercise of our

mutual coöperative rights. I thank you, gentlemen, for giving me, and my particular cause, so much of your time.

UNCLE SAM: Mr. Laboringman, your cause is their cause. Your cause is my cause. Your cause is our cause. Your cause is the cause of humanity. The principles upon which your cause rests, pushed to their logical conclusion, will secure social and industrial justice. There are many who have taken millions, yes, hundreds of millions, through the forms of law, but without any ethical right whatever. From them these millions will be taken away in time, through the forms of law; through the power of taxation by progressive income and inheritance taxes, and the injustice of today will be righted by the justice of tomorrow.

MR. BANKER: Uncle Sam, you have suggested a programme outside of banking legislation; but I must confess incidental to the cause presented by Mr. Laboringman.

MR. FARMER: Gentlemen, we have stayed longer tonight than on any previous night, and I must go now. So, good night.

UNCLE SAM: Mr. Farmer has forced an adjournment.

THIRTEENTH NIGHT

THE CLEARING HOUSE

UNCLE SAM: We are on the very last lap tonight, as I understand the situation. We have had the Standard of Value, Money, Currency, Exchange, Value, Price, Property, Wealth, Credit, Reserves, the Bank; and now comes the settlement of the claims against the bank in the shape of checks, drafts and bills of exchange.

When we finish this conversation we can, I hope, begin to put things together, that is, make use of our material.

MR. BANKER: Uncle Sam is right, we shall be ready to do some constructing when we have disposed of the Clearing House, which is destined to play a gigantic part in the future of American banking. This is true because the

Clearing House is bound to become the machinery by which all American banks are to coöperate and protect themselves through their combined strength; and it will be a splendid exhibition of what true coöperation can accomplish.

The character and origin then of the Clearing House, its present and prospective function, must be carefully studied by us, if this assumption is correct.

MR. MERCHANT: The character of the Clearing House, or the principle upon which it works, is simple enough; although its operations are vast, and its achievements in times of financial stress have been most striking, even though not always satisfactory.

The principle of clearing is, as I have just said, simple indeed. If I have a claim against Mr. Manufacturer, and he has an equal claim against me, we clear them by exchanging our claims with each other. If one of you gentlemen should sue another for one hundred dollars, and the other should make a defense by pleading an offset of one hundred dollars, and the court should allow both claims, you would clear them through the court, the one offsetting the other; that is all there is of the principal involved.

MR. BANKER: Mr. Merchant, you have put this matter more simply than any book has ever done. Indeed, I had not reduced the transaction to such simple terms. To put it in the form of a definition, as you stated, it would read this way: "To offset one claim against another, and pay the balance, if any, is clearing them."

I had thought that it would be my particular task to explain this transaction of clearing, and after a good deal of meditation I had worked out a thought which I am sure is next best, after your definition; and it will take us one step nearer to the Clearing House, without getting into any of its complexities. My illustration is this: if there were but one bank in a town, and all the people did their business through this single bank, by depositing their money and checks, and then paid all their bills, with checks on the bank, apart from any outside business, every debt in the town would be paid by check, and there would be no need of any money at all as the claims and debts would be exactly equal, and would always cancel each other to a cent.

MR. LAWYER: What you have said about one bank in a town is equally true of two, three or four, or any number of banks, if you assume that every person in town does his entire business through the banks, providing, of course, that the banks get together, and offset all the checks and drafts they receive during the day. There might be something to pay from day to day for the time being, but all would be adjusted in the end, without any variation or difference.

MR. BANKER: Precisely so, but when you get those bankers together, for the purpose of trading checks, you have created a Clearing House.

Stephen Colwell says: "Clearing is beyond all question, the simplest, the most economical, and when applicable, the most efficient of all modes of paying debts; it is precisely analogous to balancing accounts."

James G. Cannon, author of the leading work upon the history of American Clearing Houses, describes a Clearing House "as an office, established by the banks of a city, where their representatives meet daily to exchange drafts and checks, and adjust balances." Again, "as a device to simplify and facilitate the daily exchanges of items, checks, drafts and bills of exchange, and the settlement of balances among the banks, and a medium for muted action upon all questions affecting their mutual welfare."

You would think that the Clearing House was such a simple matter, and such a great advantage that a Clearing House would have been thought of, and put into operation as soon as banks got under way, but not so. Their development and establishment, as we know them today, has been slow indeed, and the early history of their origin most interesting.

Jevons says: "About the year 1775, a few of the London bankers hired a room where their clerks could meet to exchange notes and bills, and settle their mutual debts. The society was of the nature of a strictly private club; the public knowing nothing about it, and the transactions being conducted in perfect secrecy. Mr. Gilbart tells us that even in this form it was regarded as a questionable innovation, and some of the principal bankers refused to have anything to do with it. By degrees, however, the convenience of the arrangement made itself apparent, more bankers were admitted to the Society, and a distinct committee and set of rules were formed for its management. Although it remains to the present day a private and voluntary association, unchartered, and in fact unknown to the law, the Clearing

House has steadily grown in importance, and in the publicity of its proceedings.

"Several important extensions of the clearing work have been made in the last twenty-five years. After the rise of the London joint stock banks, subsequent to 1833, they were for a long time refused admittance to the Clearing House; but in June, 1854, they were at last allowed to join the Association. The Bank of England long remained entirely outside of the confederation, but more recently, it has become a member." (Written in 1875.)

The establishment of Clearing Houses in English cities, outside of London, did not take place until a century, almost, after that in London went into operation, or as late as 1872, which was just five years short of a century later.

As early as 1831 Albert Gallatin presented a plan for a Clearing House in New York, and so perfectly outlined the scheme, finally adopted, that I want to read it to you. And I want to impress upon you the fact that Gallatin was one of the very ablest economists that we have ever produced.

"There is a measure which though belonging to the administration of banks, rather than to legal enactment, is suggested on account of its great importance. Few regulations would be more useful in preventing dangerous expansion of discounts and issues on the part of the city banks, than a regular exchange of notes and checks, and an actual daily or semi-weekly payment of the balances. It must be recollected that it is by this process alone that a bank of the United States has ever acted or been supposed to act as a regulator of the currency. Its action would not in that respect be wanted in any city, the banks of which would, by adopting the process, regulate themselves. It is one of the principal ingredients of the system of the banks of Scotland. The bankers of London, by the daily exchange of drafts at the Clearing House, reduce the ultimate balance to a very small sum; and that balance is immediately paid in notes of the Bank of England. The want of a similar arrangement among the banks of this city produces relaxation, favors improper expansion, and is attended with serious inconvenience. The principal difficulty in the way of an arrangement for that purpose is the want of a common medium other than specie for effecting the payment of

balances. Those are daily fluctuating; and a perpetual drawing and redrawing of specie from and into the banks is unpopular and inconvenient.

"In order to remedy this it has been suggested that a general cash office might be established, in which each bank should place a sum in specie, proportionate to its capital, which would be carried to its credit in the books of the office. Each bank would be daily debited, or credited, in those books for the balance of its account with all the other banks. Each bank might, at any time, draw for specie on the office for the excess of its credit, beyond its quota; and each bank should be obliged to replenish its quota whenever it was diminished one half, or in any other proportion agreed on. It may be that some similar arrangement might be made in every other county, or larger convenient district of the State. It would not be necessary to establish then a general cash office. Each of the banks of Scotland has an agent at Edinburgh, and the balances are there settled twice a week, and paid generally by drafts on London. In the same manner the balances due by the banks in each district might be paid by draft on New York, or any other place agreed on."

James C. Hallock, the highest authority in this country upon Clearing House operations, has so succinctly stated how the checks were disposed of, before the Clearing House was established, that I am going to read that to you, and show you two diagrams, which we will keep on file for future reference. "In 1853, the Banks of New York City organized a Clearing House, the first in America; until then they had done business without one. The method had been laborious.

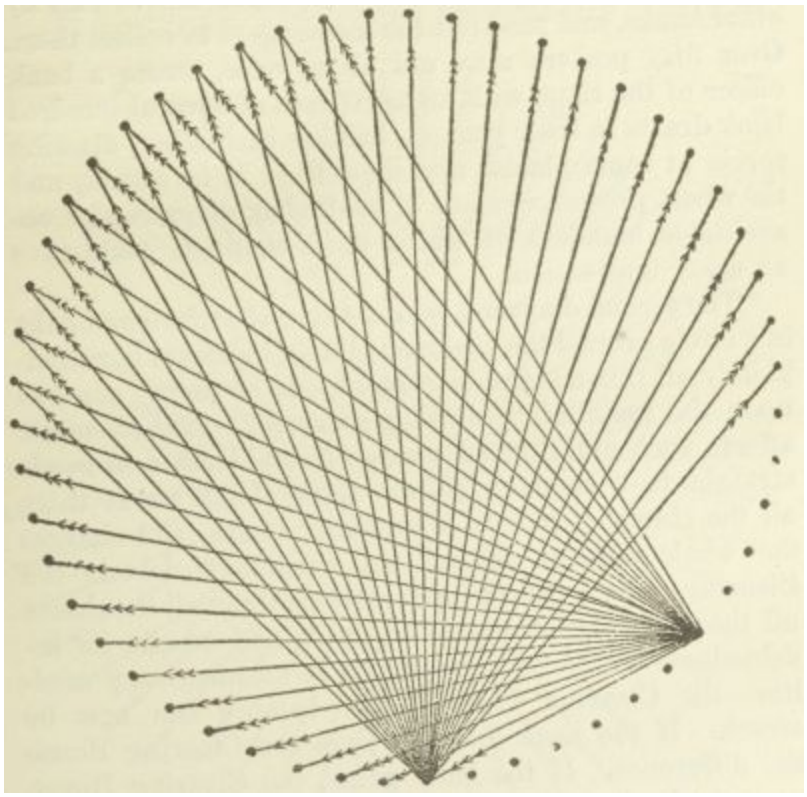
"Each of the fifty-two banks had daily received over its counter, or by mail, checks on every other bank in town. To collect them the banks had opened deposit accounts with one another. Each had become a depositor in fifty-one city banks. Each also had had the others as depositors and kept fifty-one accounts with them. The pass books used had been of the ordinary form as 'Merchants' Bank, in account with Chatham Bank.'

"According to the common usage of depositors, each bank would have sent messengers to fifty-one banks daily, and each would have had fifty-one messengers come to its own counter from the other banks. They had done a little better than that. The Chatham Bank, for instance, would have checks on the Merchants' Bank. It would list them on a deposit slip, charge the

Merchants' Bank with the amount in its pass book, and place the checks in the book which the messenger would now carry to the Merchants' Bank, and deliver to its Receiving Teller. The latter would remove the checks, and having some on the Chatham Bank with list attached, he would credit his bank with the amount in the pass book, place the package in it and hand it back, thus refilled to the messenger.

"This exchange of checks by two banks at the counter of one was a rudimentary clearing which, like all bank clearings, saved labor, time and trouble. To deposit these checks in the customary manner would have required two messengers and two pass books. By this clearing arrangement one messenger and one pass book sufficed. Perceiving the sensibleness of this saving, the New York banks had for many years tacitly agreed that each should send messengers to one-half of the banks for six months, and the other half for the next six months. They had thus reduced the number of banks to be visited daily by each from fifty-one to twenty-six banks, and accordingly reduced the number of pass books in use by each.

"The accompanying diagram representing the banks arranged in a circle, with two of them sending messages to twenty-six each, indicates how toilsome the exchange of checks still was, up to the formation of the New York Clearing House, which commenced operations on Oct. 11, 1853; though only two banks are represented as sending, in fact, all were really sending, or being sent to; for every bank sent to all others that did not send to it.



WITHOUT A CLEARING HOUSE IN NEW YORK.
Diagram showing a Bank Messenger's 26 Trips to Exchange Checks with other Banks.

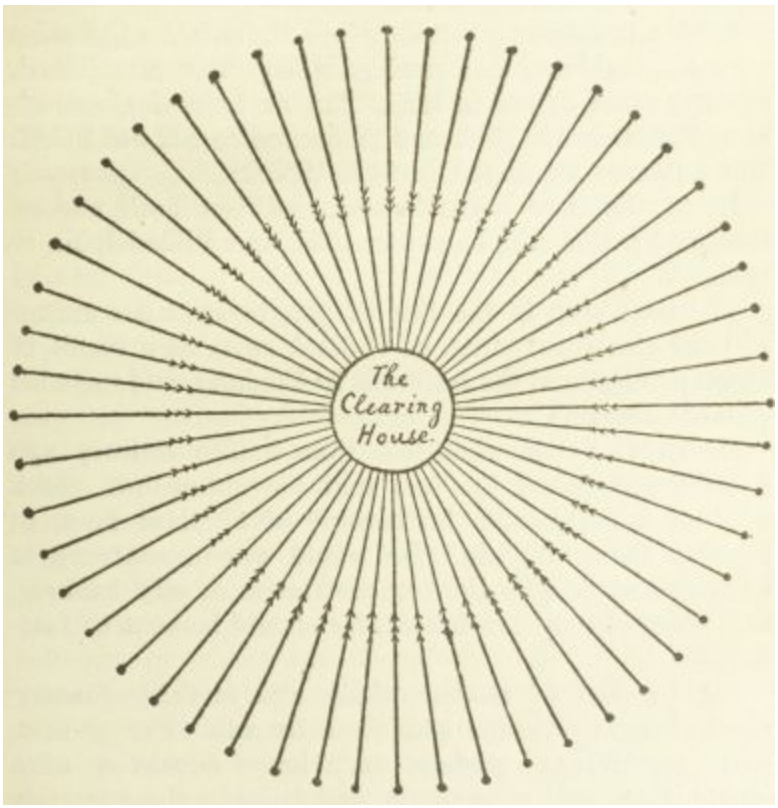
"When two banks exchanged checks the amounts were almost always unequal, leaving a balance for one to pay and the other to receive. Every day every bank, if they had settled daily, would have had fifty-one balances to pay, or receive. They were payable in coin. Instead of attempting the daily adjustment of accounts, which would have consumed hours, and caused much annoyance, it had become a tacit agreement that a weekly settlement of balances should be made after the exchange of Friday morning. On settlement day, the cashier of each bank would draw checks for every debt due to him by other banks, and send out the messengers to collect them. Over fifty porters were out all at once, wrote a bank officer of the time, with an aggregate of several hundred bank drafts in their pockets, balking each other, drawing specie at some places, and depositing it in others, and the whole process was one of confusion, disputes and unavoidable blunders of which no description could give an exact impression.

"The second diagram, representing the fifty-two banks in a circle around the Clearing House, indicates how completely all this misdirection and waste of energy stopped upon the installation of that marvelous method which affects such amazing economy. Every bank now sends straight to a common point. Every bank sends there all the checks it has on all the city banks, and charges the whole amount against an imaginary debtor—the Clearing House. Every bank receives there all the checks all the other city banks have on it, and admits its indebtedness for the whole amount to an imaginary creditor—the Clearing House. The balance can now be struck. If the bank loses, it pays the Clearing House the difference. If the bank gains, the Clearing House pays the bank; and there is the end of it, reached by the shortest path with the greatest ease and quickness.

"The principal results may be summarized:

"The Clearing House saved every bank in New York City on the average twenty-six trips daily to exchange checks with other banks. It abolished sending to other banks for this purpose. It substituted one trip to the Clearing House—an economy of 96½ per cent.

"The Clearing House saved every bank in New York the payment or receipt, mostly in coin, of fifty balances on settlement day (Friday). It abolished settling at the counter of banks, except for checks, sent through the clearing and returned 'not good.' It substituted one payment, or receipt, of a net balance to or from the Clearing House, an economy of 98 per cent.



WITH A CLEARING HOUSE IN NEW YORK.
Diagram showing Single Trips to Exchange Checks with all other Banks in the City.

"The Clearing House saved the banks of New York all the drudgery, irritation and anxiety which had made daily settlements impracticable. It abolished the weekly settlement; it substituted daily settlements to the Clearing House—an economy of considerable importance.

"The Clearing House saved all the banks of New York the trouble of keeping accounts with one another. It abolished accounts of city banks with city banks—closed 2,652 accounts. It substituted one account for each bank with the Clearing House—an economy of 98 per cent.

"These savings, not to mention others, proved beyond dispute, that clearing checks economizes."

It was twenty-two years before Gallatin's suggestion was adopted, and a Clearing House was established, which, as stated, was in 1853. The first clearing was effected on Oct. 11, 1853, and amounted to $22,648,109.87. The balances amounted to $1,290,522.28.

Boston followed in the footsteps of New York, and established a Clearing House in 1856, and Philadelphia in 1858.

The next step in the line of progress, in the matter of bank clearings, came, as Hallock says, as a result of cheap postage and the railroads in England, and included country checks.

He says: "Somewhat less than half a century ago London recognized the fact that the out-of-town check was an indispensable instrument of civilized man, at least in Great Britain. He would use it, contrary to custom, and despite the remonstrances of city bankers, who thought only London drafts should be sent to London.

"A product of modern times and method, country checks came to London with the railroads. Few at first, when the average postage on a letter consisting of a single sheet, was nine pence, and another sheet, or any enclosure, however small, doubled the rate, making the postage on a letter enclosing a check thirty-six cents, on the average. With penny postage established in 1840, regulating the rate on a letter by its weight (one penny per half ounce), without regard to the number of sheets, or enclosures, country checks began to stream into London.

"In 1858 the city bankers, perceiving their inability to suppress, or exclude them, decided to adopt the suggestion of some country bankers, and collect English and Welsh checks through the Clearing House.

"The idea originated in the spring of 1858 with a young country banker, William Gillett, the son and grandson of country bankers. He visited the provincial banks, and interested them in the project. When prepared to carry it out the country bankers met in London on Sept. 29th of that year, and communicated the plan to the London clearing banks to obtain their support. The Londoners opposed it; they suggested doubt as to the utility and feasibility of any change in existing systems. However, their coöperation being solicited, the London bankers held a meeting at the Clearing House on Oct. 12th, to take the matter into consideration, and appointed a special committee to confer with the country bankers.

"Then, on reflection, it appeared to another young man, the son and grandson of clearing bankers, that the organization of a large and entirely new establishment, which the country bankers proposed, was unnecessary,

as the London bankers could give them all the facilities they required, without any great additional labor, or expense. This junior officer in the private bank of which his father was the head, has since gained world-wide celebrity in science and literature as Sir John Lubbock (now Lord Avebury). Even with the aid of such talent and opportunities as his, it required unflinching resolution to establish country clearing in London. After devising a method that conformed as closely as practicable to actual usage in clearing city banks, young Lubbock had to call at every London bank, at most of them several times, and explain fully the exact manner in which he proposed to carry out the system. It was very difficult for him to convince his brother bankers. Finally the special committee requested him to meet the principal clerks of the different banks. These clerks unanimously recommended the adoption of his plan.

"The London bankers then adopted it, and on Nov. 16th submitted it to their country correspondents. The plan for an independent country Clearing House was abandoned by the country Bankers' Committee on Nov. 19th, and the clearing of country checks commenced in London on Nov. 23, 1858. In less than eight weeks, after the idea was broached in London, it was put in practice there."

This system covers 60,000 square miles.

Mr. Hallock says, "Sedalia bankers unconsciously imitated the London plan, but modified it, as had been done abroad elsewhere; for out-of-town checks are cleared, not only in London, but also in other English cities, as Manchester, Liverpool, Birmingham, Newcastle-on-Tyne, Leeds, Sheffield and Bradford, in some eight Scotch towns and Dublin."

The next advance, which is undoubtedly destined to revolutionize clearing in the United States, was started in Boston in 1899 by making New England a free check zone.

Hallock says: "The clearing of out-of-town checks, though opposed for years by a small minority of Boston banks, was successfully established at Boston in 1899. The system includes checks on all points in New England, and maintains a free zone of nearly equal extent.

"Proposed in 1877 and 1883, the Boston movement at first resulted in a deadlock, based on the supposed importance of having certain city banks,

who declined to come in, participate. After twenty-two years through another movement started among the Connecticut banks, the deadlock was broken by substituting the manager of the Boston Clearing House for any abstaining members, and giving him checks on their correspondents to collect. The association finally decided that all checks passed through the out-of-town clearing should be collected by him.

"The only opposition exhibited by country banks has been in the refusal of a few to pay the Clearing House in full for their checks, deducting so-called exchange. Boston checks passed through the Clearing House are paid in full, or not at all. New England checks should be. This can be effected, either as in London, by Boston banks returning checks, drawn on such banks, as not collectible through the Boston Clearing House, or by the manager, charging to collect checks, bearing indorsement of the non-par banks, which would cut them off from the use of the New England free list, now enjoyed by them, without reciprocity; that is, without being themselves on the free list."

Mr. Charles A. Ruggles, manager of the Boston Clearing House, says: "In the thirteen years that we have made collections in this way, we have collected over eight thousand million dollars ($8,000,000,000).

"Our cost now is, and has been for ten years, seven cents for a thousand dollars. That includes the clerk hire of fifteen men, postage and stationery, and we collect seven or eight hundred million dollars a year; furthermore, 90 per cent of the banks in New England remit at par. We collect 95 per cent of it in twenty-eight hours."

It is an interesting and important historical fact that the country banks of England and Wales forced the clearing of country checks at London; so, too, the banks of Connecticut, thirty of them in number, by combining under the advice and leadership of Mr. James C. Hallock, succeeded in having the plan adopted by the Boston Clearing House. As a result New England became a free check zone. I think we should note in this connection that the father of Mr. James C. Hallock was the organizer, if not, indeed, the originator of the New York Clearing House in 1853.

Mr. Laboringman: Mr. Lawyer, you talk and talk and talk, when you could say what you really have to say, in one-tenth of the time, and in about as many words. We have spent a whole hour in the history of the origin of the

Clearing House, and have just learned what I could repeat in about two minutes.

First: London, in a kind of a sneaking way, began to clear checks in 1775, and kept a Clearing House in a blind alley. Nothing more was done in England by way of advance until 1858, when the country banks of England and Wales, covering a territory of 60,000 square miles, by threatening to start their own Clearing House in London, compelled the London banks to clear their checks. Not till 1872, nearly one hundred years later, did any other city adopt it. But today many cities in Great Britain are clearing country checks.

Second: Gallatin proposed a Clearing House for New York in 1831. Hallock established it in 1853. Boston and Philadelphia followed in three and five years, respectively. In 1899, New England became a free check zone, all checks being received at par at Boston. Since then several other cities have followed suit. Atlanta, Macon, Nashville, Sedalia and Kansas City. Now, I have said everything you said. Next!

UNCLE SAM: Mr. Laboringman always gets a "B" line on things.

MR. LAWYER: That is true in substance, but the very fact that Mr. Laboringman has stated the case so well is the greatest compliment he could pay us. It is only by iteration and reiteration, word upon word, and precept upon precept, that has made this whole subject so plain to all of us. We have made haste by going slowly, and we don't want to get into a hurry now.

MR. BANKER: I agree with you, Mr. Lawyer, patience has been our best and truest friend in all these talks, and we should not desert her now.

MR. LABORINGMAN: That's all right, but let us get down, right down to business. Just where are we at now? And where are we going to in the Clearing House matter?

MR. BANKER: We are now going to discuss the Clearing House from five points of view.

First: The Clearing House, from its original standpoint—New York was the pioneer, and is probably our highest type. Its clearings are certainly by far the largest in the world.

Second: The clearing of country checks, of which Boston was the pioneer in a large way, although preceded in point of time by Sedalia, Mo., a country city of only 15,231 people in 1900.

Third: The examination of all banks clearing through the Clearing House, of which Chicago was the pioneer, starting June 1, 1906—and probably the best type, although there are today about twenty cities following in her footsteps, including the following: Minneapolis, Feb. 1, 1907; St. Paul, May 1, 1908; St. Louis, Oct. 11, 1907; Los Angeles and San Francisco following upon the heels of St. Louis; Kansas City, March 1, 1908; St. Joseph, the early part of 1909; Philadelphia, April 5, 1909; New York, 1912, with others, not mentioned, making twenty in all.

Fourth: The centralization of the reserves of the banks at the Clearing Houses, as a matter of convenience in settling balances, and carrying on their common business generally, but subsequently for the purpose of facilitating the issuance of Clearing House certificates.

MR. LAWYER: Let me repeat to you, gentlemen, what may have been stated before, that there is no law providing for the existence of the London Clearing House, nor is there a single law in a single state in any way authorizing or affecting a single Clearing House in the United States. Therefore, all that they have done has been without any authority of law. They are a law unto themselves; and it is not at all certain that that has not been wise. Indeed, I am of the opinion that it has been most fortunate for the business interests of the country. What do you think, Mr. Banker?

MR. BANKER: I am of the same opinion; in confirmation let us return to the consideration of the points suggested.

First: The New York Clearing House, as stated, had its first clearing Oct. 11, 1853. Mr. Cannon says that not until August, 1854, did the New York Clearing House have a constitution. This instrument, with the subsequent changes, is in force today, and constitutes as perfect an illustration of the evolution of law by practice, as can be found anywhere.

This institution had various homes until it took up its present quarters in one of the most beautiful buildings in the whole country—worthy in every way of its use and purpose. It has cost $1,130,000 and is owned by the Clearing

House Banks of New York, under the name of the Clearing House Building Company.

Mr. Cannon says: "The administration of the Clearing House is vested in a President, Secretary, Manager, Assistant Manager, and five standing committees.... The manager under the control of the Clearing House committee, has full charge of all business at the Clearing House, but before entering upon his duties, he is required to give bond, in the sum of $10,000.... Although the Constitution provides for the appointment of a manager, annually, it is the custom to retain the same one in office, year after year. As a matter of fact, there have been only three managers in the whole history of the association.... The Clearing House committee is clothed with almost absolute power, being second in authority only to the association itself. The ablest and most experienced bank officers, therefore, are usually chosen to serve on it. The committee is elected annually. The association at present, 1912, consists of sixty-three members and twenty-two non-members, and the United States Sub-Treasury, located at New York. The latter makes its exchanges only at the Clearing House, its balances being settled at its own counter. It has no voice in the government of the association, and pays a nominal sum for actual expenses. The privilege which the Sub-Treasury enjoys of making its exchanges through the Clearing House is a matter of great accommodation, both to the Sub-Treasury and to the banks. The New York post office clears through one of the members, but renders no compensation to the association for the privilege.

"The membership of the association, since its organization, has been constantly changing, owing to the admission and expulsion of members and voluntary withdrawals, as provided by the constitution.... A bank, the capital of which does not exceed $5,000,000, must pay $5,000; a bank, the capital of which exceeds $5,000,000, must pay $7,500. Any member increasing its capital is required to pay in accordance with those rates."

In 1899, the large number of trust companies that had come into existence attracted the attention of the Clearing House and the Clearing House Committee adopted a rule that no trust company could clear that had not been in existence for at least one year, and that every trust company clearing through a member shall furnish a weekly statement of its condition to the manager of the association.

The New York State law did not then provide that any trust company should carry cash reserves, although state banks were required to have 15 per cent cash in their vaults. It was tacitly understood that all banks clearing, should have 25 per cent reserve. Of course the trust companies could ride the banks, and they took advantage of their opportunity. This caused great dissatisfaction, and rightly so. On Feb. 11, 1903, the association passed a resolution requiring that every institution (not a bank required to maintain specified reserves) "shall after June 1, 1903, keep in its vaults a cash reserve, equal to 5 per cent; after Feb. 1, 1904, 7½ per cent; after June 1, 1904, not less than 10 per cent, nor more than 15 per cent, as the association might determine."

The trust companies kicked and protested, and almost, without exception, withdrew from the Clearing House; but, after the panic of 1907, the New York legislature passed a law requiring them to carry 15 per cent cash reserves.

On June 13, 1908, the association passed a resolution compelling all trust companies, who were members, to carry a cash reserve of 25 per cent, and on Jan. 16, 1908, the association for the first time in its history made a rule compelling all its members to keep a cash reserve of 25 per cent.

Every member of the New York Clearing House is required to furnish to the manager, weekly, for publication, a statement showing its condition, showing the average amount of loans, and discounts, specie, legal tender, notes in circulation and deposits. The capital and net profits are also given, this being the only association which gives the latter item.

Along the same line of legislation controlling the action or conduct of its members, the Clearing House committee, having plenary power to do so, passed a rule—determining just what every member and bank, clearing through members, should charge for collections.

The rule made some cities free, that is, there were no charges for collection made compulsory. Some cities were under a fixed charge of one-tenth of one per cent, and others under a fixed charge of one-quarter of one per cent. Upon April 3, 1899, this rule became obligatory, and if any member violated it, the penalty was $5,000 for the first offense; for the second offense it might be expelled from the association.[1]

MR. LABORINGMAN: That is precisely the same rule we have in our Union, only our limit is not so high. We fine a member $5.00 for his first offense, and for the second offense we take away his card. By Jove, that is a hot proposition. And these are the very fellows who are always cussing us because of our Union rules.

MR. LAWYER: I want to tell you something else, gentlemen, that combination among the banks is clearly in restraint of trade and in violation of the Sherman Anti-Trust Law. Anybody who wants to can bring those banks to time.

MR. BANKER: Now, gentlemen, don't you perceive that this institution, step by step, has evolved its own laws, or rules of action, slowly developing its present system, and regulating and controlling the conduct of those outside institutions which enjoy its privileges? The story of this Clearing House is the record of all of them in principle. They are, each and every one of them, self-centered, self-contained, and a law unto themselves.

The operation of the New York Clearing House is practically that of all the others. Its room is sixty feet square. Four rows of desks occupy the floor. Each member has its own numbered desk separated from its neighbors' by a wire net work.

At one minute to ten o'clock the manager sounds the gong and all are instantly ready for the exchange which begins promptly at ten o'clock.

At the expiration of forty-five minutes usually, but sometimes in thirty-seven minutes, and even in thirty-five minutes, every member of the association has in its possession all the paper drawn upon itself, which the other members have credited on their books, and has delivered all the paper drawn upon all the other members of the association in exchange which it has credited upon its books.

Mr. Cannon states that the amount delivered by any member has never been exactly equal to the amount received but has come within one cent upon a single occasion. To complete the clearing transaction, it is necessary, of course, for those who owe anything to pay it to the Clearing House, and for the Clearing House in turn to distribute what is paid to it among those who are entitled to receive it.

As a matter of convenience for the purpose of settling the balances, the members of the Clearing House deposit with the Clearing House gold coin, gold certificates, silver certificates and legal tender notes, and receive clearing house certificates, therefor, in denominations of $1,000, $2,000, $3,000, $4,000, $5,000, $10,000, $20,000, $50,000 and $100,000 each. All notes of a smaller denomination than $5.00 should, according to practice, be put up in packages of not more than $5,000. All packages are sealed and marked with the name of the institution depositing them with the amount, date and kind of money they contain.

The banks, also, deposit at the Sub-Treasury in New York gold coin, for which certificates are issued by the Assistant United States Treasurer. These certificates are in two denominations, $5,000 and $10,000 each; the holders of these certificates are the absolute owners of them.

It is stated upon high authority that the amount of such money now deposited at the various Clearing Houses throughout the United States exceeds the sum of $200,000,000. In other words, that we have today in the United States centralized our reserves to that extent for certain purposes.

MR. MERCHANT: Mr. Banker, your history of the development of the Clearing House and your description of its operations have certainly been very clear, and most interesting. The second point you mention, the clearing of country checks, will appeal to all the business men of the country as it has to me for a long time; especially since I have a great deal of business up in New England, where this practice has been in force since 1899. I was up there the other day, and my partner took me to see Mr. Charles A. Ruggles, the manager of the Boston Clearing House. After he had described the system of clearing country checks, he handed me a little pamphlet giving the history of its development in Boston and setting forth its reasons and advantages so graphically, that I am going to quote from it in telling you gentlemen about it.

Let me say to you that I am confident that when this principle is fully understood, and carried out, as it soon will be, to its logical conclusion, checks, precisely like our bank notes, will be par everywhere in the United States. I am fully aware that you are greatly surprised at this statement; but take my word for it and remember that what I have prophesied is going to happen. *Free zones are going to increase until every check will be free*

within its own zone, and almost immediately as a consequence, the zone centers will settle with each other daily; that is all checks will not only be free in their own zones, but will be free between all zones, that is all checks will be par everywhere.

However, let me tell you how it developed in New England. Ruggles describes it in these words:

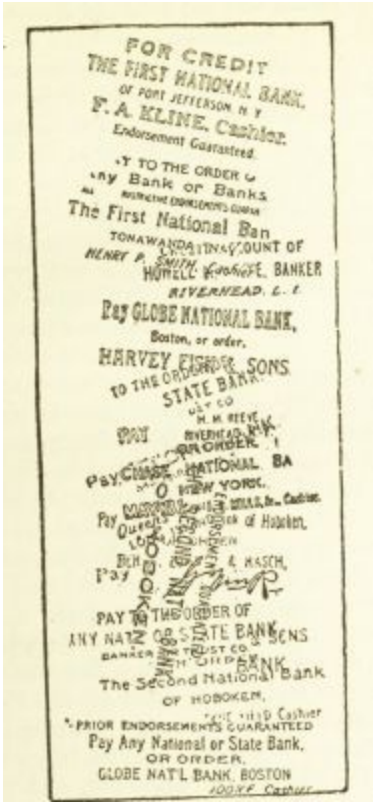
"That the use of checks has increased rapidly in the past ten years is an undisputed fact, and the question of how to handle them to advantage, or without loss, is a problem that has caused much discussion. All large cities have had the same experience, and have dealt with the question in various ways. Rather than ask his bank to draw exchange, the country merchant sent his check to Boston in payment of his account, and in this way, he was encouraged by the city merchants who deposited the check in his bank, where it was received at par. This continued until the volume handled reached such proportions as to make the item of exchange quite prominent in the expense account, which the city bankers sought to reduce by various methods. In many cases checks were not sent directly to the banks upon which they were drawn, some other route being selected to avoid exchange charges; as, for example, a check on Stonington, Conn., deposited in Westerly, R.I., only six miles distant, after many days, during which it traveled one thousand miles, perhaps, passed through Providence, Boston, Newport, then New Haven and New London and reached its destination bearing the endorsement of nine banks. Mr. Cannon in his work on Clearing Houses cites a remarkable case of zigzagging to avoid collection charges; a check on Sag Harbor, N.Y., paid to a Hoboken firm was eleven days reaching its destination. Had it been collected through the New York Clearing House ten days' time, fifteen hundred miles of travel and a vast amount of clerical work might have been saved."

Here are two diagrams showing the route and the indorsements of the check to which Mr. Cannon referred, taken from Mr. Cannon's work on Clearing Houses.

Mr. Ruggles further says: "The subject of the collection of the country check in a more expeditious and economical method than that then in force in Boston, was first agitated in 1877, when a committee of five was appointed to consider the question. A majority reported that the annual cost

to the banks of Boston was two hundred and twenty-nine thousand dollars for collecting New England checks and recommended that the business be consolidated, which would very materially reduce labor and expense. This report was received and placed on file. A minority report was also submitted in opposition to any change, on the ground that it would sever the social and business relations which then existed, and the clerical force required to handle the entire business would incur so heavy an expense that the cost of collecting would be as much, if not more, than was the case by the method then existing. No further action was taken until 1883, when another committee was appointed to consider the same question. They reported that returns from all the banks showed that double the business reported by the former committee was then being transacted and that the probable cost was four hundred thousand dollars; they suggested that an agency similar to the Clearing House be established for the purpose of making the collections. The banks failed to endorse this proposition and the matter was dropped until 1898, when a committee was appointed by the Bank Presidents' Association to again consider this important question; in their report it was recommended that the Clearing House Association act on the matter and undertake to make the collections. A committee was appointed by that body, who endorsed the previous report. Their report was accepted and the Clearing House Association authorized the Clearing House committee to put in operation the present system, and the banks of Massachusetts were first addressed on the subject on April 14, 1899, the result being a conference between the Massachusetts Bank Cashiers' Association and the Clearing House committee. This conference revealed a decided difference of opinion at first, but both sides were brought to a clear understanding of the situation eventually. The position taken by the Clearing House was that it did not propose to dictate to the country banker how he should transact his business or coerce him into acting in conjunction with the Clearing House; nevertheless, the Boston banks claimed the right to use their own methods in making collections, and should the country banker decide to charge exchange, checks on his bank would not be accepted at par in Boston, and might be collected by express or such other means as was thought advisable. Comparatively few of the banks in Massachusetts appeared in opposition when the subject had been fully discussed. At a second conference the Cashiers' Association asked the privilege of making payments in New York Exchange if more convenient for them, and this

request was readily complied with. They also asked that they might ship currency when necessary, at the expense of the Boston banks; this request was also granted, and in a few months all were remitting at par and checks from all the Boston banks were being collected through the Clearing House. On Sept. 21st, Maine was added to the list, followed by Rhode Island and Connecticut on Nov. 9th, and New Hampshire and Vermont in January, 1900.

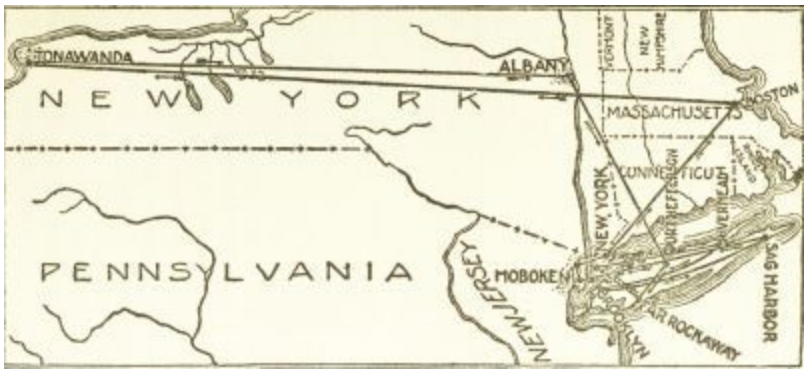


FAC-SIMILE OF THE BACK OF THE CHECK, SHOWING THE NUMEROUS INDORSEMENTS IT BORE ON FINALLY REACHING THE BANK ON WHICH IT WAS DRAWN.

From James G. Cannon's Work on Clearing Houses.

"The first year the amount collected was $541,000,000 at a cost of ten cents per thousand dollars; the second year $565,000,000 at a cost of eight cents; the third year $607,000,000 with cost reduced to seven cents. Since the opening of the Foreign Department, as we term it, the average yearly business has been six hundred million dollars, and the average cost seven cents. The expenses are met by an assessment levied on the banks based on their daily average business. There are at present in New England six

hundred and thirty-seven banks and trust companies to whom checks are sent daily, and the number of packages handled will average five thousand."



MAP SHOWING THE CHECK'S ITINERARY.
From James G. Cannon's Work on Clearing Houses.

MR. BANKER: Mr. Merchant, I am very much surprised that you have made such a thorough study of this feature of the banking problem, but I am also equally gratified. You have certainly explained the question so clearly and fully that no one can fail to be impressed with the future possibilities of this plan of clearing country checks, and I am convinced that you are absolutely right that the time is not far distant when every check in the United States will be par everywhere precisely as our bank notes are today; and why should they not be so, since both are identically the same thing in principle.

MR. LAWYER: I can see what a tremendous advantage that would be to our commerce, indeed, incalculable, and I can see that there is no substantial difference between a check on a bank and a bank note, which is a check of the bank on itself; both are mere credits, and as you say, when fully comprehended and rightly understood, will be treated in precisely the same way in the exchanges of the country. But it does seem to me as though we shall have to have a better knowledge of our banks, and the business houses of the country, too, if this great reform is to be brought about.

MR. BANKER: That is true, but the bankers of the country have realized for a long time that their greatest peril came from the unsound practices and reckless methods of some of their own number and have already taken steps to protect themselves against such practices.

You, gentlemen, will all of you, no doubt, remember the Walsh failure at Chicago in 1906. You will also remember that Walsh had control of three

different banks with approximately $30,000,000 resources; one was a National Bank, under national supervision; one a Trust Company and one a Savings Bank; both of the latter being under State supervision. This enabled Walsh to flim-flam the examiners, one examiner being national and the other state, by juggling the assets and then finally diverting practically all of the deposits into his own enterprises; certainly the best part of them was used in promoting his business schemes. It took this kind of an earthquake to wake up Chicago and bring into the banking fraternity, or business world, one of the greatest reforms of the commercial life of the country. I say commercial world advisedly because about the same time Chicago had an experience with a fish house that was really the biggest fish story that was ever told. The sad thing about this fish story was that it was true and cost the fishermen, the Chicago banks, and the fishermen and bankers elsewhere, about $3,000,000.

These two experiences capped the climax and illustrated perfectly the need of just what followed in the Clearing House at Chicago.

This brings me naturally to the third point that I mentioned as important and vital in the evolution of the American Clearing House.

On June 1, 1906, the Clearing House Association of Chicago, Illinois, acting upon a resolution introduced by Mr. Fenton, Vice-President of one of its banks, established an independent system of Clearing House bank examinations. Only recently the chairman of the Clearing House used this language:

"The result of our experience in Chicago is most satisfactory and gratifying. The banks have almost unanimously adopted every suggestion made by the Clearing House Committee for their betterment and strength. In several instances the Committee, from its wider knowledge of the financial situation, has been able to save some of the smaller institutions from loss by enabling them to take hold of conditions in time. I cannot properly go into such details as would illustrate the effectiveness of Clearing House examinations as we have experienced it, and can only say in a general way that it has been even more satisfactory than I anticipated it would be before it was undertaken."

MR. LAWYER: Right on this point I want to read to you a letter I have just received from the Clearing House examiner of Los Angeles, California.

DEAR SIR:

Replying to your inquiry of December 9th, will say that Clearing House examinations were begun in Los Angeles on May 1, 1908. Since the inauguration of the system there have been no bank failures, because the Executive Committee of the Clearing House Association will not permit banks to reach the danger point.

We have had one instance where, after watching a bank for three years, giving it a chance to correct its bad methods and put itself in good condition, the Clearing House finally compelled it to assign all of its assets to a trustee, and the public was notified that all claims would be paid on demand....

National and State examinations have improved greatly during the last ten years, but they will always lack the strongest element—the calm, clear judgment of the local executive committee, whose demands are founded on knowledge of the situation, and whose mind is not warped by political strings.

Yours very truly,
(Signed) JOHN W. WILSON,
Examiner, Los Angeles
Clearing House Assn.

Mr. Cannon in his admirable work on Clearing Houses, says:

In substantially his own words the Chicago examiners operate under the following conditions: The examinations extend to all the associated banks in Chicago, and to all non-member institutions. The work is conducted with the aid of five regular assistants, each fitted by experience to thoroughly do that part of the work assigned to him. The examinations include, besides the verification of the assets and liabilities of each bank, so far as is possible, an investigation of the workings of every department, and are made as thorough as is practicable. After each examination the examiner prepares a detailed report in duplicate, describing the bank's loans, bonds, investments and other assets, mentioning specially all those, either direct, or indirect, to officers, directors, or employees, or to corporations in which they may be interested. The report also contains a description of conditions found in every department. One of these reports is filed in the vaults of the Clearing

House in the custody of the examiner, and the other is handed to the examined banks' president for the use of its directors. The individual directors are then notified that the examination has been made, and that a copy of the examiners' report has been handed to the presidents for their use. In this way every director is given an opportunity to see the report, and the examiner, in every instance, insists upon receiving acknowledgment of the receipt of these notices.

The detailed report, retained by the examiner, is not submitted to the Clearing House committee, under whose direct supervision he operates, unless the discovery of unusual conditions make it necessary. A special report in brief form is prepared in every case, and read to the Clearing House committee at meetings called for that purpose. The report is made in letter form, and describes in general terms the character of the examined banks' assets, points out all loans, direct or indirect, to officers, directors, or employees, or to corporations in which they may have an interest. It further describes all excessive and important loans, calls attention to any unwarranted conditions, gross irregularities, or dangerous tendencies, should any such exist, and expresses in a general way the examiner's opinion of each bank as he finds it.

The circumstances under which the first Clearing House bank examiner was appointed and the result are well set forth by James B. Forgan, President First National Bank of Chicago.

"Chicago was the pioneer in Clearing House bank examinations.

"They were inaugurated there in 1906 after the failure of a National bank and two State banks. These institutions were under the direct management of one man who was president of the three. The condition of their affairs when disclosed surprised and appalled the other Chicago bankers. The liabilities of the private ventures of the president had gradually accumulated in the three banks until they had absorbed the entire capital and surplus of all three, amounting to $3,500,000, and 44 per cent of their aggregate deposits of $27,000,000, one-third of which was public funds.

"The condition in the National bank had developed through a period of years during which the Comptroller of the Currency, through the semi-annual reports of his examiners, had been kept fully advised of what was going on. Among the assets were found nineteen fictitious loans for $90,000

each represented by so-called memorandum notes. Each memorandum note purported to be secured by $100,000 of second mortgage bonds of the Wisconsin & Michigan Railway Co. This road was controlled by the bank president, and the bonds proved worthless. The first mortgage bonds of the same road, $952,000 of which (being almost the entire issue) were also among the assets of the banks, were finally disposed of at about 23 cents on the dollar. These memorandum notes did not, on the face of them, even pretend to be the obligations of bona fide borrowers. The ostensible signatures on them, although in different names, were all in the handwriting of the clerk who filled them out and who wrote plainly in red ink across the face of each the words 'Memorandum Note.' They could not deceive anyone who saw them and they did not deceive the national bank examiners who reported to the Comptroller the facts in connection with them.

"Although cognizant of these irregularities and of the accumulating obligations in the bank of the president's private enterprises, the Comptroller apparently could not or at all events did not take measures to stop them by other means than those of expostulation and reproof until matters became so bad that they simply could not be permitted to go further.

"When at last drastic measures were decided upon the Comptroller and the State Auditor, acting together on a Saturday afternoon after the vaults of the three banks had been closed with time locks set for Monday morning, notified our Clearing House committee that unless provision were made for payment in full of the deposits none of the banks would be permitted to open for business on Monday morning and they would be put in the hands of receivers.

"Business conditions were strained and the time was therefore particularly unfavorable for permitting the failure of three prominent banks. The effects of such a calamity it was feared would have extended far beyond the confines of Chicago.

"The situation was thus protected from a general disturbance of public confidence, but it was done at the cost of a very heavy loss, foreseen at the time and since realized by the participating banks.

"The statements of the National bank made five times a year to the Comptroller's department, copies of which were rendered to the Clearing

House committee and on which it had implicitly relied, failed to disclose these conditions.

"I have given you these details of this unfortunate affair because they show so clearly the limitations of governmental supervision of banks under our National banking law as it has been interpreted by the courts and by the legal advisers of the Comptroller's department.

"Let me draw your attention to a few of the legal restrictions which limit the Comptroller's power to act in such cases.

"1. Under the National Bank Act no obligation due a bank is considered bad until interest is past due six months and not then if it is secured or in process of collection.

"2. The Comptroller may appoint a receiver when he concludes that a bank is insolvent. But here again he has been hampered by the legal definition of insolvency, which is 'inability to pay current debts as they mature.'

"3. The making of a National bank report to the Comptroller so long as it is in accordance with the bank's books, however erroneous it may be as to actual values, which alone disclose a bank's true condition, cannot be construed as a misdemeanor.

"These legal restrictions are presumably the reason why some banks have been permitted to persistently publish to the public the figures of their statements as rendered to the Comptroller of the Currency after they are known to have met with heavy losses and have failed to provide for them by charging them to profit and loss. That this has been permitted in some cases is notorious. The case of the Chicago National Bank and a recent one in a large central city [$6,000,000 of $8,000,000 surplus was charged off] are conspicuous examples because of their size. Undoubtedly as a rule the published statements of the banks are reliable, but there are a few exceptions, with which, in view of the legal restrictions which govern his action, the Comptroller finds himself unable to cope. These exceptions, however, frequently result in failures and catastrophes. The Comptroller cannot legally take drastic measures with such banks until they perform some act of insolvency or when he believes their capitals to be impaired, which, being a matter of judgment in regard to the realizable value of their assets, is frequently difficult to prove.

"These disclosures in connection with the failures of these three banks showed the associated banks of Chicago that statements so rendered, which up to that time had been all the Clearing House Committee had to rely upon and which, as published, form the basis of the standing and credit of banks with the public, could not be implicitly relied upon. It was therefore unanimously resolved to adopt a system of supervision, under which there would be some assurance that such conditions could never again develop in any bank connected with the Chicago Clearing House Association. There was therefore organized a bureau of examination in connection with the Clearing House.

"As to the practical working of Clearing House examinations in Chicago during the six years of their existence I can only say that it has proved in every way most satisfactory and successful. There has been neither friction nor unpleasantness. Bank directors realize the great benefits derived and are unstinted in their praise of them. They are greatly assisted by these reports in keeping themselves informed on the condition of their banks and they readily coöperate with the Clearing House committee in the correction or elimination of anything open to criticism. Our experience has been that the banks have almost unanimously adopted every suggestion made by the committee. I cannot, of course, discuss such details as would show its efficacy. I can only say that the results have been most satisfactory to all concerned and that much good has been accomplished for the Chicago banks individually and collectively.

"The organization, being entirely voluntary, partakes somewhat of the nature of a gentlemen's agreement, under which each bank binds itself to conduct its business under proper methods. The effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association must be satisfactory to the committee, in view of the examiner's reports upon them, otherwise they cannot continue to enjoy Clearing House privileges."

MR. BANKER: From Mr. Wilson's statement about Los Angeles and Mr. Forgan's statement about Chicago, it must be perfectly clear to all of you, as it now is to me, that if we had in this country, say thirty or forty commercial

zones, or free check zones, like New England now has, that is thirty or forty financial centres, covering all the territory naturally tributary to them, and so compassing, or covering the entire country, and these zones, all organized precisely as the Chicago Clearing House Association is organized for the examination of all the banks of the United States, bank failures would become a thing of the past.

MR. LAWYER: Well, let me see now, how you would insure that result, that is that bank failures would cease. The banks fail very often, possibly generally, because the officers of the banks have used the bank's assets in their own schemes, or those in which they are interested. But bank failures are very often due to fish paper, such as you described a few moments ago. How would you detect, check and stop that sort of thing? That is, how would you prevent too much paper from some one merchant, or manufacturer, getting into the banks?

MR. BANKER: Don't you see, Mr. Lawyer, that if your examination covered all the banks in a commercial zone, your examiners would always know, or could very easily find out, just how much paper any business house had in the banks of that particular zone, couldn't they? Don't you see that if they observed that a large amount of paper of some business house had been placed in the banks of that zone, that is, loans made, or paper sold, they would at once be placed upon their guard and inquiry, and would proceed to find out just how much paper that particular business house ought to have, or was entitled to have out, considering its capital, and the general character of its business? Don't you see that these bank examiners could insist on knowing all about the financial condition of any business house in their particular zone, just as well as the banks themselves could and do insist upon knowing? If a business house should refuse the bank examiner the fullest possible information about its affairs, its days would be numbered as a borrower at the banks of that zone, would they not?

MR. LAWYER: That is just the point. A business that is over expanding its credit by borrowing, or by selling its paper, will probably be working some other zone, or several of them at the same time.

MR. BANKER: You might naturally think so until you reflected upon the situation for a moment. Don't you see that if you had, as I have just said, thirty or forty such commercial zones, all organized, and all united into one

system, as perfectly as if they were one single institution, that they could within twenty-four hours know to almost a dollar how much any business house in the whole United States had outstanding so far at least as the banks were concerned in all of them—simply by telephoning or telegraphing to each other?

You must see that every one of these commercial zones would soon become the most comprehensive and the most perfect credit bureau in the entire world, and that taking them altogether, they could and would, by the most exhaustive methods, not even now fully appreciated, be able to check the whole commercial situation in the United States in an incomprehensibly short space of time. Nothing is so essential today as to know the facts about the situation because of the enormous increase of trade, and consequent expansion of credit.

MR. LAWYER: It does seem to me, after all, now that you have finished the details of your plan, that you have in it a perfect check upon the whole business of the banking world. Humanly speaking, I see no loophole nor escape whatever.

MR. LABORINGMAN: That looks to me like an all-round scheme. It will certainly work like the colored man's fish trap, it will catch 'em, both "agoin' and acomin'," and would give this country the only practical scheme I've ever heard of for insuring bank deposits; for it does not seem possible to me for a bank to get into a position where it ought to fail. Now, gentlemen, if there is one reform in this whole business that ought to be accomplished it is such an administration of these banks, as will practically prevent failures. Don't you think so yourselves? This question is always coming home to the working people, because a bank failure is a tragedy in their lives.

MR. MANUFACTURER: Yes, Mr. Laboringman, I certainly do agree with you, and I believe that this plan of having all the banks of the entire country examined by bankers just as they are now being examined by the clearing houses instead of politicians, and finding out, as such clearing house examiners will, not only the condition of the banks, but the financial condition of every business house as well, will accomplish what you want. The laboring people are entitled to better protection than what has yet been given them. This goes to the very root of things.

MR. MERCHANT: Gentlemen, I have been listening with the greatest possible interest to the story of the growth of the American Clearing House and the most marvelous thing about this matter to me is that this vast system which has not yet been correlated is the product of experience, and that there is not a single practice of this huge machine from the Atlantic to the Pacific as it is carried on, or operated, that is based upon a single statute. Think of the Clearing House Associations in those twenty cities, actually examining, not only their own members, but every other bank that clears its checks through one of their members. Why, gentlemen, today these bank examiners could cut off my credit at my bank without my knowing it by simply saying to the banks that my credit was too much extended, and that I ought to cut it down, and get into a safer position.

MR. FARMER: Well, do you know, I am of the opinion that there is nothing so important in these days as to have someone going around and compelling these fellows to pull in their horns. They will never interfere with anyone as long as he keeps in sight of the shore. It's a good thing and will do more than anything I know of to keep our business ship on an even keel.

MR. MANUFACTURER: When Mr. Farmer talked about pulling in their horns, I thought he was perfectly at home, and talked about something that he was familiar with; but when he gets to talking about a ship and keeping close to shore, it strikes me that he's getting out to sea. However, this proposed supervision and checking scheme strikes me just as it does him, as the most desirable, wholesome and healthy process by which we can go on in the future far more steadily, and in the end far more rapidly than we do now, with our ups and downs, and I am heartily in favor of it.

But, Mr. Banker, it occurs to me that if these thirty or forty zones you speak of are going to work so closely together, as you think, and have outlined, there will be sooner or later a tremendous business going on between them.

MR. BANKER: Of course there will; and that suggestion brings me naturally to the fourth point I raised in connection with the development of our American Clearing Houses which was a combination of a part of their reserves for their own convenience.

You will remember that I called your attention to the fact that it was estimated by high authority that the banks belonging to the Clearing House Associations were now carrying upwards of two hundred million dollars of

their reserves at the various Clearing Houses. It does not seem to me as though it was taxing the imagination very much to see how very easy it would be to apply the same principle to the thirty or forty financial centers that is now being applied to all the banks included in the Clearing Houses. Of course I realize that the reserves will have to be upon a correspondingly increased scale, ranging from one billion to one billion and a half, as things now stand, and that they will all have to be actually combined, and perfectly mobilized, precisely as the reserves are, when a Clearing House Association fortifies itself, to protect all of its banks, and the commercial interests of any community in times of danger and panic.

MR. LABORINGMAN: What do you mean by Clearing House certificates? I have seen these things mentioned time and time again in the papers, and I must say I could not get on to them. I supposed it was just some huggery-muggery of Mr. Banker, over there, for the purpose of getting the best of the dear people.

MR. BANKER: On the contrary, just the reverse is true. Clearing House certificates, commonly so called, are issued only to protect the people's interest. They are issued for the common good, and are thoroughly appreciated by all those who understand their use, and the circumstances under which they are issued. Mr. Laboringman, you have just asked what a Clearing House certificate is. We all know what a gold certificate is. It certifies that there are deposited in the Treasury of the United States as many gold dollars as its face calls for, and the holder can go and get the gold dollars by presenting the certificate. In the early part of this evening, we learned that a Clearing House certificate was issued by a Clearing House whenever some bank deposited with it gold coin, gold certificates, silver certificates, or United States Notes; that is, such a Clearing House certificate is for such a deposit as is made, and entitles the holder to what it calls for, as was then stated. Now, the popular name, Clearing House certificate, is applied to something quite different from the exact, or technical, definition above given.

When we say that a Clearing House has issued Clearing House certificates, in ordinary, or popular, language we mean "Clearing House Loan Certificates," because the public never have any occasion for discussing the usual Clearing House certificates. The Clearing House loan certificates are issued by a Clearing House upon commercial paper, bonds, stocks or any satisfactory security. In 1907, collateral security amounting to $453,000,000 passed through the hands of the New York Clearing House Committee, of which $330,000,000, or 72.92 per cent, was commercial paper and $123,000,000, or 27.08 per cent, was bonds, stocks and short-time railroad paper.

MR. LAWYER: Mr. Banker, if you will allow me, I think that Mr. Cannon has stated this phase of the question so well that I should like to read it right here. He says:

"Clearing House certificates are of two kinds, those issued upon the deposit of gold coin (and in New York City and Boston on gold and silver certificates and legal tender notes) and those issued upon the deposit of collateral securities. The former are employed in ordinary times solely as a method of economizing time and labor and reducing risk in handling large sums of money. The latter are employed in times of financial disturbance or panic, and although both are intended for use solely in the settlement of balances at the Clearing House, the circumstances that call them forth, the results effected by their use, and the part they play in banking economy have little or nothing in common. The certificates issued upon the deposit of gold, etc., are termed 'Clearing House Certificates,' and those issued upon the deposit of collateral security are very properly termed 'Clearing House Loan Certificates,' with which latter only are we here concerned.

"Clearing House Loan Certificates may be defined as temporary loans made by the banks associated together as a Clearing House Association, to the members thereof, for the purpose of settling Clearing House balances. Such certificates are negotiable, as a rule, only among the members of the association, and are not in any sense to be regarded as currency. They are not even seen by the business community, and do not pass from bank to bank except in payment of Clearing House balances.

"To obtain an intelligent understanding of the real character and purpose of such certificates it will be well to treat somewhat of the circumstances

under which they are issued. In the course of the present century the United States has undergone periodical derangements of business affairs, when confidence was displaced by mistrust, when the payment of debts became difficult, when property values declined, and business houses failed; when industry and trade were paralyzed, and general stagnation ensued in all lines of enterprise. In such times depositors in banks, stricken with fear and sometimes pressed by need, draw out their deposits, in many cases to such an extent as to render it difficult or even impossible for the banks to contract their loans sufficiently to meet the demands thus made upon them. Under our present currency system no adequate method is provided for expanding the money volume as occasion demands, whereby the banks can continue their usual loans and discounts, and thus prevent a panic with all its evil consequences. Hence it is left in a large measure to the financiers of each community to work out their own remedy, supplemented by such mutual assistance as a courteous regard for each other may dictate or as business relations may demand.

"Quick to see the defects in our currency system, and the desirability of in some way supplying it, the bankers of New York, nearly fifty years ago, devised the scheme of issuing Clearing House Loan Certificates as a method of relief from temporary stringencies. Subsequently, nearly all the Clearing Houses in the great centers adopted the same device, and by their heroic resort to the measure they have at different times relieved the business community of untold disaster, for which invaluable service they have justly received the grateful recognition of the entire country.

"The great value of Clearing House loan certificates lies in the fact that they take the place of money in settlements at the Clearing House, and hence save the use of so much actual cash, leaving the amount to be used by the banks in making loans and discounts, and in meeting other obligations. The volume of currency, to all intents and purposes, is expanded by this means to the full amount of the certificates issued."

In the history of the past the denominations have varied from 25 cents to $100,000 in the different associations and in proportions varying from $50 to $100 of certificates to $100 of collateral deposited.

The total amount of its balances is not always paid in Clearing House loan certificates by a bank to which such certificates have been issued. Thus, for

example, the debit balance of a given bank may be $500,000, which in ordinary times would be paid in money or gold certificates. In a time of panic a part of this sum—say $300,000—is paid in Clearing House loan certificates and the remaining $200,000 in currency. Another, with the same balance, might pay the whole in Clearing House certificates, while still another would pay the full amount without the use of any certificates whatsoever.

The first issue of Clearing House certificates occurred in 1860. In the autumn of that year there was a rapid shrinkage in bank deposits and a corresponding contraction in loans and discounts. The situation grew more and more serious as the end of the year approached. The presidential election was a disturbing factor of more than ordinary significance. Immediately succeeding the election of Abraham Lincoln to the presidency the situation began to assume a critical aspect. Distrust and uncertainty were universally felt.

In accordance with the authority thus given, the first issue of certificates was made Nov. 23, 1860, and the beneficial effect was immediately felt. The banks rapidly extended their loans, deposits increased, and commercial paper, which formerly could not be sold for 20 per cent, was now freely marketed at 7 per cent and 8 per cent. As a result of the pressure the association passed a resolution in the following September, authorizing another issue of loan certificates, and on Sept. 19, 1861, the first issue was made.

In 1863 the association issued certificates for the third time. The first bore the date of November 6th, and the largest amount outstanding at any one time was $9,608,000.

Owing to the prolongation of the war, with the consequent unrest in business circles, the issue of certificates for the fourth time began March 7, 1864, and reached its maximum, $16,418,000, on April 20th of the same year.

No more loan certificates were issued until the year 1873, when for the first time the Clearing House associations of other cities, seeing their great practical utility, began to avail themselves of their use. In the year mentioned the association at New York followed the precedent established in 1860, and the same course was taken by the Clearing House Associations

at Boston, Philadelphia, Baltimore, Cincinnati, St. Louis and New Orleans. The panic which called forth such united action was one of unusual severity. It reached its climax in September, and so severe were its ravages that the New York Stock Exchange closed its doors on the 20th of the same month, for an indefinite period, but reopened them ten days thereafter.

The usual resolutions were passed by the Clearing House Association, authorizing the issue of certificates, and on September 22d the first issue was made. The amount was fixed at the outset at $10,000,000, which, with the announcement that the Government would purchase the same amount of bonds, caused an immediate subsidence of the panic, and in less than three days its most acute stages were over. During the two months referred to, certificates to the amount of $26,565,000 were issued.

New Orleans alone issued certificates in 1879, the amount being $54,000. New York alone issued certificates in 1884, the amount being $24,915,000.

The next certificates were issued Nov. 12, 1890, and the issue ceased December 22d, amounting in the aggregate to $16,645,000; the largest amount outstanding at any one time was $15,205,000, on December 12th; and the last certificates were retired February 7, 1891, less than three months from the date of the first issue. Boston and Philadelphia followed. Then came one of the memorable panics, 1893.

The issue was commenced June 21, 1893, and ceased September 6th of the same year, the total issue having been $41,490,000. The largest amount outstanding at one time ($38,280,000) was attained August 20th, which amount remained unaltered until September 6th. Then followed Philadelphia, Baltimore, New Orleans, Cincinnati, Buffalo, Atlanta and Birmingham. Birmingham to protect its cash issued denominations all the way from twenty-five and fifty cents up to $1, $2, $5, $10, and all the larger amounts.

Besides the loan certificates issued in 1893, there was a considerable amount of emergency circulation taken out by the banks in the Southeast, under the title of "Clearing House certificates," in cities where no Clearing Houses existed. In adopting the name of Clearing House certificates, it was not the purpose of the banks to practice deception on the people, but to indicate what was really true and what the term would seem to imply, namely, that such certificates were temporary loans made by the banks

associated together, and that the banks were pledged for their redemption. The denominations in the cities referred to were: Albany, Ga., $10, $5, and $1; Chester, S.C., $10, $5, and $1; Columbia, S.C., $50, $20, $10, $5, $2 and $1; Danville, Va., $100, $50, $20, $10, $5, $2, and $1; Newman, Ga., $10, $5 and $1; and Rock Hill, S.C., $5, $2 and $1. There is no doubt that the relief afforded in this manner was of great public assistance in the several communities where it was given, effecting results similar to those accomplished by the actual Clearing House loan certificates in the great centres. Business houses and corporations came to the relief of the situation and among them was the New Bedford Mfg. Co., Social Mfg. Co., Hartford, Conn., Eagle and Phœnix Mfg. Co., Columbus, Ga., Swift Mfg. Co., Columbus, Ga., Arnold Print Works, North Adams, Mass., Richmond Locomotive Works, Richmond, Va., Minneapolis and Northern Elevator Co., City of Tacoma, City of Richmond, City of Johnstown, Pa., Loomis and Hart Mfg. Co., Chattanooga, Tenn.

So much for panics up to our last. Then came the panic of 1907. Of this a prominent banker and economist has said: "The truth is that responsibilities for the panic of 1907 lie at the door of our currency system. No other adequate cause can be found. We do business by the modern system of bank credits, but we have failed to supplement this machinery with the means for readily converting bank credits into cash."

On Oct. 26, 1907, New York issued Clearing House loan certificates. On Oct. 26, 1907, Chicago also issued Clearing House loan certificates. On Nov. 6th, Chicago issued Clearing House checks for $1, $2, $5, $10, amounting to $7,500,000. These checks were secured by Clearing House loan certificates.

On November 16th, Philadelphia issued Clearing House certificates and the business houses issued pay checks for wages which were cleared through the Clearing House.

During the fall many cities issued Clearing House checks in small denominations which were used for currency. Canton issued pay checks for $1, $2, $5 and $10, amounting to $200,000, which had no security back of them.

In November pay checks in denominations of $2, $5, $10, $20 were issued to the fourteen banks of the Clearing House of Cincinnati.

Cleveland followed Chicago in denominations of $1, $2, $5, $10.

Fargo, Dakota, issued $5, $10, $20, $100 and $500.

Los Angeles issued October 30th "Clearing House certificates or scrip," designed as a circulating medium for the general use of the public.

Mr. Cannon records the action taken by the associated banks of Group No. 2 of the Ohio Bankers' Association, which includes twelve counties, and is worthy of comment since it offers the first concrete example of the possibilities of the banks of any particular section of any state, uniting in an effort to overcome the disastrous consequences resulting at times from false rumors in panic periods.

MR. MERCHANT: *Now, gentlemen, why all this frightful agony, this terrific straining, this ever-recurring tragedy and universal ruin, simply because we persist in being utterly ignorant of the simplest economic truths which our own actions on every such occasion have demonstrated—that there is absolutely no difference between a bank book credit and a bank note credit, except that the people want something that passes current in greatly increased quantities, when loaning stops or credit is checked. You have only to go to Scotland, and note the fact that there has been in operation there two hundred and seventeen years the vital principle involved, the conversion of bank book credits into bank note credits, and the current redemption of all bank credits in gold coin, whenever called for.*

Why, gentlemen, if the man who wants to find the cure would only shake the moss from off his back, and take time to read what I am going to submit to you now, or pull the cobwebs out of his eyes and go up to Montreal, or Toronto, or any Canadian city, and see the bank notes come into the Clearing Houses, with the checks and drafts, he would wonder why he had been such a complete idiot all his life, when our nearest neighbor was enjoying perfect immunity from our troubles.

L. Carroll Root, an American economist and historical student of the first rank, after a most thorough and exhaustive investigation of banks and banking in New England before the war, concludes his comment as follows:

"When the National Banking System appeared upon the scene it found the channels of circulation in New England filled by a State bank currency of well recognized soundness.

"In general, it was a currency based upon the 'banking principle.' It was issued against general assets—not against the deposit of bonds. It was secured in addition, in most of the states, by the further liability of officers and stockholders, or by a first lien upon all the assets of the bank, or both. It was limited—rather loosely, we would now say—to one hundred and twenty-five or one hundred per cent of the capital. But though issued under the legislation of six different states, it was in reality a single currency system—made so through the agency of a commercial enterprise, established and carried on without the aid of law. The bills of banks in any one part of New England passed at par in every other part; and for years the notes of New England banks had been enjoying an extended circulation in the west, where its reputation found for it ready acceptance. At home, too, its valuable points were appreciated and its forced transference to the national system a matter of regret.

"The history of New England bank currency, thus closed, is significant for two developments which characterize it:

"First, the steady growth, under the teachings of experience, of the system as to the issue and regulation of bank currency, which has since then become generally approved among the English-speaking peoples of the New World. In one direction after another special opportunities for fraud or exploitation of a confiding public by rash banking developed their legitimate disasters and prompted the invention of remedies 'to fit the crime.' Conditions were so nearly alike throughout the New England states that each was prompt to suffer from any financial disease affecting any other, and equally prompt to adopt, with such improvements as its own enterprise might suggest, the remedies which had been found effectual elsewhere. As a result, the complete system, at the time of its practical suppression by the National Bank Act, was utilizing nearly every expedient to secure safe and conservative banking that were then or have since been incorporated in our own National Banking system, or in that of Canada—the two great plans which have since been matured.

"A second feature was the development of redemption facilities and methods. Starting with absolute chaos, assisted by no law, progressing tentatively as each necessity prompted the invention of new means to meet it, the result was a carefully buttressed and easily working system, under which, to an extent never approached in its efficiency by any plan

elsewhere created by law, the bank note currency of New England was made elastic, safe and ideally convenient and inexpensive in use.

"For a full generation before the war, the amount of ultimate loss to noteholders was too small to be reckoned as an appreciable percentage on the amount of currency outstanding, while the delays and minor inconvenience in the prompt cashing of the bills of broken banks were the result rather of the imperfect communication and exchange facilities of those days than of material defects in the banking system itself; indeed, so satisfactory had been the workings of what is known as the 'Suffolk Bank Redemption Plan'—that the need even of the most modest guarantee fund for instant redemption of broken bank bills was not felt until after the panic of 1857; and even then the total loss was petty when compared with the total circulation, and such as the most moderate plan of subsidiary guarantee would have forever obviated."

MR. MANUFACTURER: That is most astonishing, actually astounding; they went through identically the same experiences during the first fifty years of this country that we have been going through during the last fifty, and they perfected a banking system which we killed by the 10 per cent tax on bank notes. Now we are gradually, whenever necessary, even in defiance of law coming back to the same principle of credit currency, for certainly, whatever may be said of the Clearing House loan certificates, generally speaking, all those $1, $2, $5, $10, $20, $50 and $100 Clearing House checks were nothing but a pure credit currency, and we do not seem to have sense enough to see it, and adopt that principle.

New England redeemed all her currency at the Suffolk Bank at Boston, the financial centre of that commercial zone. New England did before the war, precisely in the redemption of her bank currency what she has been doing since 1899, in redeeming New England checks at Boston. We must take our hats off to New England. All we want to do is to adopt the currency system which she worked out, and her free zone system for check redemptions.

Canada obtained her original banking law by copying the statutes of Massachusetts before the war. She has improved upon them in detail, but the great underlying principle is the same.

MR. MERCHANT: The total amount of certificates in one form or other, cash checks, etc., issued in 1907, was stated by the Comptroller of the Currency

to be $248,279,700. It is a most interesting fact to note that just prior to the panic Hon. Charles N. Fowler, then Chairman of the Committee on Banking and Currency, of the House of Representatives, introduced a bill for the purpose of allowing the banks to issue $250,000,000 of bank notes of the pure credit currency character, and urged its adoption, as a measure of relief for the impending crisis. You will note the amount was only one million and three quarters in excess of the amount actually issued, or an estimate within three-fifths of one per cent of the amount actually used.

Never before in the history of the country was such license taken by the banks of the country as in 1907 in using bank credits in the form of cash checks indiscriminately; but they demonstrated this great economic truth that the nearer they approached to a pure credit currency, the nearer right they were. And they demonstrated this fact also to the satisfaction of every intelligent man on this question; that, if this country had been blessed with a credit currency redeemed through the Clearing Houses every day, precisely as these Clearing House certificates and pay checks were, the panic of 1907 would never have marred the commercial history of this country.

With all of our own experience before us, from the establishment of the banks of Virginia in 1803, is our stupidity to continue. And are we now to do something possibly more than stupid when we are naturally, even in defiance of law, as we have seen, finding our way out? If left alone, we shall soon adopt these same principles, now in practice in Scotland, Ireland and Canada? Principles which, without statutory laws, gave New England, before the war, the most perfect banking system that has ever existed anywhere in this world, all things considered.

MR. FARMER: Then why in thunder don't we adopt it now? I suppose we are through with the Clearing House now, aren't we? I hope so, for I am due at the farm. They are waiting for me.

UNCLE SAM: Just hold on a minute. If I understand the facts, you are all wrong about one thing, and this includes both Mr. Cannon and Mr. Hallock. The first Clearing House on this continent was not at New York at all, but it was established at Boston, where I held my first Tea Party, and it was started in 1818, thirty-five years before New York got to going. It only took two clerks to do the business for the first six years. By 1855, just two years after New York started, it took seventy clerks to do the business, and the

redemptions amounted to four hundred million dollars per year. Transactions in New England in those days were comparatively very small, and the business was carried on as it is in France today, very largely with bank notes instead of checks. You remember, we learned one night that the Bank of France owed $1,000,000,000 (one billion) in notes, and only one-tenth as much, or only $100,000,000 subject to check; and that if a bank could issue notes, as freely as take deposits, the habits of the people would always determine whether the amount of bank notes was greater than the deposits.

From 1840 to 1860 the note issue of the 510 banks in New England ranged from $30,000,000 to $57,000,000, and averaged $43,000,000, while the deposits ranged from $15,000,000 to $47,000,000, and averaged only $31,000,000, or the note issue was nearly 50 per cent greater than the deposits. The note issue then was the main feature of the banking business, precisely as it is at the Bank of France, and they started a Clearing House to clear the bank notes and it was called "The Suffolk Bank," where all the New England bank notes were cleared, precisely as New England checks and drafts are cleared today. New England was a free bank note zone before the war precisely as it is a free check zone today. All notes were par at Boston, as all checks are par today, and the Suffolk Bank, where the bank notes were cleared, was just as much a Clearing House as the one they have in Boston today, for clearing the checks and drafts. There is not the slightest difference between the two, and the fact that no one of you men recognized it as a Clearing House, convinces me that you do not yet fully comprehend and appreciate the fact that there is not the slightest difference between deposits subject to check, and a true credit currency, or a bank note issue. This is the great fundamental, economic truth, and unless you understand and recognize it, you might as well quit now.

MR. BANKER: I thoroughly appreciate what you say, Uncle Sam, and I think we all do, but you have driven this matter home, so that I don't think we will ever forget it, or fail to apply it under such circumstances again, will we, boys?

MR. LABORINGMAN: No, never. That discovery of Uncle Sam's was a centre shot, a real bull's eye.

UNCLE SAM: The result of this evening's talk is then, as I recall it:

First: There is no statutory authority for any Clearing House, either in England or the United States.

Second: The first Clearing House started in London in 1775. The second Clearing House started in Boston in 1818 under the Suffolk Bank. The third started in New York in 1853.

Third: Clearing country checks was established in London in 1857. New England became a free zone for country checks in 1899.

Fourth: Clearing Houses without any authority of law have adopted the following functions: (*a*) They have fixed charges for services; (*b*) they have provided reserves for their convenience; (*c*) they have forced all those banks, which are members, and all those clearing through them to submit to examinations; (*d*) they have not only issued Clearing House certificates for use in settling balances, but for circulation as currency in denominations of $1, $2, $5, $10, $20, $50, $100, to meet the demands of trade.

If you'll give them fifty years more, and will not interfere with them, they will in actual defiance of law reëstablish the currency system of New England before the war and now in operation in Canada.

It's too late to detain you a minute longer. You may go now, but remember that it took your Uncle Samuel to discover the important historical fact that the first Clearing House established in this country was the Suffolk Bank at Boston.

Good Night.

FOOTNOTES:

[1] Since the above was written New York City has become a free check zone for a large territory tributary to it.

FOURTEENTH NIGHT

BANKING IN 1860

UNCLE SAM: This is the fourteenth night, boys, since we began to meet, and discuss what in a way concerns me far more than any other question except the morals of the people. The tariff you can change, any time, any day, and, as I think should be changed schedule by schedule, so that there would not be any disturbance of business. Nor could corrupt trades between the various interests be made, if that policy were pursued. When we take up our money plan we must be sure we are right, before we adopt it. I mean absolutely right; for there is no hope apparently of changing our monetary laws when once they get upon the statute books.

MR. LAWYER: That is certainly true, Uncle Sam, for we've not made a single substantial change in our National Bank Act since it was passed Feb. 23, 1863, almost fifty years ago. Of course, we dotted an "i" here and crossed a "t" there, but that is all.

MR. BANKER: I never thought of that before, but it is literally true. The only change ever made, worth mentioning, in the National Bank Act was that made in connection with the funding of the National Debt in the Act of March 14, 1900. Then Congress adopted word for word a provision contained in Congressman Fowler's first general Financial and Banking bill of March, 1897. This provision provided: That the new bonds should be payable in gold coin and bear interest at the rate of 2 per cent per annum and that the banks could issue circulation up to par of the bonds, and that the tax of 1 per cent should be reduced to one-half of 1 per cent. Not another change has been made, and this was incidental, rather than the direct purpose of the Act.

MR. LAWYER: This indifference, or non-interference with monetary laws, is not peculiar to ourselves, however. You find the same is true in England. There has been no change in the English Bank Act since it was adopted in 1844, although practically all the English banking economists during the past fifty years have agreed that it is most faulty in some respects, particularly in its currency provisions. The same is true of the Bank of France which was established in 1803 by Napoleon, who proved to be as great an economist as he was a general. The same was true during the first fifty years of our banking legislation. The same will always be true in every country, for nothing is ever done, affecting a financial system, until the situation becomes intolerable as it is in this country today, and as it is fast becoming in Germany. Of course, the reason is not far to seek; it arises out

of the fact that there is a general fear that any change in the banking practices, or system of any country, will disturb the existing business conditions, or arrangements. Hence nothing is ever done, as long as the people will put up with it. It takes the terrors and wastes of business misfortune to bring any change however obviously needed; therefore, we must be very patient, and most thorough in our work of preparing a measure for the reformation of our present banking practices which have been correctly described as "archaic," "barbaric" and "the worst in the world."

MR. MERCHANT: That is right, we must be both patient and thorough; and to be thorough I think we ought to know what the situation was in this country in 1860, at the breaking out of the war; because if there is one fact that has impressed me more than any other, it is this, that all the real progress we have made during the past fifty years or since the war, has been either without any law, or in actual defiance of law. Under these circumstances I think it is of the utmost importance that we find out if we can what progress, if any, this country had made up to 1860, which was certainly a breaking up point in banking, as well as in all other lines.

MR. BANKER: I agree with Mr. Merchant, and ever since we began these discussions I have taken every opportunity to go back and investigate the banking situation, before 1860, hoping and expecting that our experience then would help us now. I have been literally amazed at what I have discovered in the way of sound banking in many of the states, and I have been profoundly impressed with the fact that then, too, as well as now, all that they had secured that was good was the outgrowth of experience.

MR. MANUFACTURER: I was so greatly impressed with the complete and, as it seemed to me, practically perfect system that had grown up under the Suffolk Clearing House, which started at Boston in 1818, that I have been wondering whether there were not other instances like that which would help us; for, gentlemen, whatever we may think, or want, personally, one thing is certain, and that is this, that we must take things largely as we find them, and legislate as far as possible in harmony with them, bringing the inefficient, the laggard and the "sucker" up to the approved standards of our banking experience and compelling every individual bank to do its part in providing its own insurance by carrying equal and adequate reserves and by carrying on its business in accordance with the highest standards of banking practices today. Then we must bring all of the banks of the country under

the reign of economic law, and into one harmonious whole for the benefit of all the people. We must protect our gold reserves against the demands of the rest of the commercial world.

Now, if any one of you has any information about banking conditions before the war that can possibly be helpful, I hope he will give it to us for our consideration.

MR. BANKER: I have no hesitation whatever in saying that there were better banking institutions in the United States in 1860 than there are today, so far as the principles are concerned upon which they were operated. But, of course, we must note two things in this connection: First, banking generally was not nearly as good upon the average as it is today; nor could you expect it to be. Second, banks generally were small, and only in a very few states was banking any more under governmental direction and control than the grocery business, stock buying or horse trading. The result was that sharpers all over the country were using the word "bank" or "banker" to swindle the unwary people and defraud the public generally. Third, in some states the legislators were so ignorant of economic law that the laws passed by them only facilitated the schemes of the swindlers in their diabolical work.

It was the reaction against the disastrous and disgusting experiences in one state after another because of the rotten conditions prevailing that some of the states finally passed laws for the establishment of banking systems, which for soundness and efficiency had never been surpassed, nor even equalled for the territory covered and services rendered.

Let me cite you a few instances; I will take first Louisiana.

The State of Louisiana passed a Bank Act which, though erring in one or two particulars, was nevertheless almost ideal; and under it, the state in 1860 stood fourth in banking capital, and held more specie than any other state except one. No limit was placed upon the amount of credit notes the banks could issue, nor the deposits they could receive and no security was pledged for their redemption. The virtue and real substance of the Act was in requiring a coin reserve of 33-1/3 per cent of all liabilities, deposits as well as notes, and confining the loans outside of capital to paper running for ninety days, or less.

Not a single bank organized under this law suspended specie payments during the panic of 1857, and all were conforming to the requirements of redemption when General Butler marched down the streets of New Orleans. The capital of the banks in 1860 amounted to $24,496,000, the $12,115,000, the circulation $11,579,000 and the deposits $19,777,000.

On Feb. 24, 1845, the Legislature of Ohio passed a Bank Act under which the Ohio State Bank was organized, with the right to establish branches and to issue credit bank notes. Each bank was required to deposit 10 per cent of the amount of its circulation to create a safety fund to redeem the notes of any branch that might fail. In 1846 there were seventeen branches; in 1848 twenty-five branches; in 1849 thirty-eight branches and in 1850 thirty-nine branches.

The note issues were of a purely credit character, and were proportioned to the capital as follows: For the first $100,000 of capital, there might be $200,000 of notes; for the second $100,000 of capital, $150,000 of notes; for the third $100,000 of capital, $125,000 of notes; for the fourth $100,000 of capital, $100,000 of notes, and for each additional $100,000 of capital, $75,000 of notes.

The evident purpose of the Act was to give the people a uniform and sound currency, and the plan succeeded admirably. The State Bank of Ohio was regarded as one of the soundest in the country.

The essence of the Act was in the requirement that the notes issued by the respective branches should be redeemed in gold or silver coin, the lawful currency of the United States, and in the insurance given of this result by a reserve equal to 30 per cent, of which at least one-half should be gold or silver and the balance equivalent to gold or silver coin.

John Jay Knox says: "The banks authorized under the laws of 1845 and 1851 were uniformly successful and furnished a currency for the people, not one dollar of which was ever lost by the holder thereof."

The capital in 1863 was $5,674,000, specie $3,033,000, circulation $9,057,000 and deposits $11,697,000.

MR. MERCHANT: I have often heard my father speak of the State Bank of Indiana. Can you give us the history of that system?

MR. BANKER: Indiana presents the anomaly of having organized the most admirable system of banking of any state in the Union, and also of having had a banking system or banking practices at one time so vicious that under it the banks bankrupted nearly the whole people. The State Bank of Indiana and its successor, the Bank of the State of Indiana, stood all the tests of financial panic from 1834 until the banks were all absorbed by the National Banking System, without closing their doors for a minute, or losing a dollar to bill holders, depositors or stockholders. It is a proud distinction for Indiana that its State Bank was long the model bank of the country. So well were its affairs managed that in a period of twenty-two years of actual business, the profit to the state on its $800,000 of stock amounted to three and a half millions of dollars.

The Bank of Indiana, which became a model, was chartered in 1834, with a capital of $1,600,000, and the state was divided into ten districts, afterwards increased to seventeen, there being a branch of the bank in each.

Under its charter the bank could receive deposits, buy and sell gold, silver, bullion and foreign coins, discount commercial paper, and issue bills payable to bearer—a true credit note. A forfeiture of 12½ per cent was imposed upon all notes not redeemed in coin.

The institution was hardly under way when the panic of 1837 broke upon the country. The New York banks suspending, compelled the Indiana Bank to follow in order that it could protect itself. John J. Knox says: "No bank in the country stood higher than did the State Bank of Indiana during the panic. In all the western and southern states its notes commanded a premium, and in the east were taken at a small discount.... Its loans were made in small amounts and scattered all over the entire state, thus affording the greatest possible measure of relief."

Great as was the success of this splendid institution, the Jacksonian democrats, coming into power, at once began an assault upon it, precisely as their leader had laid the axe to the roots of the United States Bank.

The Indiana democrats failed to destroy the Bank of Indiana, but succeeded in passing a general banking law permitting banks to be established upon filing with the auditor of the state the bonds, or other evidences of debt, of the Federal Government, or of any of the states, as security for the notes to be issued.

The State of Indiana itself went into the business of issuing notes, and even plank-road companies issued them. The Indiana state notes could be had for sixty cents on the dollar and were called "Red Dog." The plank-road notes and others of similar value were called "Blue Pup."

The Bank of the State of Indiana organized in 1855 with twenty branches to take the place of the Indiana State Bank, maintained the same high standard as its predecessor, going through the panic of 1857 without suspension, although every private bank in the state, except two at Indianapolis and one at Fort Wayne, went down.

Like its predecessor, the Bank of the State of Indiana fell on evil times soon after its organization. The panic of 1837 came two years after the organization of the State Bank; and in 1857, before the Bank of the State had been in operation quite two years, a great financial panic swept over the country, precipitated by the failure of the Ohio Life Insurance & Trust Co. Every bank in the east, except the Chemical Bank of New York, suspended specie payment, and all in the west, except the Bank of the State of Indiana and the Bank of Kentucky. The Indiana Bank weathered the storm, and redeemed all its obligations in gold, as fast as they were presented. Many of the branches of the Bank of Kentucky were at remote points from the railroads, and could not be easily reached by the brokers and other bill holders, but those of the Bank of the State of Indiana were within easy reach and holders rushed for the specie.

In 1860 the capital was $3,323,000, specie $1,917,000, circulation $5,753,000, deposits $1,186,000.

MR. MANUFACTURER: I can tell you all about the Kentucky banks myself—and I want to tell you there were no better then and there are no better anywhere today.

The Legislature of Kentucky in the session of 1833-4 granted a charter to the Bank of Kentucky with $5,000,000 of capital and the privilege of six branches. Charters were also granted to the Northern Bank of Kentucky, with a capital of $3,000,000, and the Bank of Louisville, with a capital of $5,000,000, each institution having the power or right to issue credit notes to double the amount of their capital.

While the Northern Bank of Kentucky liquidated in 1898 and the Bank of Louisville was merged into the Southern Bank in 1899, the Bank of Kentucky had in the latter year a capital of $1,645,000 and a surplus of $1,103,000, giving indubitable proof that no one had ever suffered because of its power of note issue. And there the Bank of Kentucky stands today, occupying the building it purchased from the United States Bank, a monument to the sound principles upon which it was founded.

It may be most fittingly observed before passing, that when in May, 1837, the blighting wave of suspension swept from New York across the country, these three banks of Kentucky held $1,900,000 in specie against $3,300,000 of notes in circulation—an object lesson for those who may possibly fear that the banks cannot obtain sufficient gold today to protect the notes they are permitted to issue.

The panic of 1857, which was severe in many parts of the country, and which caused great alarm in Kentucky, produced no ill effects on the banks, all of them continuing to pay in specie, even after the New York banks had suspended.

In 1860 the capital of these banks was $12,660,000 and the circulation was $13,520,000.

MR. BANKER: The record made by the Kentucky banks was excellent, but for organization the State Bank of Iowa, like that of the State of Indiana, has had no superior anywhere in the world, and humanly speaking, the administration and working of both was practically perfect. Iowa in the morning of her statehood was opposed to banking as a business; her first constitution provided that "the general assembly shall provide for the organization of all other corporations except with banking privileges, the creation of which is prohibited."

The Constitution also provided, that "the general Assembly shall prohibit any person or persons, association, company, or corporation from exercising the privilege of banking or creating paper to circulate as money," the penalty for each offense being one year in the county jail and a fine.

During the intervening years down to 1857, when the new Constitution was framed, Iowa had suffered so severely from the *bond-secured circulation* of Illinois in particular, known as "Wild Cat," "Red Dog" and "Yellow Dog"

money that a provision was incorporated permitting the legislature to create corporations with banking power, subject, however, to a vote of the people, and also to establish a State Bank with branches founded on actual specie basis.

I want to call the attention of you fellows to the fact that they had a referendum, a state referendum, in Iowa in those days.

It was provided that the branches should be mutually responsible for each other's notes; that the stockholders should be liable for an additional amount equal to their stock; that the bank could issue *pure credit notes for double the amount of the paid-up capital*; that in case of insolvency the bill holders should have a prior lien over other creditors and that specie redemption must be maintained.

To secure this solvency beyond peradventure, each branch was required to deposit with the State Bank either coin, United States stocks or interest-bearing state stocks at their market value in New York, but in no case above par. This deposit was equal to 12½ per cent of the note issue, and was known as "the Safety Fund" to redeem the notes of the branches in case any of them failed to do so. In addition each branch must have on hand an amount of coin, equal to 25 per cent of its notes outstanding and deposits held. Here is a replica of the banking system of the Bank of the State of Indiana, and it contains all of the prerequisites of a well-nigh perfect banking system; and the result proved the soundness of the plan.

This bank was prohibited from paying interest upon deposits. The parent bank was not a bank of issue or of deposit. It transacted no business, except with and for the branches.

Certainly there is no bank in the United States today with so good a charter as that of the State Bank of Iowa.

By an act approved in February, 1862, County Treasurers and the State Treasurer were authorized to accept the notes of these branches in payment of taxes, and by an Act approved March 10, 1864, payment of taxes and the interest and principal on the school fund might be paid in United States Treasury Notes, National Bank Notes, or *Notes of the State Bank of Iowa*, thus showing the unquestionable value of the State Bank Circulating Notes.

When the National Banking System was established in 1865, and the 10 per cent tax on circulation was imposed, the life was choked out of one of the most perfect banking systems that had ever existed; and every note of the $1,439,000 outstanding on Jan. 2, 1865, was redeemed without the loss of a single cent to the holders.

The capital was $1,048,000; specie, $389,800; circulation, $1,439,000; deposits, $2,851,000.

MR. LAWYER: In 1898 I heard an attorney from Richmond speak upon the State Banks of Virginia so boastfully, that out of pure suspicion I investigated them, not believing anything he said at the time.

About 1800 there sprung into life in Virginia a system of state banks based on the old Scotch system under which a half dozen banks of issue were authorized, with numerous branch banks in every part of the state. The charter provisions of these banks were the basis of the few laws that have been enacted in relation to banking since that day.

The first of the banks to be established under state control was the Bank of Virginia, incorporated by the General Assembly, Jan. 13, 1804, with a capital stock of $1,500,000 in shares of $100 apportioned; three thousand seven hundred and fifty shares to Richmond, three thousand to Norfolk, two thousand two hundred and fifty to Petersburg, one thousand to Fredericksburg, five hundred and twenty-five to Winchester, four hundred and fifty to Staunton and five hundred and twenty-five to Lynchburg.

The Charter provided that the banks should hold real estate and other effects to the value of $3,500,000, including the capital stock. The cashier was required to give bond for $50,000; the total amount of notes to be put into circulation by the banks, together with the debts, were restricted to $4,500,000, over and above the money actually deposited in the bank; that is, the issue could be three for one on its cash capital, and this was the established rate for this class of banks.

The bank was well managed and was highly successful. Its notes, all payable in gold, had a wide circulation and were at only one-fourth of 1 per cent discount in New York.

Five other banks were established with the power of establishing branches. These mother banks, six in number, were great institutions, and held the

complete confidence of the people. The law did not require that they should keep any reserves and they kept none, except the specie held in their vaults to redeem their notes.

The law provided that the total amount of paper circulation of these banks should *never exceed five times the amount of the coin in possession and actually the property of the bank*. If the coin of the bank was reduced below one-fifth of its circulation, it was required to stop all discounts until the ratio was restored. As a matter of fact some of the banks issued as high as 8 to 1.

The banks at such times kept their coin reserve up by keeping the discounts down.

The banks of Virginia from 1827 to 1860 had a prosperous period, keeping on an average $10,000,000 of notes in circulation without loss.

It is reported that occasionally drafts drawn on New York were placed in the safe to make up a balance, and called "coin." Be that as it may, there is no case on record where a bank of circulation and deposit failed, and it is claimed by those acquainted with the banking of that day that no one ever lost a dollar by a Virginia bank note previous to the war of 1861, and they were at a discount of only one-quarter of one per cent in New York.

On Jan. 31, 1860, the capital was $16,000,000, specie was $2,943,000, circulation was $9,812,000, deposits $7,729,000.

The Bank of the State of Missouri was started in 1837, with authority to issue notes at the ratio of three to one for the specie in its vaults, and with a branch at each of five considerable towns in different sections of the state; Lexington, Fayette, Palmyra, Cape Girardeau and Springfield. Its capital was $3,450,000.

In 1856, when the population of Missouri was eight hundred and forty thousand and that of St. Louis one hundred and twenty-five thousand, and the indications of substantial prosperity were to be seen in every department of business, the bank circulation was only $2,200,000, although its stock of $1,400,000 specie warranted notes to the amount of $4,200,000, and a considerable part of its circulation was doing duty in California, Oregon and New Mexico, whither it had been carried by emigrants and traders. It is no wonder that under these circumstances Missouri offered an inviting field

for the "Wild Cat" money issued so profusely by banks in other western states and that its people became victims of an inconvertible and unreliably currency, which the bank note reporter quoted at a discount all the way from 5 to 25 per cent.

So valuable were the notes of the banks of the State of Missouri in California in the '50's that a gang of counterfeiters took advantage of their popularity, and struck off imitations of them in large quantities.

It was a remedy for this evil, which had become unendurable, and in response to the persistent demands of the important commercial interests of the chief city of the state that the legislature, in 1857, chartered seven banks of issue, with branches conveniently located for the accommodation of business.

These banks were promptly organized in the spring of 1857, immediately after the Act authorizing them was passed; for the state was prosperous, and offered a fair field for legitimate investment. The monetary crisis which was impending but not discerned fell upon the country shortly after they had opened for business; but they stood the strain well; two of them, the Mechanics and the Exchange of St. Louis, refused to suspend specie payment, and continued to redeem in coin through the panic; and when the Civil War broke upon the country four years later, these two banks again refused to join in the general suspension, and maintained coin payment under all conditions that followed.

The system of banks organized under the Act of 1857 rendered the important service of partially displacing the uncertain and variable currency issued by the banks of other states and territories which had found so easy a field in Missouri. The legislature had also authorized the old banks in the state to establish additional branches and to issue notes for $5.00, and in a short time every considerable town in the state had a bank, and the notes of Missouri banks, issued at the rate of $3.00 to every dollar of specie on hand, afforded a local currency better than that brought in from the outside, which had for years almost monopolized the field. The "Wild Cat" money nevertheless made a stubborn contest, and the last of it did not disappear until the National Bank Act went into operation.

In the wild, reckless period, when almost anything in the shape and appearance of an engraved bill, with the name of a bank on it, was good

enough to buy public land with, and good enough, therefore, for all other purposes—and in the latter period when other western states *authorized banks to issue notes based on various kinds of bonds* with the place of redemption out of the way and difficult of access—sometimes in a forest or in a swamp—the legislature of Missouri refused to charter institutions to multiply such currency within the limits of the state.

The notes of the Bank of the State of Missouri were preferred to specie in New Mexico, Utah and on the Pacific coast, and the same high character marked the issues of the system of banks authorized by the general law of 1857.

The capital in 1863 was $11,247,000; specie, $3,666,000; circulation, $4,037,000; deposits, $3,434,000.

Everything I have just said I have taken from John Jay Knox's "History of Banking."

During all this varied experience in the west and south, there was a most conspicuous illustration of a complete banking system demonstrating and proving every economic principle that is involved in constructing a financial and banking system for the United States. It was the Suffolk System of New England. Here were six states, the laws varying in each. Portions of these states were far more remote from Boston in those days than any part of the United States is from any other part today, so far as business relations and convenience are concerned.

There were no railroads, nor telegraph lines, nor long distance telephones. Indeed, almost every essential to anything like a sound banking system as conceived and observed from the standpoint of today was wanting. There was no law requiring a uniform reserve. There was no law requiring coin redemption. There was no law requiring bona fide capital. There was no check upon the amount of notes that might be issued if a bank was dishonestly inclined.

There were, in 1848, three hundred and six banks, deriving their authority from six states, and one hundred and fifty-nine of them did not possess an average capital of $100,000; nor was the average capital outside of Boston more than $160,000, and including that city, it was not more than $206,000.

By 1860 there were five hundred and four banks. There are only seven hundred and forty banks today in the same states. Can any fair-minded, impartial man deny that the conditions today are vastly in favor of better results than they were then? One law for all; a bona fide capital; a required reserve; a system of redemption established by law; notes furnished by the United States Government; a common national supervision. These all unite to compel the admission that any system that could prove its adequacy under such adverse conditions as existed from 1840 to 1860 would certainly approximate perfection today.

Nowhere in the whole range of banking experience have so many things, which the student of this subject wants to know, been demonstrated beyond cavil.

To all intents and purposes the possible issues were without limit. The actual circulation in 1840 was only 23 per cent of that permitted. The circulation of 1850 was only 40 per cent of that permitted; and the circulation in 1860 was only 36 per cent of that permitted.

During every year from 1840 to 1860, except one, the note issues were greater (and usually nearly double) than the deposits, illustrating with what certainty and perfect nicety such a system adapted itself to the ever varying needs of the people who were fortunate enough to have it, and how it invariably, with peculiar fitness, met the needs of the rural districts where currency and not checks was especially required.

The States of New Hampshire and Vermont had bank capital amounting to $8,150,000 in 1850, and notes outstanding amounting to $7,300,000, while Boston with $33,200,000 of capital had only $7,500,000 of notes outstanding.

A marvelous exhibition of this interplay and interchange of bank book credits and bank note credits occurred in the six New England States as a result of the panic of 1857. The authorized note issue of the five hundred and ten banks constituting the Suffolk System with capital ranging all the way from $25,000 to $500,000 each was $131,000,000. In 1856, the year before the panic, the note issue amounted to $50,000,000, and the deposits amounted to $32,000,000. In 1857, as the result of the panic, the note issue rose to $55,000,000 and the deposits dropped to $25,000,000; in 1858, one year after the panic, the note issue had fallen to $36,000,000, and the

deposits had risen to $47,000,000, or there had been a conversion of $20,000,000 of bank note debts into deposit debts. The exigency for cash had disappeared and the depression had come.

Do not fail to observe three important facts in this connection:

First: That although the banks were authorized to issue $131,000,000, they never exceeded $57,000,000, which was the highest point of circulation, and that was reached as the result of the panic of 1857, and that they averaged $43,000,000 from 1840 to 1860.

Second: That there was a perfect adaptation of the deposits and note issues to the peculiar and ever changing demands of the people during the panic, and during the depression in trade that followed the panic.

Third: That the number of banks in New England in 1856, the year before the panic, was four hundred and ninety-five, and in the year 1858, the year after the panic, there were four hundred and ninety-nine banks, or four more banks the year after the panic than there were the year preceding the panic, an unquestionable tribute to the principle of current coin redemption.

Now, mark this, that the very heart and the very soul of the Suffolk System was in the fact that the notes were redeemed in Boston in coin. So good were these notes considered to be throughout the entire west, that at Buffalo, Chicago, Milwaukee and all commercial points in the then far west, they were always taken at a premium of from 1 to 5 per cent. It was not the size of the bank of issue that made them good and desirable, but the fact that they were redeemed in coin in Boston.

When the soundness of this system is tested by a comparison with that of the national banks, the result more than justifies the assertion that the Suffolk Bank System of New England was incomparably better than the National Bank System; for, when the conditions during the twenty years from 1840 to 1860 are compared with those of the past thirty years, all must admit that argument is futile and the conclusion is inevitable.

Mark this, that while a tax of one-eighth of 1 per cent of all the notes in circulation would have paid all the notes of the banks that failed under the Suffolk System from 1840 to 1860, it would have taken a tax of one-fifth of 1 per cent on all the notes outstanding issued by the national banks to pay the notes of the failed national banks.

In confirmation of what I have said in praise of the Suffolk System let the bank commissioners of Connecticut, Vermont, Maine, Massachusetts and the *New York Courier and Enquirer* testify.

"The currency of this state is of the first order and can not be improved, being equal to gold and silver. This is strong language, we admit, yet perfectly true, for every bill holder can on demand convert his bills into coin." (Connecticut Bank Commissioners' Report, 1841.)

"The bills of any country bank, redeemed at par in any commercial city, will always be current throughout the extent of region whose business channels flow to that city. Hence, New England money is worth more in the cities of New York and Philadelphia than the bills of their own country banks. Vermont bills have uniformly borne a premium in the eastern cities without loss, while bills of their own states are at a heavy discount." (Vermont Bank Commission's Report, 1852.)

"The 'Suffolk System,' though not recognized in our banking law, has proved to be the great safeguard to the public. Whatever objections may exist to this 'system' in theory, its practical operation is to keep the circulation of our banks within the bounds of safety. No sound bank can have any well-founded reason for refusing to redeem its bills in Boston, and a bank that is not sound can not long do business under that system and ceases to be in good credit when it is 'thrown out at the Suffolk.'" (Maine Commissioners' Report, Dec. 31, 1857.)

"If there was no check upon circulation there might be some danger, but the frequent redemptions at the Suffolk Bank and the rapid communications between different parts of the country will prevent any greater circulation than the natural business wants of the country will sustain.... Indeed, this system of par redemption seems to be a most perfect regulator upon all the New England banks. It would seem somewhat surprising that something has not been adopted in other parts of the country that should produce the same beneficial results." (Connecticut Bank Commissioners' Report, 1848.)

"The charters of the banks have been renewed. If the laws by which they are constituted the agents of the people to provide a currency, and by which their faithfulness in the discharge of such agency is secured, remain unchanged, there is every reason to believe that the currency of Massachusetts will be for the next twenty years what it has been for the

twenty years past—as perfect as any in existence, as perfect as in the nature of things it can be. No reasonable man, no practical man, no man who is not bound hand and foot in the fetters of mere theory, can desire for the people a currency better adapted to meet all the circumstances of a business community than that which has been furnished by the banks of Massachusetts for the last quarter of a century." (James B. Congdon, cashier Merchants' Bank, New Bedford, in memorial to Governor of Massachusetts, 1851.)

"We said that the Massachusetts currency was apparently unsecured. In reality their bank paper is well secured. The experience of the last fifteen years has demonstrated that the losses from bank issues in the State of New York are four or five times greater than in Massachusetts. The system of the latter is better than our own." (*New York Courier and Enquirer*, 1854.)

"It is by no means wonderful that a system which has stood the test of time and struck its roots so deep as to have become incorporated with and formed a part of our banking system should be abandoned with hesitation for one which is new and untried." (Maine Bank Commissioners' Report, 1865.)

"The State parts with these objects of her care and solicitude with many regrets, but with a just pride in their career, inspired by the belief that their capital has been highly instrumental in promoting the prosperity of the state, and that they have furnished as good a paper currency, based on individual credit, as any part of the country has ever enjoyed." (Massachusetts Banking Report, 1865.)

MR. LAWYER: *If, as we have gradually come to understand and firmly believe, the true service of a bank is to furnish credit to its customers, as they want it, and in such form as they need it, then these institutions which you have been describing were certainly far better suited to the purposes of their day than any banks we now have in existence.*

Two things seem to have been present in all of these various institutions: ample coin reserves, which ranged from 20 to 33 per cent, to meet any demand for credit redemption and perfect freedom in changing bank credits from the form of book credit to the form of note credit, and the form of note credit to the form of book credit, according to the desires and needs of the customers of those banks.

As a result of interchangeability of book and note credits, a bank could always protect its coin reserve, for if the customer was just as well satisfied to take the bank's notes, instead of coin, or its reserves, it must be apparent to all of you that the cost to the bank would only be from one-sixth to one-fourth as great, and that the bank would have several times as much credit to loan, and at the same time be in a much stronger position.

Let me illustrate what I mean by calling your attention to what happens over in New York every fall. Let us suppose that the New York banks owe the country banks, say $500,000,000 and that the country banks call for it from July to January for the purpose of moving the crops. The banks of New York with the right kind of a currency system would not need to disturb the situation in New York at all because they could send their correspondents their credit notes, or cashier's checks, for $500,000,000. You see the New York banks would simply convert a deposit credit subject to check or draft into a note credit. The amount of the debt would remain the same, the amount of the reserves would remain exactly the same; but, instead of the country banks continuing to keep the deposits subject to check at the banks, they would take the notes which would serve their purpose, because they could in turn send the notes into the corn and cotton fields, to help harvest and gather the crop; and, just as soon as the notes had served their purpose, they would be returned to the country banks and by them in turn sent on to the New York banks, and would have been reconverted into book credits. Not a single dollar of actual money would have been used in the whole transaction, and yet the country would have been served just as well, as though every bank note sent out had been a gold certificate.

On the other hand, if the New York banks should continue to be as they are today compelled to ship the $500,000,000, they would have to call loans and shift conditions until they could scrape up $500,000,000 with as little injury as possible to their customers and send it west; nearly every dollar so sent out is reserve money of some form, gold certificates, silver certificates and United States notes. Now mark this, the credit notes cost the bank only the interest on the reserves behind the notes; but when the banks ship out their reserves, the cost must necessarily be four or five times as much, to say nothing of the injury they have done to the business conditions in New

York. And so this same principle runs on throughout all of our banking business today from one end of the country to the other.

MR. MERCHANT: Well, Mr. Lawyer, your entire argument goes to demonstrate with mathematical certainty that the country banks would never have any occasion whatever to send to New York for currency, as they would create their own currency by converting bank book credits into bank note credits to meet all ordinary demands, a fact that not only accentuates, but proves more conclusively what you are saying, and reinforces your argument.

Should we be fortunate enough to secure a right kind of banking system in this respect, we could almost double our bank reserves, that is, make them twice as large, and yet make two or three times as much profit on that part of the banking business, growing out of the substitution of credit notes for reserves, and at the same time be vastly better able to protect the balance of our business from disturbance due to the fact that we are compelled to use reserve money for currency purposes. This now seems to me a very simple matter when you once have grasped it.

MR. BANKER: In this connection I want to call your attention to this fact, and I want to note that it is a very important fact which was so obvious in connection with every single statement of capital, specie, circulation and deposit, that has been given, when referring to the banking systems before the war, and that's this: that the note issues did not begin to average one-half the authorized amounts, proving conclusively that the currency of these banks invariably adapted itself to the exact needs of the people.

Notes Outstanding.	Possible Issue was.	Per Cent of Possible Issue.	Specie Held.	Deposits.
Louisiana				
$11,579,000	No limit except 33% Coin Reserve		$12,115,000	$19,777,000
Ohio				
$9,057,000	$10,000,000	About Par	$9,057,000	$11,697,000

Indiana				
$5,753,000	No limit but 12½% penalty for failure to redeem in coin		$1,917,000	$1,186,000
Iowa				
$1,439,000	$2,096,000	70%	$389,800	$2,851,000
Virginia				
$9,821,000	$14,725,000	70%	$2,943,000	$7,729,000
Missouri				
$4,037,000	$10,998,000	38%	$3,666,000	$3,434,000
Suffolk System				
$44,000,000	$131,000,000	30%	$10,058,995	$41,208,000

Can anyone doubt, after noting these figures, that the note issues of the various banking systems kept as perfect pace with the requirements of trade, as checks and drafts do? Certainly it is perfectly evident that the bank notes came and went precisely as all bank credit should.

MR. LAWYER: While all these splendid banking systems were snuffed out by the 10 per cent tax upon circulation, the sound principles upon which they were all founded are still most successfully exemplified by the Canadian Banking System which you will remember took its charter from the statutes of Massachusetts.

There are today 27 banks in Canada, with 2,000 branches. The general principle of the Canadian Banking System is identical with that of the Virginia, Kentucky, Louisiana, Indiana, Ohio, Iowa and Missouri banks. It is true there are some differences in matters of detail. The amount of notes that can be issued regularly is that of the capital of the bank. The notes are a first lien upon the assets of the bank, including a double liability of the stockholders; the bank notes are also secured by a guarantee fund of 5 per cent, which is contributed by the banks issuing the notes; there is a provision that the notes shall bear interest at the rate of 5 per cent until notification of redemption. No holder of a Canadian bank note has ever lost a cent since these provisions have been in force.

You remember that we have a chart which shows very graphically with what marvelous accuracy, year in and year out, month in and month out, day in and day out, the Canadian Bank note currency meets the actual requirements of trade; no more, no less, but always just adequate.

The precision with which the currency rises and falls with the demands of trade is the result of the daily redemption of all bank notes, concurrently with the checks and drafts, through the Clearing Houses, or over the counters of the banks, or at the points fixed by law for note redemption for the purpose of keeping the notes at par, all over Canada.

We want to keep this diagram here on file, because it speaks louder than words possibly can.

MR. BANKER: One striking characteristic of the Bank of the State of Indiana and the State Bank of Iowa was that the parent, or home institution, did no business at all, except for the branches, and examined and supervised them. Hugh McCulloch, the president of the Bank of the State of Indiana, said, "that the soundness of the bank was due to the frequent examinations."

Another feature to be found in both these systems, and so far as I know peculiar to them, was this: that all the branches were responsible for the failure of any one of them; but the branches did not share in each other's profits. The result of this law was to make every branch the watch dog of every other branch; there was only one instance in which the home, or parent institution, took charge of a branch in either state, and that was in 1860. The executive committee of the State Bank of Iowa having heard that one of the branches had made some unsafe investments, "promptly took charge of its affairs, and authorized a reorganization, calling upon other branches for such aid as was required, which was given so that the branch, with no delay, and without loss of a cent to its customers, or note holders, or suspension even of its legal business, was again put on a firm and solvent basis."

Undoubtedly this plan of supervision by the parent, or home institution, which did no business, was a wise precaution. Mark this, it is precisely the same principle put into operation that is now being followed by twenty of our Clearing Houses, and was then, and as I believe it will prove now, a practical guarantee of all the liabilities of all the banks that are subject to such examinations and supervision.

The most significant fact, and the one to be noted particularly, is that the parent, or home institution, like the Clearing House, only acted for the branches, precisely as the Clearing House acts for its members, and examined and supervised them. Economically this principle is absolutely sound. Historically, it is of essential importance because here history is repeating itself, after a lapse of fifty years, and in both instances this protective principle and practice has grown out of precisely the same conditions—the unsound and dangerous methods of certain members of the banking fraternity itself.

MR. MERCHANT: Gentlemen, the astounding thing to me is that when this country had once learned and practiced so sound, complete and perfect a banking system, it should have lost it.

MR. MANUFACTURER: I don't think that that is at all strange when you remember that it only existed in a few states and consider just how we lost it. You will remember that the Virginia banks which were founded upon the old Scotch system started in 1804, and worked perfectly until the war broke out. The other banks, or systems of banks, were established from time to time, some of them as late as 1857, and as Mr. Banker remarked several nights ago, modeled very largely after the two United States banks, the charter of the last of which expired only in 1837.

From a close study one can discover both of these two systems combined in some instances. In this way we were gradually working out a national system precisely as we are today under new and vastly more varied conditions, but the war coming on, destroyed all that had been done.

You will remember that Secretary Chase, desiring to sell Government bonds for the purpose of carrying on the war, secured legislation which put a tax of 10 per cent upon all bank note issues and compelled banks desiring to issue currency to buy Government bonds as a basis of their circulation. As a result, he produced a currency of uniform appearance that was of equal value everywhere and a great blessing to the country. This condition was a very great and most agreeable change in the currency experience of the country, because there had been practically no legislation except in a few states that in any way controlled banking practices, or currency issues. The result was that we had "Blue Pup Money," "Red Dog Money," "Wild Cat Money," "Yellow Dog Money" and every other kind of "Dog Gone Money,"

that could be gotten up with paint and paper to fool and defraud the people. On top of this situation there arose a terrific political prejudice engendered through political controversy toward a Central Bank. The conditions brought about by the legislation, secured by Chase, have kept up the present régime until it has become so utterly intolerable, because utterly unsound economically, and so disturbing to the general welfare as to compel immediate consideration and reconstruction.

It is really the first time since the Civil War that the finances and banking of the country have become a serious question outside of the acute phases presented in the Government issues, or the Greenback craze of 1875 and the silver hallucination of 1896. Today, the question is not a specific one, or a mere detail, but one of fundamental principles and of a most comprehensive character. It involves the whole subject of governmental finance and banking and it is well that it should; for our business is so vast now, almost 50 per cent of the banking power of the world being within our borders. Our annual productions are approximately thirty-five billions. Our annual clearings will pass the fabulous mark of $170,000,000,000 (one hundred and seventy billions). So that every recurring financial disaster will be worse, if possible, than the one going before it.

MR. BANKER: Right you are, Mr. Manufacturer, and this is true because the principles involved are as fundamental and immutable as the law of gravitation; and if we persist in our folly, when dealing with these enormous volumes of credit, the destruction that is sure to follow will be on a scale with that of worlds in collision.

MR. MERCHANT: That seems to describe the situation somewhat graphically and impressively, but I must say truthfully. We are undoubtedly "up against it" as the boys say. Only the other day I was talking with a president of one of the largest national banks in the country, and he told me that unless something was done very soon, he would get out of the business, because he could not stand the strain; but the bankers' troubles are no worse than those of every business man, and it seems to me as though we were on a perpetual strain, and living in a sort of terror of what may happen at almost any time. The business atmosphere is unnatural. Certainly this cannot be necessary.

MR. LABORINGMAN: Well, I don't see anything very strange or unnatural about this thing, if it is as you have already stated that there have been no changes in your banking laws worth speaking of, since 1863. Look at your railroad development. Fifty years ago the locomotive that weighed thirty-five tons was a whopper, but now they turn them out weighing one hundred and thirty-five tons. We used to have thirty-five and fifty-pound rails, and our ties forty inches apart. Now we have a hundred-pound rail, yes, one-hundred-and-fifteen-pound rail, with the ties twenty-five inches apart. The other day, I counted one hundred cars with one hundred thousand pounds capacity each, every one loaded full in a single train. Now, what would you think of running a hundred-ton engine, and that kind of a train of cars over a railroad built fifty years ago? Ties only eight inches thick and forty inches apart, on a corresponding road-bed. Why, men, I can tell you we don't want a single-track railroad of that character now, with a switch out every ten miles to let trains pass; but we want a four-track road, with twelve to fifteen-inch ties, only twenty-five inches apart, and equipped with signal and block systems of the latest type, and most perfect automatic operation.

UNCLE SAM: Gentlemen, when it comes to getting down to brass tacks, and hitting the thing plump square between the eyes, Mr. Laboringman gets away with all of you. Now, can you beat that as an illustration of our financial and banking needs? If you will construct a banking system up-to-date, and just add to these domestic requirements the necessary provisions growing out of the fact that I am now a world power, I should have said, I am the world power, and prepare an international financial and banking system, we shall meet the demands of this new century; but otherwise I shall find myself wholly incapable of protecting the very foundation of commercial credit, my gold reserves, when the test comes.

MR. BANKER: Mr. Laboringman and Uncle Sam have laid down the right kind of a program in telling terms, if not explicit. It is clearly up to us to work out a plan as comprehensive and perfectly adapted to our needs today, as were the banking systems of Louisiana, Ohio, Indiana, Kentucky, Virginia, Iowa, Missouri and the Suffolk Banking System of New England was to the needs of those various sections of the United States at that time; for they were practically perfect from the standpoint of economic principles and the needs of those times. The principles upon which they were founded

are eternal and are just as applicable today as they were then. The principles have not changed, although the conditions have, and that most amazingly.

FIFTEENTH NIGHT

OUTLINE OF BILL

UNCLE SAM: For nearly four months, for this is our fifteenth night, we have been studying the principles of economics and the practices of banking, and we have gone over with the greatest care the experiences of American banking institutions from the beginning.

No body of men could have been more faithful in attendance, nor more sincere in their desire to know the facts, and understand the fundamental principles as they are; nor more determined to get to the bottom of things; nor more ready to yield, and renounce even hoary-headed fallacies when it was demonstrated that you were wrong, than you have been.

All of you seem to have possessed that high moral courage essential to the progress of the world, ready acknowledgment of error, even though the confession bore heavily upon the stability of your opinions. You seem to have utterly forgotten, if you ever possessed it, that false sense of courage that ever impels us to deny that we are wrong, however apparent our error may be. You have pursued the only course that leads on to progress. Your inquiries have always been: What are the facts? What are the principles involved? What does experience show? What is it wise to do under the circumstances? What principles, practices and methods will give us the very best financial and banking system in the world?

MR. MERCHANT: Uncle Sam, if our work under your tutelage has inspired you with the belief that our aims and purposes have been unselfish and patriotic, as you have just intimated, the measure of our achievement will be limited only by our capacity for the great task in hand. Certainly without unselfish devotion, and a sincere desire to do patriotic service, however great our abilities, our work should, and would in the long run, be a failure;

even though it might upon the surface seem to be suited to the ends sought, because ulterior motives and selfish purposes, like murder would soon out.

MR. BANKER: It's a source of satisfaction to me to have had a part in this work so far and I shall be content if the public will only accord us their confidence in our good faith, and afterwards show their interest in the public welfare by the same persistent study of this question that we have given it.

Two things are perfectly clear to my mind. First, this question will never be settled upon right principles until the public takes it up in earnest, and discusses it to a finish, as they did the gold standard in 1896. Congress will never legislate upon this question broadly as they should, until they are convinced that the people are practically agreed and are behind some well established principles and at least approve the outline of some well considered plan for a financial and banking system for this country.

MR. MANUFACTURER: I believe that is literally true, with the exception that if all of us business men and farmers sit idly down until we have another panic, then the men who have been behind Nelson W. Aldrich will take advantage of the opportunity afforded by the conflagration of credit and like the looters, human ghouls, jackals and hyenas that robbed the dead and dying, after the San Francisco fire, will rush in, and, before the public are aware of it, will put something over, probably the same old scheme, concocted in behalf of the special interests of this country, fooling the people by changing its name, and having it introduced by some innocent member of Congress from an out of the way place, and under unsuspected auspices. Such a possibility makes it our duty to present in concrete form the result of our study.

MR. BANKER: That is a true prophecy; if the people of this country remain indifferent, and allow another panic to come, without having made a study of this question, these conspirators will undoubtedly carry out their plot yet. Therefore, I agree with Mr. Manufacturer that it is our duty to start such a discussion, if possible, as will save the people from such a dire calamity.

MR. FARMER: I suppose that I shall be largely responsible for the measure of interest the farmers take in this subject. I want to tell you now that this band of political pirates, and the secret forces of the special interests, are not

going to board this ship, without ample warning, so far as I am personally concerned.

MR. BANKER: Before we get down to business and actually attempt to draw a bill, I think we should review the facts and situation from beginning to end, so that we may have a sort of sky line to guide us in that work.

The banking situation before 1860, the growth of the business of the country since and the development by the slow processes of evolution of that great mass of practices without the aid of law, and to some extent in absolute defiance of law, constitute the condition to which we must apply those great fundamental principles of economic law, if we would be wise, and hope to succeed in so great an undertaking by convincing the people, not only of our sincerity, but of our wisdom as well.

It is estimated that there was in the United States in 1860 approximately $300,000,000 of gold, and that our banking resources were approximately three billion dollars ($3,000,000,000); in other words, that the gold represented about 10 per cent of our banking resources. Today we have banking resources in excess of twenty-five billion dollars ($25,000,000,000) and our gold is only one billion eight hundred and fifty million dollars ($1,850,000,000), or our gold represents only about 7 per cent of our banking resources. In other words, our gold reserves today are not as strong as they were in 1860 by at least 33 per cent.

Another matter of importance about which I am sure we all agree is this: that there were in several of the states in 1860, banking systems which were vastly superior to anything we have today. This was particularly true of the banks of Virginia, Indiana, Iowa, Ohio, Kentucky, Missouri and the Suffolk System of New England. As a proof of this contention, which no man who knows anything about the subject will attempt to controvert, I have only to state that identically the same banking principles are in operation in Canada today that were in operation in those states. Canada, you will remember, took her system from the statutes of Massachusetts. Will any man in the United States deny that Canada has a vastly superior banking system to anything we have in the United States? Will any man assert that any country in the world has a better banking system than Canada has today? If so, let him name it. All the Canadian people, and all the Canadian bankers, so far as I have been able to learn, are completely satisfied, indeed, proud of their

system. Is there one single business man, or one single banker, in the United States, who would have the audacity to expose his ignorance by stating upon a public platform that we have any banking system at all in the United States? And if he did, would he not be compelled to admit that it was one of the worst in the world, and as a panic breeder that it easily stands in first place?

MR. MERCHANT: I do not see how it could be otherwise, when you recall some of the facts brought to our attention during these talks.

The National Bank Act was passed Feb. 23, 1863, just fifty years ago, and we have literally refused to pass a single paragraph that would enable the bankers of the country to adjust themselves to the vastly changed conditions. Think of it, then we had only three billion of banking resources! Today we have more than twenty-five billion. Then our savings were comparatively a mere pittance, while they are today six billion five hundred million dollars ($6,500,000,000). The trust feature of the banking business, as followed today, had not even been heard of. Then by a tax of 10 per cent, we destroyed the natural note-issuing function of the banks simply because Secretary Chase wanted money to carry on the war. There were no laws to regulate banking in this country, except in a few of the states, where they had developed banking systems as perfect as any that have ever existed anywhere. The United States Government would have been just as much within its rights and power, and just as wise, economically speaking, if it had at the same time, and for the same purposes, imposed a tax upon the deposits that were not made in the national banks. For, as we have seen, there is absolutely no difference between bank book credits and bank note credits. A bank is just as fit to issue a bank note as it is to take a deposit. If a bank is not fit to issue a note, which is nothing but a cashier's check, it is unfit to take a deposit.

Again, however important it may have been to pass suitable banking laws in the past, there has never been a time when action was so necessary as now, because of the almost incomprehensible increase in our banking resources.

The Comptroller of the Currency, you will remember, has just made a report showing that the increase in our banking resources for the four years preceding June 14, 1912, reached the surprising and startling figures of five billion four hundred and three million dollars ($5,403,000,000). The

significant meaning of these figures cannot be appreciated without recalling the fact that the Comptroller's office shows that the total banking resources of the United States in 1890 were estimated at only five billion four hundred and fifty million dollars ($5,450,000,000) or only $47,000,000 more. In other words, the increase in our banking resources in four years ending with June 14, 1912, were almost equal to the entire accumulation of our banking resources from the first settlement at Jamestown in 1607, two hundred and eighty-three years ago.

Mulhall, the English statistician, stated that the banking resources of the entire world in 1890, including the United States, were a little less than seventeen billion dollars ($17,000,000,000), and estimated that our banking resources at that time were a little less than seven billion dollars ($7,000,000,000), or about two-fifths of the total banking power of the world. Today our banking power exceeds twenty-five billion dollars ($25,000,000,000), while that of the entire world is estimated at about fifty-five billion dollars ($55,000,000,000). In other words, we now have more than 45 per cent of the total banking power of the world.

Commercially speaking, the last fifty years has been the most marvelous period in the history of the human race, and the most surprising and most surpassing period of this most marvelous period are the years from 1890 to 1912.

We now have more than twenty-five million toilers. Our productions in 1912 will exceed thirty-five billion dollars ($35,000,000,000). Our foreign trade will reach four billion dollars ($4,000,000,000). Our bank clearings will probably pass the one hundred and seventy billion dollar ($170,000,000,000) mark. Our total transactions (of all kinds) will approximate five hundred billion dollars ($500,000,000,000).

Any business expressed in these stupendous figures, and involving every dollar of our capital, both the commercial and our vast investment funds, and every day's labor from ocean to ocean, and from Canada to the Gulf, ought to be commanding most serious attention on the part of every intelligent and patriotic man. This is more especially so when we look into the present situation, and discover upon what dangerous ground we stand, and how imminent a commercial explosion is, and that our very prosperity at the present time is our greatest peril. Indeed, that as our prosperity comes

on apace, with equal certainty are we moving onward toward a commercial cataclysm.

Since we have just passed a more or less critical stage, it may be well to call attention to the fact that any single, untoward incident of any great importance might have produced a business tragedy, even so soon after the commercial earthquake of 1907, which hardly left a single brick undisturbed in the edifice of the most prosperous time in the history of this or any other country.

The national banks have been confined from the outset to a single kind or phase of banking, properly known as commercial banking. This was practically all there was in the way of banking in the United States in 1863, except the mutual savings banks, of which there are today six hundred and thirty in the whole country. It's a most remarkable fact that only thirty-one of these are west of Buffalo.

There are today one thousand two hundred and ninety-two stock savings banks, with $76,000,000 of capital, owing individual deposits of $842,000,000. There are thirteen thousand three hundred and eighty-one state banks, with $459,000,000 of capital, owing individual deposits of $2,912,000,000, with $250,000,000 additional liabilities. There are one thousand four hundred and ten loan and trust companies, with $419,000,000 capital, owing individual deposits of $3,674,000,000, with $450,000,000 additional liabilities.

Here are sixteen thousand eighty-three stock savings banks, state banks and trust companies, with $904,000,000 capital, owing individual deposits of $7,428,000,000. These do not include one thousand ninety-one private banks reporting to the comptroller of the currency, nor the mutual savings banks, which bring the total number up to seventeen thousand, eight hundred and four and the individual deposits up to $11,198,000,000.

The capital of the national banks is $1,033,570,000; their individual deposits are $5,825,000,000 and the amount due to banks is $2,178,000,000.

These vast banking resources are without any general organization whatever and yet consists of four distinct economic functions, and our great danger lies in the fact that there is no harmonious development and

unification that we can call a system under one influence and control. This is absolutely necessary for the safety of banking and commerce at home, and the protection of our reserves, especially against adverse influences in unfavorable times from abroad.

MR. MERCHANT: To simplify the matter, so that we can follow it through to the end, I suggest that we begin with the unit of a banking system: the bank as we know it today, the individual, independent bank, and note just what changes we should make in the organization of a bank, to make it the perfect and complete machine that the people demand, that they may be served as well today as they were in certain sections of the United States before the war.

MR. BANKER: That's a good idea; indeed, the only way to be thorough, and get results. As was pointed out last Wednesday evening, banking today consists of four distinct functions.

A COMMERCIAL BUSINESS
A SAVINGS BUSINESS
A TRUST BUSINESS
A NOTE ISSUE BUSINESS

First: The commercial business: The use of capital in the production and distribution of consumable commodities—food and clothing and all the incidental tools and machinery.

Second: The savings bank business: The accumulation of the money saved by the working people of the country. This is distinctly a trust fund, and belongs to the investment fund of the country, and should be treated or handled as such.

Third: The trust company business: The execution of wills, and the care of estates; the execution of mortgage trusts, such as railroads or corporations create; the representation of others in the capacity of agent or attorney in the complicated business affairs of today; all such funds are of a distinctly trust character, and the investment of the money accumulating and growing out of such transactions in many of the states are specifically provided for by statutes. Such business cannot be included in the commercial affairs of the country, economically speaking, because they are essentially trust transactions, and the funds, generally, belong to the investment class.

Fourth: The note issue business: The provision of all the currency of the country, except the gold coin and gold certificates, which, while they constitute all of the money of our country, are also used for currency; and except the subsidiary coin and token coins of the country.

True bank credit currency is economically identical with checks upon deposits held by a bank. The bank note is the check of the cashier against the credit of the bank, while the deposit check is the check of the depositor against the credit of the bank. The bank note, for the convenience of the people, is always in even amounts, and passes without indorsement, while the check of the depositor is for any amount, odd or even, that may be involved in a transaction, and almost universally passes only by indorsement.

The people have just as much right to demand that the banks provide them with a true bank currency, as to meet their checks in any other way, by cash payment or by draft on some distant city.

Some people have the very erroneous idea that a bank is creating money when it issues bank notes. It is doing nothing of the kind; on the other hand, it is only doing something for the convenience and accommodation of its customers, and serving the public in the matter of protecting its reserves and so strengthening its credit by increasing its reserves against its deposits.

A bank makes less profit in issuing bank notes than it does in taking deposits and loaning them out. Now, follow me, gentlemen, and I will demonstrate this to you beyond a doubt. You gentlemen all know that the capital of our bank is one hundred thousand dollars; suppose that I had the right to issue an amount of credit notes equal to my capital and that I had to pay the Government a tax of 2 per cent upon the one hundred thousand dollars of notes that I issue. Now, suppose that I exchange these bank notes for the notes of the farmers and merchants, who are customers of my bank, which bear 6 per cent interest; it is clear that outside of other expenses, my profits will be 4 per cent on one hundred thousand dollars, or four thousand dollars. But, you must remember this, that I will have to pay the Government for engraving a bank note plate, $85.00, and will then have to pay the Government in addition for the transmission of the notes about twenty cents per $1,000. Now if I should receive deposits amounting to one hundred thousand dollars and should pay interest on them at the rate of 2

per cent per annum, and should loan them out at the rate of 6 per cent to some of my customers, my profits would be 4 per cent, or four thousand dollars; identically the same profit that I made upon the one hundred thousand dollars of bank notes; but I do not have the extra expense of the engraved plate and the cost of the transmission of the notes. Of course, you understand that the reserves that I carry in both cases are identically the same—15 per cent; that is, I am carrying fifteen thousand dollars ($15,000) against the deposits and also fifteen thousand dollars ($15,000) against the one hundred thousand dollars of notes. You will see, therefore, that I will make less on the one hundred thousand dollars of bank credits in the form of bank notes than upon the one hundred thousand dollars bank credits in the form of deposits.

MR. MERCHANT: Mr. Banker, I want to thank you for this very clear explanation of what a bank note really is and why a bank should have the power to issue it, and more especially for your explanation of the fact that a bank makes less upon that form of bank credits than upon a corresponding amount of deposits. *I do not believe there is one person in a million who understands this question at all. I know we've all had the insane idea that the right of note issue was some kind of a special privilege to the bank out of which it would make some enormous profit; when, as a matter of fact, it is nothing of the kind; but on the contrary, only a great convenience and accommodation to the people themselves.* Furthermore, in as much as it will enable the bank to protect its reserves, by paying out its notes, instead of paying out its reserves, it will reduce the expense of the bank to that extent and so reduce the interest rates upon its loans. It will probably at some time or other of great stress save the bank from closing its doors, because it can create or obtain cash to meet the local demand, while otherwise it would have to suspend, although the bank might be absolutely sound. You see, don't you, that the bank in issuing credit currency is doing precisely the same thing that the banks did when they issued cashiers' checks, or Clearing House certificates, in 1893 and 1907.

MR. MANUFACTURER: Mr. Banker, your explanation has certainly been an eye-opener to me, too. How simple all truth is when you get to it. It is our ignorance and prejudices that are our curse. Just think what the application of this simple principle would mean to the United States as a whole. Every community could be supplied by the local banks with the necessary

currency just as well as deposit facilities and at a cost not to exceed one-fifth of what it costs today, and not to exceed one-fifth of what it would cost if the banks had to buy their currency from some central institution.

MR. BANKER: Well, gentlemen, I was just going to state, when Mr. Merchant interrupted me, and I am glad that he did, that while a true bank note and a deposit are economically identical, yet it is a distinct feature or function of banking, nevertheless, and in working out our plan should be treated as such.

MR. MERCHANT: If I have followed you, Mr. Banker, and grasped the situation at our last Wednesday night meeting, banking in the United States should be carried on in the future like any other business of four distinct departments; that is, a departmental business. The accounts should all be kept separate and apart, so that a bank statement would show the amount of deposits in the commercial department; the amount of deposits in the savings department; the amount of deposits in the trust department; and the amount of notes outstanding at any time.

MR. BANKER: That is it precisely, and the only way that this can be accomplished is by granting the specific power to the national banks of the country:

First: To continue to do a commercial business.

Second: To do a savings business.

Third: To do a trust company business.

Fourth: To do a note issue business.

This step taken, no bank in the United States, with the rarest exception, can afford to remain out of the system, and the result will be to bring the banking business of the United States into one harmonious whole. The present conglomerate condition will be wiped out. Holding companies, which are probably the most prolific source of business iniquity and a curse to the country, generally will cease to mark American banking as a game of jugglery and sharp practice wherever the managers of double-headed or triple-headed banks are inclined that way. Furthermore, unless this is done, you will in the future as in the past, know little or nothing of the true condition of the banks of this country as a whole. For what can you know about the true inwardness of a bank, which is composed of three distinct

institutions: a national bank on one block, with the stock of a trust company located on another block, and the stock of a savings bank located on still another block, and the stock of the two institutions lodged in the strong box of the national bank. The managers of the national bank may be of the very highest character, and of unquestionable and absolute integrity, and they might manage their business just as well as if there were no laws at all. But laws are made for the lawless, not for men of this class. Laws are made to compel the greedy, the over ambitious, the foolish and the unscrupulous to toe the line, and maintain certain standards, which have been established by the highest class of men of the banking world.

You can readily see that a national bank, under national supervision, with two other institutions under its control, which might be under state supervision, or under no supervision at all, could engage in practices that no upright man would stand for; and practices, too, that usually result in terrific losses, and consequently breed panics.

These powers having been granted to the national banks, the law should then compel the separation and complete segregation of all these various accounts, as they are all distinct in their nature or character, economically speaking. Part of them are active capital, and belong to the commercial fund of the country, while the others are passive capital, and belong to the investment fund of the country.

It may be objected by some self-satisfied, selfish, ignorant and unpatriotic banker, who is doing all of these things now in some way with ample or even more than satisfactory profits, that the combination of these different forms of the banking business is theoretically wrong. But let it be distinctly understood and observed, and remembered, that we are not dealing with a theory now. Nor are we organizing something new. We are dealing with an actual, serious and most dangerous fact, and that is, that the banks of the country are now doing all these things in a conglomerate way, largely unsupervised and uncontrolled.

Our unit of banking, the individual, independent bank, should have its parts coördinated, unified and brought into a system, and under one common supervision and control. That supervision should not be political, but should be a supervision of the banks by the banks in the interest of the people and the banks themselves.

Now we are also dealing with another most dangerous fact. It is this: First, the national banks are carrying cash reserves amounting to 17 per cent. The reserves of all the other banks amount to only 5 per cent; and, excluding the mutual savings banks, the reserves of all the remaining banks amount to only 7 per cent. The cash reserves of the banks of the United States should under no circumstances fall below 15 per cent, and under some circumstances they should amount to at least 30 per cent. Second, the reserves, such as they are, are all broken up into small fragments, and scattered broadcast over the land.

The result is that our reserves lack the element of true reserves, and are robbed of their efficiency, which is essential to commercial safety. The highest degree of efficiency and utility of reserves can only be secured by a centralization of 50 or 60 per cent of our cash reserves, or say 10 per cent of our individual deposits, and 5 per cent of our time deposits or savings accounts. In this way, we shall centralize and mobilize about $1,250,000,000 of our gold, which now exceeds $1,850,000,000.

It will be observed that the reform here proposed is in perfect accord with the evolution of all our Anglo-Saxon law. It is merely putting into statutory form the present universal practices of the country which have grown up as a result of those new conditions which are peculiar to ourselves, and compelling conformity with those great economic laws that cannot be violated or disregarded without suffering the consequent penalty. Again, it is the only way that each bank can be compelled to carry its share of the burden of our commerce, and furnish its share of insurance to the business interests of the country, so far as sufficient and uniform reserves will do it.

The second great reform, then, that is essential is also in perfect harmony and accord with the most approved practices of the banking world.

It will be noticed that here, too, a method or system from approved practices has grown up, not only without the sanction of law, but in part actually in defiance of law. I refer to the fact:

First: That there is no law in any state authorizing the organization of the Clearing House, and yet there are over two hundred and fifty of them in the United States.

Second: That there is no law authorizing any Clearing House Committee to examine the banks composing it. But in twenty cities at least the Clearing Houses are not only examining their own members, but go even further than that and insist that no bank shall clear through any Clearing House bank which does not submit to an examination by the examiner appointed by the Clearing House. This has been found essential to the safety of the banking situation in these cities, but is no more essential in these twenty cities than in five hundred or one thousand other cities; in fact, essential throughout, and all over every state of the Union. This has come to be an established practice, and is being taken up rapidly, all over the United States, and yet there is no law whatever that authorizes it, suggests it, or by implication justifies it.

Third: With the consent and approval of public officials, both State and national, but without authority of law, the banks of many of our Clearing Houses are carrying at all times a large part of their reserves at their Clearing Houses for their convenience and as an aid to commerce. Undoubtedly they are doing just what they should do. It is stated upon high authority that the amount of reserves that are now centralized and mobilized at the Clearing Houses today will exceed $200,000,000. This practice is the result of experience, not only in the times of panic, such as 1893 and 1907, but also for the daily needs of their gigantic transactions.

Fourth: In like manner, not only without law, but actually in defiance of law, these self-contained, self-centred, self-governing Clearing Houses, whenever necessity calls for it, very wisely and properly issue a true credit currency, in principle, at least in the form of Clearing House certificates which serve all the purposes of legal currency itself. They are issued in $1 certificates, $2 certificates, $5 certificates, $10 certificates, $20 certificates, $50 certificates and in denominations of $100, $1,000, $10,000, and on up to as many or more millions. All this is done not only without the authority of law, but in the latter case in actual defiance of law.

Here then again we have purely as a result of evolution in modern American banking the second naturally developed unit, the Clearing House, by combining, coördinating and unifying all the banks, or simple units, coming within its jurisdiction. They exist without law and operate without law, and in one respect, as I have just said, in defiance of law.

This Clearing House unit consists of the following elements:

FINANCIAL CENTRE
(with one hundred banks),

CLEARING HOUSE COMMITTEE
(without law),

CLEARING HOUSE BANK EXAMINER
(without law),
CLEARING HOUSE RESERVES
(without law),

CLEARING HOUSE CERTIFICATES
(in defiance of law).

If this system has been the means of purging the banks coming within its influence and jurisdiction and strengthening the situation, wherever adopted, and if no city where it has been in practice, of which there are now more than twenty, would not give it up, let any man say why this safe principle should not now be extended until every bank in the United States is brought within its beneficial influence. However, this result can only be attained by having a uniform and truly national banking system.

As was pointed out only a moment ago, that if the national banking powers mentioned are granted to the national banks, no bank can afford to remain outside of the system, because the advantages gained by going into it are so great.

However, if there are bankers, who by running double-headed or triple-headed institutions believe that they cannot then do some things that they are now doing, and which they, therefore, probably should not do, should undertake to argue that banking cannot be brought under national supervision and control, let them consider the following facts:

First: That the United States Government put a tax of 10 per cent upon all State bank notes and that they died a natural death. Of course, it is true they were suffocated. But would any one go back to the days when they had to pay exchange upon a bank note every time they crossed a State line? Would anybody take a step that would substitute a local currency for a national

currency of uniform character and quality? Let every antagonist mark this, and remember it well that the same power that put a tax of 10 per cent upon bank note issues can also put a tax of 10 per cent upon deposits for any one of a number of good reasons; for example, it could and should impose such a tax, if necessary, to compel all the banks of the country to carry their part of the commercial burden in the shape of equal and adequate reserve.

Second: Can any one give a single reason, valid reason, why the postal savings bank was made a national institution that would not apply with equal, if not greater, force to the $17,000,000,000 individual deposits of which $6,480,000,000 are savings?

Third: Can any one deny that it is interstate commerce for note brokers to ship millions, yes billions upon billions, of promissory notes, or so-called commercial paper, from one State to another by express, mail or freight? Will any one deny that promissory notes are property? Will any one assert that shipping promissory notes differs in the slightest degree from shipping eggs, apples, potatoes, cotton, grain or live stock on the ground that promissory notes are not property, but that eggs, apples, potatoes, cotton, grain and live stock are property?

Will any one deny that the same power that passed the "food and drugs act," giving the Government power to stop the use of poisons in medicines and food; the "insecticide act," giving the Government power to prescribe the character of poison to be used to kill bad bugs; the "plant quarantine act," giving the Government the right to stop lice from traveling across a State line; the "meat inspection act," giving the Government power to insist upon decent meat; the "live stock quarantine act," giving the Government the right to prevent a man from driving his cattle under certain conditions over a State line; the "twenty-eight hour law," requiring shippers to treat cattle humanely; the "employers' liability act," the "safety appliance act," the "white slave act," the "hours of service act," the act regulating the transportation of explosives; will any one deny, I say, that the same power that passed all these acts cannot be exercised to protect forty-seven States in the Union against such bank practices in the forty-eighth State, as will at any moment throw the entire country into a panic and destroy all public confidence in our banks and bring in its wake the destruction of credit and consequently the destruction of vast property values?

Certainly no one will deny that any State has the power, and that it is its duty to compel every person, firm or corporation using the word "banker" or "bank" to submit themselves to jurisdiction, supervision and control of that State. Every State has the power to protect any of its citizens against the wrongdoings of other citizens, and one bank or banker against the evil practices of other banks or bankers.

In eighteen States no bank reserves are now required by law, and in many States there is no supervision whatever of State banking institutions by the State. Is it possible that the National Government has no power to act in the light of these facts when the banking business of the country is essentially not only one kind of a business, but, indeed, one single business, each one being a wheel in the great credit machine?

It is so interlaced, and so interwoven that one rotten spot map prove as dangerous to the whole fabric of credit as a box of dynamite under one's chair. Is it possible, I say, in the light of all these facts, that there is no redress, no protection to our vast commerce, and to labor through the National Government? Is it possible that we could be compelled to continue for a thousand years in the midst of our present terrors from bad supervision and want of adequate reserves?

The manufacturers, the merchants, the farmers, the laboring men, and business interests of every kind have a right to demand and undoubtedly will demand protection, and demand it now. Unless I misunderstand the present temper of the American people, they will now demand that their interests be safeguarded, and that they be protected against the always impending dangers growing out of the present conglomerate condition of the banking business.

I assert that this end can only be achieved by extending the same organization which many of the larger cities have already adopted to all the natural, financial centres of the country and include with them all the territory naturally tributary to such centres; in other words, that we should now extend the same organization to every commercial zone of the country of which these natural financial centres are the dominating commercial cities. This diagram will indicate more forcibly just what I mean than words can convey.

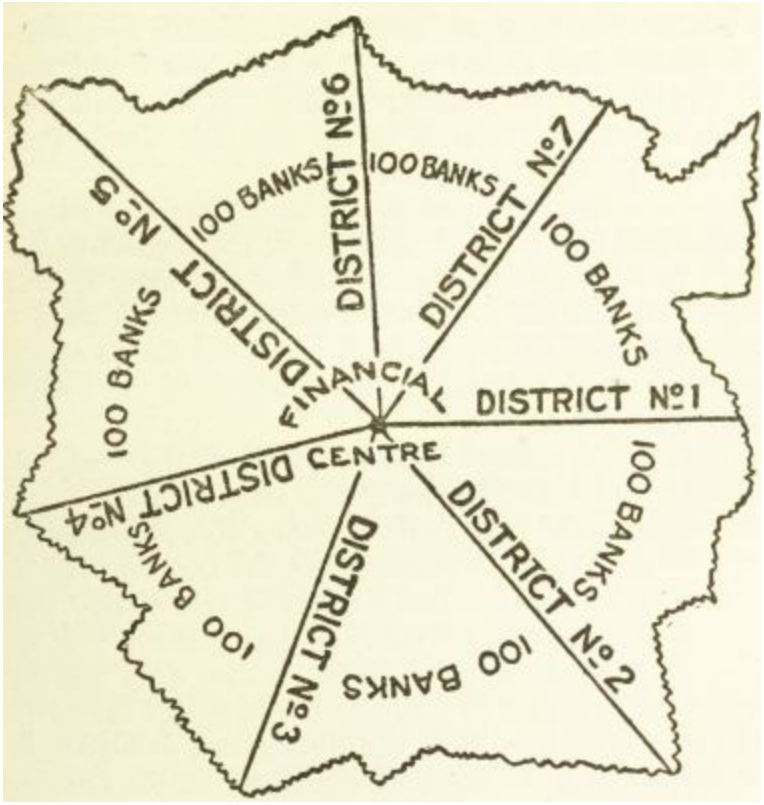


DIAGRAM ILLUSTRATING DISTRICT SYSTEM OF BANK ORGANIZATION TO GIVE STABILITY IN COMMERCIAL ZONES.

The straight lines are drawn from some centre in a city arbitrarily, and purposely so, in order to eliminate all political machinations and gerrymandering in forming the districts for any reason that may arise from time to time. They are so drawn as to divide the whole number of banks in the entire commercial zone into seven equal districts. That is, if there should be seven hundred banks in the commercial zone there would be one hundred banks in each district.

The one hundred banks in each district organize in precisely the same way, and as follows:

First: Upon coming together the one hundred banks of District No. 1 proceed to organize formally by electing a president and secretary. Then they select and elect their portion of the "bankers' council" of the whole zone, which corresponds exactly to the Clearing House Committee of the financial centre.

The one hundred bankers of each district elect one banker and one business man from the respective districts, or seven bankers and seven business men, or fourteen in all, and the fourteen so selected then proceed to select and elect their president, who shall not be one of the fourteen so selected by the bankers of the several districts.

These fifteen men so selected constitute the "bankers' council," and bear identically the same relation to the whole commercial zone as the Clearing House Committee bears to the banks which constitute the Clearing House.

Second: The one hundred bankers of each district then proceed to select and elect a banker as a member of the board of control, or seven in all, whose duty will be, among other things, to examine the banks of the entire zone precisely as the Clearing House bank examiner examines the banks of the Clearing House of the financial centre; provided, however, that the district from which the bankers' council have selected their president shall accept such president as their member of the board of control.

Will any one say that with such supervision as this board of control will give to the banks of the commercial zone, each bank having been compelled to qualify in the outset—will any one say, I repeat, that such supervision will not absolutely prevent bank failures?

This is not only important to the depositors of the country but also to the general business of the country as well.

Thereupon all banks of the zone will transfer to the board of control a part of their required reserves; that is, 7 per cent of their deposits and 7 per cent of their note issues will be deposited with the board of control. Later this should be increased to 10 per cent.

Let us assume that this 7 per cent of their deposits and 7 per cent of the notes issued amount to $100,000,000, which will be the central or economic reserve of the commercial zone and be under the control and management of the board of control.

You will recall that the bankers' council, which bears the same relation to the commercial zone that the Clearing House Committee bears to the financial centre of the zone, was composed of seven business men and seven bankers, who selected their own president. These fifteen men will select a representative from their respective zones. So that we shall have a

board of directors representing the thirty or forty commercial zones directly and not indirectly. Each zone will be represented alternately by a business man and a banker, so that the board at Washington would always consist of fifteen or more business men and fifteen or more bankers; the business interests and banking interests equally, the inside and outside of the bank counter; the depositors and the banks or the trustees of the depositors.

The next logical and necessary step is a national central gold reserve if we hope to prevent our gold leaving us at the will of foreigners, and also if we hope to serve the whole nation, just as the Clearing House is serving its members today, and as the commercial zone will be able to serve all of its members, when it has been once organized. Therefore, as a sequel to the organization of the commercial zones, say thirty or forty of them in the United States, they in turn will all unite their gold in one great central gold reserve, which will amount to approximately $1,250,000,000 (one billion two hundred and fifty million dollars). We should then have the "American Reserve Bank." The amount of gold held by this institution would be twice that held by any other in the world, and would be under the control of a board of directors which I have just hastily described; I have used and suggest the name "American Reserve Bank," because we are known the world over as "The Americans," and, therefore, I think it peculiarly fit to use the name "American Reserve Bank."

This institution, with the specific powers granted to the individual banks as outlined, will be able not only to protect each individual bank, but to protect the reserves of all the banks; that is, the reserves of the United States against the drafts of the world, precisely as the Bank of England protects her gold, or adds to it by a rate of discount; that is, by fixing a price for the use of gold.

MR. MANUFACTURER: By the way, before I forget it, I want to make one suggestion right here, because it seems to me as though this was the right place to bring it in, and that is this: I am firmly convinced that a bank like yours, and all commercial banks, should be allowed to write their acceptance across the face of notes or drafts, and so develop what is called a discount market in the United States, such as they have in other countries.

MR. BANKER: Mr. Manufacturer, I am glad that you have spoken of that matter, and here is just the place to discuss it. A great many people are

deluding themselves about the matter of acceptances. It must be remembered that the banks are not going to increase their own capital by increasing their liabilities through acceptances. Indeed, this practice would only add fuel to a conflagration of their credits, unless the banks should confine themselves to accepting only such paper as had grown out of actual transactions in which the goods had been sold and delivered, or were actually in transit. Moreover, by way of assurance, every piece of such paper so accepted by a bank should state upon its face that the goods for which it was given had been sold and delivered, or were in transit.

Such acceptances are absolute agreements to pay a specific sum of money upon a specific day, and therefore are just as much a liability as a deposit subject to check, with this disadvantage, that the property is not within the control of the bank, as the deposits are, against which a check is drawn, and therefore every bank should carry precisely the same reserve against its acceptances that it carries against its deposits.

Acceptances of the approved sort will not necessarily, if at all, greatly increase production; but they will create a new form of investment, that is, a guaranteed commercial paper of which billions of the single name sort are being sold today. Of course, two-name paper with the acceptance of a bank of high standing will soon bring into being here, just as it has in London and other financial centres of Europe, new capital. That is, capital will be attracted to the business of buying and selling such high-class paper. It will be a profitable investment for the idle funds of merchants and manufacturers at those seasons of the year when all of their capital is not occupied in their business, and also for the banks of the country at those times of the year when the local demands are not equal to their supply of funds. It is undoubtedly true that such paper would also soon find a market abroad, as well as at home, and to that extent would facilitate American manufacture and commerce. But we must not deceive ourselves about the fact that the banks will just to that extent increase their liabilities while they have not increased their actual capital to the extent of a single cent.

MR. MANUFACTURER: I must confess that I have misapprehended the effect of an acceptance, but you are certainly right with regard to it, and unless we should keep the business of the country in a sound condition, the acceptance business might prove a two-edged sword, and this emphasizes the fact that we must keep a close watch upon what our commercial fund is all the time,

and prevent it from being transferred and absorbed in fixed investments, which is always a bane to the commerce of a country.

We must not forget these three important factors which are always present here in the United States: first, the vast, undeveloped resources of our country, and the ever-inviting opportunities; second, the intelligence, the ambition, the impulsiveness and the optimism of our people; third, the peculiar, local relations of our twenty-five thousand, individual, independent banks, which are always in close sympathy with and affected by the growth and development of their locality and the varied interests, and the enthusiasm of the people. The vision of our local banker is largely confined to his immediate vicinity.

MR. FARMER: How absolutely true that is, and therefore how great must be our caution in opening up the flood gates of credit, before we know that we have guarded the situation at every point. I notice that those banks before the war were all so sound and successful because they had to get the coin to make redemption with. Here is something I read in a book yesterday, and it strikes me that it is right in point now: "Redemption is the breath of life to all credit." You bet I have found it's death to a fellow who's got to, and can't pay.

MR. BANKER: Yes, and when you realize that credit is the very soul of trade and commerce, as it is carried on today, how absolutely essential it becomes that credit be kept within the limits of certain coin redemption, if we are to have sound business conditions.

MR. MERCHANT: Well, Mr. Banker, how do you propose to keep credit within safe boundaries, and so insure sound business conditions all the time?

MR. BANKER: In just two ways:

First: By having the reserves of gold on hand in the various banks, sufficient at all times to prove all commercial credits, say from 5 to 20 per cent, according to the peculiar business and varying responsibility of the banks to their banking obligations; and in addition, such a central gold reserve as will to all intents and purposes be unlimited, so far as any possible demands may be made upon it—say 10 per cent ultimately of all individual deposits and 5 per cent of savings deposits. This would give us at

the present time about one billion dollars ($1,000,000,000) of cash reserve, and about one billion two hundred and fifty million dollars ($1,250,000,000) of gold in a central reserve to meet the emergencies of commerce.

Second: Such a supervision of the banks by the banks themselves as will keep their assets in liquid form, at least to the extent that their assets are commercial assets and are liable for individual deposits on demand.

In this connection I want to call your attention to the fact that not a single bank has yet failed which has been under the supervision of a clearing house. You will remember that this principle was adopted in Chicago in 1906, and that today the banks in at least twenty of our leading cities are under clearing house supervision.

Gentlemen, I have been a banker, as you know, for about forty years. I have never been favorably impressed with any of the methods yet proposed for the guarantee of bank deposits, however desirable the end sought is, because they have none of them involved the matter of such supervision as would insure sound banking, and compel every bank to carry its part of the commercial burden in the way of equal and adequate reserves. But I am absolutely convinced that there never need be a bank failure again in this country, if we will only organize ourselves throughout the length and breadth of the land, precisely as the Clearing Houses have to protect themselves against the unsound practices that are always creeping into the banking business particularly.

MR. LABORINGMAN: Well, Mr. Banker, if that is true, if a bank cannot fail under the supervision of your proposed organization it will not cost anything to insure your depositors. Why not relieve the millions of depositors from the anxiety they always feel about their money in the banks? For my part, I cannot see the slightest difference between a workman's compensation act, an employer's liability act and a bank insurance act. To me they are on all fours with each other. The business in each case should bear the burden. This is the settled social policy of the country, and is in perfect harmony with that social and economic philosophy that has been gaining ground so rapidly throughout the world in recent years. I cannot see how you can escape it. I appeal to you men; am I not right about this matter?

MR. MANUFACTURER: That point has never occurred to me in this connection, but I must say I cannot see any difference whatever between my carrying an insurance policy to protect my workmen and Mr. Banker carrying insurance to protect his depositors. Can you, Mr. Banker? Before you answer me, I want you to do two things: I want you to forget for the moment that you are a banker and I want you to think twice before you speak.

I have been so deeply impressed with the points that Mr. Laboringman has just made, that to me his arguments are unanswerable.

MR. BANKER: I am ready to answer right now and ready to admit that his arguments are unanswerable.

MR. FARMER: I am glad that you all practically agree upon this very important, all important, point. I want to tell you something that happened during the past week. I tackled Mr. Lawyer about a week ago upon this point and he declared that the guarantee of bank deposits was an absurdity and unthinkable because it would cost too much.

I went home and wrote to the Treasury department to give me the average annual deposits in the National banks since 1863 down to date and also the average annual loss due to bank failures. I have a letter from the Comptroller of the Currency, gentlemen, which shows this astounding fact, that an annual tax of 35/1000 of one per cent upon the average deposits would have paid all the losses due to the failure of National banks. Think of it! Only a little over 3/100 of one per cent.

MR. LABORINGMAN: 3/100 of one per cent. Jehoshophat! Think of the misfortune and suffering that might have been saved by the payment of that mere pittance. *It is an infinitesimal nothing. Think of it: It is only 3½ cents on every $100; only one-third of one cent on $10, and one-third of one mill on $1. You would not believe it. But, as I told you, I am good at figures and you can bet your life that I am right.*

MR. FARMER: I want to read the letter of the Comptroller to you men.

TREASURY DEPARTMENT,
WASHINGTON, January 25, 1913.

MR. JOSHUA FARMER,
Loraine, New York.

DEAR SIR: Your letter of January 22d is received and in compliance with your request I take pleasure in furnishing you the following information with respect to aggregate deposits of active National banks and the liability of insolvent National banks:

The annual deposits for forty-nine years in active National banks average $2,555,700,000. The losses sustained by creditors of failed National banks (actual for closed receivership and estimated for those not closed) will approximate $44,100,000, or an annual average loss of $900,000. The average annual loss is, therefore, 0.0352 per cent of the annual average deposits in active banks.

Of the 525 National banks placed in the charge of receivers, the affairs of 478 have been finally closed and the losses to creditors definitely determined.

The liabilities of 478 insolvent National banks the affairs of which have been finally closed amounted to	$219,357,100
Creditors received in dividends, offsets, etc.	181,215,826
Loss to creditors	$38,141,274

Creditors, therefore, received an average of 82.50 per cent, the loss averaging 17.41 per cent.

There are now (September 30, 1912) 47 insolvent banks in process of liquidation by receivers, with liabilities of	$34,314,633
Creditors have received (September 30, 1912)	26,750,925
Balance due creditors	$7,563,708

Creditors of these 47 insolvent banks have, therefore, received an average of 77.9 per cent. For these receiverships it can safely be estimated that the loss to creditors will be no greater than in those banks already closed, namely, 17.4 per cent.

During the past ten years 119 National banks have been placed in the charge of receivers. The affairs of 78 of these banks have been finally closed and 41 are yet in the charge of receivers. The liabilities of these 119 banks, as shown by the enclosed statement, aggregate $66,804,214. Creditors have received $56,252,544, or 84.20 per cent. If creditors were, therefore, paid no further dividends, the loss during the ten years mentioned would average only about 15.80 per cent. It cannot at this time be determined what the ultimate loss will be to creditors of the 41 insolvent banks which failed since 1902.

Yours very truly,
W.J. FOWLER,
Deputy Comptroller.

MR. LAWYER: Well, here goes another complete knock-out for me, I am plumb out, over the ropes this time. I don't know that I can ever recover from that blow.

MR. BANKER: Just a moment, gentlemen, while I admit that you have won your fight for the depositors, you must remember that although you have an insurance that will cover net losses after you have cleaned up the failures and closed out the assets, you will still have quite a problem to solve to meet the demands of the depositors when the failure takes place.

MR. LABORINGMAN: If the depositors in the National banks had been insured in some way during the past forty-nine years, I do not believe that we would have had one failure in ten that we have had, and if you will now protect the banks, as Mr. Banker proposes, through his supervision by a board of control, I do not believe that we will ever have another; then why not give our 20,000,000 depositors the benefit of it, as it will cost nothing and will absolutely prevent runs on your banks.

MR. MERCHANT: Yes, and also stop the hoarding of money, which is a curse to any country where it takes place. I am not sure, gentlemen, but what the

adoption of this principle of deposit insurance will do more to guarantee steady conditions than any other one thing.

MR. BANKER: Well, while the problem has its difficulties, I really think it is up to us to work it out in some way.

The folly, greedy purpose and unscrupulous methods of some of our fraternity have not only brought misfortune and overwhelming distress to their particular neighborhoods but a cataclysm to the whole commercial world because of the shock to banking credit generally.

MR. MERCHANT: Well, Mr. Banker, how are you going to protect yourself against those bankers who think that they can do better by remaining outside of the National Banking System, because they can do a scalping and scavenger business if left free. Of course, it will be advantageous for the upright banker to come into the National System.

MR. BANKER: You will remember that in 1865 Congress passed a law imposing a tax of 10 per cent upon all bank notes, except those based upon Government bonds. You also know from what has been said that the notes of all other banks immediately disappeared from circulation.

Congress has ample power, as was pointed out fully the other night, and should put a tax of 10 per cent, or even 20 per cent if necessary, upon all deposits a bank may have against which it does not hold the reserves prescribed by the National laws.

Congress has other methods it can adopt growing out of its constitutional powers by which every institution in the United States doing a banking business may be compelled to conduct its affairs upon sound principles.

MR. MERCHANT: From some statement we were looking at the other night we learned that the banks of the country were now carrying as a part of their reserves something more than $100,000,000 of National bank notes. The fact is that the amount is probably twice that, as the banks of the country, outside of the National banks, make no distinction in what they hold as reserves, between gold certificates, silver certificates, United States Notes and National bank notes. Of course this is nothing but a scheme of inflation, for there may be other credits based upon these bank notes which are themselves nothing but debts, aggregating all the way from $500,000,000 to

$1,000,000,000, or more, according to the percentage of reserves the banks holding them may be carrying.

MR. BANKER: I would impose a tax of 10 per cent per day on every bank note that any bank in the United States holds as a part of its required reserves. It would not take long to force the substitution of gold coin, gold certificates, or other lawful reserves in place of these I.O. U.'s of the National banks.

MR. MANUFACTURER: During our discussions it has been demonstrated to me, at least, and I am sure to all, that there is in fact no more justification, economically speaking, for holding United States notes, or greenbacks, as a part of the reserve of a bank than National bank notes. Do you think it is wise to continue these United States notes indefinitely, as a part of our bank reserves?

MR. BANKER: I certainly do not. They are not only unfit for bank reserves, but are teaching economic lies every day that they remain out.

You are aware, I have no doubt, that the banks of this country, generally, are paying interest upon their deposits; probably as much as 2 per cent upon the average. I would impose a tax of 2 per cent upon our bank note issues, because banking is carried on upon about that basis. If a bank pays 2 per cent upon deposits, and 2 per cent upon its notes outstanding, the burden is precisely the same upon both forms of bank credits.

I would use a part of this 2 per cent tax upon the bank notes, which would amount to approximately $25,000,000, for these purposes:

First: To pay the expenses of the several commercial zones and the American Reserve Bank.

Second: I would pay into the interest department of the United States Treasury an amount equal to 1 per cent per annum upon the $730,000,000 2 per cent United States bonds; so that the Government could convert these 2 per cent bonds into 3 per cent bonds, and return them to the banks to whom they belong.

Third: Whatever cash I had left I would use to convert the United States notes into gold certificates.

In the course of fifteen, at the outside twenty years, I figure, we would be able to convert all of the United States notes into gold certificates, and leave our banks with reserves of gold alone, with the exception of the subsidiary coin, which would, of course, be only nominal in amount.

No one will deny that this would be a most desirable thing to accomplish.

MR. FARMER: No, I don't think that anyone would make such a fool of himself as to argue or contend that that would be a bad thing any way, and you seem to have a very simple method of bringing it about.

MR. LAWYER: I noticed that you said that the tax of 2 per cent upon the bank notes would produce about $25,000,000 a year. How do you make that out, when we have only $750,000,000 of bank notes out? That would give us only $15,000,000.

MR. BANKER: I am glad you asked that question. You see that if the banks now outside the National system came into it as they certainly would, because of the very great advantages it would give them, they would have to increase their reserves at least 10 per cent upon their individual or commercial accounts, and 5 per cent upon their savings accounts. This they would do by simply exchanging their bank notes for gold coin and gold certificates, as they came in over the bank counter. The result would be an increase of our bank reserves to about $500,000,000, and of course a corresponding increase of our bank liabilities. No one would deny that this would be a sound banking proposition. For, our individual deposit liabilities, which are now $17,000,000,000, would be increased to only seventeen billion five hundred million dollars ($17,500,000,000), an increase of only 3 per cent, while our reserves, which now amount to about $1,600,000,000, would be increased by $500,000,000, or nearly 33 per cent.

MR. LAWYER: I see, then, that you propose to increase the note issue about $500,000,000. This would give us a note issue of $1,250,000,000, and 2 per cent of this would be $25,000,000.

We had a chart here the other night and some figures, which showed that the increase and decrease of the bank note currency in Canada amounted to $3.80/100 per capita every fall, and that every year, for a number of years, so far as we have the record at least, exactly on the 15th day of October, it was always at its maximum. Since we are now taking back from Canada

what Canada originally took from Massachusetts, the principle of a true bank credit currency, we might expect just what they had in New England, before the war, and what Canada now has every year, and every month of the year, and every day of the month. That is, we would have an amount of bank note currency just equal to the demands of trade; no more, no less, but always just what the business of the country requires, dollar for dollar, day in and day out. Am I correct?

MR. BANKER: You are absolutely correct. Our variation in the demands of currency would not differ very much from that of Canada. We might expect a difference between the maximum and minimum issue of about $350,000,000 a year, that is, it ought to range from about one billion dollars to about one billion three hundred and fifty million dollars during each year, as matters now stand.

MR. LAWYER: Well, if that is true, we should never know one season of the year from another, so far as the demands of currency are concerned.

MR. BANKER: No, you never would; and the facilities gained by the banks for adjusting themselves to the changing conditions would enable them to be far more helpful to their customers than they now are, and yet be absolutely safe in doing so. You see, I would not limit a bank to an amount of currency equal to its capital; but subject to the approval of the Board of Control, where the bank was located, it could issue as much more, or a total of 200 per cent of its capital. That is twice as much as its capital; for, there are banks today situated a good deal as the New England banks were before the war, where the people would use more bank notes than deposits, if they were permitted to study their own convenience. This we would find to be true in the newer parts of the cotton growing country in cotton picking times. Can anyone tell why a bank, under such circumstances, should not meet the peculiar demands of its customers, and furnish bank notes at a cost of one-sixth of what it must be, if the bank is compelled, as it is today, to rediscount its promissory notes, and buy gold certificates or United States notes to be used as currency, when its own bank notes would answer every purpose of currency just as well?

MR. LAWYER: Then I understand also from what you said upon another occasion that you would allow a bank to use a part of its reserves during

those seasons of the year when the demand for money was particularly strong, and make up its average reserves when the demand was slight.

MR. BANKER: Precisely so. Why should not a bank act just like any other merchant or trader, and adjust its stock of goods to the ever-changing conditions of its business? Of course I am fully aware that there is one element entering into a bank's business that is not common to other mercantile houses, and that is the question of its credit. It must keep itself in such a position at all times as to preclude the chance of suspicion arising about its ability to meet its demand obligations. This point brings me squarely up to the matter of a central reserve.

A bank that is known to be under the supervision of a Board of Control, which can and ought to know its actual condition, and which has the power to compel it to so conduct its business, as to be entitled to consideration and accommodation, whenever it asks for it, and actually needs it, will certainly have the confidence of the public to an unbounded degree. Of course, I am assuming that the public are aware of the fact that the Board of Control in turn has access to the great central reserve of one billion two hundred and fifty million dollars ($1,250,000,000).

You can imagine that the public under such circumstances would have absolute confidence in a bank. Indeed, I am of the opinion that as soon as this organization is effected, bank failures would be a thing of the past, because the public would soon come to appreciate this, and look upon every bank in the system as safe beyond the peradventure of a doubt.

MR. FARMER: There would be every reason for confidence in such an institution because of its great strength; and yet, if I understand your plan, as outlined, every one of these individual zones would be as independent of every other zone as if it were a foreign country. It would be like a great bank standing alone, of which every bank within the zone was an integral part, for the purpose of the defense of the credit of each. Then again, every individual bank would remain just as independent as it is today, while at the same time it enjoyed the full confidence which the larger institution would be naturally entitled to.

MR. BANKER: That is precisely the result this coöperative reserve fund of one billion two hundred and fifty million dollars ($1,250,000,000) would produce.

MR. LAWYER: *Then, as I understand it, beyond the individual independent bank, and beyond and behind the individual independent zone, would be "The American Reserve Bank," standing guard over the commercial interests of the whole United States, ready at any time to meet any possible contingency that might arise in any section of the country, with practically unlimited power to release, hold, or recall gold from the four quarters of the globe, because it can place a price upon the use of gold in the form of interest, and so conserve the general welfare of American commerce and American labor.*

MR. BANKER: Now, gentlemen, let me call your attention to five important results we have achieved in the development of this outline of our proposed structure.

First: You will observe that every bank in the United States will be completely freed from every dominating influence, because in the last analysis it will have access to a practically inexhaustible hoard or reserve of gold, which belongs to itself as much as to any other bank.

Second: You will note that every commercial zone is a perfect and complete self-governing body. Not a single outside person has anything whatever to do with its affairs. Every person who is in any way connected with it, is selected by its members, even including the Deputy United States Comptroller, who will be, as you remember, the Chairman of the Board of Control, and President of the Bankers' Council. In principle and in function this organization is identical with that of the Bank of the State of Indiana, and of the State Bank of Iowa, in which you will remember the parent, or home institution, did no business whatever, except for the branches, which it examined and supervised.

Third: You will note that in the matter of issuing currency, it follows the principle of bank credit currency in operation today in Canada, with the added power, subject to the approval of the Board of Control, of doubling the issue to meet unusual demands of trade or in case of an emergency.

Fourth: You will observe that we have planned to reach ultimately a system of reserves consisting of gold, exclusively, and also to keep all bank credits, both deposits and note issues, in constant touch with gold by paying gold whenever called for.

Fifth: That in the matter of a strong central gold reserve, you will observe that the plan follows the principle in force at the Bank of England where all transactions are in gold, making England the only truly free market for gold in the world.

Gentlemen, I am convinced that it is the natural right and present opportunity of the United States to become the financial centre of the world; but no country can ever become the financial centre of the world, unless it is a free market for gold. No country can be a free market for gold, unless its entire credit system is based upon gold, and gold alone, thereby guaranteeing unquestioned bills of exchange. Such bills would draw a rate as low as the lowest because protected by a gold fund of such magnitude, when considered from the standpoint of its obligations to the commerce of the country, where held, all conditions being considered, as to insure beyond question its ability to take and give gold, as necessity requires in international trade, without endangering its stability, or affecting its credit.

This result can only be achieved by enforcing the discount rate throughout the country involved; and the discount rate can only be enforced throughout the country involved by buying and selling bills of exchange in straight gold transactions. We should not trade one bank credit for another bank credit, and put this bank credit into our bank reserves, as the Aldrich scheme proposed, thereby driving gold out of the banks, and out of the country, and also utterly destroying our power to control and protect the cash gold reserves of our banks, which outside of what may be called subsidiary money (from $2 pieces down), should ultimately and always be *gold and gold alone*.

In conclusion, I submit that the whole plan as we've worked it out does not introduce a single foreign element but creates out of our own practices, which have developed out of our own peculiar conditions, a financial and banking system, founded upon sound economic principles. It gradually eliminates those errors that have crept into our financial and banking practices, possibly through supposed necessity, but certainly through ignorance; and yet, the present incoherent conglomerate condition is brought to a simplicity and strength that may safely challenge any country in the world to institute a comparison for economy, efficiency, strength and safety.

MR. MERCHANT: Gentlemen, if you will achieve the results that you have outlined in the course of this evening's talk, you will accomplish all and precisely what Mr. MacVeagh, Secretary of the Treasury, recently described as the ends that must be attained if we are to bring about a complete financial and banking reform. These are his words:

"A relief measure reforming the banking and currency system must include, among its necessary features, provisions for never-failing reserves and never-failing currency, and for the perfect elasticity and flexibility of both; for the permanent organization and organized coöperation of the banks, which are now suffering and causing the nation to suffer by reason of their unorganized state; for a central agency, to represent and act for the organized and coöperative banks—this agency to be securely free from political or trust control, but with the Government having adequate and intimate supervision of it; for independent banking units—so independent that no one bank can be owned, controlled, or shared in in any degree, directly or indirectly, by any other bank; for the equality of all banks, National or State, both as to standards and as to functions—so that every requirement made of a National bank must be complied with equally by a State bank, and every function or privilege enjoyed by a State bank shall be enjoyed by a National bank; for the utilization and the fluidity of bank assets; for the scientific development of exchanges—domestic and foreign; for foreign banking as an adjunct of our foreign commerce, and for taking the Treasury Department out of the banking business."

MR. FARMER: Well, you have forgotten the thing that interests me more, generally speaking, than all else, and that is the Land Credit Bank, which we went into last Wednesday night. Of course you intend to include this when you prepare your bill.

UNCLE SAM: You bet they will, for I think it's about time that the corn raiser, cotton planter and grain producer and all the rest of the toilers of the turf, should be getting their money at as low rates as anybody else on first-class security for a long period of time, and I am determined to give the farmers of the country the benefit of my good name to aid them in this matter.

MR. BANKER: Of course we had all agreed to that, and shall include it in the draft of the bill.

MR. MANUFACTURER: Uncle Sam, I move that Mr. Banker, Mr. Lawyer, and Mr. Farmer be a committee of three to prepare a bill to be submitted to us next Wednesday evening.

MR. MERCHANT: I second the motion.

UNCLE SAM: It's a go.

Good Night.

SIXTEENTH NIGHT

DRAFT OF BILL

UNCLE SAM: Well, boys, here we are ready for the report of the committee on legislation, I suppose you would call it. Are you ready to report now?

MR. FARMER: Yes, Mr. Lawyer will make our report and speak for the committee.

MR. LAWYER: Uncle Sam, your committee has been deeply impressed with the duty you have imposed upon it.

That the solution and settlement of our financial and banking problem is the most important economic question that has ever confronted the civilized world must be admitted by all who will take the trouble to investigate it and institute a comparison between our conditions and those of any other country at the time when it adopted its financial and banking system.

In 1803, when the Bank of France was established, the financial resources of France were without official record, but comparatively nominal.

In 1844, when the bank act under which the Bank of England is conducted was enacted, the banking resources of that country were probably in the neighborhood of $500,000,000. The total note issue of England, Scotland, and Ireland was less than $200,000,000; the public and private deposits in the Bank of England were less than $75,000,000; and the gold in the Bank of England was less than $75,000,000.

In 1873, when the Imperial Bank of Germany took its present form, industrial Germany was still slumbering; and the bank resources probably did not exceed $1,000,000,000. The capital of the incorporated banks was about $425,000,000, the notes were about $325,000,000, and the reserves held about $30,000,000.

The banking resources of the United States are today more than ($25,000,000,000) twenty-five thousand million dollars and our foreign trade more than ($4,000,000,000) four thousand million dollars. The question we are dealing with, therefore, is not only the most stupendous of its kind, but it must be considered both from a domestic and foreign point of view. It is from both these points of view that we have approached the preparation of this measure.

As I proceed to read the bill I shall make some comment by way of explanation in order that our purpose may be understood.

A bill to establish a complete Financial and Banking system for the United States of America.

SECTION 1. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That a complete financial and banking system for the United States of America shall be, and is hereby, created, organized, and established as follows:

First: The commercial zone.
Second: The bankers' council.
Third: The board of control.
Fourth: The American Reserve Bank.

SECTION 2. That upon the passage of this Act the President of the United States shall appoint three persons, who, with the Secretary of the Treasury and the Comptroller of the Currency, shall proceed immediately to designate such cities in the United States, not less than twenty-eight in number and not to exceed forty-two in number, for the location of the financial centres of the commercial zones, numbering them consecutively as shall best accommodate and serve the business and banking interests of the United States.

SECTION 3. That within ninety days after the designation of the cities for the location of the financial centres of the commercial zones every national bank, with the approval of the five persons designated in section two of this Act, shall select one of the centres so designated as the place for its clearing house, and thereupon the Comptroller of the Currency shall notify all the national banks to meet at their respective financial centres on a given day and at a designated place for the purpose of organizing the several commercial zones, of which there shall not be less than twenty-eight nor more than forty-two in number.

COMMENT:—Referring to sections two and three I would urge upon your attention these points:

Geographical Considerations

Great Britain has only 120,000 square miles of territory. France has 204,000 and Germany 208,000 square miles. All Europe, outside of Russia, is only about half the size of the United States. It has 1,600,000 square miles, while we have 3,026,000 square miles. Including Russia, all Europe has only 3,600,000 square miles.

Extended as our territory is, our products are far more varied and more universally important to the human race than those of any other nation. They exceed in value $35,000,000,000 a year.

Local Interests

New England is essentially a manufacturing center of dry goods, wearing apparel, and metal wares. Pennsylvania is known the world over for its coal, iron, and oil industries. New Orleans is the market for cotton, sugar, and rice. Kansas City is the emporium for live stock and grain. Chicago, the greatest food market on earth, is fast coming to be one of the greatest manufacturing points in almost every line of industry. St. Paul and Minneapolis supply us with wheat and flour. The cities of the Rocky Mountains are growing in importance year by year, each one entitled to distinction for some particular industry. The development of the Pacific coast, from San Diego to Seattle, is challenging universal attention.

It is the opinion of your committee that it is highly important, indeed, absolutely essential, for the best interests of the people, industrially,

commercially, socially, and politically, that each geographical zone of common business interests should have independent self-government in matters of banking, precisely as the several States have control of their local affairs.

At the same time, these commercial zones should be so harmonized and federated as to give to each the financial strength and power of all combined, precisely as every State is as strong and powerful politically as the Federal Government itself.

All the governments of Europe are traditionally monarchical and imperialistic. Their banking institutions not only all bear the insignia of their political origin, but also characteristically mark the times and conditions that gave them birth.

In England alone self-government found true expression in the selection of the board of directors of the Bank of England. The British Government has no relation to the management, either directly or indirectly. It neither appoints a single representative on the board, nor has any voice whatever in his selection.

Again, it is to be noted that the Englishman, ever tenaciously jealous of his rights, excluded from the board of directors all bankers. No banker has ever sat upon the board of directors of the Bank of England.

The French Empire of 1803 and the German Empire of 1873 are each reflected in the organization of the Bank of France and the Imperial Bank of Germany.

This Government was organized as a protest against royal rule and imperial power. It has been fighting the evils of centralization for more than a hundred years; and of nothing has it shown such persistent jealousy as the possible centralization of financial interests and the control of commercial credits.

Will it be said by some one who thinks only in the terms of the special interests that, notwithstanding this watchfulness and constant anxiety, great aggregations of capital in the business world have come practically to control the business situation; that our commerce is

practically centralized now, and that our banking should be so, to make it the counterpart of the existing state of things?

Let us not assume that the problems of coördinated power and wealth have all been solved. Let us believe that the study of this modern mystery has just begun. Let us hope that if it is possible for us so to solve the financial and banking problem as to recognize the best traditions of the Republic and the highest aspirations of the American people, keeping steadily in view every economic law involved, we shall then save our beloved country from the tragic consequence of political controversies directly affecting our commercial credit and indirectly affecting every day's labor and every dollar of capital until the question is settled right.

We must not forget that every conceivable phase of the so-called "money question" has been the football of American politics from the organization of the First and the Second United States banks, down through the greenback madness, the silver craze and the gold standard fight. Not a single subject has aroused such intense bitterness as this one, excepting slavery alone.

Whoever, then, tries to solve this problem must recognize at every turn the origin of our political institutions, the genius of our people, and the peculiar characteristics of the American citizen or he will fail utterly in his undertaking.

SECTION 4. That each bank shall be entitled to one vote, which shall be cast by an officer of the bank who has been duly authorized by a vote of the board of directors thereof, such authorization to be evidenced in writing and under the seal of the bank. Each bank shall be identified in its zone by a number.

COMMENT:—It is our judgment that every bank should have equal power in organizing and consequently in controlling the respective zones; because we believe the business interests of the country will be better conserved thereby.

SECTION 5. That the association of all national banks clearing or redeeming their notes at each of the cities so designated shall be known as "The ——

Commercial Zone."

SECTION 6. That all the national banks of each of the commercial zones so constituted and established shall organize themselves into "The —— Commercial Zone" by electing a chairman, a secretary, and a treasurer, who shall all hold office until the first Monday of the following May, and by proceeding in the following manner:

SECTION 7. That they shall take some point in the financial centre of their respective commercial zones, from which they shall draw seven radial lines, so cutting the territory as to divide the whole number of banks, as nearly as possible, into seven district groups, each district containing approximately the same number of banks, and may from time to time thereafter shift said radial line for the purpose of maintaining such equal subdivision of the banks.

> COMMENT:—It is a matter of great importance that these districts shall be automatically and arbitrarily constituted, if possible; and this plan will accomplish it. By this method every part of every commercial zone will be represented by business men as well as bankers. Neither particular sections nor particular banks can have any direct advantage.

SECTION 8. That each subdivision of the commercial zone so created shall be known as a district, and they shall bear numbers respectively from one to seven, inclusive.

SECTION 9. That the board of the bankers' council shall be constituted as follows:

First: The bankers of each district of the respective zones, voting as prescribed in section four of this Act, shall elect a banker and a business man as members of said board.

Second: The term of office shall be seven years; but the terms of the members of the first board shall be for one, two, three, four, five, six and seven years, respectively; that is, the board shall arrange itself into seven groups, each being composed of one banker and one business man, and thereupon the seven groups shall determine by lot how long each group shall serve.

Third: The fourteen members of the board of the bankers' council of the respective zones shall then elect their president, who shall not be one of the fourteen so selected, but shall be a resident of one of the districts in their own zone. The term of service of the president of said board shall be left to the respective boards of the bankers' council in the several zones.

SECTION 10. That the services to be rendered by the bankers' council shall be advisory to the board of control whenever the board of control may call them in consultation, or an appeal is made to them from the action of the board of control by some citizen or citizens of their particular zone.

SECTION 11. That the members of the bankers' council shall receive no salary, but all expenses incurred by them severally incidental to such consultation and services shall be paid.

> COMMENT:—The relation of the Bankers' Council is the same to the zone as the Clearing House Committee is to the Clearing House. It will be the supreme court of the zone. It has the last word upon all business questions growing out of banking in the zone, in case of appeal.

SECTION 12. That the president of the bankers' council shall be chairman of the board of control.

SECTION 13. That the president of the bankers' council shall be a deputy United States comptroller.

SECTION 14. That each of the deputy comptrollers of the currency shall from time to time furnish such information and make such reports to the Comptroller of the Currency as the board of directors of the American Reserve Bank shall prescribe: *Provided, however*, That the Comptroller of the Currency may ask for reports as now provided by law.

SECTION 15. That the board of control shall be constituted as follows:

First: The bankers of each district, excepting the district in which the chairman resides, voting as prescribed in section four of this Act, shall elect a banker who resides in their district as a member of the board of control.

Second: The term of office shall be seven years, but the terms of the members of the first board shall be for two, three, four, five, six and seven

years, respectively, and the six members so elected shall determine by lot how long each shall serve.

SECTION 16. That before any member of a board of control enters upon the performance of his duties he shall sever all connection as officer or stockholder with every bank in his commercial zone, and he shall be ineligible to any position in any bank in his zone during the time for which he shall have been elected to serve.

> COMMENT:—The Board of Control will be composed of a body of men who are younger than the Bankers' Council; but of the same high order. They will be men who have the undoubted confidence of the banking fraternity; men who are to win the prizes in the banking world. This position will be a sure stepping stone to the best positions; but it must not be used for that purpose, at least until each man has served out his time.

SECTION 17. That compensation of the members of the board of control shall be five thousand dollars per annum, payable monthly, including the chairman, except that the chairman may receive any salary in addition thereto that the bankers of his zone may determine to pay him: *Provided*, That such additional salary shall be assessed upon the capital and surplus of all the national banks in that zone.

> COMMENT:—The President of the Bankers' Council, Chairman of the Board of Control, and Deputy United States Comptroller should all be represented by the same individual for these reasons:
>
> *First*—The relation between the two bodies of men should be easy and constant for the best interests of the people. There should be no slow machinery to put into operation in case of necessity. Quickness and harmony will always be essential.
>
> *Second*—The power of the United States Government should always be present to enforce orders.
>
> *Third*—A man of the greatest ability obtainable should be secured to occupy this place; therefore his salary and length of service should be left open for arrangement with the Bankers' Council. This man ought

to be the leading man in banking in his zone in point of character and wisdom.

SECTION 18. That the services to be rendered by the board of control shall be as follows:

First: Each board of control shall have supervision of all the national banks located in its zone.

COMMENT:—The expense and annoyance of bank examinations as they are carried on today would be reduced one-half and they would be worth ten times as much as they are today with the exception of those made by clearing house examiners.

Second: The boards of control shall have power to employ all the examiners and such other assistants as may be necessary to properly and efficiently supervise the banks under them, and such examiners, as far as possible, shall be paid stated salaries.

Third: Each board of control shall have power to purchase commercial paper or bills of exchange from the banks in its zone whenever they desire to build up their reserves by obtaining additional gold or for the purpose of crop moving or any special or extraordinary demand of trade: *Provided, however*, That all the paper so purchased by them shall bear the unqualified indorsement of some bank in their respective zone.

COMMENT:—MR. MERCHANT: Now it seems to me as though that organization is as simple, direct and complete as it can possibly be. It makes every zone an absolutely independent banking democracy. No outside influence is permitted to interfere with the zone. It is certainly local self-government from top to bottom. The fact that anyone in the zone may appeal to the Bankers' Council for redress and that every district has two representatives upon that board, will insure fair consideration at the hands of the Board of Control.

SECTION 19. That in case of a bank failure in any commercial zone one of the members of the board of control in that zone shall be appointed the receiver thereof and shall not receive any additional compensation for the services rendered as such receiver.

SECTION 20. That the board of directors of the American Reserve Bank shall be constituted as follows:

First: The bankers' council of each commercial zone shall elect a member to the board of the American Reserve Bank. The commercial zones bearing the odd numbers shall elect bankers and the commercial zones bearing the even numbers shall elect business men, and every seven years thereafter the bankers' council of the respective zones shall alternately elect a banker or a business man, so that the elective members of the board of directors of the American Reserve Bank shall always be composed of an equal number of bankers and business men.

Second: The term of service shall be seven years; but the terms of service of the first elected board shall be for one, two, three, four, five, six, and seven years, respectively; that is, the board shall arrange itself into seven groups, each composed of two or more bankers and two or more business men, and thereupon the seven groups shall determine by lot how long each group shall serve.

SECTION 21. That it shall be the duty of the board of the American Reserve Bank, and it shall have the power, to fix the rate of interest or discount at which all the commercial paper or bills of exchange shall be purchased or discounted by all the boards of control.

SECTION 22. That it shall be the duty of the board of directors of the American Reserve Bank to issue a bulletin the latter part of each week, giving a statement showing a balance sheet of the American Reserve Bank and making such suggestions and comment and giving such advice as their wisdom may determine; and it shall make such arrangements as to insure the presence of this bulletin at practically every national bank in the United States every Monday morning.

SECTION 23. That the place of business of the American Reserve Bank shall be Washington, District of Columbia.

SECTION 24. That the members of the board of the American Reserve Bank shall reside in Washington, District of Columbia, and shall give their time and personal attention to the business of the bank.

SECTION 25. That the members of the board of the American Reserve Bank shall receive as compensation ten thousand dollars per annum each, payable

in monthly installments.

COMMENT:—Each independent zone will send its own man to represent it in the board of the American Reserve Bank—so that every financial centre will have a spokesman to present its claims on the one hand and to give full and reliable information on the other; also to guide the whole board in its policy. The board shall give weekly advice to all the banks in the United States upon the condition of business at home and abroad. The American Reserve Bank, as we shall see, will hold all central reserves of the United States for the benefit and protection of each and all of the zones precisely as the zones must protect all the individual banks within their borders.

Since our gold reserves are now a part of the common reserves of the whole commercial world, the price for the use of gold must be under the control of the Board of Directors of the American Reserve Bank. In this capacity they are acting for every individual bank in the United States whose agent they are.

SECTION 26. That the board of directors of the American Reserve Bank shall elect as the president of the American Reserve Bank some one who is not a member of the board so constituted. They shall also elect a vice-president of said American Reserve Bank and such other officers as they may decide from time to time to be necessary to the best conduct of the business of said bank.

COMMENT:—Since the board of directors are the direct representatives of the respective zones, and since the American Reserve Bank is only the servant of the combined zones working in coöperation, it is clear, that the board should elect its own president and vice-president.

If there is one thing, more than any other, that should be kept out of this coöperative organization, it is politics. If the appointment should be the perquisite of the President of the United States it might be used as a bribe or a reward; such a thing should not be thought of. The policy of such an institution should be beyond the reach or influence of party politics.

SECTION 27. That the term of service of the president and vice-president of the American Reserve Bank shall be three years, and the salary of the president shall be twenty-five thousand dollars per annum, payable in monthly installments, and the salary of the vice-president shall be eighteen thousand dollars per annum, payable in monthly installments. The salaries of all the other officers or employees of said bank shall be fixed by the board of directors of said bank.

COMMENT:—The term of service should not be too long, for it would follow that a good officer would be retained, while a mistake could be corrected within a reasonable time. The salary should be sufficient to secure the ablest men that the country affords.

SECTION 28. That the Comptroller of the Currency shall ex officio be a member of the board of directors of the American Reserve Bank.

SECTION 29. That the Secretary of the Treasury of the United States shall ex officio be a member of the board of directors of the American Reserve Bank.

COMMENT:—Since the United States Government would carry its balances with the American Reserve Bank, the Government should be recognized by making the Secretary of the Treasury and the Comptroller of the Currency ex-officio members of the board.

SECTION 30. That the President of the United States, with the approval of the United States Senate, shall appoint three directors of the American Reserve Bank, who, for their first term, shall serve five, six, and seven years, respectively, and thereafter seven years, and each such director shall receive a salary of ten thousand dollars, payable in monthly installments.

COMMENT:—While it is true that the matter of management should be kept out of politics, it may be granted that it might be wise to have a small number of directors, appointed by the President of the United States, who would have only their respective votes in the deliberations of the board—but no official place. They might serve some good purpose at times; while they certainly could do no harm. The policy of

the institution should not and would not be involved in these appointments.

SECTION 31. That vacancies in any one of the three boards as organized in this Act may occur by death, resignation, or expulsion, and shall occur whenever a member of any of the boards shall be a director or officer of a suspended, insolvent, or failed bank. All such vacancies shall be filled by the respective boards in which they occur until the first Monday in the month of May following, except those appointed by the President of the United States.

SECTION 32. That the term of office of each member of the three boards herein described shall begin at the time elected, but shall continue from the first Monday in the following May as if that day were the beginning of the time for which they were severally elected.

SECTION 33. That on the first Monday in May each year after one full year of service has expired the bankers of each commercial zone shall meet at the city in which the financial centre is located to fill any vacancies that may have occurred in any one of the boards described in this Act, and also to elect any members to said boards where terms of members have expired.

SECTION 34. That each commercial zone shall have all the attributes and powers of a body corporate and may sue and be sued in the United States courts having jurisdiction of the action brought; it may receive deposits from banks and act in every capacity of a bank for other banks, but shall not allow or pay any interest on such deposits; it shall have power to receive, collect, and forward bank notes; it shall have power to buy and sell commercial paper and bills of exchange from and to the banks which are members of such zone; it shall have power to act as the agent or attorney in fact of the banks which are members of any of the commercial zones, so far as it may be necessary to do so to carry into effect the purposes of this organization; it shall have the power to do and perform any and all acts that may be necessary for the proper performance of its duties in the supervision of all banks under it, and in the conduct and operation of the commercial zone.

SECTION 35. That each commercial zone shall maintain and keep in operation at its financial centre a clearing house where all the bank notes,

checks, drafts, bills of exchange, and other instruments of credit, drawn upon any bank located in the zone, may be cleared, and for any other purpose that may come within the purview of this Act; and all such instruments of credit shall be accepted and settled for at par at such clearing house, under and in accordance with such rules and regulations as may be established from time to time by the board of directors of the American Reserve Bank.

COMMENT:—MR. MANUFACTURER: You have now completed the functions of the zone, it seems to me; and everything that you have proposed is based upon the approved practices of the American Clearing House.

The free check zone, provided for in this last section, is identical with that at Boston, where, ever since 1899, every New England bank check has been at par at the centre.

Atlanta, Nashville, Kansas City and several other cities are working out the same plan. This plan is also identical with the plan that New England worked out before the war, with respect to the redemption of bank notes, when bank notes were the chief form of bank credit then used.

From 1818 to 1865, you will remember, the Suffolk Bank acted as a clearing house for all New England bank notes which were par at Boston, precisely as checks are today.

Here we are getting back to the simple fundamental principle of current redemption of bank credit without charge to commerce in whatever form the people may choose to use it.

It is bank notes and checks in France, Scotland, Ireland and all over Canada. Why should it not be bank notes and checks all over the United States just as well, in order that the people may have bank credit in the most convenient and cheapest form possible?

Then, you have extended to every commercial zone the same organization for supervision and administration that the most advanced clearing houses have; the Board of Control to examine them and the Bankers' Council as a court of appeal to settle all difficulties that may arise.

MR. MERCHANT: Is it practical to have the zones conform to State lines?

MR. BANKER: Such a thing should not be thought of. Economic laws do not follow State lines. There is not a single State in the Union that is a natural economic zone. Some States should have several financial centres; some none. To attempt to make a commercial zone conform to State lines would be absurd. Bank credit flows to centres as water rushes to the ocean, and we should not violate a great economic law to the irreparable injury of commerce. Sense and not sentiment should control our action.

St. Louis and Kansas City are natural financial centres, but Jefferson City is not. St. Louis draws its bank credits from eastern Missouri, southeastern Iowa, northeastern Arkansas and southern Illinois.

Kansas City draws its bank credits from western Missouri, southwestern Iowa, southeastern Nebraska, all of Kansas and some of Oklahoma. These cities illustrate the principle that must not be violated or we may do more harm than good.

Vermont has no economic centre, and it would do violence to trade and commerce to make one arbitrarily.

Tennessee has three such centres. Indiana and several other States have but one.

SECTION 36. That the American Reserve Bank shall have all the attributes and powers of a body corporate and may sue and be sued in any United States court having jurisdiction of the action brought. It shall have power to buy and sell gold bullion and gold coin; to buy and sell United States Government securities; to loan money to the United States Government, and to act as banker, fiscal agent, representative and attorney in fact for the United States Government; to buy and sell bills of exchange, domestic and foreign; to act as fiscal agent, attorney in fact, for all members of the respective commercial zones, and shall have full power to carry into effect the object for which this organization is created; it may receive deposits from banks and act in every capacity of a bank for other banks, but shall not allow nor pay interest upon any deposits that may be made with it.

SECTION 37. That the board of directors of the American Reserve Bank shall define from time to time the nature and character of the promissory notes, checks, drafts, and bills of exchange that may be purchased by the respective zones and the length of time they may have to run: *Provided, however*, That every piece of paper purchased by any commercial zone shall bear the unqualified indorsement of some national bank in its zone.

COMMENT:—It would be unwise to fix now arbitrarily by statute just what kind of paper the banks of every zone should buy. This ought to be left to the board of the American Reserve Bank. They will meet it wisely as it arises.

SECTION 38. That the United States Government is hereby authorized and empowered to prepare, upon the passage of this Act, bank notes for the respective banks applying for them without the following superscription upon them: "This note is secured by bonds of the United States or other securities," but in all other respects like the bond-secured bank notes now in use: *Provided, however*, That the notes delivered to any bank for issue and circulation shall have in bold type, first, and to the left of the centre, the number of its zone, and, second, to the right of the centre, the number of the bank by which it is identified in its zone.

COMMENT:—This section provides a true bank note by erasing that barbaric superscription that makes our present bank notes a bond speculation; and by bold numbers identifies every bank note with a zone and with the bank issuing it, thereby greatly facilitating the quick redemption of the notes.

MR. MERCHANT: How much more economical would this currency be than a currency furnished by the Government or purchased from some central bank or other central institution?

MR. BANKER: It would cost just one-fifth as much, or the difference between *par* that would have to be paid for the currency purchased and the average reserve carried; or about 20 per cent. The average per cent of gain to the banks would be about 5 per cent upon the amount of notes outstanding (approximately $1,250,000,000) or $60,000,000. Of course, this gain would come to the people, sooner or later; in the end, the expense of the bank is borne by commerce. The present enormous

cost of shipping currency to and fro across the country would be saved also, and this amounts to several million dollars a year, to say nothing of the added trouble of shipping commercial paper with which to pay for it.

SECTION 39. That upon the completion of the organization of the several commercial zones as hereinbefore provided any national bank may retire all or any part of its present bond-secured note circulation by depositing with the United States Treasurer an amount of the present bond-secured notes or lawful money, or both, which shall be equal to the amount of its circulation so retired, and may thereupon, with the approval of the Comptroller of the Currency, take out for issue and circulation an amount of bank notes, which shall be known as "national bank notes," that does not exceed in amount its paid-up and unimpaired capital without depositing United States bonds or any other securities to secure the payment thereof as now provided by law: *Provided, however*, That before any national bank shall have the right to retire its present bond-secured circulation and take out national bank notes for circulation as in this section prescribed, it shall first, unless located in its financial centre, make arrangements with a national bank which is located in its financial centre for the redemption of its bank notes in gold coin or other lawful money: *And provided further*, That it shall first deposit in gold coin or gold coin certificates with the American Reserve Bank an amount of money equal to 7 per centum of its average deposits during the preceding calendar six months, and in addition thereto an amount equal to 7 per centum of the national bank notes it proposes to take out for issue and circulation.

COMMENT:—The amount of notes is limited to the amount of capital as a matter of convenience only. Some banks will not be able to keep out 25 per cent of their circulation, because their customers use checks; other banks will need at certain times of the year in some sections of the United States an amount of circulation largely in excess of the amount of their capital. The habits of the people will always determine what the amount of currency in use is, if permitted to choose between checks and notes; but crop-moving times will greatly increase the normal demand, as we have seen in the case of Canada.

SECTION 40. That thereafter every national bank shall have upon deposit upon the tenth days of January and July of each year with the American Reserve Bank an amount of gold coin equal to 7 per centum of its average deposits during the preceding calendar six months and 7 per centum of its national bank notes taken out for issue and circulation: *Provided, however*, That this reserve shall be increased at the rate of 1 per centum each year for a period of three years thereafter; and that thereupon and thereafter every national bank shall have upon deposit upon the tenth days of January and July of each year with the American Reserve Bank an amount of gold coin equal to 10 per centum of its average deposits during the preceding calendar six months and 10 per centum of its national bank notes taken out for issue and circulation.

SECTION 41. That every national bank shall carry a cash reserve of 6 per centum of all of its individual deposits subject to check up to six million dollars and one-half of 1 per centum additional for each five hundred thousand dollars up to ten million dollars, and upon this and all additional individual deposits a reserve of 10 per centum in cash.

SECTION 42. That every national bank shall carry a cash reserve of 20 per centum of its deposits from banks, or upon its bank balances.

> COMMENT:—There is no doubt whatever that banks should carry larger cash reserves against bank balances than against those of individuals. The banks of Europe which carry such balances carry all the way from 33 per cent up to 50 per cent.

SECTION 43. That any national bank may at any time fall 75 per centum below its required cash reserve: *Provided, however*, That its average cash reserve from January 1st to December 31st shall be equal to its required cash reserve.

SECTION 44. That the amount that any national bank located outside of a financial centre shall be required to carry with a national bank located in a financial centre for the purpose of redeeming its notes may be counted as a part of its required cash reserve.

SECTION 45. That any national bank desiring to build up its reserve may rediscount or sell any of the commercial paper or bills of exchange owned

by it by applying to the board of control of the commercial zone in which it is located.

SECTION 46. That if any national bank shall not maintain its required average cash reserve, as prescribed by this Act, it shall pay at the end of the year as a penalty therefor, 10 per centum upon all loans in excess of such required cash reserve; and such penalty so paid shall be paid without any reference to any rediscounts made with the board of control for gold: *Provided, however*, That the board of directors of the American Reserve Bank may at any time suspend the whole or any part of said 10 per centum penalty that may result from a demand for gold during a panic, crop-moving period, or any unusual or extraordinary condition.

SECTION 47. That any national bank desiring to take out for issue and circulation an amount of national bank notes in excess of its paid-up and unimpaired capital, without depositing United States bonds or any other securities to secure the payment thereof, may do so to an amount not to exceed 100 per centum of its paid-up and unimpaired capital stock, provided the board of control of the commercial zone to which such bank belongs first gives its approval thereto.

SECTION 48. That the United States Government shall print and place in the hands of the respective boards of control an amount of national bank notes for each national bank in its zone equal to the paid-up capital thereof in addition to the bank notes taken out in accordance with Section 30.

COMMENT:—You will observe, gentlemen, that by Section 43 a bank is allowed to fall 75 per cent below its average cash reserve; that by Section 45 it can buy gold from the Board of Control with its commercial paper and build up the reserve; also that by Section 47 it can take out an additional amount of currency to meet any emergency that may arise. Now, when you appreciate the fact that the Board of Control is going to make every bank qualify in the outset, as sound and then is virtually responsible for its condition, with the power to aid it in case of necessity, it is difficult to even imagine a case where a bank would fail.

MR. MERCHANT: That is so; every bank ought to be kept in liquid shape by the Board of Control; then its means of defense, as you have

just pointed out, are unlimited. Of course it would then have all its present resources by way of rediscounting paper with its city correspondent; and on top of that the provisions of your bill. You could not possibly bust a bank.

SECTION 49. That national bank notes shall be a first lien upon all the assets of the bank issuing them, including the double liability of the stockholders, and any person or bank holding any of the national bank notes of a failed bank shall be entitled to recoup the amount thereof out of the first moneys received on account of the failed bank.

COMMENT:—These credit notes should be a first lien precisely as our present bank notes are; as the Scotch notes are and as the Canadian notes are. Bank notes should be made a first lien, because they are a public convenience and because the holder is morally and practically compelled to take them in the ordinary course of business.

MR. MANUFACTURER: He could refuse if he chose and demand legal tender, could he not?

MR. LAWYER: Certainly, but public policy should put the goodness of bank notes beyond question under all circumstances.

SECTION 50. That the expense of transmitting national bank notes by a bank to its financial centre, except its own bank notes, shall be paid by the board of control of the commercial zone in which such financial centre is located.

SECTION 51. That the expense of transmitting national bank notes from a financial centre outside of the zone to which they belong to the financial centre to which they belong shall be paid by the bank issuing the national bank notes so returned.

COMMENT:—It will not cost bankers anything to forward notes for redemption, as the expense of transportation will be paid by the commercial zones. This fact will insure the immediate return of all notes for redemption.

SECTION 52. That the national bank notes issued in accordance with the provisions of this Act shall be received at par in all parts of the United

States in payment of taxes, excises, public lands, and all other dues to the United States, including duties on imports, and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency. Said notes shall be received upon deposit and for all purposes of debt and liability by every national banking association at par and without charge of whatsoever kind.

SECTION 53. That from and after the passage of this Act no bank shall receive or have on hand deposits exceeding in amount ten times the amount of its paid-up and unimpaired capital.

> COMMENT:—Capital is a sort of insurance fund precisely as reserves are, and there should always be a reasonable relation sustained between capital and deposits.

SECTION 54. That any national bank may, with the approval of the board of control, establish a branch bank in any town, village, or locality within its own zone and within a radius of twenty miles, where there is no national bank; but such branch bank shall be discontinued as soon as an incorporated bank is established at that point with a capital of at least ten thousand dollars.

SECTION 55. That whenever any body of men desire to establish a national bank, or to nationalize a private bank, State bank, or trust company, they must first secure the approval of the board of control of the commercial zone in which the proposed bank is to be located; and if such application shall not be approved by the board of control for any reason, the applicant or applicants may then appeal to the board of the bankers' council for approval.

SECTION 56. That the decision of the board of the bankers' council upon all appeals by applicants for the privilege of starting a national bank shall be final, and their decision shall also be final in all other matters in which appeals may be made from the board of control.

SECTION 57. That all the rules and regulations under which branches are carried on shall be fixed and established by the board of directors of the American Reserve Bank.

SECTION 58. That any national bank which has taken out national bank notes for issue and circulation in accordance with this Act shall pay the American Reserve Bank on the tenth days of January and July of each year 1 per centum upon the average amount of notes in actual circulation during the preceding six months.

> COMMENT:—The tax is placed at 2 per cent per annum because that is the usual rate of interest now allowed on good balances all over the United States, and the notes are only another form of deposits made by the public who carry or use the notes.

SECTION 59. That the tax so paid by the banks upon the national bank notes, as provided in Section 58 of this Act, shall be appropriated for the following uses and purposes:

First: To pay all the expenses of whatsoever kind growing out of the administration of the four organizations established by this Act.

Second: To pay 1 per centum per annum upon all the United States 2 per centum bonds or consuls until their maturity in nineteen hundred and thirty.

Third: To establish and maintain in the American Reserve Bank a bank note redemption fund equal to 5 per centum of the average amount of the notes outstanding each six months preceding the first days of January and July of each year for the purpose of redeeming the notes of failed banks.

Fourth: The balance remaining, if any, shall, on the tenth day of January in each year, be paid into the division of the reserve fund of the United States Treasury in gold coin for the purpose of converting the United States notes into gold certificates.

SECTION 60. That to any national bank which has complied with section thirty-nine of this Act the United States Government shall return the 5 per centum fund deposited with it for the purpose of redeeming its bond-secured bank notes.

SECTION 61. That any national bank desiring to wind up its affairs and go out of business shall be entitled to receive back all its advances made upon its deposits and note issue to the American Reserve Bank: *Provided, however*, That all the liabilities of such bank have been paid in full and satisfied, or any amount of lawful money equal thereto has been paid into

the American Reserve Bank for that purpose, and the Comptroller of the Currency approves the repayment of said sum.

SECTION 62. That from and after the first day of January, nineteen hundred and fourteen, no national bank shall pay out over its counter any bond-secured bank note, but shall send the same to its financial centre, and the financial centre shall forward it to the United States Treasurer for redemption, cancelation and destruction.

SECTION 63. That any national bank that shall count any national bank note or notes as a part of its reserve shall pay into the American Reserve Bank a penalty of 10 per centum per diem on the amount so counted, and any national bank that shall, after January first, nineteen hundred and fourteen, count any bond-secured bank note as a part of its reserve shall pay into the American Reserve Bank a penalty of 10 per centum per diem upon the amount so counted.

> COMMENT:—If there is one evil that should be crushed out in this country more than any other it is the practice of carrying debts as reserves. No bank should be allowed to carry any other bank's notes, any more than any other check or draft which it thinks is good. It has been this abuse of bank credit that has led to more trouble than almost any other single thing. It was the requirement of coin reserves and current coin redemption that made the banks of Virginia, Louisiana, Kentucky, Ohio, Indiana, Iowa, Missouri and the Suffolk System such perfect successes.
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> Here is the crux. The very soul of sound banking is current coin redemption. So let us not fool ourselves by putting wind and water into our reserves.

SECTION 64. That any national bank may and is hereby authorized to accept any note, check, draft, or bill of exchange, with not more than four months to run, for any one of its regular customers: *Provided, however*, That the instrument of credit so accepted shall be for goods or merchandise sold and actually delivered or in transit to the buyer: *And provided also*, That the instrument of credit states this fact upon its face: *And provided further*, That the bank so accepting any such instrument of credit shall keep and maintain against such acceptance identically the same reserve as it is required to keep

and maintain against a deposit subject to check, and it shall be subject to the same penalty as provided in section forty-six of this Act.

COMMENT:—Let us not fool ourselves by supposing that by creating liabilities we are actually creating new capital. By acceptances a class of paper will undoubtedly be created that will in turn create a market for itself. The object therefore of acceptances should be to facilitate the handling of commodities in transit.

SECTION 65. That any national bank having a paid-up capital and surplus of at least two million dollars may establish a branch in any foreign country with the consent and approval of the board of directors of the American Reserve Bank.

COMMENT:—If we hope for our share of profit upon our foreign trade and if we hope to secure for the American merchant an equal opportunity in securing that foreign trade, we must prepare here two aids: one is banking facilities and the other is shipping facilities. Is it not perfectly clear that a foreign banker would do anything in his power to divert all the traffic he could over the shipping lines of his country? We shall find in the end then that our foreign trade will be aided not by our foreign bank alone but by American shipping as well.

SECTION 66. That any national bank that has a paid-up capital of at least fifty thousand dollars, and the surplus required by law, may act as a guardian, administrator, executor, or trustee and in such capacity in any State, by whatever name known, in accordance with the laws of the State or Territory where situated or located, and the reserves required against trust funds shall be as follows:

First: Seven per centum thereof shall be deposited with the American Reserve Bank.

Second: Six per centum cash shall be carried against all trust funds up to six million dollars and one-half of 1 per centum for each additional five hundred thousand dollars up to ten million dollars, and upon this amount and all additional amounts, 10 per centum in cash shall be carried, but any national bank accepting trust accounts shall keep the same separate and apart from all other accounts in said bank, and shall establish a trust account department; and all such deposits shall be invested in such securities as are prescribed by the laws of the State where such bank is located.

SECTION 67. That if the laws of the State where any national bank accepting trust accounts is located do not prescribe how trust funds shall be invested, then the board of the American Reserve Bank shall fix rules and regulations for the investment of such funds.

SECTION 68. That any national bank may accept savings accounts, as distinguished from commercial accounts, but any national bank accepting savings accounts shall keep the same separate and apart from all other accounts in said bank, and shall establish a savings account department; and all such savings deposits shall be invested in such securities as are prescribed by the laws of the State where such bank is located.

SECTION 69. That if the laws of the State where any national bank accepting savings accounts is located do not prescribe how savings funds shall be invested, then the board of the American Reserve Bank shall fix laws and regulations for the investment of such funds.

SECTION 70. That all investments made for the benefit of the savings depositors of any national bank shall be held primarily and exclusively for the benefit of the depositors in the savings department; and in case of a bank failure, if the investments made for the benefit of the depositors in the

savings department do not satisfy their claims in full, then the depositors of the savings bank shall be entitled to such a part of the capital, surplus, and capital liability as the savings deposits bear to all other deposits up to and until the savings accounts are paid in full.

SECTION 71. That any national bank accepting savings accounts shall, on the tenth days of January and July of each year, have with the American Reserve Bank an amount in gold coin equal to 5 per centum of the average deposit in such department during the preceding six months, and such national bank shall be required to carry cash reserves amounting to 5 per centum against such savings account.

SECTION 72. That the said 5 per centum so paid by the national banks to the American Reserve Bank as reserves against their savings deposits shall be invested in United States Government bonds or securities for the exclusive benefit of the savings depositors in the national banks as a savings bank fund, and the full interest earned upon said bonds shall be credited to the savings bank fund in the American Reserve Bank, and no part thereof shall be deducted for any other purpose whatsoever than the protection of savings bank depositors.

> COMMENT:—This trust fund would absorb about $350,000,000 of the present bonds held by the national banks for circulation, as the total savings now approximate seven billion dollars ($7,000,000,000).

SECTION 73. That any national bank accepting a savings bank account may at any time demand the right to have thirty days' notice of an intention to withdraw the same, and may also reserve the right to pay all savings accounts in two installments—50 per centum thereof in three months, 50 per centum in six months.

SECTION 74. That from and after the first day of January, nineteen hundred and fourteen, every person, firm, partnership, or corporation using the word banker or bank, and every State bank and trust company in the United States receiving deposits subject to check, or saving accounts in the usual way, or trust funds shall keep and maintain identically the same reserves against these respective funds as is provided for by the provisions of this Act; and any person, firm, partnership, or corporation using the word banker or bank, and every State bank and trust company, except mutual

savings banks, that fails to comply with the provisions of this Act shall pay a tax of 10 per centum to the United States Government on the tenth day of January in each year upon all the deposits or trust funds against which the foregoing prescribed reserves have not been kept and maintained.

SECTION 75. That any person, firm, or corporation using the word banker or bank, and every State bank or trust company that shall, after January first, nineteen hundred and fourteen, hold as a part of its required reserves, as prescribed in section sixty-three, any national bank note, check, draft, or other instrument of credit, shall pay a tax thereon to the United States of 10 per centum per diem on the amount so held; and every person, firm, or corporation using the word banker or bank, and every State bank or trust company accepting deposits or trust funds as described in section sixty-three shall, upon the first day of January in each year, make a sworn statement to the United States Government showing exactly the amount and the character of reserves held during the preceding year against all of its deposits, and upon failure to do so shall pay a fine of one thousand dollars per day until such report is made.

> COMMENT:—These Sections, 74 and 75, provide that every person or corporation in the United States shall not only carry its proper share of reserves, as we have all agreed they should, but the right kind of reserves as well. Quantity and quality must both be made obligatory if we are to have a banking system that amounts to anything.

SECTION 76. That as soon as the amount of money deposited by the national banks with the American Reserve Bank, as aforesaid, shall reach the sum of five hundred million dollars all the bonds now deposited by national banks to secure Government deposits shall be returned to the respective banks to which they belong; and from and after that date any national bank holding a Government deposit shall pay interest thereon to the Treasurer of the United States at the rate of 2 per centum per annum, and the said interest so received shall be paid into the division of reserve fund in the Treasury, and United States notes of an equal amount shall be retired, canceled, and destroyed and gold certificates issued therefor. The said interest shall be payable as follows: 1 per centum on the tenth days of January and July of each year on the average balance during the preceding six months.

SECTION 77. That all the profits growing out of the operations of the several commercial zones and the American Reserve Bank combined may be distributed between the United States Government and all the national banks pro rata, according to the amount they have respectively deposited with the American Reserve Bank, whenever in the judgment of the board of the American Reserve Bank it is advisable to do so, having made such provision for a reserve as is deemed necessary: *Provided, however*, That the distribution of profits shall not exceed 2 per centum per annum until practically all of the United States notes have been converted into gold certificates; and for that purpose all the profits in excess of 2 per centum shall be paid into the reserve fund of the United States Treasury in gold coin.

SECTION 78. That subject to the disposition made and provided for in this Act of all the various sums of money to be paid to the American Reserve Bank all such sums of money shall be combined and held in one common fund and be known as the American Reserve Bank Fund, and this fund shall guarantee the repayment of all Government deposits made with the American Reserve Bank and the redemption of the national bank notes of any failed bank.

> COMMENT:—In paragraph three, under Section 59, provision was made for a 5 per cent guarantee fund to redeem the bank notes of any bank which has failed. This fund is held by the American Reserve Bank, which under Section 78 will be used to redeem the notes of all failed banks immediately and the amount of the notes so redeemed shall be recouped from the assets of the bank that issued the notes; if, by chance, one should fail after it has become a part of the proposed system, which I, for one, do not believe is possible.

SECTION 79. That the American Reserve Bank shall, on the first days of January and July of each year during the life of the 2 per centum United States consols up to nineteen hundred and thirty, pay into the Treasury of the United States an amount of cash in equal payments which shall be equal to 1 per centum per annum of all the United States 2 per centum bonds or consols now aggregating about seven hundred and thirty million dollars.

SECTION 80. That when the American Reserve Bank shall have paid into the United States Treasury the first half of 1 per centum in accordance with the preceding section, the United States Government shall thereupon refund all of the 2 per centum bonds or consols into 3 per centum bonds or agree to pay 3 per centum thereon; and thereafter the Government shall pay 3 per centum interest upon all of said 2 per centum consols.

> COMMENT:—By this section all the 2 per cent bonds will be converted into 3 per cent bonds and they will then be returned to the banks to which they belong. They can then be sold by them, bringing into the commercial fund of the country $730,000,000.
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> This change ought to enable the banks to loan money more cheaply to the people; we must remember that the more expensive we make banking in this country the higher the rates of interest will be; for, in the end, the people bear every added burden.

SECTION 81. That when the United States Government shall have made provision for refunding the 2 per centum bonds or consols into 3 per centum bonds and the American Reserve Bank Fund shall amount to the sum of five hundred million dollars, the United States Treasury shall transfer to and keep with the American Reserve Bank a sufficient balance—upward of fifty million dollars—to meet all of its checks and drafts; and thereupon the American Reserve Bank shall become the fiscal agent of the United States Government for all purposes, except for the collection and current daily deposits of its revenues, which shall not be deposited thereafter in the United States Treasury or Sub-treasuries.

SECTION 82. That from and after the date that said American Reserve Bank Fund shall amount to the sum of one thousand million dollars the Secretary of the Treasury of the United States shall deposit from day to day all Government receipts from whatsoever source received in the American Reserve Bank.

> COMMENT:—According to these two Sections, 81 and 82, the United States Treasury will cease to be a disturbing factor in the commerce of the country; and it will do its business, precisely, as any municipality, by check and draft upon the American Reserve Bank, where its money will be deposited, from day to day, currently, as received.

SECTION 83. That beginning on the first day of January after the "American Reserve Bank Fund" shall amount to one thousand million dollars, every National bank shall pay to the American Reserve Bank a tax of one-fifth of 1 per cent upon all of its deposits held upon said first day of January, and upon the first day of January thereafter for two successive years a tax of one-fifth of 1 per cent upon the amount of deposits held.

SECTION 84. Every National bank shall thereafter contribute a sufficient amount on the first day of January in each year to make the total amount that it has contributed equal to three-fifths of 1 per cent of its deposits.

SECTION 85. The fund so created by the payment of the said three-fifths of 1 per cent to the American Reserve Bank shall constitute and be known as "The Depositors' Insurance Fund."

SECTION 86. Any bank that shall come into the National banking system at any time after the passage of this act shall immediately proceed to make its contribution to "The Depositors' Insurance Fund" as prescribed in sections eighty-three and eighty-four of this Act.

SECTION 87. If any National bank shall fail after three years from the time that the first tax upon deposits was paid, all depositors shall be paid in full, as hereinafter provided, as soon as the amount due them respectively has been ascertained.

SECTION 88. The Board of Control of the commercial zone where the failed bank is located shall issue in the name of its commercial zone perpetual securities subject to call equal in amount to the amount of the deposits held by the failed bank. The securities so issued shall be in the denomination of five hundred dollars and multiples thereof, and be known as Bank Bonds of —— Commercial Zone, and shall bear interest at the rate of 6 per cent per annum, payable annually.

SECTION 89. The Board of Control issuing Bank Bonds as in the foregoing section prescribed, may deposit an amount thereof with the American Reserve Bank equal to all deposits less than five hundred dollars and all fractions of deposits less than five hundred dollars, and receive in exchange therefor, an equal amount of money.

SECTION 90. The Board of Control may at its option sell the Bank Bonds so issued, and pay the depositors in cash in full or may pay the depositors in

cash in part and in Bank Bonds in part.

SECTION 91. From time to time as cash is realized from the assets of the failed bank the Board of Control shall retire a corresponding amount of Bank Bonds, the bonds so retired to be determined by lot.

SECTION 92. As soon as the loss resulting from the failure of the bank is determined, the Board of Control shall proceed to assess a tax at the rate of one-fifth of 1 per cent per annum upon all the deposits of all the National banks in the commercial zone where the failed bank was located until one-half of such loss has been collected from such banks. The remaining one-half shall be borne by "The Depositors' Insurance Fund."

> COMMENT:—Since the commercial zone where the failed bank is located is directly responsible for the failure because its board of control could have prevented it, that particular zone should bear at least half the loss. This is essential to impress upon all the bankers of the zone the importance of selecting the very best men upon the board of control.

SECTION 93. The board of directors of the American Reserve Bank may invest such part of "The Depositors' Insurance Fund" in United States Government securities as they may deem wise.

SECTION 94. If at any time in the future the board of directors of the American Reserve Bank shall find it necessary to reimpose upon all the deposits of the National banks the tax of one-fifth of 1 per cent to carry this act into effect, they are hereby authorized and empowered to do so.

SECTION 95. If the board of directors of the American Reserve Bank shall at any time deem "The Depositors' Insurance Fund" unnecessarily large, it may distribute a portion of the same among the banks as their interests may appear.

> COMMENT:—MR. LAWYER: Gentlemen, by Sections 83 to 95 we have provided for the insurance of depositors, as you will perceive. We have accomplished this by financing, as it were, the assets of the failed banks so that all depositors can have their money immediately. We believe that the result of this plan will be not only to absolutely protect all depositors and give them their money immediately; but, to save the

depositors from a world of worry; to protect the banks from panics and runs; to stop hoarding; to protect storekeepers, merchants, manufacturers and all business interests from the consequences of the inability of the people to meet their obligations because their money or cash resources are tied up in bank failures as heretofore. Our problem was to meet the condition confronting a community when a bank closed its doors, and I think we have solved it.

MR. BANKER: There can be no possible question but what this plan, which will put into the American Reserve Bank at least $35,000,000 before it becomes operative, will accomplish the purpose sought, since the total loss to all depositors in the National banks in forty-nine years have been only $38,000,000, and the estimated loss where the failed banks have not been closed out is only $6,000,000, or a total loss for the whole time of only $44,000,000.

MR. MERCHANT: You have undoubtedly solved every difficulty connected with this great and most benevolent purpose.

MR. LABORINGMAN: Gentlemen, I want to thank you from the bottom of my heart for what you have just done. I want to thank you in the name of the millions of toilers. If I have had any influence in bringing this great reform about, I feel that I have been repaid a thousandfold for the time I have spent with you.

MR. LAWYER: To you, Mr. Laboringman, more than to all the rest of us, is due the insurance of depositors in our National banks; for you may rest assured now that it will come about sooner or later. Of course, that letter to Mr. Farmer from the Comptroller of the Currency paralyzed all opposition, and to you two men belongs the glory of this victory; to you two men will be due the gratitude of all depositors.

SECTION 96. That whenever the accumulations from the tax upon the national bank notes shall reach an amount equal to 5 per centum of the national bank notes outstanding during the preceding six months after paying all the expenses growing out of the administration of the four organizations established by this Act—the commercial zone, the bankers' council, the boards of control, the American Reserve Bank—and the 1 per centum per annum upon all the 2 per centum bonds or consols is being

currently paid, the excess from whatever source remaining over, allowing for such a reserve as is deemed necessary, shall, on each succeeding tenth days of January and July in each year, be paid into the division of the Reserve Fund of the United States Treasury in gold coin; and as soon as the Secretary of the Treasury shall receive and cancel an amount of United States notes equal to the gold so paid in, he shall issue gold certificates therefor.

SECTION 97. That when the Secretary of the Treasury of the United States shall have received from the interest paid by the banks upon the Government deposits, and from all other sources, the sum of one hundred and ninety-six million six hundred and eighty-one thousand and sixteen dollars in gold coin for the purpose of redeeming and converting a like amount of the United States notes into gold certificates, and he shall have received, canceled and destroyed substantially all of the remaining United States notes outstanding, making due allowance for the United States notes estimated to be lost or destroyed, he shall then transfer all the gold coin and gold bullion in the Reserve Fund, amounting to one hundred and fifty million dollars, with all the accumulations, to the division of redemption of the trust fund; and thereafter no national bank shall hold a United States note as a part of its reserve, nor shall there be paid out of the United States Treasury any United States notes; but the same when received shall be canceled and destroyed, and gold certificates shall be issued therefor.

COMMENT:—You will have noted in Sections 77 and 96, also in Section 97, that provision has been made for paying gold into the Reserve Fund, which is the fund behind the Greenbacks or United States notes, and that a corresponding amount of greenbacks are to be canceled and the same amount of gold certificates are to be issued in their place.

The amount of greenbacks is $346,681,016. The present amount of the Reserve Fund is $150,000,000. Now after we have paid into this fund $196,681,016, the greenbacks will be converted into gold certificates. We estimate that this will take twelve to fifteen years.

Then all our bank reserves will, practically, be in gold coin or gold certificates, because the silver certificates will be cut up into one and two dollar pieces and will be token money, in the pockets of the

people, the tills of the stores and will constitute small cash for the banks.

UNCLE SAM: Glory Halleluiah! That will be the day I long have sought and mourned because I found it not! Boys, your work will be a great relief to me.

SECTION 98. That when substantially all the United States notes shall have been converted into gold certificates, as in this Act provided; when practically all of the bank notes secured by Government bonds have been returned to the United States Treasury and canceled; and when practically all the silver certificates of the larger denominations have been cut up into one and two dollar certificates or coined into subsidiary coins; and when the American Reserve Bank shall be acting as the fiscal agent of the United States Government, it shall thereupon assume the maintenance of the parity of the silver certificates and silver coins with gold coin.

COMMENT:—Uncle Sam may well rejoice because this section, you will observe, provides that the American Reserve Bank shall then maintain the parity of all his silver with his gold.

MR. MERCHANT: Gentlemen, have you estimated how much gold your plan would bring into the American Reserve Bank?

MR. BANKER: Yes, sir; we should have approximately one thousand two hundred and fifty million dollars ($1,250,000,000).

MR. MERCHANT: Where would this gold come from?

MR. BANKER: Partly from what the banks now hold, and partly from the channels of trade. There is about $900,000,000 now in the banks and $978,000,000 in the channels of trade, or $1,878,000,000 in the United States. The present *dead reserves, I mean dead reserves held by the banks under a legal prohibition against their use*, and the gold floating around in the cotton fields, corn and wheat fields, in the mining camps, in the stores, and in the pockets of the people generally, would at once be brought to their proper use, vitalized, and mobilized into a common defense of the bank credit of the country; all of it, ready all the time, to meet the demands of commerce, and to protect every bank in a liberal and wise use of its credit.

MR. MANUFACTURER: I presume that you have been deeply impressed, as I have, with the importance of protecting our gold reserves from the standpoint of a nation among the great commercial nations of the world. We have learned that there are many forces now acting upon gold, because it is the universal reserve of the world.

MR. BANKER: Precisely so, and this fact necessitates this centralization of gold, and that a power be lodged somewhere to protect it from those influences, which, if set in motion, and unobstructed, will rob us of it almost in the twinkling of an eye. Only a year ago we saw these influences at work in Germany. It was stated that at least $350,000,000 was withdrawn in about sixty days. Tomorrow, these same influences may be drawing away our foundations of credit in a similar manner, and we would suffer an irreparable injury, because we are without any means of defense. There are those who seem to think that if we have a balance of trade in our favor, we are safe; but this is only one factor; nor are we certain of this, for any length of time. We are today, literally, living in a fool's paradise, that may disappear while we contemplate it in serenity. History has already taught the world many lessons upon this point, and if we are wise, we will heed them.

MR. MERCHANT: Mr. Banker, just what are the influences that affect the movement of gold to or from the country?

MR. BANKER: In our case, the causes that may influence the movement of gold to or from us, may be summed up as follows:

First: The balance of trade.

Second: The state of foreign exchange throughout the world.

Third: The state of our currency, that is, the use of substitutes for real reserves; such as United States notes, silver, and bank notes, in place of gold. The present plight of Germany is due to her use of bank notes as reserves. It is a vivid illustration. History has furnished hundreds of illustrations; but the most forcible in our recent history was the issue of the United States notes in the Sixties, and the effect of the silver purchase act of 1890. Gresham's law put into operation will overcome all opposing forces.

Fourth: Foreign financing.

Fifth: Political disturbances.

Sixth: The state of the money market in foreign financial centres.

Seventh: Demands for capital in periods of speculative development in foreign countries.

Eighth: Changes in our tariff laws.

It is easy to imagine how complicated and powerful these forces might become, and how essential it is that we should be ready to combat them, when the tide turns against us. We must be in a position to buy and sell gold bullion, and to buy and sell domestic and foreign exchange, and to loan a large sum of money, gold, I mean, quickly, through a board of control to stop a panic in some financial centre, and last—and above all, we must hold the chief key to the situation. That key lies, mainly, in the power to fix and enforce a price for the use of gold, in what is popularly called a discount rate for gold, and make it universal throughout the United States.

All these objects will be attained by the centralization of about one-half of our reserves in the American Reserve Bank, and by having them under the direction of a board of men, who come directly from each of the commercial zones, and who are, therefore, responsible to the people of their respective zones.

MR. MERCHANT: Now, gentlemen, you seem to have completed your report so far as the commercial bank is concerned, and I must say your plan looks good to me; but, I want to ask you something before we leave this question, and that is, why did the English Bank Act of 1844 provide that only the Bank of England should issue bank notes, and why did Germany follow in her footsteps in 1874, by giving to the Imperial Bank the sole right of note issue?

MR. BANKER: I am very glad that you have asked that question, because it is often a stumbling block to those beginning the study of this subject. One naturally says to himself, if this plan of a Central Bank of issue is good enough for England and Germany, why should we not adopt it here? In the first place, the two banks act upon entirely different principles, and in both cases their theories, so far as their note issues are concerned, have broken down.

In 1797 the Bank of England suspended specie payments, and during the Napoleonic wars issued an unwarranted amount of paper or notes, which led to wild speculation. At the same time, the country banks joined in the frenzy, and issued large quantities of notes also. All the paper became greatly depreciated, causing such a derangement of commerce as to call for a public investigation. The Bullion Report of 1810, the most profound economic and important statement ever made in the history of banking, followed. This declared that the mere numerical amount of notes in circulation at any time was no criterion whatever of their being excessive. The Bullion Report declared *that the only sure criterion was to be found in the price of gold bullion and the state of the exchanges*.

Ricardo says:

"The issuers of paper money should regulate their issues solely by the price of bullion and never by the quantity of their paper in circulation. The quantity can never be too great or too little, while it preserves the same value as the standard."

If Ricardo had used the words *bank credit*, instead of *paper money*, it would have been technically more correct.

This statement of Ricardo, and that contained in the Bullion Report, constitute the very soul of this subject, so far as bank credit in any form (bank notes or bank deposits, which are identical) and gold are concerned.

Reserves in gold, in sufficient quantity to redeem all bank credit, deposits as well as notes, are essential. Do not forget that. Of course, gold will be seldom called for, but it must be forthcoming if demanded. No better illustration of the Ricardo principle can be found anywhere in the history of banking than in the banks of Virginia, Louisiana, Kentucky, Ohio, Indiana, Iowa, and Missouri before the war.

This principle, announced in the Bullion Report was rejected by the House of Commons, and was not recognized by the Bank of England, or English bankers generally. From 1800 to 1844 bank notes were thought good enough for reserves, that is, the basis of other credit.

There were constantly recurring business disturbances and banking troubles up to 1821, when the Bank of England resumed specie payments.

In 1824 gold began to leave England again, and continued to go throughout 1825, when the crisis came.

In 1827 the Bank seemed to be convinced that the principles of the Bullion Report were correct, and it tried to apply them in part.

In 1836 and 1837 there was more financial trouble, and again at the end of 1838 another serious period arrived. By the end of 1839 the specie had dropped from $50,000,000 to $14,000,000. All these adverse experiences convinced the public that something was radically wrong.

There then appeared upon the scene Lord Overstone, Mr. Norman, Col. Torrens and other influential writers, who maintained that the amount of bank notes should not exceed the amount of bullion, and that it was the excess of bank notes over the amount of bullion or gold that sent the gold out of the country. They carried the day, and even converted Peel to their way of thinking.

The Bank Charter expired in 1844. They thought that they had now found a panacea for all their ills; it was the so-called *Currency Principle*; that is, that bank notes should not exceed the amount of specie. In adjusting the matter, they did issue bank notes against $72,000,000 of Government securities, which was in direct violation of their own contention. They did not have to wait long to see how completely they were mistaken. Their contention was, that if the bank only issued notes against specie, the people would have to bring the notes to get specie. The bank kept right on taking deposits and making loans, apparently with no knowledge of the fact that it made no difference what kind of debt the bank incurred, whether in the form of a deposit or in the form of a note, it would have to be paid in specie if the check holder wanted the specie, just as much as the note holder wanted the specie.

Many business disasters occurred in 1846. The new scheme was to be put to the test within two years after the English Bank Act was passed.

On Aug. 29, 1846, the amount of bullion in the bank was $81,000,000. The bank notes outstanding were $102,000,000. By Jan. 9, 1847, the bullion was down to $71,000,000. The bank notes outstanding were $104,000,000. By April 10, 1847, the bullion was down to $48,000,000. The bank notes outstanding were $101,000,000.

It was demonstrated beyond question, you see, that you could get gold with a check just as easily as with a bank note; for, while $30,000,000 of bullion had disappeared, the amount of the bank notes outstanding remained the same. In other words, the bank notes were not retired as the gold was withdrawn, which was the whole theory upon which the Bank Act of 1844 was based.

The Bank Act had failed completely and utterly to accomplish what it was designed to do. There could have been no more abject failure.

It was upon this occasion that the bank employed, for the first time, either by accident or with intention, the principle that was subsequently, in 1856, expounded by MacLeod. He states the principle thus, "That when the rate of discount between two places differs by more than sufficient to pay the cost of transmitting bullion from one place to another, bullion will flow from where discount is lower to where it is higher."

While the Bank of England seemed to have employed this principle in 1847, it acted too slowly and very feebly. It lost a large part of its gold before it raised its rate of discount, and then it raised it only to 3½ per cent, then to 4 per cent, and finally to 5 per cent.

The world has since learned the power of this weapon; but it is not all-powerful against any odds, as we have seen in watching the withdrawal of gold from Germany during the time when there was a possibility of war with France.

When I started to answer your question, I said that both the English and German banks had failed to accomplish the particular things which they had set out to do.

I think you will admit that I have demonstrated my contention with regard to the Bank of England. Now, the plight of Germany is this: She had supposed that she could create true bank reserves out of bank

credits, but that scheme has completely broken down. Her own commission appointed to revise the bank act during the past year has just recommended that the individual banks carry their own coin reserve.

Now, gentlemen, there is no point in common between England, Germany, and France, so far as note issues go. The Bank Act of 1844 took away from the Bank of England the power of note issue, and reduced the bank to identically the same position that the United States Treasury is in, with regard to the gold certificates; that is, the Bank Act reduced the bank to a mere warehouse, with the power to issue gold certificates in the form of bank notes. The Bank of England has no more authority to issue bank currency than the New York Clearing House has; not a bit.

The Imperial Bank of Germany issues notes against 33 per cent of coin and other collateral.

The Bank of France issues notes without reference to any particular amount of coin, but carries an enormous gold reserve, averaging about 65 per cent of its note issue.

The Bank of England usually carries about $150,000,000 in gold, and has outstanding about $250,000,000 bank notes; the difference between the gold and this amount being covered by Government securities. Her deposits are $250,000,000. The Imperial Bank of Germany carries about $200,000,000 of gold, and has outstanding about $700,000,000 bank notes. Her deposits are about $250,000,000. The Bank of France holds about $650,000,000 of gold, and has outstanding about one billion dollars of notes ($1,000,000,000). Her deposits are usually about $100,000,000.

MR. MERCHANT: It is true that there does not seem to be any great similarity in the condition of these three institutions. The points of contrast are as great as the points of likeness.

England is a great check using country; hence, there are few notes. France is a great note using country; hence, comparatively few deposits are kept, while Germany seems to occupy a middle ground between the two.

The Bank of France has been operated upon the principle laid down in the Ricardo axiom, and also in accordance with the principles enunciated in the Bullion Report. But France is handicapped by the load of silver she is carrying, which amounts to about $200,000,000; and Germany is greatly handicapped by the fact that her use of bank notes as reserves has prevented her, as she now discovers, from accumulating a proper amount of gold to adequately protect her bank credits. The result is, that neither Germany nor France are open markets for gold; both throwing trammels and obstacles in the way, if you desire to get gold in either country.

The entire commercial world is conscious of the difficulties you are under when trying to take gold away from Paris or Berlin.

Bills of Exchange drawn in pounds, shillings, and pence are preferable the world over to any other; because the Bank of England is an open market for gold at the current price.

MR. LAWYER: Mr. Banker, since you cannot institute a comparison between these three banks in the matter of note issues, in what respect do they have a common purpose?

MR. BANKER: In only one single respect is there a common factor in all of them, and that is, that each of them carries the final reserves of its country. This is the one common fact, the all important fact, because without this massing of their reserves two essential results could not be achieved. First, a panic of any proportion could not be quickly and successfully met. Second, no one of them would have any means whatever of protecting its gold against the drafts that the rest of the commercial world is likely to make upon it at any time, nor any power of adding to its gold in case of some great necessity growing out of a crisis.

MR. MERCHANT: Recently we have heard repeatedly that, while we were having our ever-recurring spasms or panics in business, the countries with central banks were not suffering in the same way. Is it not a fact that Canada has been just as free from these spasms and panics as any country in the world, and yet Canada has no central bank?

MR. BANKER: Yes, that is true. It never occurred to me before, but I should say that Canada was, if anything, much freer from these convulsions and panics, as you call them, than any other country.

MR. LAWYER: I agree with you. There has not been the suggestion of such a thing, as far back as I can remember—thirty or forty years. Now, since Canada has not a central bank but twenty-seven banks, the protection against these disturbances or panics must lie deeper and more fundamental. What is it? It cannot be the central bank idea, because Germany has been having a vast amount of trouble for more than a year, and at the present time seems to have plenty in store for her.

MR. BANKER: Yes, it does lie deeper than your mere form of organization; I think I can explain it so that every man here can understand and appreciate it. The reasons are fundamental and economic: *First*, There must be ample *gold reserves and elasticity in those reserves*. Without any law with regard to the amount of reserves to be carried the banks of Canada carry about 14 per cent, and since no specified reserves are required there is perfect elasticity in their reserves.

Second: There must be convertibility, if necessity requires it and precisely to the extent required, of bank book credits into bank note credits. Bank credit currency in Canada amounts at its maximum to $16 per capita and the variation averages now about $4 per capita. The same ratio would give us an expansion and contraction every fall of about $400,000,000 without changing our reserves to the extent of a single cent.

MR. FARMER: I catch on to that. Two principles are involved and it doesn't make any difference how you apply them, only so that they are in operation. *The first is the principle of ample coin reserves and their elastic adjustment to current commercial needs. The second principle is the interchangeability of bank book credits and bank note credits and their current convertibility into coin.*

MR. BANKER: That is the whole thing in a nut-shell, outside of the principle of a central gold reserve, and it doesn't make any difference whether you apply those principles to one bank or to twenty-seven

banks, as in Canada at present, or to five hundred banks, as in the Suffolk System before the war, or to our twenty-five thousand banks today.

MR. MANUFACTURER: As I understand the bill you have prepared, our American Reserve Bank will have no liabilities whatever, and yet it will have more gold than all of these three countries combined.

MR. BANKER: That is correct. You see, there are just three reasons for the existence of the American Reserve Bank:

First: By it, all the banking power of the United States stands ready to help every individual bank move the crops; and, in case a panic breaks out, to protect every individual bank.

Second: By it, we shall always be in a position to control and direct the movement of gold to and from the United States.

Third: By it, we have completely decentralized bank credit; because each zone can rely absolutely upon the centralization of the gold reserves to assist it whenever necessary; so also can every individual bank.

NATIONAL LAND CREDIT BANK

SECTION 99. That the National Land Credit Bank is hereby created and established upon the organization of the following institutions as prescribed:

First: The Local Land Credit Association.

Second: The State Land Credit Association.

Third: The National Land Credit Bank.

SECTION 100. That no more than fifty persons and no less than twenty-five persons may associate themselves together in any State of the United States under the name of —— Land Credit Association, and be known as a local association.

SECTION 101. That the capital stock of each local association shall be twenty-five thousand dollars, no more, no less; and it shall be paid up in full

in cash. The par value of the stock of such association shall be one hundred dollars.

SECTION 102. That any person may become a member of a local association by owning one or more shares of the stock, but no member of an association shall own more than twenty-five shares thereof.

SECTION 103. That every local association, each member voting the number of shares owned by him, shall elect an executive committee composed of five members and a secretary and treasurer of said local association. The committee shall choose its own chairman.

SECTION 104. That the term of service of the members of the committee shall be one year.

SECTION 105. That no member of a local association shall transfer his stock to any other person without the unanimous approval of the executive committee, evidenced by the signatures of such committee upon the records of the association and by the signature of the chairman of said committee upon the certificate of stock, which shall be transferable only by such signature: *Provided, however*, That any person desiring to sell his stock may appeal from the decision of the executive committee to the members of such local association.

SECTION 106. That the total amount of loans that any local association can make is twenty times the amount of its capital stock, or five hundred thousand dollars.

SECTION 107. That the executive committee may take applications for loans and recommend the same for favorable consideration to the board of managers of the State association, but no loans shall be made except upon improved productive agricultural lands, and then only for 50 per centum of a fair valuation thereof.

SECTION 108. That all compensation, if any, to the executive committee and the secretary and the treasurer and all expense of the local association of every kind whatsoever shall be derived from charges made for services rendered in connection with the various applications made to them and for services rendered in connection with loans already made. Each association shall fix its own scale of charges, if any are made.

SECTION 109. That no loan shall be considered or consummated in any State until there are organized in such State at least twenty local associations in accordance with sections two, three, four and five of this Act and until at least five hundred thousand dollars have been paid up in cash.

SECTION 110. That when at least twenty such local associations have been organized in any one State the governor of such State, upon being informed of this fact, shall name a time and place for meeting, and the members of the several associations shall meet in person, or by legal proxy duly representing their respective shares, for the purpose of organizing a State Land Credit Association.

SECTION 111. That the State Land Credit Association shall be organized under the name of (here insert name of State where located) Land Credit Association and be known as a State Association.

SECTION 112. That every State association shall have a board of managers, which shall consist of seven members, who shall be elected by the shareholders of the several local associations in the State present or duly represented by legal proxies.

SECTION 113. That the members of the board of managers shall hold office for the period of seven years: *Provided, however*, That the seven first elected shall hold office for one, two, three, four, five, six, and seven years, respectively, and they shall determine by lot how long each member shall serve.

SECTION 114. That the officers of each State association shall consist of a president, vice-president, secretary, treasurer, and attorney. The said officers shall be members of the board of managers, except the secretary and treasurer, who may or may not be members.

SECTION 115. That the officers named in the preceding section shall be appointed by the shareholders of the several local associations present or duly represented by legal proxies.

SECTION 116. That the salaries to be paid the officers of each State association shall be fixed by the shareholders of the several local associations of such State present or duly represented by legal proxy. All such salaries and all the expenses of whatsoever kind incurred in carrying

on the business of the State associations shall be paid out of fees or charges made upon the business done in that State.

SECTION 117. That the place of business of the State association shall be fixed by the shareholders of the local associations of the respective States present or duly represented by legal proxy.

SECTION 118. That all applications for loans made to any local association and duly recommended by the executive committee thereof after a personal examination of the property and a full report in accordance with such rules, regulations, and forms as the board of managers of the State association may prescribe shall be examined and considered by said board of managers.

SECTION 119. That no loan shall be made by any State association unless the same has been approved in writing by at least five members of the board of managers in a record of loans kept especially for that purpose by the State association; nor until such approval shall also be signed by the attorney of the State association stating that he has examined the title to the property and that it is free and clear and that the loan is a first lien upon the property described in the conveyance.

SECTION 120. That no loans shall be made upon any property unless an absolute conveyance of the same shall be made by the owner thereof to the State association of the State where the land is located, in such form and manner as the attorney of such association shall prescribe; and the owner shall lawfully waive any claim or right of defense that he might otherwise have in case of foreclosure proceedings under the laws of the State in which the real estate is located. And, further, the owner of said real estate shall, in such manner and form as the attorney of the association shall prescribe, appoint the local association through which the loan was negotiated as a trustee for the benefit of the State association to take possession of the property in case of default in payment of interest, taxes, or insurance, or in case of waste of any kind, and shall give such local association full authority and power to manage the property, or sell the same whenever, in the judgment of the executive committee of such local association, it is advisable to do so: *Provided, however*, That such sales shall be made only after the property has been duly advertised in accordance with the law made and provided for sale of real estate in the State where located after foreclosure proceedings have been had and judgment entered.

SECTION 121. That all money loaned shall be furnished through the several State associations, and shall be paid by check or draft, and full records shall be kept by the several State associations of all loans made in their respective States of every transaction connected with such loans. The State association shall have full and entire charge of all loans made and outstanding in their respective States, the collection of interest, the payment of taxes, the care of insurance, and the repayment of the loan by the borrower, which shall always be to the State association of the State where the real estate is situated.

SECTION 122. That no loans shall be made by any State association until—

First: There have been organized in the United States at least one thousand local associations, in accordance with sections ninety-nine, one hundred, one hundred and one, and one hundred and two of this Act.

Second: Until at least twenty State associations have been organized in accordance with sections one hundred and ten, one hundred and eleven, and one hundred and twelve of this Act.

Third: Until there has been paid up in cash the sum of twenty-five million dollars.

Fourth: Until there has been organized, as hereinafter provided, the National Land Credit Bank.

SECTION 123. That as soon as there have been organized at least one thousand local associations and at least twenty State associations, as herein provided, the President of the United States shall be notified of these facts, and he shall thereupon name a time and place in the city of Washington, District of Columbia, for the organization of the National Land Credit Bank, and he shall advise all the local associations whose names and addresses have been furnished him of such time and place of meeting and the purpose therefor.

SECTION 124. That, pursuant to the notice of the President of the United States provided in the preceding section, each local association of the several States where State associations shall have been organized shall send one representative to Washington for the purpose of organizing the National Land Credit Bank. Each representative of a local association shall have one vote, but any association may be represented by a proxy in such legal form

as is prescribed by the laws of the State where such local association is situated.

SECTION 125. That the board of directors of the National Land Credit Bank shall consist of seventeen members, as follows:

First: Fifteen members of such board of directors shall be elected by the representatives of the local association present in person or by proxy.

Second: The Secretary of Agriculture of the United States shall ex officio be a member of said board.

Third: The President shall appoint a United States auditor, with the consent and approval of at least two-thirds of the members of the board elected by the representatives of the association. The term of service of the auditor shall be five years, and he shall be a member of the board of directors of said National Land Credit Bank.

SECTION 126. That the members of the board of directors of the National Land Credit Bank who have been elected by the representatives of the local associations shall serve for a period of five years: *Provided, however*, That those first elected shall serve for one, two, three, four, and five years, respectively, and they shall divide themselves into five groups, and thereupon determine by lot how long each group shall serve.

SECTION 127. That the officers of the National Land Credit Bank shall consist of a president, vice-president, secretary, treasurer, and auditor.

SECTION 128. That the officers of the National Land Credit Bank, except the auditor, shall be appointed by the board of directors of said National Land Credit Bank, and they shall receive such salaries as the board of directors may determine: *Provided, however*, That the president shall receive eighteen thousand dollars per annum and that the auditor shall receive six thousand dollars per annum.

SECTION 129. That the city or place where the National Land Credit Bank shall conduct its business shall be selected and determined by the representatives of the local associations present in person or by proxy.

SECTION 130. That the annual meetings of the local associations shall be held on the first Monday of April in each year. The annual meeting of the State association shall be held on the first Monday of May in each year. The

annual meeting of the National Land Credit Bank shall be held in the first Monday of June in each year.

SECTION 131. That upon the completion of the organization of the National Land Credit Bank, as herein provided, each local association shall transfer and pay over to the National Land Credit Bank 50 per centum or one-half of their cash paid-up capital amounting in the aggregate to at least twelve million five hundred thousand dollars, and they shall also transfer and pay over to their respective State associations 25 per centum or one-quarter of their cash paid-up capital amounting in the aggregate to at least six million two hundred and fifty thousand dollars.

SECTION 132. That the cash capital so paid over to the National Land Credit Bank and the cash capital so paid over to the several State associations, as provided in the preceding section, shall become the absolute property of the National Land Credit Bank, and of such State associations, as completely and absolutely as if the same amount had been paid directly to them for stock issued. For the amount of money so received by the National Land Credit Bank and the amount so received by the State association from the local associations the said National Land Credit Bank and the several State associations shall issue their several receipts in such legal form as to entitle them to a pro rata share of the assets of the said National Land Credit Bank and the several State associations upon the distribution thereof, subject, however, to the claims of all holders of the obligations of whatsoever kind issued and outstanding of the National Land Credit Bank.

SECTION 133. That every local association, every State association, and the National Land Credit Bank shall each of them be, and they are hereby, made legally constituted bodies corporate that may sue and be sued in any United States court which may have jurisdiction of the subject matter of the action brought.

SECTION 134. That the said National Land Credit Bank, the several State associations, and the several local associations may severally invest their capital and surplus in mortgages token as herein prescribed, or in the obligations of the National Land Credit Bank, or in United States Government securities. They may severally borrow money in the regular course of their business either upon their credit or by pledging any of the securities they may own.

SECTION 135. That neither any local association nor any State association nor the National Land Credit Bank shall take deposits in any form, either subject to check or upon time, except for investment in the obligation of the National Land Credit Bank; and any one of these institutions that shall take a deposit of any kind, except as herein provided, shall pay to the United States Government a tax thereon of 10 per centum per annum, nor shall any one of these institutions loan money in any other manner or form than as herein provided. Upon any loan made by any one of them upon personal security, or in any other manner or form than as herein provided, shall pay a tax thereon to the United States Government of 10 per centum per annum.

SECTION 136. That the National Land Credit Bank shall have power, and is hereby authorized, to issue and sell or dispose of its own obligations in the form of bonds, debentures, or under any other name, and bearing such rates of interest, and in such manner and form, and upon such terms and conditions as to time to run, and manner and method of payment as the board of directors may determine from time to time.

SECTION 137. That the mortgages held by any local association, or by any State association, or by the National Land Credit Bank, such mortgages having been taken in accordance with the provisions of this Act, and all the obligations, bonds, or debentures issued by the National Land Credit Bank under the authority granted by this Act, shall be exempt from all taxes or duties of the United States Government, as well as from taxation in any form by or under any State, municipality or local authority.

SECTION 138. That all advances of money upon loans made by the several local associations shall be under the control and under the direction of the board of directors of the National Land Credit Bank, and the rate of interest to be charged on all such loans made shall be fixed from time to time by said board of directors.

SECTION 139. That at the end of each year the United States auditor shall make a full report of all the institutions organized under this Act, and such reports shall show what the profits are of the National Land Credit Bank, and of the several State associations, and of each of the local associations, respectively. Thereupon the board of directors of the National Land Credit Bank shall set apart one-half of the net profits so certified to by the United States auditor as a part of its surplus account, and may carry the balance as

undivided profits, or may declare such a dividend out of its undivided profits as in their judgment seems wise.

SECTION 140. That the amount paid out in dividends by the National Land Credit Bank shall always be divided equally between the State associations and the local associations in proportion to the capital held by them and the local associations.

SECTION 141. That the board of managers of the several State associations shall thereupon set apart one-half of the net profits so certified to by the United States auditor as a part of its surplus account and may carry the balance as undivided profits and may declare and pay such a dividend out of the undivided profits as in their judgment seems wise.

The executive committee of the several local associations shall set apart one-half of the net profits so certified to by the United States auditor as a part of its surplus account and may carry the balance as undivided profits, or may declare and pay such a dividend out of the undivided profits as in their judgment seems wise.

SECTION 142. That when the surplus account of the National Land Credit Bank shall be equal to 50 per centum of the capital money so paid over to it by the several associations, the board of directors may declare such additional dividend as in their judgment may seem wise: *Provided, however*, That no such increase, or extra dividend, shall ever reduce the surplus below said 50 per centum of the capital so held by it. The same rule herein laid down for the payment of dividends by the National Land Credit Bank shall apply to the several State associations and each and all of the local associations.

SECTION 143. That if it shall become necessary at any time for a local association to take possession of real estate upon which a loan has been made and sell the same, the profit or loss thereon shall be shared by the several institutions in the same proportion as the capital is held by them; that is, the National Land Credit Bank shall share one-half of the profit or loss, the State institution making the loan shall share one-quarter of the profit or loss, and the local association recommending the loan shall share one-quarter of the profit or loss.

COMMENT:—*First*: Sufficient responsibility should be imposed upon each local association to compel it to look after all delinquents diligently.

Second: Sufficient responsibility should be imposed upon each State association to compel it to look after every loan in the State with promptness and persistency.

SECTION 144. That if any local association shall be formed at any time after the organization of the National Land Credit Bank, before it goes into actual operation such local association desiring to become a member of a State association shall first be compelled to obtain the unanimous consent of the board of managers of the State association in which the proposed local association is situated and shall pay for its shares such a price as may be fixed from time to time by the board of directors of the National Land Credit Bank for the admission of new associations.

SECTION 145. That all the expenses of whatsoever kind growing out of the management of the National Land Credit Bank shall be paid out of the earnings thereof.

SECTION 146. That the entire surplus of the National Land Credit Bank and the surplus of the State associations and the surplus of the local associations shall be held as a working balance, and also as a fund which may be withdrawn for investment in bonds or other securities of the United States. The President of the United States may direct that the whole of said surplus be invested in the bonds or other securities of the United States if, in his judgment, the general welfare and the interests of the United States require.

SECTION 147. That for the purpose of creating and establishing the organization provided for in this Act and putting the same into operation there is hereby appropriated the sum of three hundred thousand dollars, or so much thereof as may be necessary, as a loan to the National Land Credit Bank, at the rate of 3 per centum per annum until paid: *Provided, however*, That this loan shall not extend beyond the period of ten years.

SECTION 148. That to accomplish the purpose of this Act the governor of each State is hereby authorized and empowered to appoint some citizen of his State to organize at least twenty local associations in his State in accordance with the provisions of this Act, and such appointee is hereby

authorized to expend not to exceed six thousand dollars in such undertaking. Upon the completion of the organization of at least twenty local associations under and in accordance with the provisions of this Act the amount of money so expended not to exceed six thousand dollars will be repaid to such appointee of any governor upon the presentation of vouchers for the money so actually expended duly signed by the governor of the State to the Treasurer of the United States.

SECTION 149. That the governor of the State in which at least twenty of such local associations have been organized as in this Act provided shall thereupon report in detail to the President of the United States, giving him the names and addresses of the local associations so organized, the names of the chairmen of the respective executive committees and their post-office addresses, and the names of the banks and their respective post-office addresses in which the several local associations have deposited the paid-up capital of twenty-five thousand dollars each, together with duplicate letters of receipt of the money from said bank.

SECTION 150. That if any governor of any State shall fail to make a report within nine months after the passage of this Act that at least twenty local associations have been organized as in this Act provided, then and in that event the allotment of the six thousand dollars to pay the expenses for the organization of at least twenty local associations in his State may be used proportionately to pay the expenses, if any, of organizing local associations in any other State or States in excess of the required number necessary to establish a State association—that is, the amount remaining unearned by any of the States shall be apportioned to the several States reporting more than twenty local associations directly in proportion to the number in excess thereof, preference, however, always being given to the States whose average expenses are lowest for the organization of their several associations.

MR. LAWYER: Gentlemen, this concludes the results of our labor and I want to express the solicitude of your committee in proposing this bill and the hope that it may in a large measure meet your expectations.

UNCLE SAM: Well, boys, speaking for the crowd, I want to say that I did not believe that the committee would be able to make its report for a month. Upon my soul, I did not expect that they would ever make so satisfactory a

report. They seem to have thoroughly comprehended all the subjects we have discussed and to have produced a Financial and Banking Bill that will meet every question that can possibly arise; one that will protect every individual bank in its independence; one that will protect every commercial zone in its independence; and one that will protect my reserves against the demands of all the rest of the world.

MR. LAWYER: Those are precisely the things we have striven to accomplish, Uncle Sam.

MR. MERCHANT: During the past week I ran into a friend of mine who is in the banking business and considering that we were practically through with our work, I told him what I had been doing the past four months without giving him your names. "Well," he said, "I want to give you a pointer. If you are following along the trail of the Aldrich scheme you had better drop it; you had better save your time, because the people are on to that deal and they won't stand for it. You will have to make it clear that you are working from an entirely different point of view."

This remark of his opened my eyes and I am going to suggest that we spend one night demonstrating the striking, the fundamental points of difference between our bill and that Aldrich scheme.

MR. MERCHANT: I am convinced that we should do that very thing and I propose and move that we meet next Wednesday night for that purpose.

MR. BANKER: To make a clean job of our work, I believe that is essential; because hundreds and hundreds of thousands of dollars have been expended in promoting that scheme, therefore, I second that motion.

UNCLE SAM: The motion is carried and now good night, all.

To you, UNCLE SAM, we, the representatives of the FARMERS, BANKERS, LAWYERS, LABORING-MEN, MERCHANTS and MANUFACTURERS, dedicate the result of our endeavor, our future services, indeed, our lives; and we pledge our callings, every one of them, to continue the work here begun with that degree of vigilance and patriotism of which this great cause is worthy, confident that the result of

our efforts will be to safeguard your honor and establish you upon the solid foundations of a sound Financial and Banking System.

WONT YOU WALK INTO MY PARLOR
SAID THE SPIDER
TO THE
FLY
THE ALDRICH PLAN AND PLOT EXPOSED

SEVENTEENTH NIGHT

ALDRICH PLAN AND PLOT EXPOSED

UNCLE SAM: From what you boys intimated the other night, I got the impression that the so-called Aldrich scheme demonstrated almost everything that we should not do in working out a financial and banking

system. It must have been more or less of a warning to you, then, when you started out.

MR. LAWYER: To tell the truth, I had become so convinced of its ulterior purposes from the standpoint of management, that I never studied it seriously from an economic point of view, until this last week.

MR. BANKER: My position was just the reverse of that of Mr. Lawyer, for while I had studied it from an economic point of view and that of a practical banker, and had become so convinced of its utter unsoundness on the one hand, and unfitness for use to ninety-nine out of every hundred of American banks, I never dug into the soul of its management, until the past week. So we compared notes, and found the situation particularly interesting.

MR. MERCHANT: Before you go any further, I want to read something from a speech, delivered in Congress March 29, 1910, two years before the Aldrich plan was born. You are all doubtless aware that the Aldrich scheme was nothing more nor less than an attempt to transfer to this country the German scheme of note issue and banking generally.

MR. LABORINGMAN: I heard the other day, that the Aldrich bill was deader than a door-nail. Why do we want to spend any time on that? Or, are you fellows like the Irishman, who said that he was kicking a dead dog to teach him that there was such a thing as punishment after death?

MR. MERCHANT: You must remember, Mr. Laboringman, that error is always repeating itself, and that sin and iniquity never die; so, the economic blunders of the Aldrich Bill and its administrative purposes should be exposed and held up as a lesson and an illustration to guide us in the future.

What I wanted to read, was a part of Congressman Fowler's speech, delivered in the House of Representatives. Referring to the German banking situation, he said:

"The position of both England and France, under present conditions, would seem sound and impregnable from a governmental as well as a banking point of view. Each has planted itself upon the gold standard, with certain precautions peculiar to its circumstances. Germany, on the other hand, has not pursued the course of England, with its limited gold reserve, forcing the public into the deposit and check system to meet the current demands of trade. This would have been impossible without a long-continued ruinous

revolution, considering that there is a quarterly settlement in Germany that calls for an expansion in currency amounting to $125,000,000. Nor has Germany pursued the course of France, which has a gold reserve large enough to meet any test or burden that either the Government or the commerce of Germany might have imposed upon it, but has adopted a middle course which has not the strength of the position of either England or France, nor the credit facility of France.

"Its gold reserve is of the halfway sort, and its bank note issue is also of the halfway sort. The result is that the financial and banking situation of Germany must necessarily prove weak upon the first great test when the bank notes of the Imperial Bank of Germany must be made a legal tender.

"Indeed, upon the declaration of war by Germany or against Germany, the first step taken in a financial way would be for her to declare her bank notes a legal tender. It is hardly problematical what would soon happen, with the wide divergence between her gold fund and the amount of her note issue."

Gentlemen, within eighteen months after he made that statement, when war seemed probable with France, Germany made her bank notes a legal tender.

Further along in the same speech, commenting upon the unsoundness of the German plan, he said:

"Imagine for a moment a central bank in the United States, like the Imperial Bank of Germany, issuing all our bank note currency and these notes going into the reserves of our myriad of banks as the basis of loans which, under our system, in turn become our deposits.

"The natural, first, and immediate effect would be an expansion of credit, an inflation to just the extent to which the notes were used for reserves.

"As soon as the situation became obviously dangerous, a halt would be called and a contraction in loans would follow. But a contraction of loans calls for liquidation, and liquidation produces an exigent demand for currency. We all learned that lesson only so short a time ago as 1907.

"But in the very face of the increased demand for more currency the currency would be contracting, because the loans would be reduced by calling in bank notes which were being used for reserves; or, in other words, the loans called would be paid in bank notes.

"For every $100,000 of notes so called in the loans might be reduced to an average of $500,000, and yet this very process of liquidation would be concurrently destroying the only instruments of credit that would adequately meet the demand created by forced contraction. It would clearly lead to self-destruction, to commercial suicide.

"The best thought of England recognizes this subtle but obviously destructive contradiction in the use of credit, and therefore opposes the use of credit notes by the Bank of England."

Gentlemen, the fact that we can force our banks to carry a specified amount of reserves and of a specified quality, by the power of taxation, will preclude the use of bank notes as reserves in the United States.

Mr. Fowler then concludes as follows:

"There are then, in addition to all of the objections to the Bank of France, three other unanswerable objections to the establishment in this country of any central organization approaching in character the Imperial Bank of Germany:

"*First*: It would give us a financial and banking structure so weak that it could not stand any great strain such as necessarily comes with a great war, if, indeed, it were not so weak as to lead to a suspension of gold payments even in time of peace.

"*Second*: No thought whatever should be given to any suggestion that makes it possible for one bank credit to be used in the reserves of another bank and so substitute any form of credit for gold in our bank reserves.

"Unless gold alone is ultimately recognized as fit for bank reserves, we shall continue to pay dearly for our mistake until it is corrected.

"*Third*: No proposal whatever should be entertained by us that involves the possibility of the suspension of gold payments, for no country can become the clearing house of the world that is not a free market for gold. The United States and not England ought to be the clearing house of the world."

These words, as I have said, were spoken about two years before Mr. Aldrich attempted to import the German Bank into this country.

MR. BANKER: That is very interesting and prophetic, but not more so than his speech at the Republican Club of New York, January 20, 1912. Let me

read that to you, gentlemen, by way of an exposition of the economic faults of the so-called Aldrich scheme. He said:

"I wish to speak purely from an economic point of view and to cover only one single phase of the proposal; its dangerous expansion, unbounded inflation and certain expulsion of gold from the country.

"'*First*: Nothing should ever go into the reserves of the banks of a country except what is coined out of its standard of value.

"'*Second*: The poorer money always drives out the better.'

"Every single note of the so-called Reserve Association used in the reserves of our banks will displace just that much gold and drive it out of the country.

"Judged, therefore, from a purely economic point of view, I assert that the Reserve Association plan is the most unsound, the most dangerous; indeed, it is absolutely the worst proposal that has been brought forward for serious consideration by any respectable body of men since the adoption of the Constitution, with the two following exceptions: First, the issue of legal tender money by the Government such as greenbacks; second, the free and unlimited coinage of silver at the ratio of 16 to 1.

"An officer of one of the largest banks of the United States recently used this language: 'Mr. Fowler, it is incredible that we should be called upon to consider such a proposition.'

"If this is really true, how does it happen, that so many business men and so many bankers approve it, is a most natural inquiry. The cause is not difficult to perceive.

"There is not a business man nor hardly a banker who is not even now still living in a state of fright from the terror of 1907. One thought alone seems to have taken possession of the country to the exclusion of everything else, and that thought is this: That we must hereafter be able to convert our commercial credits into bank or current credits. There seems to be something approaching madness; indeed, there seems to be an insane haste lest they be caught again, possibly tomorrow, certainly next fall. But they need not worry, for danger is not imminent; 1907 will not come again right away.

"During the past two years up to the present time the entire thought of the country has been directed to a mere mechanism to achieve this result, without any reference to or consideration whatever of those fundamental, eternal principles of banking economics that demand recognition and obedience if we are to escape the frightful penalties which their violation always inflicts.

"In the outset I want to lay down two fundamental laws that I wish were burned into the minds of every banker and every business man within the borders of this republic. They are these:

"One—Nothing should ever be counted as a reserve which is not coined out of the standard of value. Our standard of value is gold, therefore nothing should go into the reserves of our banks except gold.

"Two—The poorer money always drives out the better.

"I hope that whoever hears these words will commit these two laws to memory, for they are as fundamental and eternal in their operation as the law of gravitation.

"I assert that the plan of the so-called reserve association is in direct violation of the first of these laws, and will put the second law into operation to a dangerous and destructive degree.

"Every intelligent student knows that the plan proposes to transport to this country the German system of banking, which I assert has completely broken down at home during the past six months. Now, if this system has broken down in Germany, where there are a few great banks with hundreds of millions of assets and not more than 500 banks all told, what can you expect it to do here with more than 25,000 individual, independent banks, directly responsible to their depositors?

"The following letter was given to me by an officer of one of our largest banks, accompanied with these words:

"'I realize that in giving you this letter I am, in a way, betraying a business confidence, but I regard it as my patriotic duty to give it to you, to use in any way you may see fit. For what would happen to this bank if we should send out such a letter to our depositors? Our doors would be closed inside of twenty-four hours.'"

The letter referred to was written by the Deutsche Bank of Berlin, which has assets approximating $500,000,000, and is as follows:

"'In consequence of the restrictions recently made by the Imperial Bank, with regard to the supply of money at the end of every quarter of the year, we are, to our regret, compelled to ask you, when drawing against your account with us upon our head office and our branches by mail, kindly to advise us by cable of such drafts on them as are likely to come forward for payment during the last three working days of the quarter and the following two working days, so as to enable us to provide from here especially the necessary funds at the office drawn upon.

"'As to cable transfers which, during the five days in question, you may have to order on our head office or branches, to the debit of your account with us, we shall feel obliged by your ordering them only if you can advise us by cable one day before, the amounts to be placed by us to your debit on receipt of such advice, or ordering upon us for mail transfer from here.

"'The foregoing, of course, does not apply to small amounts.'

"As a further proof that the system has broken down at home, let us see what has been going on in Germany during the past six months to further demonstrate the weakness of their system.

"The great banks of Germany have been scouring the markets of the world, going into every nook and corner, hunting for gold. At what price? Was it at 5 per cent, 6 per cent, 7 per cent, 8 per cent, 9 per cent, 10 per cent? No. The New York *Evening Post*, in its annual review, says it was from 12 per cent to 20 per cent. I have been credibly informed that the great banks of Germany, with hundreds of millions of assets, were borrowing money in our own markets at 7½ per cent and 1½ per cent for three months, or upwards of 13 per cent.

"I was told of one loan to one of the largest banks in Berlin, running for a whole year at 7 per cent.

"Think of it! What would the condition in our country have to be before The National City, The Bank of Commerce and the First National of New York, and the First National and Continental Commercial of Chicago, were scouring all quarters of the globe for gold and paying from 15 to 20 per cent for the loans?

"The Imperial Bank of Germany could not save the few great banks of Germany. What would the same kind of an institution in the United States do for 25,000 independent banks under the same circumstances, all pulling at the skirts of this proposed financial balloon? The Imperial Bank could not make real money out of paper credit when the crisis came.

"Let me ask the 25,000 individual independent banks of America, what they would do when the day of contraction and refusal came? Where would you go for gold with your comparatively small capital and limited credit?

"The financial situation in Germany is by far the weakest of all the great nations of Europe and the cause is not far to find nor difficult to detect.

"Their notes, which are based upon only 33 per cent of gold and 66 per cent of commercial credits, are used as reserves and made the basis of additional credits. Economically speaking, whenever a bank puts anything into its reserves it makes that thing a legal tender and exactly to that extent displaces that much gold, if gold is the standard of value.

"During the ten years from 1900 to 1910 the gold accumulated by Russia amounted to upward of $200,000,000; that accumulated by France, upward of $300,000,000; that accumulated by England, where nothing but gold is treated as reserves and where there has been comparatively little growth in business, $32,000,000. The United States accumulated $1,100,000,000, while Germany, with all her development of trade during the last ten years, accumulated only $40,000,000 of gold when it ought to have been ten times as much, all things considered, or $400,000,000. If she had done this she would not have been compelled to send her great financial institutions all over the globe in search of gold and been compelled to pay 15 per cent and 20 per cent for it."

Gentlemen, within sixty days after those words were uttered, this conversation was reported to have taken place. The German Emperor asked Herr Havenstein, the President of the Imperial Bank of Germany, whether Germany was prepared, financially, to carry on a war with a first-class power. Herr Havenstein said: "No." To this the German Emperor replied, "I do not want that answer to that question when I ask it again."

Herr Havenstein immediately called the managers of the thirty great banks together, and told them that they must collect at least a 15 per cent reserve.

To this they protested, saying that it meant the accumulation of at least $250,000,000 in gold; but Havenstein persisted and insisted upon his demand. Now, gentlemen, if you add the $40,000,000 they had accumulated, to what Havenstein insisted that they should accumulate, or $250,000,000, you have $300,000,000 as a minimum. It is altogether probable that $400,000,000 was nearer what they should have accumulated.

It should be noted in this very connection, that Germany recently appointed a commission to investigate her banking system, and that this commission reported that the individual banks of Germany should carry their own reserves, precisely as Congressman Fowler has always contended, declaring that it is especially important in the case of our individual, independent banking system. From what has been said, it has been demonstrated that every criticism that he has made of the German system, has been confirmed by their own subsequent action.

The rest of his speech was as follows:

"Mark this: If we did not have the $346,000,000 United States notes or greenbacks, the $650,000,000 of legal tender silver and a part of the $750,000,000 national bank notes in the reserves of our banks, we would now have in the United States $2,500,000,000 of gold instead of only $1,850,000,000. Does all this prove nothing to us?

"Every intelligent student of economics knows that after Alexander Hamilton, with the acquiescence and approval of Jefferson, had fixed the ratio of the gold and silver dollar in 1792, a differential of only one-half to one per cent drove all the gold out of the country by 1832, and that from 1834 to 1860 the changed ratio drove every dollar of silver out of circulation. Who does not know that from 1861 to 1865 the issue of fiat Government paper drove every dollar of gold out of the country; that for seventeen years we were off the gold standard, resuming specie payments in 1879?

"Has any banker over fifty years of age forgotten the silver struggle from 1879 to 1894, when, because of the silver purchase act by which we only added $50,000,000 a year to our reserve money, we came to the very precipice of repudiation and national dishonor?

"These four great and significant lessons have been taught us—since the establishment of this Government—the poorer money invariably drives out the better, and yet we are confronted by such stuff as the following falling from the lips of the reputed author of the so-called Reserve Association:

"'The banks will be able to replenish their reserves indefinitely.' The counterpart of this proposition is that the banks will be able to make loans indefinitely. Think of such a proposition! And again, he says it was deemed necessary 'to provide such effective regulation of discounts and note issues as would enable the organization to respond promptly at all times to normal or unusual demands for credit or currency without danger of undue expansion or inflation.' If this proposition survives at all it will be as the curiosity of the century. I submit that neither of these propositions could have emanated from a mind capable of thinking in the terms of economics.

"I assert that if we adopt a sound financial system in the near future we shall have in the course of ten years upward of $3,000,000,000, possibly $3,500,000,000, of gold in the United States. I assert further that if we adopt the proposed so-called reserve association scheme we shall have at the end of five years thereafter in the neighborhood of only $1,250,000,000, allowing for a differential of $250,000,000 either way as a possibility. In other words, we would have as a result not more than 40 per cent and possibly not more than 30 per cent of the gold that we shall have if we pursue a wise economic policy.

"The scheme provides that any deposits with the association may count as reserves; also that any of its notes may be held as reserves.

"Since the average reserve of all national banks is and has been for many years about 20 per cent, let us assume, first, that a national bank called 'X' has $5,000,000 of deposits and holds a 20 per cent reserve, or $1,000,000 of gold; second, that X National Bank deposits this million of gold with the reserve association; third, that a national bank called the 'Y National Bank' exchanges $1,000,000 of commercial paper for $1,000,000 of the notes of the reserve association, which it puts into its reserves.

"In the course of time it will have a million of deposits, largely in the shape of loans based upon this million of notes; so that the original $1,000,000 which stood guard over $5,000,000 of debts now is called upon to protect $12,000,000 of debts, or only about an 8 per cent reserve as against 20.

"The X National Bank owes $5,000,000 of deposits against $1,000,000 deposited with the association. The association owes the X National Bank the $1,000,000 deposited with it and $1,000,000 of notes outstanding which it issued to the Y National Bank. The Y National Bank has liabilities outstanding of $5,000,000 with the notes as reserves, or a net expansion and inflation of $7,000,000.

"It has been assumed or claimed by some advocates of the scheme that probably $1,000,000,000 of gold would be deposited with the association, in which event there would be an expansion and inflation of $7,000,000,000, or a total liability of $12,000,000,000 where now there are only $5,000,000,000.

"While this expansion and this inflation have been going on the notes have been going into the banks as reserves, and a corresponding amount of gold has been driven out of the banks and out of the country.

"Now, mark you, I have not pursued this expansion, this inflation, beyond the 50 per cent gold reserve for all the liabilities of the reserve association. When you turn your imagination to all the possibilities remaining in rediscounts, borrowing direct, acceptances and falling in your reserves, and the credits which grow out of credits directly and indirectly, the prospect becomes bewildering. The expansion and inflation becomes a matter of planetary distances and astronomical figures. The proposal leads into the nebulous somewhere, into the bottomless nowhere.

"Every student recognizes that the weakest point in our national bank system is the superimposed credit resulting from the deposits with our reserve cities and then with our central reserve cities. But in the very face of that fact here is a proposal that accentuates that fault one hundred fold.

"The strangest thing about this whole proposal is that it is based upon the fact that we have not sufficient capacity for expansion and inflation of credit. Will any one say that what we wanted during the years of 1913-4-5-6-7 was more inflation? Does not every intelligent student of banking economics know that what we should have had was some way of checking the delirium instead of increasing the mad speculation?

"To determine now what we want we must first ascertain with some degree of accuracy just what happened.

"Until we come to realize that there are two distinct kinds of capital involved in our banking business, and learn to treat them according to their peculiarities, we shall continue to have the same kind of trouble, to a greater or less degree, that we have had in the past.

"There is the trust fund or the savings of the people and money belonging to estates or the investment fund. Then there is the commercial fund or that capital engaged in production and trade. The law should compel the segregation or separation of these two funds, so that we know with some degree of certainty whether the investment fund has all been exhausted and our commercial funds or capital are being encroached upon and absorbed in fixed investments. This is precisely what happened by 1907.

"To illustrate this thought, let us assume that a railroad needs one hundred flatcars to carry its peculiar freight and needs one hundred passenger cars for the accommodation of the people. It is self-evident that if the road uses all the flatcars and half the passenger cars to carry its freight, the balance of the passengers will have to make some other provision for transportation or walk. This is just what occurred in 1907, and a great many people are still walking as a result of that misadventure. Liquidation is still going on, with a probability that we shall be well into 1913 before normal or really good business conditions will prevail all round.

"Now, it is apparent that if this diagnosis is correct, the bankers did not cause the panic, as is so frequently charged. Indirectly, the bankers had a good deal to do with bringing it about, but not in the manner usually supposed. The way they helped it on was this:

"The great syndicates or underwriting bankers adopted the practice of simply notifying rich men and bankers all over the country that to them so much of some issue of bonds had been allotted. Those to whom they had been allotted, influenced, on the one hand by flattery and on the other by fear, lest if they refused to absorb what had been set apart for them they would be ignored in the future, took the allotment at all hazard.

"This forcing process went on until commerce broke down, because it had been robbed of its necessary capital and has not been able to replace it since, out of earnings."

MR. MERCHANT: Mr. Banker, do you believe that to be a correct statement?

MR. BANKER: Believe it! I know it. There is no doubt whatever that the banks generally are under a kind of duress. They know that if trouble comes, they must go to the powers that be. When these underwritings are put out, and we bankers are notified that we are expected to take a certain amount, we feel compelled, half compelled at least, to respond, precisely as Mr. Fowler stated, and, as a natural consequence, the commercial fund of the country is sapped and absorbed, and transferred to passive investments, which, when the break occurs, become to all intents and purposes fixed investments because you cannot dispose of them at all.

What we must do, and what I am sure we have accomplished in the bill we have prepared, is to set every individual bank free, absolutely free, from any domination or influence of any kind, direct or indirect. Take my bank as an illustration of what I mean. Today I am living in a kind of terror of the possibility of 1907 coming again, because I have no way of protecting myself, except through my correspondents, and, under present conditions, that is no guarantee, as the banks may all break down again as they did then. This, you will remember, is due to the fact that we have no real economic reserve in the United States today. All the reserves are loaned out all the time.

Let me call your attention to what my position will be, under the bill we have prepared.

First: I shall be able to furnish all the currency I need, by simply converting book debts or deposits into note debts or currency, up to twice the amount of my capital, if necessary. That is, I can regularly issue $100,000, the amount of my capital, and by going to my Board of Control, $100,000 additional. But, if I did this, I would not increase my liabilities a single dollar, but simply change the form of them from deposits to notes.

MR. MERCHANT: Have you any doubt about the people taking your bank notes, as you suggest?

MR. BANKER: None, whatever. You see, in the first place, they do not come to the bank because they fear the bank cannot pay them; but, because when one of these shocks to credit comes, there is a tremendous demand for cash of some kind. You will remember, that in 1893 and 1907, when currency was sold in New York, it did not make any difference what it was: gold or gold certificates, silver or silver certificates, United States notes or bank

notes—anything that was cash brought the same premium. But, suppose the question should arise and a man should ask, are these notes good? He would not hesitate long after I gave him these facts:

First: That they were a first lien upon all my assets.

Second: That there was a gold guarantee fund amounting to $60,000,000 in the treasury of the American Reserve Bank, to redeem them if my bank failed.

Third: That the American Reserve Bank with $1,250,000,000 would redeem the notes in case my bank failed.

MR. LABORINGMAN: Well, Mr. Banker, do you know what I would do, if I had a deposit in your bank, under those circumstances, and got scared of you? I would give you a check for my deposit, take your notes, and hold them until the storm blew over. That's what I would do.

UNCLE SAM: There, can you beat that as a precaution against accidents? Mr. Laboringman never will get left, if you will give him half a chance.

MR. MANUFACTURER: Under those circumstances, of course, the question of goodness of the notes would never arise. The people would soon think only of the great central gold reserve, which would always be before their eyes.

MR. BANKER: In addition to my note issue, I would have the same recourse to my bank correspondent in New York that I have today, and he would then be in a far better position to assist me than he is now, because of his additional resources. Besides, I could fall in my required cash reserves, which would be about $100,000 down to $25,000, without any danger to my bank; because of my greatest, final, and practically inexhaustible resource, The Board of Control, which has examined my bank, knows my assets, and will give me any amount of gold to protect me in case of necessity.

MR. MERCHANT: I see, your exact condition is known to the Board of Control; and the Board of Control has access to the gold in the American Reserve Bank, and could get fifty or one hundred million dollars to protect itself, if necessary.

MR. BANKER: That is so. My last protection is the American Reserve Bank, which actually holds reserves, real reserves, not United States bonds,

United States notes, silver certificates, chips, and whetstones, nor any old thing; but gold, in unlimited quantities, to all intents and purposes.

Now don't you see, gentlemen, that if you will place me in that position, I will be absolutely free and independent of any bank in the United States, and of all banking influences of whatever kind—simply because my final appeal is to a great coöperative fund, in which I have a common interest with all my fellow-bankers, and I know that my protection is absolute?

Mr. Manufacturer: Yes, and I see another very important, all-important fact growing out of that situation; the complete liberation of every bank in that zone, as well as your bank; indeed, every bank in every zone would be absolutely liberated.

Mr. Merchant: Yes, and I see more than the liberation of all the individual banks. I see the complete liberation of every commercial zone or section of the country from every other commercial zone or section of the country; as each zone will look for its protection to the American Reserve Bank, the holder of the great coöperative gold fund, that is more than ample for any emergency that can possibly arise.

Mr. Lawyer: Mr. Banker, how would you fare under the Aldrich scheme, if you wanted $100,000 of currency to use to move the crops in the fall?

Mr. Banker: I am glad that you have asked for a comparison of our plan with the Aldrich scheme, under the same conditions.

I could not have any accommodation whatever, unless I first subscribed for an amount of stock in his scheme, equal to 20 per cent of my capital, and I had paid up 10 per cent, or one-half of it, or $10,000. Then, I must have a deposit or balance with his institution, possibly as much as $20,000, if I wanted to borrow as much as $100,000. Even then, I could not get any accommodation unless I had notes or paper that had less than twenty-eight days to run. But country bankers such as I am have no short time paper worth speaking of, and any of the paper or notes that might happen to be coming due within twenty-eight days would be the paper of people who do not want it sold and collected at some remote city. They usually want to pay a part and renew a part, so that, practically, I could not get any accommodation along that line.

Indeed, I do not believe that there is one bank in a hundred in the United States that could use the scheme at all directly. Now, if I should go into that scheme I would have to become a member of what they call a local association. If I had no twenty-eight day paper, I would then have to go to my local association with my hat in one hand, and my grip full of notes in the other, and ask them to guarantee my paper for me, by paying a commission for such guarantee. Of course, some of the officers of the local association would be from my particular neighborhood, and competing with me for business. I would not want to confess to my local fellow-bankers by asking their help in ordinary times, and I would not want to put into their hands the paper of my customers, and so expose their business to their neighbors. The result would probably be that I would resort to my correspondent banker, just as I am doing today. Of course, the large banks might have plenty of twenty-eight day paper, and could turn it over to the branch of Aldrich's Central Bank, and get some of the notes about which we have already heard something and supply me.

Now, let me suppose that I could use an average of $100,000 of currency throughout the year, and that I keep that amount of paper up all the time, for the purpose of supplying myself with currency of the Aldrich make; you can see that it would cost me 6 per cent upon $100,000, or $6,000 per annum.

Mark this, put it in your pipes and smoke it, that under our plan, allowing for the cost of my reserve of 15 per cent on $100,000 of notes, or 6 per cent on $15,000, or $900, and allowing my tax of 2 per cent on $100,000 of notes, or $2,000, it would make a total cost of only $2,900. My bank would, as you can see, be the loser of $3,100 by using the Aldrich scheme as against our plan. Do not fail to remember that the largest part of the 2 per cent tax on the notes under our plan will go to pay off the greenbacks.

Again, I want you to keep in mind the expense and trouble of shipping out the commercial paper, and looking after it throughout the year, and the interminable nuisance of buying just the right amount of currency every day, as compared with issuing your own notes, precisely as your customers want currency. You see, I will be getting back some of my notes every day through the Clearing House, as they will then be sent to the Clearing House with the checks and drafts, just as they are in Canada.

MR. MERCHANT: Of course, if you can save $3,100 on your currency every year, and a large amount of additional expense, as well as an endless amount of trouble, you can afford to share your gain with us fellows.

MR. BANKER: Most certainly, and you may depend upon it, that all the extra expense that we incur will come out of our borrowers.

MR. MANUFACTURER: As you say, there cannot be one bank in a hundred that would ever have what you call twenty-eight day paper. I know I would not want you, and I am sure that Mr. Merchant there would not want you, to take our paper to some local association and ask to have it guaranteed unless there was a panic and everybody was in the same boat. The whole scheme looks absurd and impractical.

MR. BANKER: Your opinion is confirmed by one of our most prominent country bankers, who said, "This proposition is impractical, unparalleled, and useless."

MR. MERCHANT: Mr. Banker, if you should ask your city banker correspondent from whom you purchased the Central Bank notes, upon what he relied, when he gave you the notes, what would he say?

MR. BANKER: He would undoubtedly say that he relied upon the credit of my bank, and upon the paper I turned over to him in exchange for the Central Bank notes.

MR. MERCHANT: Well, if your credit and the paper with your endorsement are good enough for that banker, why are they not good enough security for your own bank notes?

MR. BANKER: They certainly would be; especially since I would be under the supervision of the Board of Control, and my notes would be secured by being a first lien upon my whole assets; by a guarantee fund, and by the total amount of gold held by the American Reserve Bank.

MR. MERCHANT: Mr. Banker, you spoke of belonging to a local association if you should go into the Aldrich scheme. How many of those associations would there be in the United States?

MR. BANKER: No one could tell until they got through organizing them. The banks now have about two billion dollars of capital, and two billion dollars of surplus, or a total of four billion dollars. The scheme provides that any

number of banks representing $5,000,000 of capital and surplus could form an association. If they succeeded in driving all the banks of the country into it, as was evidently their intention, you see there could be about 800 of these local associations engaged in guaranteeing their associates, if they wanted to, after prying into their private business.

MR. MERCHANT: That is the worst feature I have heard yet, because it would let all the cliques and cabals get together and run things by manipulation. Don't you think so?

MR. BANKER: I certainly do think so. Bankers above all things do not want to expose their business to their immediate neighbors in the banking business.

You will remember that in the plan that we have just submitted, we confined all knowledge to the boards of control, of which there is to be no more than forty-two, possibly only twenty-eight, and that we required all members of the Board of Control to disassociate themselves from all banking connections in their respective zones.

MR. LABORINGMAN: Yes, but you have seven districts in every one of your zones, don't you? That would make two hundred and ninety-four districts, if you should have as many as forty-two zones, would it not? Or one hundred and ninety-six if you have only twenty-eight zones. I am sure my arithmetic is right, for I am fairly good at figures.

MR. BANKER: Yes, your figures are right, but you must remember this—that the only purpose for the creation of the districts in our plan, as we have constituted them, is to prevent combinations and cabals, and guarantee a fair and evenly distributed representation of all parts of every zone.

These districts exist only for the single purpose of the organization of the commercial zones—the election of members to the Board of the Bankers' Council and to the Board of Control. When this is accomplished, their work is done.

MR. LABORINGMAN: Oh, I see, you would only have at most forty-two organizations in the United States that would have any actual business to do.

MR. BANKER: That is correct. Every zone would be so organized as to absolutely protect the confidences of the business world and the banking

fraternity.

I think in the organization of the commercial zone, that we have taken such steps to emphasize and secure publicity of action, and so much pains to guarantee representation from every section of every zone, that the people as well as the bankers will be kept advised all the while of all that is being done. I think that the matter of the subsequent selection of members, both to the Board of Control and to the Board of the Bankers' Council, will always be a subject of general discussion and newspaper comment. This is true more particularly, because every bank has one vote, and because only one member will be elected to the Board of Control each year, and only two members will be elected to the Board of the Bankers' Council each year.

Publicity and direct representation are the two distinct ends sought, as we believe that in this way alone can a true and proper sense of responsibility be imposed upon the members of the two boards.

MR. MERCHANT: I agree with you absolutely. It is precisely as President-elect Wilson said: "Publicity, pitiless publicity, is the only sure protection to the people."

MR. MANUFACTURER: Just another word upon that point. Samuel J. Tilden I think it was who said: "Publicity is the only safeguard of republican institutions." How well we have guaranteed publicity in the organization of our commercial zone the public will have to judge. However, if our method for securing publicity can be improved upon, we will all welcome it.

MR. FARMER: Since we have been discussing this feature of publicity and independence, I have become so deeply impressed with the fact that every bank will be set free, will be able to act so independently, and that every commercial zone will be such a complete, such a perfect democratic republic in itself, that I have been wondering whether each zone could not create and carry its own reserve.

Listen! This is my idea. Some one has mentioned St. Louis as a financial centre. Now, why could not St. Louis carry the central reserve for that commercial zone, and so each of the forty-two financial centers of the zones carry their own central reserves, precisely as we have learned the Clearing Houses are carrying the reserves of their banks today. You have extended the approved Clearing House practices to the entire zone—you have

complete, absolute, local self-government; you have your supervision and control of all the banks in the zone; you have your Central Reserve—you have a free check zone. Now, what more do you want? Why should not every zone stand upon its own bottom, just as the banks of Virginia, Louisiana, Kentucky, Missouri, and Ohio did; and as the Bank of the State of Indiana and the State Bank of Iowa did? That's what I want to know.

MR. BANKER: I must say that is a very pertinent, a very interesting, and very important question. There is one point upon which everybody now agrees, however much they may differ upon other points. That one point of common agreement is this—that the real source of weakness, from the standpoint of organization today, is the fact that whenever there is fear or apprehension in the country, every bank begins to fight for reserves, fight for some kind of cash; because there is no actual or real protection as matters now stand, unless a bank has practically as much cash as its deposits amount to. In other words, it is really a run of the banks upon the banks. It is "Everyone for himself, and the devil take the hind-most."

Now, it must be apparent to you that each of your forty-two zones would be fighting each other for reserves, just as all the individual banks fight each other today when the danger comes, and the whole situation proves no stronger than the weakest link; hence, our exchanges break down.

St. Louis, for instance, might have a Central Reserve of $50,000,000; but would St. Louis be satisfied that that was enough to protect her against any accident? She is confident that she has some strength, but is not sure of unlimited strength and absolute protection. Therefore, the struggle for reserves would begin between the zones, with the first appearance of danger, just as it does today between the banks.

On the other hand, if the banks in the St. Louis zone should send their $50,000,000 to Washington, and send along with it their representative of that zone, and in like manner every zone should send its Central Reserve and representative to Washington, it would make a total reserve of $1,250,000,000 of gold in one mass, and a board of forty-two members to manage it. The result would be precisely the same as that now attained by having a Federal army, a Federal navy, a National Government, for a "Common Defense." If each zone should be left to stand upon its own bottom, as you say, we would be repeating, economically, identically the

same mistake that we made politically when we formed the Confederation of States in 1781. The confederation was too weak to be an efficient government, and so we formed a "Stronger Union," the present Federal Government in 1789.

It is no more important that the banks in a Clearing House should get together than that all the banks in any given commercial zone should get together; and it is no more important that the banks in any given commercial zone should get together, than that all the zones should get together for a *common defense* of all the business interests of the country, and for the common defense of all the reserves of the country against all the demands of the rest of the commercial world. Unless this final union of reserves is made, no discount rate for gold can be fixed and enforced, and we would find ourselves in the same helpless, hopeless situation or position that we are in today. But if all the central reserves of all the zones are united in The American Reserve Bank, and every commercial zone has its representative upon the board of directors, you will have in the banking world of the United States identically the same form of Government we now have in our National Government. Then when we have converted our United States notes into gold certificates, and when all our silver certificates have been reduced to the form of token money, by cutting them up into pieces of two dollars and less, The American Reserve Bank will be in identically the same position that the Bank of England is in today, the most positive and powerful force in the world in controlling and directing the movement of gold. And yet, like the Bank of England, The American Reserve Bank would not be a bank of issue. It is not a question of note issue at all; but it is a question of centralizing our gold reserves to meet any emergency in the business world, coupled with the power of fixing and enforcing a price for the use of gold, a discount rate for gold throughout the United States.

The Financial and Banking system that we have proposed combines the Bank of England and the Canadian Bank note system—the two highest and best exemplifications of a central gold reserve and bank credit currency.

Mr. Farmer: Well, Mr. Banker, you are undoubtedly right. I see now that we would be very little, if any, better off with the individual zone system than we are today, when you recall the fact that the whole world now uses one common reserve, gold, and have ways of obtaining it. I think your

argument illustrated by the Army and Navy and the National Government is absolutely unanswerable. What do you think, Mr. Merchant?

MR. MERCHANT: I have never had any doubt about that question at all.

MR. LABORINGMAN: Abe Lincoln said, you know, "A house divided against itself cannot stand." I think this thing is just as plain as the nose on your face. It is Uncle Sam against the world just as much in banking as in anything else; and a good deal more so in these days of lightning intelligence and cheap transportation.

With a representative of every commercial zone, say forty-two in all, sitting at Washington and holding in trust for the protection of all the people of the United States such a Central Gold Reserve as you propose to make the banks create, you have a perfect duplicate of our present National Government, in political matters. These representatives of the zones are the servants of the zones, just as the senators are the servants of the states. Another thing, twenty-one of them will be business men, and twenty-one will be bankers; both sides of the bank counter, the inside and the outside, will be represented; and, since you have arranged to have one-seventh of them, or three business men and three bankers go out every year, your board of forty-two will always be old, and yet always will be becoming new. The more I think of it, the more I am for it, because I am for Uncle Sam against the world.

UNCLE SAM: If you ever want a "B" line on anything, go to Mr. Laboringman every time.

MR. BANKER: Well, we have considered the economic side of the Aldrich scheme pretty thoroughly. I think it is about time that we heard something from Mr. Lawyer about the administrative features of the scheme.

MR. LAWYER: From a professional point of view, I have been a student of motives all my life, and as you know, I have been a part of a powerful, political machine in this state for more than twenty years. The Aldrich scheme furnished me a rich mine of motives, and a detail of organization that staggered even an old political stager as I am.

You will remember that when Aldrich made his first announcement about his plan, he said that we must have a *Central Bank* and that immediately President Taft declared at Boston, "Senator Aldrich desires to round out his

career with a financial system for the United States, and says that we should have a *Central Bank*." I never will forget what an eminent citizen of this state said when he read that statement. It was this: "Well, God help the American people if Nelson W. Aldrich ever rounds out *his career* with a financial system for the United States."

You will all of you remember, I am sure, what a cold reception the idea of a "Central Bank" at the hands of Aldrich received. Does anyone of common intelligence believe that Aldrich ever changed his scheme below its throat? It is true he put a mask on its head; but that is all. He hunted around for an all-concealing name to hide the thing under—"The National Reserve Association." *I assert that his proposal would mean the greatest and most centralized Central Bank in the world.*

Note these figures and draw your own conclusion:

Nat. Reserve Assn.	Bank of France	Bank of England	Bank of Germany
Capital			
$400,000,000	$36,500,000	$72,000,000	$45,000,000
Deposit			
1,500,000,000	100,000,000	250,000,000	200,000,000
Note Issue			
2,400,000,000	1,000,000,000	(See Note.)	400,000,000
Possible Note Issue			
4,500,000,000			Possible large issue with tax.

NOTE.—*The Bank of England is not in any sense a bank of issue, because the amount of notes it issues is limited to the amount of gold coin in the issue department. The notes are gold certificates. There is an exception to the law, to the extent of the arbitrary amount of notes issued against the Government debt and securities, held in the issue department, amounting to $90,000,000.*

Now, gentlemen, here you have a proposal to organize in this country an institution with a capital greater than the combined capital of the Central

Banks of England, France and Germany, because the capital of all of our banks now exceeds $2,000,000,000, and the subscription to the National Reserve Association must be 20 per cent of this amount, to entitle them to participate. Certainly the idea must have been that they all would participate in so beneficent an institution. "It was to be a bank of banks for all the banks."

It was the declared purpose of the author of the scheme that the banks should surrender all their real money, now carried as reserves, to this central institution in exchange for its notes; or that the banks would deposit more than $1,500,000,000 with the National Reserve Association. This would be a deposit nearly three times as great as all the deposits of the Central Banks of England, France and Germany combined.

The bill provides, Section 51, that the National Reserve Association can issue $900,000,000 of its notes, *and as many more* as are covered "by an equal amount of lawful money" (United States notes, silver, or silver certificates, and gold in some form), without paying any tax. But if the banks turned over their present reserves, amounting to $1,500,000,000, as contemplated by the author of the National Reserve Association, it could issue $2,400,000,000 before beginning to pay any tax on circulation. By paying a tax of 1½ per cent per annum, it could put out $300,000,000 more notes, not covered by lawful money, or $2,700,000,000; then, by paying a tax of 5 per cent, it could go any limit until its lawful money reserve was reduced to 33 per cent. This makes a possible issue of $4,500,000,000, or a possible note issue today two or three times as great as all the note issues at any time outstanding of the Central Banks of England, France and Germany combined. *Every dollar of this vast amount is only the credit of the so-called National Reserve Association, and yet is a lawful reserve for over twenty-five thousand banks to hold.*

MR. MERCHANT: By the way, Mr. Banker, I would like to ask you what you think of a tax upon bank notes to be paid by the Central Bank of Issue as it is practiced in Germany where they got this idea.

MR. BANKER: Economically speaking, a tax paid under such circumstances is of no more use than your appendix.

MR. MERCHANT: My appendix! I have had my appendix removed.

MR. BANKER: Well, that makes no difference. I still insist that a tax paid upon bank notes under such circumstances is of no more use, economically speaking, than your appendix, whether it has been removed or not.

MR. LAWYER: Section 23 provides, "The National Reserve Association shall be the principal fiscal agent of the United States. The Government of the United States shall, upon the organization of the National Reserve Association, deposit its general funds with said association and its *branches*, and thereafter all receipts of the Government, exclusive of trust funds, shall be deposited with said association and its *branches*, and all disbursements by the Government shall be made through said association and its *branches*."

The Central Bank of any country may be defined to be the bank at which the other banks carry their reserves, and at which the Government carries its balance.

But will some advocate say "it is only the bank of all the other banks"? This is the very quintessence of a Central Bank.

Upon this evidence will any candid man say that the so-called National Reserve Association is not a Central Bank? It was to have fifteen branches. The Bank of England has none. The Bank of Germany has nineteen main branches. The Bank of France has one hundred and twenty-seven main branches.

"SECTION 34.—The National Reserve Association shall have power both at home and *abroad* to deal in certain things."

SECTION 36.—"The National Reserve Association shall have power to open and maintain banking accounts in foreign countries, and to *establish agencies in foreign countries* for certain purposes."

Have the Central Banks of England, France or Germany any power to maintain accounts and establish agencies in foreign countries? With "A baby stare," and under cover of "Sunday-school pretences," we are told that this all-comprehending scheme is just a simple coöperative enterprise for the exclusive benefit of the individual American banks. Indeed, that it is the only truly altruistic banking institution that was ever conceived.

Now, as the chief argument for the adoption of this scheme, its main promoters and sponsors have persistently declared that the country was now

being dominated and controlled by certain great banking interests, and, therefore, that the people should liberate themselves from these sinister and dangerous banking powers by running into the warm and enticing embrace of the National Reserve Association. Upon investigation, we find this anomaly, this surprising, this astounding fact: that the promoters and advocates of this gigantic machine are these self-same sinister banking influences who have the country by the throat today.

Hon. Leslie M. Shaw has pertinently inquired, "Is it not strange that Nelson W. Aldrich and his affiliations are tired of their great power and vast opportunities, and are now trying to divest themselves of them," through the innocent-looking National Reserve Association? It will be well remembered by all of you, that at the time that the Aldrich scheme made its first bow to the dear people, the public discovered that the National City Bank owned bank stock to the amount of $10,000,000 in other National Banks located throughout the United States. Possibly the same interests owned several times that amount. I was informed about that time that they controlled at least one hundred banks in the leading cities of the United States. Now, let us assume that to be true, and let us meditate upon what such an organization could accomplish if they wanted to elect every officer in every local association, and every officer in charge of every branch, and the board of directors of the National Reserve Association, and so name the "*Governor*" and the rest of the executive committee of nine which is to control this great Central Bank.

To appreciate the power of such an organization, you must keep in mind the fact that practically every bank in the United States would be carrying a balance with some one of these banks immediately under their control. There is your machine. It is a perfect duplicate of the political machine in this state. The state "Boss," whom you know stands in precisely the same position as the National City Bank would stand.

As you are fully aware, I am the "Boss" of this county; and I am in identically the same position that one of these hundred banks would be that are controlled by the National City Bank. When I get my orders, I immediately communicate with every so-called local leader in every township. This political machine works three hundred and sixty-five days and three hundred and sixty-five nights in the year. In the sense of an organization, we are working all the time, and it is the organization work

that does the business. All the rest of the people are unorganized. So it would be with the banks. The men who belong to the organization or machine "*like it and fear it*"; because as things have stood, no one could get anywhere without being a part of the machine. This fact forces acquiescence. It has been, as you know, a perfect feudalism from top to bottom. We have had a machine government in this state as perfect as the Manchu Government in China.

Can you imagine anything easier than for the National City Bank with this complete banking organization all over the United States to name every man practically that went into this organization from top to bottom? This would not be done by holding a majority of the stock in all the twenty-five thousand banks; they don't care about that; because it is a matter of no consequence to them, and if they attempted to do anything so crude, it would spoil their whole game. They attain their ends in more subtle but no less certain and powerful ways. They get influences to work. They put forces into operation. Their interests are not limited to the banking business. They have affiliations with great transportation companies and manufacturing interests, and therefore control large bank deposits everywhere that the banks want and are always working to get. Then there are favors to be granted; commissions to be paid; "melons to be cut." Opportunities are suggested. In one respect at least they are like the Lord, they "work in a mysterious way their wonders to perform."

They had established their ramifications throughout the United States by making the National City Bank a holding company of bank stocks, and the culmination of their power was to be realized through the devious methods of organizing the National Reserve Association. The same money and the same power that filled the columns of the newspapers of the country with the unqualified praise of the Aldrich scheme for two years—the same power that rushed resolutions of one uniform stereotyped kind through twenty or thirty state bank associations, and steam rollered the same unconsidered declarations through two annual conventions of the American Bankers' Association, would have made this so-called *altruistic, benevolent, coöperative association* the most powerful machine ever organized; because, it would have absolutely dominated all the bank credit in the United States, or 45 per cent of the banking power of the world. You must

remember that these interests are by far the greatest speculators in the United States. Yes, the greatest in the world.

MR. BANKER: But don't you remember that the bill provided in Section 26 that the paper rediscounted by it must "be issued or drawn for agricultural, industrial, or commercial purposes," and not "for the purpose of carrying stocks, bonds, or other investment securities"?

MR. LAWYER: Yes, but that is all folderol. It is the purest kind of poppycock. If a bank wanted to take on a speculative deal, it could sell its commercial paper, could it not, and use the money for speculation just the same? That is on precisely the same level with its declaration that the institution was not a Central Bank. It is such subterfuges that disgust every candid man.

Listen to Mr. Aldrich in his report upon the bill upon the selection of the "Governor" of the National Reserve Association by the President of the United States. He says, "Further restraint upon the administration of the association upon narrow or selfish lines, is imposed by the provision that four of the highest officials of the Government are made ex officio members of the controlling board, *and by the requirement that the governor shall be selected by the President of the United States*. The fear has been expressed that the *selection of the governor by the President*, and the provisions making the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the currency, ex officio members of the board of directors of the reserve association, *might lead to an attempt to control the organization for political purposes*."

Please note the sham, fraud and false pretense covered by this comment. The bill provides that the "Governor" of the association, as they call him, shall be selected by the President of the United States *from a list of at least three names, furnished by the directors*. Will any honest man say that the President of the United States would have had any more to do with the selection of the "Governor" of the so-called National Reserve Association than the King of Siam? Again note this cheap, false pretense, "Fear has been expressed that the selection of the governor by the President," and the four ex officio members of the board of directors, "might lead to an attempt to control the organization for political purposes." These four ex officio members have just four votes upon a board of forty-six which proceeds

immediately to eliminate all of the ex officio members forever, by selecting an executive committee consisting of nine members to manage its affairs, from which all of them are excluded except the Comptroller of the currency. Can any intelligent man doubt the purpose of all these sham declarations and false pretenses? If so, let him spend a day or two trying to find out how the members of the boards of the local associations are to be chosen; try to unravel the process by which the members of the boards of the branches are to be evolved; and, having grown tired and dizzy with his task, let him undertake to prove how the board of directors of the National Reserve Association are to be manufactured through the machinations born of ulterior purposes.

I have studied puzzles before, but for complications, wheels within wheels, evident designs upon evident designs, occult purposes under occult purposes, and a combination of powerful forces, born of sinister influences, this project will forever stand alone as an illustration of what the human mind can do to conceal its real object.

There is not one man in a hundred, indeed I do not believe that there is one man in a thousand, taking the business men, farmers, working men, and bankers all together, who can solve the riddle, and tell how it is done. Such a mystery could not have just happened. It must necessarily have been the product of a purpose.

Simplicity, publicity and direct methods are the guaranties of common honesty. Intricacy, secrecy and indirect methods are invariably used to hide uncommon dishonesty. I do not mean petty larceny, taking a few pennies, or a loaf of bread; but the absorption of hundreds of millions, without returning anything to the world in exchange for them.

Should the United States have been so unfortunate as to have been bound hand and foot for fifty years, the life of the proposed charter, by the trammels and intricacies of the National Reserve Association under control of an executive committee, consisting of only nine men who had been the evolutionary product of a preconceived purpose and well-defined plan, can anyone doubt what the result would have been? Can anyone doubt that all of their banks and all of their business interests would have gotten all the money they wanted all the time?

The advanced information from week to week and, at times, possibly, a month ahead, of what the discount rate would be—a very natural way for some member of that executive committee to show his or their proper appreciation of his or their promotion to their positions—would have been worth more every year, during the fifty-year grant, than all the wealth that the American people could produce during any twelve months; for this advanced information about the discount rate would have made profits a mathematical certainty upon the billions and billions of stocks and bonds that are quoted upon the Stock Exchange, the fertile field of the man who knows that he has a sure thing.

MR. MANUFACTURER: Mr. Lawyer, that smells pretty bad.

MR. LAWYER: Yes, I admit it; but does it smell any worse than oil has been smelling for more than twenty years? Than certain United States senators have been made to smell? Than robbing rebates smell? Is it not the natural sequel to this train of abuses to which the country has been treated?

This whole situation was so graphically depicted, precisely as it has developed, two years before Mr. Aldrich gave birth to this conception, that I want to read it to you:

"A central bank could easily be so organized as to sap the commercial blood of this country at every turn and direct the silent and unseen currents of advantage into the channels of favored institutions, and all these favored institutions might turn out, upon investigation, to be, in the end, one institution.

"And if, unfortunately, the subterranean connection could not be detected, and even if detected, could not be broken, what a power for evil and injustice such an organization would prove in the life of this Nation.

"This is not only regarded as possible, but as probable; indeed, it is charged that it is the preconceived, cunning design of the advocates of a central bank to accomplish this purpose.

"Under these circumstances, with what suspicion and jealousy will every act of the central bank be watched! Localities will become envious of localities. Cities will bitterly attack their neighboring cities. Nine-tenths, if, indeed, not ninety-nine out of every hundred, of the banks will imagine spears in needlecases, and, right or wrong, fling their accusations upon the

wings of the wind; and we will be living in a commercial world of unrest and constant controversy surpassing in suspicion, envy, jealousy and bitterness anything this Republic has ever witnessed. The consequences no man can prophesy; no imagination can paint."

These words were spoken by Hon. Charles N. Fowler, March 29, 1908, just two years before Mr. Aldrich made his report to Congress upon his National Reserve Association.

MR. LABORINGMAN: You know I said that I had heard that the Aldrich Bill was dead; for one, I hope so. If the people ever get a lick at it they will finish it for certain.

MR. FARMER: You are right, and you bet that if they ever get a chance to discuss this banking bill question, they will come mighty near settling upon the right proposition in the end.

MR. BANKER: I agree with you, and furthermore I am thoroughly convinced that we shall never reach a satisfactory conclusion until we have had just the same kind of a hand-to-hand fight over this question that we had over the gold standard.

MR. MANUFACTURER: It looks so to me. That gold-standard fight taught me that you could trust the American people to make a wise decision, if you would only have a country store, schoolhouse, cornfield debate, in which every man in the country got into the game—preacher, lawyer, teacher, farmer, merchant, manufacturer, laboringman, townfolks and country folks, all alike.

MR. MERCHANT: Nothing more true has been said since we have been talking about this question than that remark about the importance of a public discussion of this whole matter. I know any number of men who when this Aldrich scheme came out were ready to swallow it, but who now realize what a fatal blunder it would have been. The reason was, that they knew absolutely nothing about the question and they were living in such a state of terror on account of the panic, that they were ready to take anything that would shield them from experiences such as they had just passed through. The Aldrich scheme was the only thing in sight, because hundreds of thousands of dollars had been spent in promoting it. They are just

beginning to study and think about the subject. Our hope of wise action by Congress rests upon a red-hot debate among the people, exactly as you said.

MR. BANKER: Well, it will be easy enough to show them what the real reforms demanded are.

The reforms we demand are these:

First: Holding companies in the banking business must be completely wiped out.

Second: Every National Bank should be authorized to do

(1) A commercial banking business.

(2) A Savings bank business.

(3) A Trust company business.

(4) A note issue business, precisely as the Canadian banks do.

Third: All the various accounts—commercial, savings, trust and note issues —should be segregated.

Fourth: Every bank in the United States should be compelled to carry the same amount of bank reserves.

Fifth: All bank reserves should consist of gold or gold certificates, as soon as the United States notes can be converted into gold certificates.

Sixth: Every bank in the United States should be brought under national control, because banking is essentially Interstate Commerce.

Seventh: Every natural financial centre in the United States should become the clearing centre for all the checks, drafts and bank notes that are payable in the territory that is economically and naturally tributary to that Financial centre; such territory should constitute a commercial zone.

Eighth: There should be organized at each of these financial centres a Clearing House at which all the checks, drafts and bank notes payable within the commercial zone shall be at par.

Ninth: The banks of each commercial zone should elect a board of control to examine, supervise and control all the banks within such commercial

zone, precisely as the Clearing Home bank examiners are examining and supervising all banks clearing through them today.

Tenth: The banks of each commercial zone should also elect a court of appeals, or a banker's council, composed of an equal number of business men and bankers, to settle all banking and business questions that would properly come before them.

Eleventh: The Board of Control in each commercial zone should be presided over by a deputy United States Comptroller, for the purpose of securing immediate and efficient action.

Twelfth: The banks of the United States should all contribute a percentage of their deposits to a Central Reserve, which should be composed of gold, and gold alone. The percentage of deposit should be 7 per cent at the outset, and be gradually increased to 10 per cent, which would amount, at the present time, to a central gold reserve of upwards of $1,250,000,000. This reserve would correspond to the reserve held today by the Clearing Houses for their banks.

Thirteenth: This central gold reserve should be held in trust by a body of men composed of one man from each commercial zone, for the benefit of all the commercial zones.

Fourteenth: Each Board of Control should have access to this central gold reserve, and should have power to sell gold to any bank within its zone and under its supervision, in case it desired it for the purpose of moving crops or for any other legitimate reason. The practical result would be, that the gold would be held, to a large extent, at the financial centres, and under the command of the Board of Control, precisely as the Clearing House committees today hold the reserves of the banks constituting their respective Clearing Houses.

Fifteenth: The use, distribution and control of the central gold reserve should be under the management of the representatives of all the commercial zones, who should be composed equally of business men and bankers.

Sixteenth: For the purpose of establishing responsibility and securing efficiency, the representatives of the zones should act through corporate powers granted by the National Government.

Seventeenth: The purpose of a national centralization of gold to so large an extent is two-fold:

(1) It brings all the banking power of the United States to the defense of the commercial interests in every part of the United States instantaneously.

(2) It will give to the representatives of the zones the power to control and direct the movement of gold to and from the United States, by fixing and enforcing a price for the use of gold, or a discount rate for gold transactions throughout the United States.

These reforms are based upon three distinct propositions:

First: They incorporate the principles of a central gold reserve, as illustrated by the Bank of England, where all the transactions are in gold, and gold alone, without the use or intervention of bank credit in the form of bank credit notes, which could be used for reserves by the banks throughout Great Britain.

Second: They incorporate the principle of bank credit currency, as illustrated by the bank note system of Canada, which involves daily redemption in gold coin through the clearing houses.

Third: They extend to every economic or natural commercial zone the established and approved practices of the American Clearing Houses, that is:

(1) Bank supervision and control over all members.

(2) A reserve created by all the members of the Clearing House and held by the Clearing House Committee for the benefit of all the members.

(3) Such a free check system over every commercial zone, precisely as New England has had since 1899, and as has just been established over a large territory around New York by the New York Clearing House.

The result of these reforms would be:

(1) To make each individual bank absolutely independent, because it has an unlimited resource in the coöperative gold reserve.

(2) To make every commercial zone as free and independent of every other commercial zone, as England is of France, or France is of Germany.

(3) To completely decentralize all bank credit in the United States, while it centralizes the gold to a degree that would enable us by raising the discount rate to close the door of our markets against the demands for gold from abroad.

(4) To insure all depositors in National banks against loss.

(5) To liquefy and therefore develop a general market for commercial paper.

(6) To save the business interests of this country more than $200,000,000 every year, to say nothing of the incalculable losses growing out of our ever-recurring panics. #/

MR. LAWYER: Mr. Banker, you have stated with great clearness and precision just what our investigation has demonstrated should be done to give us a sound and economical financial and banking system.

After a careful consideration of the question, I am prepared to say that the Aldrich scheme would not accomplish or effect a single one of these reforms.

On the other hand, I am convinced that, while it would give us temporary relief, immediately there would follow undue expansion. In quick succession there would come wild inflation, a vast amount of gold would be expelled from the country and we would find ourselves in the end in far greater and more serious difficulties than those from which we are now suffering.

MR. BANKER: Your conclusion is in perfect keeping with my own. It seems to me very remarkable how many people were temporarily misled by its claims, but have since turned from it and are now opposed to it.

MR. LAWYER: I do not think that is either remarkable or strange, when you recall the mental condition of the whole country, due to the panic; the vast

amount of money poured into its propaganda; the claims made for it and the fact that it incorporated some things that the public realized ought to be done.

For example, it proposed to divide the country into districts, an idea that Congressman Fowler had advocated ever since 1897 or for more than fifteen years, and had incorporated in his bill of 1908.

The Aldrich scheme provided for a Central Reserve, but composed almost entirely of United States bonds, United States notes and silver in some form, a fact that did not attract the attention of the public at the outset.

It proposed to make an unlimited market for the rediscount of paper, a most pleasing thought to contemplate until it was discovered that this was to be done by "replenishing" the reserves of our 25,000 banks "indefinitely," as Aldrich said, with bank debts in the form of bank notes issued by the so-called "Reserve Association." It incorporated the plan proposed by Congressman Fowler in his bill of 1908 for converting the "*Two per cent United States bonds*" into "*Three per cent United States bonds*," a fact that impressed the National banks favorably.

The so-called Association was given an attractive name—"National Reserve Association," also borrowed from the first draft of Congressman Fowler's Bill of 1908, with only a slight change. He called his central reserve, "United States Reserve Association." Finally, owing to the clever presentation of the scheme, the country took to it at the start, because they wanted something done and they hoped that the scheme was what Mr. Aldrich declared it to be, when he said, "The plan we propose is, essentially, an American system, scientific in its methods and democratic in its control."

Every intelligent man now knows that the system he proposed was the German system from top to bottom, which broke down completely under the first real test, which came in 1911.

Every man who calls himself an economist must admit, instead of its being scientific in character, it was constructed in absolute defiance of all economic law, and now the public is convinced that instead of being democratic in control, it was intended to be a gigantic "*Central Bank*" with fifteen branches over which a "*Governor*," a name wholly foreign to American banking institutions, and his seven associates were to rule, the

"*Governor*" appointing his assistant managers over the fifteen branches as if it were a Manchu dynasty and not a democracy at all.

Thus one by one the economic blunders have been pointed out; one by one the sinister motives have been exposed; one by one the false pretenses have been unmasked, until there is left only a recollection of the impression made by the expenditure of hundreds of thousands of dollars in this futile attempt to enslave all American bank credit and the lesson of extreme caution and a most urgent need on the part of every citizen in every walk of life, of study, diligent study, if he desires to perform a truly patriotic duty and be of some real service to his country in this hour of peril, inspired only by unselfish motives and a sincere devotion to the welfare of the whole people.

MR. MERCHANT: Mr. Lawyer has certainly succeeded in pointing out very clearly the things that *must be excluded* from our bill.

MR. MANUFACTURER: And Mr. Banker has certainly succeeded in pointing out very clearly the things that *must be included* in our bill.

MR. LABORINGMAN: Well, then, if we are all sure that we are right, let us go ahead.

MR. FARMER: We will; and as our forefathers fought for the birth of this nation we will fight for its life.

UNCLE SAM: Boys, I shall live only through your intelligence, your courage, your justice, your honor, your patriotism, your service, your sacrifice; and I shall be immortal only if all those who come after you shall possess these same virtues.

FAREWELL.

APPENDIX A

UNITED STATES CIRCULATION STATEMENT—JANUARY 2, 1913.

	General Stock of Money in the United States.	Held in Treasury, as Assets of the Government.	Money in Circulation.
	January 2, 1913.	January 2, 1913.	January 2, 1913.
Gold coin (including bullion in Treasury)	$1,878,577,122	$170,983,732	$623,159,221
Gold Certificates[2]	—	128,747,197	955,686,972
Standard Silver Dollars	565,481,020	165,022	74,528,998
Silver Certificates[2]	—	12,814,458	477,972,542
Subsidiary Silver	174,538,163	17,814,855	156,723,308
Treasury Notes of 1890	2,797,000	10,115	2,786,885
United States Notes	346,681,01	6,995,837	339,685,179
National Bank Notes	750,972,246	30,787,771	720,184,475
Total	$3,719,046,567	$368,318,987	$3,350,727,580

Population of continental United States January 2, 1913, estimated at 96,496,000; circulation per capita, $34.72.

FOOTNOTES:

[2] For redemption of outstanding certificates an exact equivalent in amount of the appropriate kinds of money is held in the Treasury, and is not included in the account of money held as assets of the Government.

APPENDIX B

CLASSIFICATION OF CASH IN BANKS—JUNE 14, 1912.

CLASSIFICATION.	NATIONAL BANKS.	ALL OTHER BANKS.	ALL REPORTING BANKS.
Gold Coin	$149,294,417	88,210,552	237,504,970
Gold Certificates	437,081,380	204,494,410	641,575,790
Silver Dollars	12,637,221	10,230,733	22,867,954
Silver Certificates	138,569,628	55,248,220	193,817,848
Subsidiary and Minor Coins	22,555,692	15,026,738	37,582,430
Legal-tender Notes	188,440,207	63,576,675	252,016,882
National Bank Notes	{ 47,564,277}	58,037,130	105,601,407
Cash not Classified	{of other banks}	82,302,986	82,302,986
Total	$996,142,823	$577,127,445	$1,573,270,268

Amount of money held by United States Treasury,	$368,318,987.
Amount of money held by all banks,	$1,573,270,268.
Amount of money held by the people,	$1,777,457,312.

Total amount of money in the United States,	$3,719,046,567.

APPENDIX C

Assuming that the plan should be adopted within the year 1913, and taking round but approximate figures, the amount of reserves required to put the plan into operation would be as follows:

Individual deposits, commercial	$11,000,000,000
Due to banks	1,000,000,000
Band credit currency, notes	1,250,000,000
Total demand liabilities	$13,250,000,000
Central reserves against this amount at 10%	$1,325,000,000
Cash reserves on this amount at an average of 8%	1,060,000,000
Cash reserves against savings held amounting to $3,000,000,000 at 5%	150,000,000
Total reserves required under our plan	$2,535,000,000
Amount of circulation in the United States that may be used as reserves:	
Gold coin in the United States	$1,900,000,000
Standard silver dollars	565,000,000
Subsidiary coin	175,000,000
Treasury notes, 1890	2,797,000
United States notes	346,681,000

	$2,989,478,000
Less gold held in the U.S. Treasury as a Reserve Fund	150,000,000
Total possible reserves	$2,839,478,000
Amount of reserves required by our plan	$2,535,000,000
Leaving a net amount of lawful reserves for circulation among the people of	$304,478,000
Amount of subsidiary coin	$175,000,000
Amount of silver dollars out	75,000,000
Amount of $1 and $2 bills out	225,000,000
	$475,000,000

This amount is probably about equally divided between the banks and the people.

Amount of circulation now outside of the U.S. Treasury and the banks and, therefore, in the hands of the people	$1,780,000,000
If we deduct the amount of lawful reserves left for circulation among the people	$304,478,000
We have the total amount of bank note circulation	$1,475,522,000
Amount of circulation provided for	1,250,000,000
Additional amount of bank credit currency to be provided	$225,522,000

But this increased amount of bank notes, amounting to $225,522,000, will not take any additional reserves because the deposits which will be converted into these notes are now covered by reserves. It is plain that, thereafter, book credits and note credits will be currently interchangeable.

Thus every demand for currency will be met automatically and perfectly, every day, everywhere, throughout the United States, day in and day out; month in and month out; year in and year out.

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