

# HE A R I N G S

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY,

FIFTY-THIRD CONGRESS, FIRST AND SECOND SESSIONS.

1893-'94.

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**COMMITTEE ON BANKING AND CURRENCY, HOUSE OF REPRESENTATIVES UNITED STATES.**

**FIFTY-THIRD CONGRESS.**

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**LEWIS SPERRY, Connecticut.**

**NICHOLAS N. COX, Tennessee.**

**SETH W. COBB, Missouri.**

**DAVID B. CULBERSON, Texas.**

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**RUTER W. SPRINGER, *Clerk*, to June 19, 1894.**

**FRED L. FISHBACK, *Clerk*, from June 19, 1894.**

# HEARINGS

BEFORE THE

## COMMITTEE ON BANKING AND CURRENCY.

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COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., Friday, September 29, 1893.*

The committee met at 10 a. m. Present, Messrs. Springer, Sperry, Cox, Cobb of Missouri, Cobb of Alabama, Warner, Black of Georgia, Hall of Missouri, Haugen, and Johnson of Indiana.

The CHAIRMAN. The meeting this morning is for the purpose of hearing statements of members of the House who have introduced bills which have been referred to this committee; besides other members. Meetings will be held hereafter for the purpose of hearings upon other matters pending before this committee. At the last meeting of the committee, the following resolution, introduced by Mr. Warner, was passed:

*Resolved*, That the chairman of the committee arrange for appearance, before the committee, of members who have introduced bills which have been referred to this committee, and also of members who desire to be heard upon pending bills. The statements submitted shall be taken down by the committee stenographers and filed with the clerk.

The chairman was also instructed at the last meeting of the committee to communicate with the proper authorities in the several States and Territories for the purpose of procuring any information that might be of importance relating to the systems of banking which prevail in the States and Territories.

The chair has, in pursuance of this authority, requested Mr. Oates, of Alabama, to appear before the committee this morning, and also Mr. McLaurin, of South Carolina, to explain the bills which they have introduced. The chair has also invited Gen. Wheeler to be present. If we should not be able to conclude the hearings to-day, the chair will request the continuance of the meeting for that purpose from day to day until we have concluded the work which we have undertaken.

Col. Oates is present, and he will submit statements in reference to House bill No. 136, to suspend section 3412 of the Statutes relating to State bank associations.

The bill is as follows:

A BILL to suspend section thirty-four hundred and twelve of the Revised Statutes of the United States as to the circulating notes of certain State banking associations.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That section thirty-four hundred and twelve of the Revised Statutes of the United States, which reads as follows, to wit: "Every national banking association, State bank, or State banking association shall pay a tax of ten per

centum on the amount of notes of any person, or of any State bank or State banking association used for circulation and paid out by them," be, and the same is hereby, suspended as to all notes issued to circulate as money by any corporation or banking association under the laws of the State where the same is located: *Provided*, That there shall first be deposited by such corporation or association, with the State treasurer or other safe depository designated for that purpose by the law of such State, an amount of the lawful money of the United States or the solvent bonds of par value of such State, its counties, or municipalities, equal to one hundred per centum of the aggregate amount of notes proposed to be issued by such corporation or association, which deposits are by the laws of such State made and held for the security of the holders of such bills or notes and for the redemption of such notes or bills: *Provided further*, That the aggregate amount of such State bank issues shall in no case exceed five dollars per capita of the population of such State as ascertained by the last preceding census of the United States.

### STATEMENT OF HON. WILLIAM C. OATES, REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA.

Mr. Chairman and gentlemen of the committee: I wish to make a statement, as indicated by the chairman, with reference to this bill, and I trust that you will pardon me for saying something outside of this bill on matters connected with our currency system. I have a good deal to say against the system of national banking as it now prevails, particularly in some localities, and I hope I will be able to specify which and wherein. I want to say that I have no feeling of opposition to any system, or institutions which are calculated to do equal and evenhanded good to our people, I do not care who originates them, or where they are located. If they are calculated to do good, I am in favor of them.

#### NATIONAL BANK CIRCULATION.

There is a bill which has been brought before you, and there is one in the Senate, to allow national banks to increase the amount of their circulation up to the face value of their bonds, with the view to giving the country more currency. That is a good proposition, so far as it goes; but it does not go far enough. The law now allows national banks to issue notes up to within 10 per cent of the face value of their bonds, and a large number of them only issue 25 per cent, because the law allows them to do so; so that it does not insure an additional amount of currency at all. Since the passage of the act of July 12, 1882, known as the extension of national bank charters, the practice of many banks has been to take out but 25 per cent of circulation; so, unless the bill to allow them to issue up to the face value of the bonds repeals this and requires them to issue a greater amount, the bill, if passed, would not increase the currency.

Mr. HAUGEN. Are you aware that some banks deposit bonds without taking out any currency?

Mr. OATES. Oh, yes, sir. I will give you a history of the matter, as I have studied it from the statutes and well-known facts to the country at the time the law was passed to establish the system of national banks. I am in favor also of another amendment to the law in reference to national banks. I make no war upon the national banks so long as they are useful to the people. In fact, in the discussion with some of our Farmers' Alliance friends in the last campaign I took occasion to deny some propositions which they advanced about the banks. I have defended the national-banking system when it was right, and assailed it when it was wrong. Many of the Alliance lecturers and Populist

speakers and many of their newspapers asserted that the United States loaned money to the banks at 1 per cent, while, instead of that, the Government imposes a tax of 1 per cent upon the circulation of the banks.

Good business men are generally at the head of these banks, but they are there for profit, and while honest, many of them are shrewd speculators and money-makers.

#### NATIONAL BANKS, LOANING ON REAL ESTATE.

There is a provision in the law, which was probably wise enough when it was adopted, which does not allow them to loan money on real estate. That was intended as a matter of security to the banks—that they should advance money only on gilt-edged paper. The national banks are composed of private individuals; and it is their money, and you have to trust to their good sense for proper management. I have a bill here before you to allow them to loan money on real estate to the extent of 50 per cent of its cash value. I think they ought to have that permission. The following is a copy of that bill, viz :

A BILL to authorize national banking associations to loan money on real estate security.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That from and after the approval of this act it shall be lawful for any national banking association to loan or advance money to any person or persons upon real estate, secured by mortgage, not to exceed in any case fifty per centum of the cash value thereof, at a rate of interest not to exceed that allowed by law to be taken by such associations; and the taking of any greater rate of interest for the loan or use of money as aforesaid shall make the mortgage or other obligation for the repayment of such loan null and void.

You have to rely on their good sense and judgment for proper management, and would it not be a relief to the people in many localities? In my section the farming class are dependent for money on the security of the farm lands and the products of the farms. This bill, if a law, would be beneficial to the people, and enlarge the privileges of the banks.

#### NATIONAL BANK CIRCULATION.

Mr. HALL, of Missouri. Did I understand you to say that the law makes it compulsory on national banks to take out 25 per cent of their circulation? It allows them to take out 90 per cent.

Mr. OATES. Or only 25 per cent, as they see proper.

Mr. HALL, of Missouri. I have a letter from the largest national bank in Illinois in which it is stated that they have never taken out a dollar of circulation.

Mr. HAUGEN. There is no penalty attached to that.

Mr. OATES. I have not investigated that.

Mr. COX. The law provides that they shall deposit bonds to the extent of 25 per cent of the capital stock. There is no obligation to do more.

Mr. OATES. They should be required to do more. The Comptroller of the Currency allows them to take out circulation as little as 25 per cent of the bonds.

Mr. COX. They deposit the bonds. They are bound to deposit 25 per cent of the capital stock, but there is no obligation on their part to take out a dollar of circulation, unless they want to.

Mr. OATES. I am not discussing that feature. If you allow them to take out the full face value of their bonds in circulating notes, that law

ought to require them to take out 50 per cent of the face value of the bonds; allowing them to take out the face value instead of 90 per cent is simply a privilege to them, and is of no absolute benefit to the country, for we do not in that case increase the circulation, which they should be required to do.

#### NATIONAL BANKS, LOANING ON REAL ESTATE, USURY.

Why give them all the benefits and the people none? I think that they ought to have the privilege of loaning money on real-estate security. In that bill of mine, you will see that, if they attempt to take more than the legal rate of interest allowed by law, the debt is forfeited. A great abuse that has been practiced by the national banks in some localities has been that while they are confined by law to taking only the rate of interest allowed by law, many take more than that. Under the present law, when they take more than the legal rate of interest, the man who pays it can go into court and recover only twice the amount of the interest thus illegally taken.

Mr. HALL. Have you ever heard of such a suit?

Mr. OATES. Not one. If you have a law, provide for its enforcement. If the law be passed, it should be efficacious. It ought to be in a shape where it would count for something.

Mr. COX. I want to ask you a question upon that, because I am interested in what you say. Suppose I step into a bank with my note indorsed by proper security. I offer that note to the bank for money. They do not treat that as a loan, but as a discount.

Mr. OATES. Oh, yes.

Mr. COX. Let me call your attention to this point: How are you going to regulate a bank as to the amount of its discount or shaving on a note?

Mr. OATES. Under the law of my State, where they take illegal interest, even in discounting, it is usury. What I want to call attention to is that when you come to report a bill, there is one thing that ought not to escape your attention, and that is to make a provision against usurious interest that will be effective. If we have any law against usury it ought to amount to something.

Mr. HAUGEN. Why should not the United States make a penalty to be subject to the laws of the States?

Mr. OATES. That would be equitable and satisfactory.

Mr. JOHNSON, of Indiana. It was the purpose in denying national banks the right to take real-estate security to compel them to have such paper as could be realized upon rapidly.

Mr. OATES. I remarked awhile ago, that that was it—to require them to take gilt-edged paper. It was done for the protection of the banks. At that time, the banks were comparatively few and the Government relied upon them to sustain its credit; but I do not think the limitation is at all necessary now, because there are so many banks, and we can trust to the good sense of the managers. They ought to be allowed that privilege, to risk their own money, with the limitation that they shall not exceed in loans 50 per cent of the cash value of the real estate. Let me illustrate that: Take a man who owns two lots in a town, and who has no money with which to improve them. Here is a bank, the officers of which know the value of the lots. If that man can mortgage those lots for 50 per cent of their value, he will erect houses which he can rent out. That would give an investment for the funds of the bank, give employment to labor, and it is an improvement by which

nobody is hurt, but many benefited. I think you can trust the managers of the banks; and, if you can not, they had better go out of business.

The CHAIRMAN. How do you reconcile the inconsistency of doing bank business and loaning your deposits on long time on real estate, say five years, while your deposits are subject to immediate payment on the demand of the depositor?

Mr. OATES. That is an unjustifiable piece of business in banking.

The CHAIRMAN. They have nothing else to loan as a rule.

Mr. OATES. They ought not to be allowed to do it, unless they loan the depositors' money on short time and ample security. That is one of the reasons why so many banks became embarrassed in the late stringency. The bulk of their money belongs to the depositors, and they have been using it, and were not in a condition to give it to depositors when called for. There ought to be a law for the protection of depositors against that kind of reckless business.

The CHAIRMAN. The currency of a national bank is usually almost all invested in Government bonds which are on deposit in Washington, and upon which they get interest, and they can only loan the funds of the depositors. If they are allowed to loan the depositors' money out on long time, they could not be able to meet the demand of depositors on application.

Mr. OATES. You can make a penalty for misdeeds, but you can not control the management of the affairs of the bank in the loaning of the assets. Let them have the right to take out the face value of their bonds and lend or use that. It is their money, and let the bankers lend their own money on real-estate security, if they see proper.

Mr. COX. Whence does the authority come to pass a law which declares that one thing may be secured for a debt, and another thing, equally as valuable, shall not be?

Mr. OATES. It comes only because these national banks are creatures of the Government, and Congress has the right to regulate them; and it is right to regulate them. Other corporations, created under State laws, independent of Congress, we have no right to control by legislation further than to tax them.

Mr. HAUGEN. Congress recognized only certain things as bankable paper, and real-estate security is not recognized as such in the banking law.

Mr. OATES. That is true, but I will show that the condition of the country absolutely requires it. Congress passed the law to encourage national banks. The exigencies required such a law at that time, but now they should be made to conform to the commercial interests of the country; they are no longer necessary merely to give value to the bonds.

I will now take a little while to speak about this bill, No. 136. know that if the amount of circulation, according to the reports of the Treasury, were all properly distributed, we would get along very well under it. I am one who believes that no country ever has too much good money. Owing to the operation of the laws in the course of business in this country, the volume of money becomes centralized too much in banking, commercial, and manufacturing centers, and particularly so in certain seasons. Our banking system is a wise one for the purpose which originated it, but it is a piecemeal affair in its arrangement and not well adapted to present wants. It needs more systematization. It takes a great deal of thought, much effort, and a long time to get Congress into a channel so that that can be done. Therefore we will have to improve the law the best way we can, by degrees

or stages. I want to see more good money in the country, especially in the agricultural sections, for certainly the Treasury reports show, and other facts show, that money gets so exceedingly scarce in those States that it is absolutely oppressive. The practice of the farmers has been to get money advanced to them in the spring to enable them to make their crops. They have no money until the crop is ready for market and consequently can not repay the loan until then. When they wish to borrow the money, they go to the banks and the banks make them get the indorsement of a friend of high commercial standing and compel them to pay  $1\frac{1}{2}$  or 2 per cent per month and sometimes more. It amounts to 18 or 20 per cent per annum, sometimes higher, and sometimes a little lower. That is ruinous to the farmers of the country. Nobody on a farm can afford to pay any such rate of interest. It is destruction. If we had more good money, although it were notes of national banks, and were to change our system, without making war upon our national banks but by improving the system the best way we can by adding to it and amending it as I have indicated, it would enlarge some of their privileges and benefit the people. But let us have State banks of issue which in time of need will give legal expansion to good local money and when the necessities pass away, there will be suitable contraction.

#### STATE BANK CIRCULATION.

Now, gentlemen, our predecessors in the South used to invoke States rights for slavery. That has passed away. No Southern man who is in his senses now invokes the doctrines of States rights for any such purpose. The doctrine now is useful to strengthen and perpetuate the Federal Government and to satisfy the people, for you have to do that in order to perpetuate any system. The United States Government is so large in territory, population, and business that the Congress of the United States has become utterly incapable, legislatively, to attend to the business of the people which is claimed to be within its jurisdiction.

Look at the 15,000 bills introduced here every Congress, and it has not the capacity to attend to one-third of that number. It may be that one-half of them are entitled to no particular action, but then you have 2,500 more than you can attend to. What are you going to do about it? It grows upon us annually. We should return to the Constitution, which restricts the jurisdiction of the Central Government and leaves to the States all the powers not delegated to the United States. It leaves to the State governments the right to legislate for the local wants of the people. Our present system brings contentment, if properly carried out, but not otherwise. It is consistent with other benefits, and it will perpetuate this Federal Government and make it, as it has been, to a great extent, a government for imitation by other nations in bestowing blessings upon their people. But grasp power and centralize it in the Federal Government and you take it away from the States and you strike down the possibility of their extending benefits to localities, which they ought to have and which Congress can not localize its legislation so as to give to them, and dissatisfaction results.

I say a judicious system of State banks will give these benefits, financially, to the people. For instance, you have a bank in a little town. The old responsible farmers are recognized by the banker. In the spring his money is gone and he wants to get some advanced to enable him to pay off his hands and complete his crop. The banker knows him and can advance him money. He can do it at the legal rate



of interest, and the State will certainly regulate that and keep it within reasonable bounds. The farmer gathers his crop, pays back the money he has borrowed, and also pays a fair return to the banker. In that way there is no unnecessary flooding of the country with money. Here is the national money in circulation; we will not disturb that. You know something more, perhaps, of the history of banking than I do, but I will explain something to you fully in a moment. You know that a State has a right to charter banks of issue, and this tax has been piled upon the banking system of the States for its destruction, and it has thus been destroyed. I would prefer, as a States rights man, that the State should have all the right it ever had before. I would vote to wipe out this tax *in toto*. But we have a good many members of Congress who say, with a good deal of confidence, "I do not want any wildcat money." They say the States would substitute for our present money the wildcat money, and when you left one State and traveled into another the bills would not pass, but would be at a discount and produce great inconvenience.

All legislation proceeds upon the principle of compromise and concession, and scarcely any man can have his own way about anything. I am willing to defer to that objection, if I have to support a bill which I think looks somewhat to Federal supervision, as you may call it. In the minds of a good many, various claims have been brought up that the power of the Federal Government should be exercised over any State system of banking. Some propose one method and some another. Some want the national-bank system extended to the States, but I think that is unnecessary. I have introduced this bill to meet the objections of those who fear "wildcatism" and want of uniformity. As to the proviso contained in the bill, I am not particular about that, and it may be struck out; I thought it might suit some people. I mean the limitation to \$5 per capita.

Mr. COBB, of Alabama. Where do you get authority in the General Government to exercise any control over institutions managed by State authorities?

Mr. OATES. The Supreme Court of the United States has passed upon that. I do not agree with the court in its decision, and I will give you the reason. The court held that the Government of the United States has a right to impose taxes, and the United States may have that right; but the decision in the case of *Veazie*\* is wrong, for this reason: While the United States may have the right to impose a tax on everything, when it imposes that tax to such an extent as to destroy lawful State institutions it exceeds its constitutional authority.

Mr. COBB, of Alabama. If you remember the decision in that case, it was to the extent that it did have the right to destroy in that way.

Mr. OATES. The decision was that it was the exercise of the taxing power, which the court could not undertake to regulate; that that must be done by Congress.

Mr. COBB, of Alabama. The court never decided anywhere that the institutions under control of the State authority can be controlled by the Government.

Mr. OATES. I said the decision was wrong when it destroyed the institution; but Congress has the power to tax bank notes, they say.

Mr. COBB, of Alabama. You propose to destroy the rules by which State institutions shall be governed?

Mr. OATES. No, sir.

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\**Veazie Bank vs. Fenno*, 8 Wall. 533.

Mr. COBB, of Alabama. I have understood this law limited loans to 50 per cent of the property that they loan money on?

Mr. OATES. That is another bill. That bill has reference to national banks of the United States.

Mr. COBB, Alabama. Is not that in this bill?

Mr. OATES. No, sir; that is not here. This bill leaves the Federal supervision in, but does not appoint a Federal tribunal. Why should the United States destroy State banks? This bill proposes to suspend the law against the bills of State banking institutions which have deposited securities with some officer designated by State law for redemption of their circulating notes. Who is to judge of their sufficiency? Why, the Treasurer of the United States. If the deposits for the redemption of the circulating notes were good they would not be taxable; otherwise the notes of the bank would be subject to the tax.

Mr. COBB, of Alabama. Is not that governmental, now?

Mr. OATES. The tax would be suspended by the Federal authority in certain cases, wherever the bank had made the deposit according to law. The Secretary of the Treasury can look to see whether the deposit is such as the law of Congress provides.

Mr. COBB, of Alabama. Would not that be a question of governmental control?

Mr. OATES. It is a limitation. I propose to suspend that tax in a certain class of cases. Personally, I am in favor of wiping the whole thing out; but suppose it can not be done because of opposition to it among the members of Congress? Am I going to stand in the way of getting anything and get nothing when I can't get all I want and I can get half?

Mr. HALL. This is the reason why you use the word "suspend" instead of "repeal"?

Mr. OATES. Yes, sir; while I would rather have "repeal," I think if you pass it in this form, though the bill is not perfect, it would be a source of great benefit.

The CHAIRMAN. I want to ask whether you object to having these bonds deposited with the Treasurer of the United States?

Mr. OATES. No; but I do not see any necessity for it.

The CHAIRMAN. Let him pass upon their sufficiency?

Mr. OATES. I have no objection to that, except that it is not necessary; and, in the case of a failure of the bank, the bonds ought to be within the State.

The CHAIRMAN. You concede him that right?

Mr. OATES. Yes; but that would be more centralizing.

Mr. WARNER. Is it not your intention to compel the approval of those bonds to be in the hands of United States authorities?

Mr. OATES. Necessarily the Secretary of the Treasury must see if the notes of the bank are taxable or nontaxable, and to do that he must pass on the solvency and sufficiency of the deposits; if they are deposited with the State treasurer, your bank examiner, or anybody authorized by the Secretary, can go and look at them and pass upon them.

Mr. WARNER. Being an exception, it would require, unless there was some provision to the contrary, that the United States officer should pass upon them?

Mr. OATES. It would not be necessary for United States officers to look at them before the bank begins business. Under this bill they could be deposited with the State treasurer while the bank issues the

bills. The United States Government officer could examine the securities afterwards.

**Mr. WARNER.** As this bill is now drawn, not as a consequence of the bill, but as a consequence of the present legislation, it only suspends the law in part, and the result would necessarily be that the existence of the tax would have to be passed upon by the State and Federal Governments.

**Mr. OATES.** As a matter of course, but that would be easy and it would be safe to the bill holder.

**Mr. COX.** Now, you say your idea incorporated in that bill, so far as taxation is concerned, is that when a State institution does certain things this taxation of 10 per cent levied by the Government shall be suspended?

**Mr. OATES.** Yes, sir.

**Mr. COX.** If you leave it to the State officer to say when that taxation shall be suspended are you not putting it in the power of the State officer to suspend taxation of the United States Government?

**Mr. OATES.** The bill does not do that.

**Mr. COX.** The Government would necessarily inquire as to the sufficiency of the security deposited?

**Mr. OATES.** It would, as long as the taxation remained under the Federal authority.

**Mr. COX.** Would it not have to be passed upon by, or be under the supervision of, the Government?

**Mr. OATES.** Yes. Let me illustrate the working of this. Take my State, because its affairs are more familiar to me. Alabama owes \$10,000,000 bonds in classes A, B, and C, the largest being class A bonds. They are all at par, and sometimes above par, and bearing 4 per cent interest. I happen to know that one-half of those bonds are owned in the city of Mobile. About five million of them are owned there, and about two and a half million are owned elsewhere within the State. If you pass a law like that, is there not inducement to anybody who owns bonds to engage in banking? There is, most certainly. The legal rate of interest is 8 per cent. If you gentlemen were citizens of my State and owned a lot of these or other good bonds and desired to organize a bank you would obtain your charter from the State, deposit your bonds with the State treasurer under State law, say \$100,000 worth of those class A bonds to secure \$100,000 of circulation under State law. The bonds could be sold to redeem the bills and thus make them always good to the holder. That is similar to what is now done under the national banking system. The national-bank examiner would go to the State treasury and examine those bonds; he would know the market value of them, and would report that the bank had \$100,000 of class A bonds, which are above par, and was all right, and that the bills or notes of the bank were not subject to the 10 per cent tax.

**Mr. COX.** The Secretary of the Treasury must say they are all right, and could instruct that the tax be suspended.

**Mr. OATES.** It is not necessary to say that. This bill, if a law, says that, and the people who hold the bills would be safe. If he finds that any of the banks are issuing money without proper security, according to the law of Congress, the Secretary can proceed to collect the tax through the collector of internal revenue or any other officer or agent of the Treasury.

**Mr. HALL,** of Missouri. Does not that create a necessity for a national-bank examination system for State banks, to see that they keep proper security?

Mr. OATES. We have that already for national banks, and the number of examiners could be increased if necessary.

Mr. HALL, of Missouri. You would extend that to the State banks?

Mr. OATES. Yes. It would work like a charm.

Mr. HALL, of Missouri. Will you explain where you would place the limit of circulation for such banks?

Mr. OATES. I would not make one line of legislation on that subject. The United States Treasurer or Secretary knows it is his duty to have that tax collected, if it is subjected to taxation, and we need no legislation on that subject. My bill is very simple, but it goes as far as legislation on this subject should go.

Mr. HALL, of Missouri. Your bill regulates the circulation of State banks?

Mr. OATES. Yes; but you can strike that out. It only regulates the aggregate amount of bank circulation in a State limiting to \$5 per capita merely to satisfy some objectors. You might put in a clause requesting the State to make a report as to the number of State banks of issue, etc., within its jurisdiction. In that way the Secretary of the Treasury could easily get that information. As this suspends a revenue measure you might require a report to be made by each bank to the Secretary of the Treasury.

The CHAIRMAN. How will the Government of the United States know that?

Mr. OATES. You might require them to report. You could get it in that way just as well as the Secretary gets other information.

Mr. COX. There is another bill involving that question.

The CHAIRMAN. The idea in the other bill is that these bonds that you have provided for here may be deposited with the Secretary of the Treasury, and the circulation may be issued on them by the Secretary of the Treasury just as he issues upon United States bonds now to the national banks, but it goes to the extent of 100 cents to the dollar. If the Federal Government has to have any supervision over these banks why not let the bonds of these banks be deposited with the Treasurer of the United States, subject to the same provisions as national banks are?

Mr. OATES. There is only one difficulty about that. When the different States come to make laws that deal with the question of State banks they could not wind up affairs of a bank in case of failure if the deposit was with the Treasurer of the United States or with the Secretary. I do not know what power a State would have over the bonds in that case. The State might desire to sell the bonds to redeem the bills of the bank. The more complicated a bill is the more difficulty we will have in passing it, and a greater number will make objection to it. If you can reach an objector of legislation with the simplest kind of a measure, that is best, because it is easily explained and understood. While I would like to have the tax wiped out entirely and have the States free, yet I would like to see uniformity in our currency and perfect soundness. Therefore that is the reason I have gotten up this bill, to meet the objections which might be raised to the revival of the State system, and to try to popularize it. If a man has both hands in the lion's mouth he would like to have one free in order to help him to get the other out. He has a chance to do that by this bill.

If you will bear with me I will give you a history of the national-banking system.

Mr. COX. Before you proceed with that, will you explain what security the bill holder and the Government would have against the sub-

stitution, after the first bonds had been filed, of other bonds which might be of less value and perhaps be below par, which would destroy the security?

Mr. OATES. It could not well be changed, because, if the law of the State tolerated the withdrawal of its bonds and the substitution of others which were not good, the United States could and would resort to taxation. There would be as much protection as the holder of the national-bank bill now has.

Mr. COBB. In the meantime, these bills are in the hands of the people.

Mr. OATES. They would all be secured. There would be the machinery for redemption and disposal of the bonds for that purpose. I do not think it would be necessary or wise for Congress to do that. Every State would have a deep interest in providing a law for having solvent banks. It would give a State a bad reputation to have shyster banks playing tricks upon the people; and, if a bank did not sustain a good reputation, it certainly would not survive.

Mr. COBB, of Missouri. Has Congress a right to pass laws to govern State institutions?

Mr. OATES. The Federal Government can not legislate for a State.

Mr. COBB, of Missouri. How can it legislate in this case?

Mr. OATES. By suspending Federal taxation which has been imposed upon the State banks. It is withdrawing its own heavy hand so as to give the State banks a chance.

Mr. COBB, of Missouri. Then the Government would have no control over them whatever?

Mr. OATES. I stated that freedom of the State banks from all tax would be my preference; but, if you can not get the whole of that, why not take part of it.

Mr. WARNER. Do I understand you to say that there is nothing in this bill which would permit a bank to issue a single dollar, except in accordance with such laws as the State can enact? Is it not a fact that this is simply a definition of the extent to which the Federal Government shall withdraw the pressure which it is now exercising, and does it in any way modify the restriction, regulation, or limitation which the State may put upon them?

Mr. OATES. It dictates nothing in the world to a State. It simply extends to the State an opportunity for having State banks, freed from Federal taxation.

Mr. COBB, of Missouri. It would repeal the State-bank tax, which is all Congress has a right to do?

Mr. OATES. Yes, sir. I suppose Congress has a right to put a tax on anything. The bill makes Government say to the State banks, "I you will do certain things, I will take this tax off of you in consequence." That is it. We have a tax which the Supreme Court has sustained. I think it is wrong in at least one respect.

Mr. COBB, of Missouri. This repeals certain restrictions?

Mr. OATES. It simply suspends that tax, wherever a State authorizes a bank of issue and provides for redemption of its notes as indicated in this bill.

The CHAIRMAN. This regulation that you make, or exemption which you provide, is in the interest of the bill-holders, so that when the notes are in circulation they can be redeemed and the bill-holder loses nothing?

Mr. OATES. Yes, sir.

The CHAIRMAN. What is your objection to going a little farther and

requiring these bonds or lawful money of the United States to be deposited with the Secretary of the Treasury, and to be held by him always as security for the bill-holder, so that if the bank should fail the Government could redeem the bills and under no circumstances could the bill-holder lose his money?

Mr. OATES. It would be complicated and would require the Government to hold the bonds for the redemption of the bills of a great many State banks, which would be State's business and too centralizing in its tendencies.

The CHAIRMAN. That makes them perfectly safe?

Mr. OATES. With the tax hanging over the banks all the time, the redemption would be safe, and the Government should not take the responsibility of attending to redemption in case of failures. I think there is sufficient protection under my bill to all parties, and the bills of the banks of the different States would be good throughout the Union.

The CHAIRMAN. You concede that Congress may make the other provision, if it sees proper to do so?

Mr. OATES. I suppose it might. It has the taxing power.

The CHAIRMAN. To the extent of relieving the banks, which would deposit securities with the United States? Would not that be an improvement?

Mr. OATES. It would be a complication. You would find, when you undertook to pass a bill with such a provision, that men would get up in the House and say: "You have no right to do that in my State."

The CHAIRMAN. If the General Government wanted to regulate a State institution, all it would have to do would be first to tax it and then relieve the taxation by a suspension?

Mr. OATES. That power has been in existence ever since the Constitution was adopted. That is the law by which they tax whiskey and brandy; and can not the Government say to the State: "We will relieve you of this under certain conditions"?

The CHAIRMAN. The inconsistency seems to be that you admit at the outset that the Government of the United States has no right to interfere with State institutions by way of regulating them.

Mr. OATES. Not in the way of regulating. She has the right to tax, under the revenue power.

The CHAIRMAN. In order to regulate it, would not the logic of your reasoning be that the General Government would have nothing to do, except in the first place to impose this revenue tax, which you say is constitutional and legal, and then propose to the States to relieve them of the taxation upon compliance with certain conditions, which would amount to regulation?

Mr. OATES. That power exists. It is to be trusted that Congress would not exercise it in any improper cases. I think it was the exigency of the times which caused a tax to be imposed upon the State banks. I think it was an abuse—a shameful abuse—of the taxing power to have laid it so heavy as to destroy the State banks. But the power to tax them for revenue is undoubted.

Mr. JOHNSON, of Indiana. I wish you would go into the subject of what would be the principal inducement to go into business under this law, and indicate the manner of it.

Mr. OATES. I thank you for that suggestion. I had given part of that reason when I was interrupted. I said that a few men, for instance, would come together, put up \$100,000 of Class A Alabama bonds, and deposit them with the State treasurer, those bonds being above par. Of course the bank examiner or officer of the Government

would enter the bank and see that the bonds were all right. If so, he would report a suspension of the tax; therefore it would not be imposed. As to the inducement that there would be to go into the State banking business, I say these bonds would bear 4 per cent interest, and would not be taxable. They are held now in the States because they are good investments. Banks lend money on them over the counter at 8 per cent. With the additional 4 per cent, that would bring the rate up to 12 per cent on every dollar issued and loaned or paid out by the bank, and that would be very profitable.

Mr. JOHNSON, of Indiana. Your idea is that national banks would cost more and would be less profitable?

Mr. OATES. The national-bank system is not sufficiently extensive and liberalized to meet the wants of the people and the large class of farmers at particular seasons of the year. The national banks are hampered and can not loan on real-estate securities and the growing crops of different kinds and the State banks could. It would be a great deal better to have them in this form, so that we could have State banks of issue, and if that were the case we would hear no more of these clamors for money and of its scarcity. I want money both plentiful and good.

Mr. WARNER. I want to ask also if it would not be an advantage in this way: It would create an additional market for State and local bonds, and it would also retain them in the State primarily, at least, for use in their development, and the annual interest charge paid upon these bonds would be paid to the people of the State, instead of being sent to congested money centers?

Mr. OATES. Yes. That is quite true—a good suggestion. Most of the national banks in the South are not able to furnish sufficient capital. Their usual capital is \$50,000 or \$100,000. They sometimes borrow money from New York to loan to their customers. A State system is sufficiently profitable so that men would go into it to meet this demand for money. We would then have State and national banks, and we can not have too much good money.

Mr. WARNER. Is there not another benefit? I think it is this: You have referred to the extraordinary demand for currency in parts of the country of which you have spoken at certain times of the year, and the extraordinary small demand in those same sections at other times of the year.

Mr. OATES. The demand for money in the fall and winter down in the South is mainly on the part of merchants to pay for the crops.

Mr. WARNER. Following the same line, is it or not a great advantage of the system which you propose that it allows that currency promptly to be supplied and used on securities which are in the State and as investments are now at a disadvantage; and they would be used in the State instead of being compelled to seek new places of investment; and also in extending the currency?

Mr. OATES. There is no doubt about that. It is quite true. I could talk two hours on these things. What do we want with gold and silver? There is a big field for this. We have no use for gold and silver except to pay trade balances, to maintain our foreign system of ambassadors, ministers, and consuls, and to furnish the basis for home circulation and redemption, for I do not believe in fiat money. I know of no use we have for gold and silver, except these and for use in the arts. By passing this bill we practically convert the solvent bonds into gold and silver, because they are the basis of our circulation. It broadens and

extends the basis of paper circulation and is worth more to the country than free coinage.

Mr. HAUGEN. You admit there is some difficulty with silver as a basis for circulation?

Mr. OATES. Yes; but I have stated that gold and silver were necessary for us to use in our foreign system. That is the money of the Bible. A money with neither gold nor silver behind it is not worth a copper, and will prove so in the end. The bonds my bill requires deposited to secure the circulation of the bank would be as good as gold, because if sold would bring it.

Mr. HALL, of Missouri. In other words, it is its convertibility and not its security that makes money good.

Mr. OATES. There must be some security back of it. I have here a short history of national bank legislation, which I will read.

Mr. COX. Before you do that permit me to ask you a few questions. You take a bond of the State of Alabama, or the State of Tennessee, and deposit it. It is drawing 4 per cent interest. That interest is paid twice a year. Now, you come to the bank and get 100 cents on the dollar by depositing these bonds and you go into business. You take that money and loan it out at the legal rate of interest to make more money—the rate in Alabama being 8 per cent and that in Tennessee being 6 per cent—and then you turn, through the tax system, and pay to the bondholder 4 per cent more. Do you think that is right?

Mr. OATES. My dear sir, do we not have to pay that 4 per cent now?

Mr. COX. I concede that; but I am talking about the justice of it.

Mr. OATES. If the farmer can get his money at a legal rate of interest instead of paying double the legal rate is it not beneficial to him? Would he not like to have all the bonds which he can get and upon which he can go and borrow money at the legal rate of interest? The State pays so much interest on this money. If you have a bond you are going to collect the interest on it, and the bond lies there. The bank deposits it as security and gets bills which it loans to the farmer at the legal rate of interest.

Mr. WARNER. Would you not leave it to the gentleman from Tennessee to suggest that the Government impose a tax on the banks to make them pay for this?

Mr. OATES. Whatever the Government has the power to do it can do. Yes, I would leave it to the gentleman from Tennessee.

The CHAIRMAN. What objection have you to putting in this bill a requirement that banks shall take no more than the legal rate of interest in the locality?

Mr. OATES. I do not think it is necessary, and that would be the State's business. We are sometimes influenced by what States may do. If you have no confidence in the capacity of the people of States to govern themselves this Federal Government is a signal failure, and you had better have it changed and get a king or an emperor.

The CHAIRMAN. As I understand you, the farmers are compelled to pay 3 per cent a month?

Mr. OATES. Yes, from 1 to 3 per cent. That is because they can not get money any cheaper. The law does not regulate that.

The CHAIRMAN. You are furnishing them additional means of getting money, and why not accompany it with this restriction?

Mr. OATES. Because the State legislature would not let them take any more than a reasonable rate. They would not allow banks to charge or receive for the use of money more than the legal rate fixed by the State law. I have confidence in the States and in the American



people for self-government. As long as the State governments are to be relied upon this Federal Union will go on and continue to be the best nation on the face of the earth.

Mr. SPERRY. Your bill does not contemplate any State control whatever?

Mr. OATES. No, except by State law.

Mr. SPERRY. This is the only question to be passed upon.

Mr. OATES. The tax would be the only one for the Government. I do not want it to do much. I want Congress to do as little as possible. Leave all else to the States.

Mr. SPERRY. Would you provide in this bill any way in which a person, taking a State-bank bill, could tell whether it was a national-bank bill or a State-bank bill?

Mr. OATES. As a matter of course a person could tell. There could be no object in confounding them.

Mr. SPERRY. This bill says nothing about that.

Mr. OATES. It would be just like the national-bank bill. There are no two national-bank bills alike.

Mr. SPERRY. We know they are all national-bank bills because the word appears upon them.

Mr. OATES. The State would not perpetrate a fraud. There would be no trouble on that score.

Mr. SPERRY. There is nothing in this bill to prevent it.

Mr. OATES. No State is capable of doing that.

Mr. SPERRY. I do not know whether they are or not.

Mr. OATES. I have more faith in the States than that.

The CHAIRMAN. You say they charge your people 18 per cent a year interest, and they might do other objectionable things?

Mr. OATES. That is not done under the law. National banks do that sometimes. You can not prevent violations of law except by punishment. Now, gentlemen, let me give you a short history of the origin of State and national banks as well as of this 10 per cent tax on State-bank circulation.

#### HISTORY OF STATE AND NATIONAL BANK SYSTEMS.

A financial plank in our platform is the declaration in favor of the repeal of the 10 per cent tax on State bank circulation.

There were four State banks in existence when our Constitution was formed. The framers of that instrument were therefore familiar with the existence of these banks and the circulation of their paper money. They were also familiar with the practice of the States at that time to issue bills of credit, which were intended to circulate as money, and seeing that evil might flow from this practice they embraced in the tenth section of the first article the prohibition that "no State shall emit bills of credit," so as to put a stop to that practice, but they did not employ any language to prohibit State-banks of issue; but to guard against any abuse of State money issued by the banks they provided that no State shall "make anything but gold and silver coin a tender in payment of debts." Thus bills of credit were abolished and the paper money of State banks allowed to continue as the only paper circulation and the only currency at that time except gold and silver. It took away from bank notes any cohesive circulation and let them stand alone upon the credit of the banks.

The question of their constitutionality and their right to issue bills to circulate as money was never raised until the case of *Briscoe vs.*

The Commonwealth of Kentucky (11 Peters, p. 257), where the Supreme Court of the United States held them to be perfectly lawful. Thus it will be seen that State banks are one of our ancient institutions, older than the Constitution itself, and fully recognized and intended to be protected by that instrument.

No tax was ever imposed by the United States upon State banks or their issue until after the beginning of the war. All the money in the country at that time was gold and silver and State-bank notes, but the Congress on the 17th of July, 1861, finding these an insufficient amount for the conduct of the war then impending, passed an act for the issuance of \$50,000,000 of the Treasury notes of the United States payable on demand in coin, which, February 12, 1862, they increased to \$60,000,000. The notes of the State banks being redeemable in coin, the demands for which were so great, and they having issued their bills for the most part in the proportion of \$3 outstanding to \$1 of coin in their vaults, they suspended specie payment. February 12, 1862, Congress changed somewhat the character of its notes, giving them the name of United States notes, and made them payable to bearer, increasing the amount to \$150,000,000, which was by subsequent acts increased to \$450,000,000. These were, until after the close of the war, convertible into and received at par for Government bonds payable in coin and bearing coin interest at 5 per cent, and the law also declared the notes to be lawful money and a legal tender in payment of debts.

But the war was progressing and the thunders of the artillery were heard in the Valley of Virginia, at Fair Oaks, Seven Pines, Meadow Bridge, Frazier's Farm, Malvern Hill, Cedar Run, Second Manassas, Ox Hill, Antietam or Sharpsburg, Fredericksburg, at Shiloh, and many other places in the West, where men who wore the blue and the gray met in sanguinary conflict and caused to flow torrents of the best and bravest blood that ever coursed in the veins of men; while victory trembled in the balance and was frequently upon the side of the Confederates, the Government of the United States found its credit sinking and its bonds selling away below par.

It was a crisis in the monetary affairs of the Government which called for the best brain to be found in its citizenship.

It was at this time that Orlando B. Potter, of New York, wrote a letter to Salmon P. Chase, who was at the head of the Treasury Department, suggesting the scheme of establishing a national banking system. Chase called Potter to his assistance, and from their great brains was evolved the substance of the national banking law which Congress passed on the 25th of February, 1863. That law allowed any four citizens of good character to invest their money in Government bonds, deposit them with the United States Treasurer, receive a bank charter and have issued to them at their expense 90 per cent of the face value thereof in bills of their bank for circulation. Many privileges were granted to them by the terms of the law to induce capitalists to engage in the business.

It had the desired effect. It created a market for the bonds; it sent them up to par, and above; it restored the credit of the Government; it infused into its financial system the strength of the irrepressible giant. But for this restoration of credit the Government would, ere long, have been forced to have acknowledged the independence of the Confederacy. As one of the means to encourage the system and strengthen the Government in the act establishing the banks, Congress for the first time imposed a tax upon currency, and placed 2 per cent upon that of its own banks, and, by the subsequent act of March 3, 1863, a tax of 1 per

cent annually was imposed upon the circulation of State banks, measured by their capital. The tax on the national-bank circulation was then reduced to the same rate, where it still remains, and produces more revenue than the national banking business costs the Government.

The State banks continued to issue money and do business until the act of March 3, 1865, placed a tax of 10 per cent upon any national bank or State bank which should pay out, after the 1st day of July, 1866, any of the notes of State banking associations, and this was amended and enlarged in July, 1866, so that the payment of the tax of 10 per cent on State-bank notes was unavoidable and wrought the complete destruction of those institutions in the interest of the national banking associations. An additional tax of 5 per cent per annum was imposed by the same law upon the dividends of stockholders, and an additional tax of 1 per cent upon deposits, which has since been repealed. This act was inspired and induced by them in their own interest, that they might furnish the main volume of paper circulation for the entire country.

The act was passed by Congress under its taxing power and under the pretext of raising revenue, when it was simply for the destruction of the rivals of the national banks. Not a single dollar of revenue is ever collected on State money. It was destroyed by the act. Yet a majority of the Supreme Court of the United States in 1869 held, in the case of the *Veazie Bank vs. Fenno*, in 8 Wallace, that although the tax was so great as to destroy these lawful State corporations, that it was not within the jurisdiction of the court to protect them, and that they must look alone to Congress.

In the language of Justices Nelson and Davis, in their dissenting opinion, the purpose of the law is said to be "scarcely concealed in the opinion of the court, namely, to encourage the national banks. It is sufficient to add that the burden of the tax, while it has encouraged these banks, has proven fatal to those of the States; and if we are at liberty to judge of the purpose of an act from the consequences that have followed, it is not perhaps going too far to say that these consequences were intended."

Is there any fair-minded lawyer present who will risk his reputation by asserting that the decision of the majority of the court is good, sound law, and should be sustained? It amounts to asserting that Congress may, under the pretext of its taxing power, destroy State corporations, and destroy an ancient institution and legitimate State business.

The national banks, having thus slaughtered their rivals, grew in importance until they had in circulation in 1880 and 1882 more than \$380,000,000. When the Forty-sixth Congress passed a law requiring them to surrender their bonds bearing a high rate of interest and accept new bonds bearing 3½ per cent, at a time when the people of the United States were paying in the aggregate of interest on national bonds more than \$60,000,000 per annum, the banks, before the lapse of the ten days which the President had for the approval of the bill, by a combination surrendered \$18,000,000 of their circulation and threatened to surrender much more, which was likely to produce a panic, and in this way they compelled President Hayes to veto the bill.

In the Forty-seventh Congress, when the banks asked for an extension of their charters without reorganizing, it was granted; but these Samsons were shorn of many of their locks by way of amendment to that bill. They were required to exchange their bonds for new ones

bearing but 3 per cent interest, which saved to the people many millions of dollars in taxes; they were also subjected to suits in State courts like State corporations; they were required to give the Government the benefit of the losses and destruction of their old notes to pay for the printing of their new notes, and to accept silver certificates in payment of clearing-house balances, and that by no combination should they thereafter surrender in any one month more than \$3,000,000 of their circulation. Thus their extraordinary privileges were in part curtailed, but still they retained the powers of contraction and expansion, which they can use to the frightful detriment of other interests by making circulation scarce at their will.

A few years subsequent to this legislation, in consequence of a large surplus accumulating in the Treasury, the policy was adopted and pursued for a good while of purchasing Government bonds, and in that way sending the surplus in the Treasury back into circulation among the people. It had the effect of increasing the premium on the bonds up to 30 per cent. The banks obtained an enactment by Congress that they should not be required to take out a circulation of more than 25 per cent of the face value of their bonds. Many of them then took advantage of the high premium on the bonds and sold a large portion of them, and by these methods reduced their circulation clear down to \$160,000,000, which sent throughout the country a tremendous outcry of the scarcity of money. They so contracted and centralized that circulation that it aided in reducing prices of farm products and caused the Farmers' Alliance to demand an increase to \$50 per capita. There is a bill now before Congress to allow these banks to have bills issued up to the face value of their bonds, which I favor, provided it is so amended as to require them to issue currency equal to 50 per cent of their bonds, and thus benefit the people as well as themselves.

The national banks of our country are in the main conducted by gentlemen of high character and ability, though selfish in interest like all other men in business. They see and know full well that if the United States pays its bonded debt when due, as it has done hitherto, that they have at the most but fourteen years of existence. In the Southern States and partially so in the Western States, these institutions are so few and their capital so limited that their power for evil is comparatively small; but in the great money centers of the North and East they exercise a most potential influence over all other financial affairs, and exercise no small degree of influence over the legislation of Congress.

Last April these banks in the city of New York applied to the Secretary of the Treasury for the sale of at least \$300,000,000 of Government gold bonds. He was finally induced to offer a portion of this amount upon short time, which they utterly declined. They desired the bonds to run a long time and to bear a good rate of interest, so that they might use them as a means of enlarging their power and perpetuating their existence. I commend the Secretary for declining to comply with their wishes. When the Secretary thus refused the demands of the New York bankers they at once declined to exchange gold with the Government for paper currency, and so continued until several banks in Chicago and the West exhibited that liberality. Then the banks of New York adopted a liberal policy of exchanging gold for notes, not only with the Government, but with other banks, until they accumulated a monopoly of currency, none of which would they pay out even to their depositors or lend upon any security whatever, but sold it at the high premium to which it arose, until the estimate

of their aggregate amount of profits made thereon during the panic, which they materially aided in producing, amounted to \$1,000,000. An alleged representative of one bank reported that its profits from this source alone amounted to \$600,000. This was done while the whole country was suffering for the want of this money and sustained the losses which made these banks a million of dollars richer.

I am glad to know that a large number of presidents, cashiers, and stockholders of national banks desire the restoration of a system of State banking; but the presidents, cashiers, and stockholders in the great national banks of New York and some other large cities are opposed to the establishment of any rivals and want to use their power to control the financial system of the country and to make millionaires of themselves.

I agree with Jefferson, Jackson, and Calhoun, that for the United States to place in the hands of corporations the power to enlarge or diminish the volume of money in circulation among the people is a dangerous power, and I assert that that power is now practically in the hands of the national banks.

#### STATE BANK CIRCULATION WANTED.

Remand to the States the right of which they have been robbed for the benefit of these banks, and then the farmers and laboring people can get money at the legal rate of interest whenever they need it. We will then have an elastic currency which will expand and contract according to circumstances. Prices of products will not then be reduced on account of the scarcity of money, and better times will be seen through the country among the agricultural and laboring people.

By independent State action, or even with Federal supervision, solvent State and municipal bonds as well as national and cash resources can be utilized as security for the redemption of State bank bills; and, in this way, the basis can be safely broadened for an increased amount of paper money and the degree of unusual scarcity produced by combinations and contractions originating in Wall street and elsewhere will be heard no more, but be hushed and stilled forever.

But, sir, this proposed legislation invokes the hostility of the great national banking institutions, because they regard it as inimical to their interests.

Mr. Simmons and several other presidents of great national banks of New York, hearing that there was a prospect that Congress would repeal the tax on State bank bills, with all the arrogance of ancient nabobs to their underlings, have published in the newspapers here, right under our noses, that it would not do to repeal that tax; that they were opposed to its being done, and hence Congress should not do it.

Whoever wants to worship at the shrine of the money power will obey their behests; but as a friend of the people, believing that they will have more freedom and more money than national banks or even free coinage of silver would ever give them, I will work and vote for the repeal of that 10 per cent tax until it is done or I cease to be a member of Congress.

Gentlemen of the committee I do not wish to too far tax your patience and consume your time, but I wish to read to you a few extracts from the very able article on our national currency system, by Francis A. Brooks. His views are so much in accord with my own that I will refer briefly to some things which he has said and perhaps

publish with my remarks much more extensive extracts. Mr. Brooks says:

IEWS OF FRANCIS A. BROOKS.

The national banking act was passed thirty years ago. The chief, if not sole, object of its framers was to secure the assistance of the banks in creating a demand for and affecting a sale of the bonds and legal-tender notes of the Government, and thereby of raising the money necessary for carrying on the war. For this purpose it was admirably well contrived and adapted, and proved very efficient and successful.

The previously existing banks created by the States had been established for the purpose of furnishing a circulating medium of bank notes to take the place of real money and serve as its representative, and in order to do this it was considered necessary and indispensable that the bank notes should be convertible into or redeemable in coin or specie. It was conceded by all, in time of peace, that no system of bank-note circulation was sound and reliable unless the notes were made redeemable in coin or specie of the same nominal value. It was not possible in 1863 to observe this rule of sound banking in the United States. The then existing State banks, with one or two exceptions, had either suspended specie payments or withdrawn their circulating notes, and gold was no longer in use as money, but was sold as a commodity at a high premium above its coinage value. The national banks, therefore, were to be furnished by the Government with circulating notes secured by a deposit of Government bonds, and these notes were made redeemable in the legal-tender notes of the Government, and not in coin or specie.

This was in reality going back to the bills of credit or continental money of revolutionary times and making that description of money a basis for banking. The authors of the scheme regarded it as temporary, and justified at the time only as a war measure.

Mr. Chase so expressed himself in his report as Secretary of the Treasury, December, 1862. He there says:

The Secretary recommends " \* \* no mere paper-money scheme, but on the contrary a series of measures looking to a safe and gradual return to gold and silver as the only permanent basis, standard, and measure of value recognized by the Constitution."

No banking system which is based on "flat money" can be considered sound or safe, and Mr. Chase concedes this. Banks of issue are intended to perform two kinds of service for the public. One is to combine the capital of individuals and to loan it to the public on interest; the other is to furnish the public with notes for circulation as money, and thus facilitate exchanges for which coin might be found insufficient or less convenient. In order to satisfactorily perform these two functions it is necessary that the banks should be possessed of capital, and that the capital owned by them should be kept well in hand and capable of being converted into such money as the purposes of trade and commerce require. The national-bank system pays little or no regard to these considerations. As banks of issue they are required to invest their capital in United States bonds and to get circulating notes of less amount than the par value of the bonds purchased. If this method were pursued as to the whole capital of the banks and it were invested wholly in circulating notes, the banks would, after getting their circulating notes from the Government, have less money to loan than they had before purchasing the bonds, and no gain would result to the banks, but the public would have the benefit or use of the circulating notes, and the banks would also have to pay a tax of 1 per cent upon the amount of the notes.

For this reason or some other the national banks have not seen fit to place much of their capital in the form of circulating notes.

It appears from the last report of the Comptroller of the Currency (October, 1892) that the aggregate capital of all the national banks then was \$686,573,015, while their circulating notes then outstanding were only \$143,423,298, so that only 21 per cent of their capital is used to furnish the public with circulating notes, or only one-fifth as much as might be so used. It thus appears that the national banks as now conducted furnish the public with only one-fifth of the amount of circulating notes which might be furnished by them if they desired to issue such notes to the extent authorized by law, and that the same capital, if invested in specie, as was formerly required by the banking laws of some of the States, would have yielded a circulation fourteen times as large, with a specie reserve of 33½ per cent behind it.

It can not be true that our present scarcity of currency is owing to a deficiency in the volume of the circulating medium. That volume, if the deposits of the national banks are included, is much larger than ever before. It amounts, as nearly as we can learn, to as much as \$3,945,000,000, consisting of bank notes and deposits, \$1,908,846,282; of United States notes and silver certificates, \$817,750,000; gold and silver coin, as estimated by Acting Director of the Mint Preston, \$1,219,000,000.

This is supposed to have been the currency condition of the country before the present monetary panic. As a consequence of this panic or distrust the bank deposits have been greatly reduced and other money extensively hoarded. This probably was not occasioned so much by distrust of the banks as by an apprehension that the Government might not be able to prevent the currency from coming upon a silver basis, so far at least as the banks were concerned; in which event it would be desirable to hold one's funds in hand rather than leave them in bank; a mode of reasoning not far from correct. We are now experiencing, not a deficiency of currency, but merely a disappearance or hoarding of it from fright. It will reappear as soon as the alarm is dispelled, and not till then.

When the Government had been committed by the Sherman act to a declaration of its policy of maintaining at its own cost the position that 16 parts by weight of silver were and should continue to be equal in value to 1 part of gold, it was put in great financial peril, a peril in all probability greatly beyond the anticipation of the members of the Fifty-first Congress who passed that act.

The Government liabilities now outstanding and to be met in gold (as it admits) exceed \$300,000,000; and five-eighths of these, consisting of greenbacks and Treasury notes issued in purchasing silver, are to be kept afloat permanently. By reason of this fact the Government may have to redeem them in gold, not once only, but often; just as often as the merchants having occasion to pay their foreign creditors shall go to the United States Treasury with these notes and ask for the gold on them.

Assuming that Congress will not retire the greenback notes, it might take away their legal-tender power, and repeal so much of the banking law as permits the banks to use greenbacks as a reserve and require the banks to hold a specie reserve.

If the banks were required to keep a reserve in coin or specie instead of legal-tender notes, the merchants could obtain through them the gold required for shipment abroad and the United States Treasury would not be subjected, as now, to a loss of gold to be sent abroad. It is chiefly through a demand for gold for payments to foreign creditors that the gold reserve of the Government is now in danger. This trade demand should be supplied wholly by the banks, and would be so supplied at this time by State banks, as formerly, if those banks had been allowed to continue their business as authorized by their respective charters.

These State banks have been practically, though not in terms, deprived by the Federal Government of the right to issue circulating notes, which was their chief end and aim and source of gain. This has been done under the false pretense that the currency or circulation furnished by the State banks was not sound and reliable, and that it was both the right and duty of the Federal Government to see to it that the people should have a sound circulating medium and to make provision in its own way for this.

In a speech of President Harrison, at Albany, August, 18, 1891, he said:

"The General Government is charged with certain functions in which the people have a general interest. Among these is the duty of providing for our people the money with which its business transactions are conducted." \* \* \*

This doctrine, and the practice of the United States since 1861 based thereon, is, as we believe, not only contrary to the fundamental theory of our Federal Government, but is inconsistent with the theories and practices of governments generally, and seems to rest upon the impression that governments have the faculty of bringing money into existence at their will and pleasure without other cost than that of printing and issuing notes. We find no warrant in our Constitution for providing the Government with money for any purpose except by the process of taxation, and if the Government may tax the people for the purpose of providing itself with means of supplying the currency requirements of that same people, why may it not tax them for a supply of food? And how much better off should we be if fed by Government through taxation than if we paid for our food directly in the first instance?

In his remarkably fine essay upon the subject, Mr. Brooks remarks, upon the removal of the discriminating tax on State-bank notes, as follows:

It is not to be expected or desired, under present financial conditions, that there should be any legislation calculated to interfere with or embarrass the existing national banks. They are rendering excellent service in many respects, though they fail utterly to meet the paper-money currency requirements of the country, and must always fail in this respect, because they were not intended to meet that want to any considerable extent.

I agree that the national banks should not now be abolished, but I am in favor of amending the laws of their existence, as I have already indicated.

Mr. Brooks continues:

We have already pointed out how the national banks are no longer banks of issue as to more than 21 per cent of their capital, and have become banks of discount and deposit as to four-fifths of their capital. No change of the national system in this respect or any other is probable or desirable just now. Congress is powerless to furnish relief unless by further resort to the old feat of manufacturing fiat money on the printing press. Fortunately there is no danger of this kind threatening us at this moment.

We can see but one way of escape from our present currency famine, and that is through the agency of the State banks. They were practically suppressed as issuers of circulating notes by the act of March 3, 1865, by which a tax of 10 per cent was imposed by the United States upon the amount of their circulating notes. The national-bank note circulation is taxed only 1 per cent.

Here is a practical monopoly of the business of issuing notes for circulation in this country conferred upon the national banks; they have enjoyed this monopoly for twenty-eight and one-half years and have failed utterly to meet the requirements of the public in that respect. The public, in the meantime, has been deprived of the accommodation which the State banks would have afforded, and the national banks have not availed of the opportunity afforded them for serving the public to any considerable extent.

It is the duty of Congress to put an end to the legal and moral wrong of this unjust tax at the first possible moment. As soon as this is done, and State banking corporations and individual banking companies shall be allowed to enjoy the rights and privileges conferred on them by their respective States, and not within the legitimate authority of the Federal Government either to give or take away, there will be as many bank notes in circulation as are called for by the public. The idea that the States are less capable than the United States of framing safe and sound banking laws is an absurdity, and not less absurd than that other idea often expressed that State banks would not now have suitable capital and be honestly and skillfully managed, because forty years ago such banks in sparsely settled parts of the country were deficient in both these respects.

Our Chicago of to-day was forty years ago one of the frontier towns and the scene of so-called "wild-cat" banking of that period. Times have changed since then, and we must not allow prejudices or remembrances of this character to control our judgment respecting present conditions. The State banks were "scotched, not killed," by the legislation of the war period for war purposes. Of these institutions, however, 3,191 still survived in 1891-'92 as banks of discount and deposit, with a capital of \$233,751,171, and circulating notes of only \$137,232.

If the restriction imposed by the United States in regard to circulating notes is removed, these banks alone will furnish many times as large a circulating medium as is now furnished by the national banks, with three times as much capital, and other State banks will come into existence speedily, so as to leave no doubt of a sufficient supply of paper money, for which the United States Treasury will have no responsibility whatever, as in case of the national-bank notes.

#### BANKS CONTROLLING VOLUME OF CURRENCY.

Mr. WARNER. You speak of a bank in New York charging a high percentage on money and currency. Are you aware that that party represented a private concern, and not a bank?

Mr. OATES. I got it out of the Washington Post.

Mr. WARNER. Without wishing to correct the gentleman, I will simply call attention to the fact—for I think I know the circumstances, unless I am misinformed—that the matter does not refer to a bank at all, but to a private banker, who, so far from being a representative of a bank, was compelled to change his bank account three times, because the banks refused to connive with him.

Mr. OATES. If it is a mistake, I am glad to know it. As to how much truth there is in it, I do not know. I am in doubt whether this is correct or not. In view of the statement of my friend Warner, I want to get at only the facts. I state that there was much speculation but I hope, if any statement I make is incorrect, that it will be corrected.



Mr. COX. In your investigation of this matter, have you taken any pains to ascertain how much gold was locked up when this panic was on?

Mr. OATES. I have not; and I do not believe anybody could tell how much gold was locked up. From the report of the Treasury Department we know the amount in circulation.

Mr. COX. Showing how much is in the Treasury and how much is outside.

Mr. OATES. It is from the report of last July that I get this statement, "held on deposit all the money in circulation except \$54,000,000," which seems at first an anomaly. Another curious thing is that the prior report on the same subject, after showing the amount of money in circulation among the people, shows that the private deposits were more than was the whole amount of money in circulation. The amount in circulation aggregated \$1,600,000,000. and the deposits were \$1,700,000,000.

Mr. WARNER. That is accounted for by the way in which they keep accounts, and an answer from the Treasury will make it plain.

The CHAIRMAN. I think the confusion arises from the fact that you confuse deposits of currency and specie. According to the report of September 30, 1892, the national banks had deposits of \$2,002,000,000.

Mr. OATES. Of course that was not money; but proceeding on, in the same table, you will find the specie was only \$209,000,000, and the legal-tender notes and the United States notes were \$118,000,000, making \$327,000,000 of money, coin and currency, in the banks, while the deposits amounted to over \$2,000,000,000. That is counted double, and it occurs in this way: The banks' books show the amount of deposits, when in fact the banks have taken a large part of the deposits and loaned them out, and thus doubles, whereas the Treasury Department finds the amount in circulation by finding the whole amount, and deducting the amount retained in the Treasury, counting the balance as circulation.

Mr. HAUGEN. It is not necessary that these deposits should be money.

Mr. OATES. They are legal deposits calling for money.

Mr. HAUGEN. They appear as money.

Mr. OATES. They are drafts or money.

Mr. JOHNSON, of Indiana. If I go to a bank and deposit a draft, the clerk enters it as money when it is not.

Mr. OATES. If you deposit a draft, the bank gets the money on it, and it is money, so far as the bank is concerned; but when you undertake to ascertain the amount of money in circulation: it may be that it is counted double, because you have put the money with the bank, and it gets money on your draft.

Mr. HAUGEN. In the difficulties of last summer, did not State banks combine, and would they not combine under this regulation?

Mr. OATES. They could combine for speculation, but they have not the same power as national banks. The latter were organized under a law of Congress, and, being the fiscal agents or depositories of the Government, have a more intimate connection with the Government. You will find, as a general thing, on account of the security of the bills, the public, who do not understand these matters, are more disposed to deposit with national banks than with State banks. State banks might form a combination, but can not now issue money. All corporations can always combine with each other, and national banks can so contract

the circulation as to produce a panic at almost any time. But the interest of State banks would be more local and would run in the opposite direction from the national banks.

The CHAIRMAN. I find from the statement furnished by the Comptroller for the year 1892 that the amount of money in circulation in the United States on June 30, 1892, was \$1,600,000,000. If you count the sums in the Treasury, which are represented by silver and gold certificates, the whole amount would be \$2,300,000,000; but, when you take the money of which this is made up, the amount will be \$1,600,000,000; and yet the deposits at the national banks at that time amounted to \$2,000,000,000. That does not represent more than one half of all the banks, which would probably have \$4,000,000,000 or \$5,000,000,000 deposited, when you count all the banks in the country.

Mr. OATES. You mean the amount that is deposited in private banks, State banks and savings banks. That made the excess above the amount reported to be in circulation, and hence I state I was not sure of the accuracy of that.

The CHAIRMAN. It is accurate, so far as the deposits are concerned; but the amount of deposits in the banks does not tally with the amount in circulation.

Mr. OATES. This will show the tremendous power the banks have over the volume of money in the country. I have stated that I am not disposed to be an enemy of the national banks. They are a good institution when they do right.

Mr. WARNEE. Is not your indictment against the national banks on account of the utter inadequacy of the system to furnish currency to the country; and is it not true that, so far as your criticisms and others are concerned, so far as those could happen to be precedents for capitalists who, as capitalists and not national banks, want bonds issued, if the national-banking system were wiped out to-morrow, would there not be the same desire upon their part for the issuance of bonds as there has been in the time shortly prior to this?

Mr. OATES. That may be possible, but they were recently in a position for their motives to be suspected, and I have suspected them. Their interests have led them astray in some localities.

Mr. HALL, of Missouri. Then the question comes up, when the devil gets the capitalist where would the national bank be?

Mr. OATES. This system was established to secure Government credit and also to aid in obtaining circulation. It answered a good purpose and was the best ever employed at the time. In that connection I am reminded of a statement which Col. Ingersoll made in a speech advocating the claim of Ben. Holliday before the House Committee on Claims, of which I was a member. Holliday had a contract to bring gold from California, with the object of sustaining the credit of the Government, during the war. He said that Holliday never lost a trip; that he had read in Holy Writ that it took forty years to lead the Israelites out of Egypt, and if Ben. Holliday had undertaken the job he would have carried them through in less than forty days. I do not consider national banks are any better than the individuals of which they are composed. The law has been lax in this respect, and it has been allowed to run for their benefit.

The CHAIRMAN. Will you explain why you put a limitation of \$5 per capita?

Mr. OATES. Merely to meet the objection that some might have against it; I don't care for the limitation.

The CHAIRMAN. How much would the circulation be if the notes were issued according to the population?

Mr. OATES. I have no idea there would be an excessive amount issued if there is no limitation.

The CHAIRMAN. There would only be about \$350,000,000.

Mr. OATES. I have not made the calculation.

The CHAIRMAN. Seventy millions of people would be the limit of the population in all the States of the Union?

Mr. OATES. I thought a limitation of that kind might make the bill more popular with the members and aid its passage.

The CHAIRMAN. The national banks now have about \$200,000,000 in circulation, and this per capita would only furnish \$350,000,000 more. If every State took its full per capita, we would still lack a large amount of currency to do business.

Mr. OATES. Last year the amount was \$182,000,000.

The CHAIRMAN. If the two systems would only furnish the amount of money indicated, what would you do for the rest of the money?

Mr. OATES. The greenbacks will not be retired for a good while. I have no doubt, with our national-bank system, if we made provision for State banks also, that whether we have free coinage of silver or not, we will have plenty of money.

Mr. HAUGEN. You are in favor of the free coinage of silver?

Mr. OATES. I want it on a parity with gold. That is the plan upon which we have acted since 1792 when Hamilton devised this part of our financial system. Whether we have free coinage of silver or not, pass my bank bill and it will get us out of trouble, and all the clamors of the people about money would soon cease.

Thereupon the committee rose, to meet to-morrow (Saturday), September 30, 1893, at 10 a. m.

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SATURDAY, September 30, 1893.

**ISSUE OF ONE HUNDRED AND TWENTY-FIVE MILLION DOLLARS OF TREASURY NOTES.**

**STATEMENT OF HON. J. L. MCLAURIN, OF SOUTH CAROLINA.**

Mr. Chairman and gentlemen of the committee: It is with a good deal of diffidence that I appear before the Banking and Currency Committee to submit any resolution upon the financial question, as I appreciate my own inexperience and ignorance upon any questions which go to make up our financial system. All the more so, Mr. Chairman and gentlemen, because I feel that this committee is not likely to look with favor upon the proposition which I have submitted. At the same time, I appreciate the spirit of fairness and courtesy which prompted you to set aside a portion of your valuable time in which to give me a hearing, and I shall not impose upon your good nature. I feel that no gentleman upon this committee expects or needs enlightenment from me upon what is the purpose, effect, and scope of this resolution.

**JOINT RESOLUTION** authorizing the issuing of one hundred and twenty-five million dollars of Treasury notes under the acts of eighteen hundred and sixty-two and eighteen hundred and sixty-three.

Whereas failures, bankruptcy, and business distress are witnessed throughout every section of the United States in consequence of an inadequate volume of currency to maintain equitable prices and make necessary exchanges; and

Whereas under present statute laws the Secretary of the Treasury has ample authority to issue United States notes in sufficient quantity to relieve the present financial stringency: Therefore,

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That twenty-five million dollars of United States notes issued under the several acts of eighteen hundred and sixty-two and eighteen hundred and sixty-three be, and the same are hereby, declared lost or destroyed, and the Secretary of the Treasury is directed to credit the redemption account with said amount.

That the Secretary of the Treasury at once cause to be prepared, signed, and delivered to the Treasurer of the United States one hundred and twenty-five million dollars of United States notes as authorized by the acts of eighteen hundred and sixty-two and eighteen hundred and sixty-three, the same to be credited to the general fund and to pay current expenses; *Provided,* That the amount so issued shall not exceed four hundred and fifty million dollars, the amount authorized to be issued under the several acts of eighteen hundred and sixty-two and eighteen hundred and sixty-three.

I listened with a great deal of interest to the able argument of Mr. Oates yesterday, and I am convinced that, if some scheme of the kind which was proposed by him could be put into operation as a permanent thing, it would be greatly to the advantage of our Southern people; but, in proposing this resolution, I had an eye to something which would be immediate. The need, however, for legislative action of this character is not so great now, as it was a few weeks ago, when the resolution was introduced, because there has been a revival in business conditions in the South and elsewhere.

We were called together by the President in an extra session to devise a speedy means of relief for the great stringency which existed in the money market, and we were told that the cause of the panic was the operation of the Sherman act, but contrary to what was expected and predicted the business conditions have improved each day as it becomes more and more apparent that the Senate will not consent to the unconditional repeal of the Sherman act. In some way the lost confidence of the business world, about which we heard so much, seems to have been in a measure restored by the nonaction of the Senate.

#### MARKETING CROPS.

My purpose at the time in the introduction of this resolution was to try and suggest some means to enable our people to market their crops. There was witnessed every day in nearly all the towns of the cotton belt the sight of wagons, loaded with cotton, being brought into the market and then driven back home, not because there was no demand for that cotton, but because there was no money with which to buy. In many sections of the country, owing to the money famine, the banks associated themselves together and issued clearing-house certificates. These began to circulate as money, and our people soon began to feel the good effects of even a crude currency of that kind. Business interests of all kinds began to brighten, and there was a feeling of hopefulness everywhere.

#### CLEARING HOUSE CERTIFICATES.

After I received your invitation the other day to appear before your committee and speak upon this resolution, I wired Governor Tillman to send me one of the clearing-house certificates, which some of your committee have already seen. It is not necessary for me to take the

trouble to read it, but I will introduce it in evidence, so that any one can see it. It is as follows:

No. 1197.

## COLUMBIA CLEARING HOUSE ASSOCIATION.

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## CERTIFICATE.

COLUMBIA, S. C., August 19, 1893.

This certifies that the banks composing the "Columbia Clearing House Association" have deposited with the undersigned trustees of said Clearing House Association, securities of the approved value of seven  $\frac{3}{10}$  dollars to secure to the bearer hereof the sum of

FIVE DOLLARS

lawful money of the United States, payable on or before the first day of January, 1894.

This certificate is issued in accordance with the proceedings of the "Columbia Clearing House Association," at a meeting thereof held on the 19th day of August, 1893; and is receivable for any and all dues to the banks which are members of said association, and is also receivable on deposit in any of said banks, and also in settlement of all balances due from one of said banks to another.

R. S. DESPORTES, }  
JOHN A. CRAWFORD, } Trustees.  
W. J. MURRAY, }

Countersigned:

C. M. TEW,  
Secretary.

(Indorsed on back:) Payment of the within certificate is guaranteed by the following banks composing the "Columbia Clearing House Association," viz: Carolina National Bank, Central National Bank, Loan and Exchange Bank of South Carolina, Bank of Columbia, Canal Dime Savings Bank, Farmers' and Mechanics' Bank.

The CHAIRMAN. That circulates as money?

Mr. McLAURIN. That circulates as money. Let me just in that connection say that here is a private letter which I received inclosing the certificate, and I do not think that there will be any objection to my reading it:

STATE OF SOUTH CAROLINA, EXECUTIVE CHAMBER,  
Columbia, September 26, 1893.

DEAR SIR: In response to your telegram Governor Tillman sends you the inclosed certificate. He says you talk about them like they were nothing, but they are worth 100 cents on the dollar, and it takes that much gold, silver, or greenbacks to get them, as they are about all the money we have here.

Very respectfully,

D. H. TOMPKINS,  
Private Secretary.

Hon. JOHN L. McLAURIN,  
Washington, D. C.

The grain-elevator men in the West, I see by the papers, associated themselves together in a similar way.

The CHAIRMAN. How many dollar's worth of those notes have been put in circulation?

Mr. McLAURIN. Seven and a half dollars—

The CHAIRMAN. No, you misunderstand me. How much is the aggregate volume of that currency?

Mr. McLAURIN. I could not answer that question; but I could get you the information. These are secured by farmers' notes. For instance, they go to each other and get indorsements, and—

Mr. HALL, of Missouri (examining note). You mean there is \$7.50 security deposited for every \$5 of this money?

Mr. MCLAURIN. I mean that for every \$5 of that issue there is \$7.50 of securities deposited, which have to be approved by these trustees, who are men in whom we have every confidence. For instance, here is a man who wants to borrow money, and there are a number of men who own plantations worth \$8,000, \$10,000, or \$15,000, and he gets them to go on his note. We know these men are good for the money, unless everything should disappear and all values go. That paper is used as collateral upon which to issue these clearing-house certificates.

The CHAIRMAN. And these notes of private individuals are placed with these trustees as security for the final payment of these clearing-house certificates?

Mr. MCLAURIN. Yes, sir; I suggested the indorsed notes as one form of security; they have other forms—bonds, or anything which is good security.

Now, the grain-elevator men in the West associated themselves together and issued elevator certificates, and these have gone into circulation as money, and these certificates in the West and the South were enabled to perform every function of money, they did perform every function of money, and they will continue to do so just so long as people have confidence in the organization by which they were issued.

Mr. WARNER. Let me interrupt you just a moment. As I understand it, these certificates are issued upon securities to the extent of 50 per cent above the face of the certificate?

Mr. MCLAURIN. Yes, sir.

Mr. WARNER. Generally speaking, upon commercial paper? Those who deposit their notes properly indorsed receive from the bank these certificates?

Mr. MCLAURIN. Yes, sir; they use that, and they also use mortgages, bonds, and anything of the kind that is good security.

Mr. WARNER. But in the main it is commercial paper which is approved?

Mr. MCLAURIN. Yes, sir.

Mr. JOHNSON, of Indiana. For how many years back has this been done?

Mr. MCLAURIN. Not until this panic; not until we were absolutely "stumped" by a want of currency, we saw loads of cotton and other produce come to market and fail to find purchasers.

Mr. JOHNSON, of Indiana. It is a recent invention down there?

Mr. MCLAURIN. Yes, sir. It got so bad, during September, in South Carolina that it was impossible to get meat in some localities, and I have a letter from my own town, a wealthy town for the South, a very prosperous town, where it is stated there has not been a pound of meat in the town for a week; we had to do something. It was a question of necessity.

The CHAIRMAN. Will you obtain from the trustees whose names are upon that certificate a statement of the aggregate volume of those notes which have been issued, and furnish it to the committee to publish with your remarks?

Mr. MCLAURIN. Yes, sir; I will do that with pleasure. I will ask the stenographer to make a note of it.

Mr. SPERRY. And the time and limit within which they calculate?

Mr. MCLAURIN. If you will have the clerk submit any question you would like to have answered I will have it done promptly.

Mr. HALL, of Missouri. These trustees might regard that as a business secret?

Mr. McLAURIN. No, sir; I do not think so. I think they will be glad to furnish the committee with any information they possibly can. These certificates have furnished the people with a means of exchanging their products and paying their debts and have served to relieve us from the stagnation in business affairs which existed. If left to themselves, Mr. Chairman, and had Congress never been called together, the good business sense and tact of our people, I believe, would long ago have ended the panic.

In that connection I will read here an item from the Washington Post of the date of September 25, which is as follows:

*Issued in lieu of money—Elevator script held to be liable to a tax of 10 per cent.*

ST. PAUL, MINN., September 25.

The elevator owners of Minnesota and South Dakota are agitated over the probability that they will in the next few weeks have to pay 10 per cent on certified checks, drafts, and due bills, furnished as a circulating medium in payment for grain.

It is learned that Special Agent Collins, of Chicago, has been here for several days. He has interviewed the officials of two Government depositories and other banks in St. Paul, and learned that they had accepted this class of paper for collection, receiving them in due course of business from country correspondents.

In Minneapolis, representatives of Charles A. Pillsbury and of the St. Anthony and Dakota Elevator Company, Brooks, Griffith & Co., and F. H. Peavey & Co. admitted they had issued these memoranda on account of their inability to obtain currency. These, they acknowledged, had been used instead of United States notes or legal tenders. They claimed, however, they had been legally advised that they would not be conflicting with the United States laws. Their action, however, is a clear violation of section 3413, internal-revenue laws.

Collector Johnson has located about \$25,000 worth of these checks, on which the tax would be \$2,500. But few returns have been received from country points, and until they are received it can not be determined what amount has actually been placed in circulation. Collector Johnson and A. G. Collins are both of the opinion that the companies are amenable to the law and will have to pay an assessment of 10 per cent, but before this is levied a full report of the amount of the checks issued and all the facts in the case will be sent to Washington.

Now, the Treasury Department came forward after our people had adopted an expedient of this character, which affects nobody but ourselves; if these certificates are not good there will be nobody hurt but the South Carolina people and the Western people, and nobody is obliged to take them; it is nobody's business; it is a private business transaction, yet the Treasury Department rules that all of our certified checks, even due bills and certificates of clearing-house associations are liable to the 10 per cent tax.

Mr. JOHNSON, of Indiana. Do you mean the Treasury Department did that?

Mr. HALL, of Missouri. You refer to the First Comptroller?

Mr. McLAURIN. I do not know who did it; but even the threat tends to unsettle business transactions based upon these certificates.

Mr. JOHNSON, of Indiana. Was it Mr. Miller, of the Internal Revenue?

Mr. HALL, of Missouri. I did not understand that the ruling applied to this more than to the New York clearing-house.

Mr. McLAURIN. That article in the Post so states it.

Mr. WARNER. If they will attack both New York and South Carolina the 10 per cent tax will not be in existence three months from now.

Mr. McLAURIN. Now, Mr. Chairman and gentlemen, without any special knowledge on the financial question, but looking at it simply as a lawyer and a man who claims to have a little common sense, it seems to me that this is the very strongest argument which could be adduced in favor of a resolution like the one that I have proposed. It is the practical operation of the *vis medicatrix nature*, being an effort

of the financial body to throw off diseased conditions by the natural laws of trade and finance.

When the Government refuses to allow us to adopt an expedient of this character—in other words, refuses to allow us to help ourselves—she should come in, and give to the sick man the kind of medicine that his symptoms demonstrate is necessary. When she prohibits to everybody else, individuals and States, the power to issue due bills or any bills of credit, and arrogates to herself the full power to do that, it becomes her sacred duty to exercise that power wisely and to exercise it as fully as the business needs of the country indicate is necessary.

Mr. HALL, of Missouri. And promptly.

Mr. MCLAURIN. And by all means, promptly.

#### PRESENT AUTHORITY TO INCREASE THE CURRENCY.

Now, Mr. Chairman and gentlemen, in the introduction of this resolution I take the position that the Government, without the enactment of another statute, under the laws already existing, has ample authority to give immediate and permanent relief. She can do just what the banks and grain elevators have attempted to do, except that she can do it much more thoroughly and effectually than they can, because she can issue the full legal-tender currency, which will be good for all debts, both private and public, at merely the cost of printing, and thus give to the country relief from the troubles which are now existing. The authority for this—and I have not been able to find any law which modifies or changes it—is epitomized in this book: "National Loans of the United States," page 156, which reads as follows:

The act of February 25, 1862 (12 Stat., 345), authorized the issue of \$150,000,000 United States notes, not bearing interest, payable to bearer at the Treasury of the United States, and of such denominations, not less than \$5, as the Secretary of the Treasury might deem expedient, \$50,000,000 to be applied to the redemption of demand notes authorized by the act of July 17, 1861; these notes to be a legal tender in payment of all debts public and private, within the United States, except duties on imports and interest on the public debt, and to be exchangeable for 6 per cent United States bonds. The act of July 11, 1862 (12 Stat., 532), authorized an additional issue of \$150,000,000 of such denominations as the Secretary of the Treasury might deem expedient, but no such notes should be for a fractional part of a dollar, and not more than \$35,000,000 of a lower denomination than \$5; these notes to be a legal tender as before authorized.

The act of March 3, 1863 (12 Stat., 710), authorized an additional issue of \$150,000,000 of such denominations not less than \$1 as the Secretary of the Treasury might prescribe, which notes were made a legal tender, as before authorized. The same act limited the time in which Treasury notes might be exchanged for United States bonds to July 1, 1863. The amount of notes authorized by this act was to be in lieu of \$100,000,000 authorized by the resolution of January 17, 1863. (12 Stat., 822.)

The length of loan indefinite; the amount authorized, \$450,000,000; amount issued, including reissues, \$1,640,559,947; the highest amount outstanding June 30, 1864, \$449,338,902, sold at par. Interest none; outstanding June 30, 1880, \$346,681,016.

Now, this statement reveals the fact that the Secretary of the Treasury could at any time issue greenbacks to the full amount of \$450,000,000. It requires no act of Congress and even this resolution is unnecessary so far as the enabling power is concerned. He has the right to issue these notes at any time; and, in fact, I believe other Secretaries of the Treasury have exercised the right.

Mr. HALL, of Missouri. Let me ask you right there. You say you have not found since 1863 an act which limits the amount of greenbacks in circulation?

Mr. MCLAURIN. No, sir; I do not think the Voorhees act does it, and I have not been able to find anything which does.



Mr. HAUGEN. Did not the resumption act provide that greenbacks should be redeemed, and later was it not by a further act declared that they should be redeemed only down to a certain point—\$346,000,000?

Mr. McLAURIN. In regard to fractional currency, I found, under the act of July 21, 1875—

Mr. HALL, of Missouri. But is there not a provision in an additional act that the circulation of greenbacks shall not be redeemed to a less amount than \$346,000,000?

Mr. McLAURIN. I say that there is, but it does not interfere with the \$450,000,000, which is the maximum limit, beyond which they can not go. I have not been able to find any act that interferes with the \$450,000,000 maximum limit to which they can issue the Treasury notes provided for in the acts of 1862 and 1863.

Mr. HALL, of Missouri. The resumption act provided that the greenbacks should be redeemed in coin, and later when they had redeemed down to a point where there was \$346,000,000 in 1878, it was declared that they should not be withdrawn from circulation below that point, but as they returned to the Treasury new notes should be given.

Mr. McLAURIN. The way I understand it is that they could not go below \$346,000,000, and not over \$450,000,000, and when brought in they shall be immediately paid out; they can not under the law be hoarded in the Treasury.

As I said, other Secretaries of the Treasury have taken authority to increase the amount in circulation, and my authority for this allegation is found in the Statistical Abstract, where, on the twenty-ninth page, you will find in 1873 that there was \$356,000,000 in circulation, and that in 1874 there was \$382,000,000 in circulation. Now, this shows an increase of \$26,000,000. If they could increase it \$26,000,000 in the emergency of the panic of 1873, why, in the emergency of the panic in 1893, could they not increase it \$125,000,000, provided they do not exceed the \$450,000,000 limit?

Mr. WARNER. I think the gentleman will find that the resumption act—I haven't it by my side—but by inference from its permission, and the construction, I think, has been concurred in ever since—authorizing as it did the issue of bonds for certain purposes practically limited the power thereafter of the Secretary to that covered by the permission; and that the resumption act is of a later date than the circumstances to which you allude.

Mr. McLAURIN. I understand that.

Mr. WARNER. And the act of 1878 modified in no particular whatever, and did not purport to modify in any particular whatever, the resumption act, but simply provided, as to United States notes which might hereafter be redeemed, that they should not be canceled, but should be paid out and kept in circulation, thus leaving the greenback currency at the amount of \$346,000,000, thus upon the uniform ruling of the Secretary of the Treasury, which I think is justified by the plain terms of the act of 1875, leaving no permission to issue further bonds after 1875 except under that act, as to which there has always been a doubt raised whether the act of 1878 did not cancel that as well.

Mr. McLAURIN. It is a question of construction; I understand that, but I was adverting to the act of 1873 and 1874 more in the nature of an argument than to cite it as a precedent.

Mr. HAUGEN. You have not made any inquiry of the present Secretary of the Treasury as to whether he regards himself in possession of this power to issue further currency?

Mr. MCLAURIN. No, sir; I did not, because I thought if this resolution went through it would be a legislative construction act, and he would be spared the necessity of construing it himself.

Mr. HALL, of Missouri. The report of September 1, 1893, of the Secretary of the Treasury shows that he is above the issue by \$681,000. How does he explain that?

Mr. DAVIS. I want to make this point. When it was limited to \$346,000,000, was there not an implied obligation it should be kept as much as that? I have here an argument made in 1888 by Senator Plumb showing at least—

Mr. WARNER. This is covered by the forepart of Mr. McLaurin's joint resolution.

Mr. MCLAURIN. Yes, sir; I think it is.

Mr. HAUGEN. Mr. Hall states that the present Secretary of the Treasury has made a report, and it shows \$346,366,000—

Mr. HALL, of Missouri. I have no confidence in that report; I made that statement a good many times.

Mr. DAVIS. I will state this, further: I have here a second reply. I replied to his report in April, 1892, and he replied to me, and I replied again in October, 1892, and I show that he counts various moneys that are not in existence here at all. There is absolutely \$50,000,000 more than there was in existence; and Senator Plumb showed how it was in regard to the gold.

The CHAIRMAN. The reduction to which you refer is accounted for, probably, by the act of Congress approved May 31, 1878. At that time Congress passed an act to prohibit the further retirement of United States legal-tender notes; and, if you will pardon me, I will have the text of that act put in the record, so we will have it before us:

That on and after the passage of this act it shall not be lawful for the Secretary of the Treasury or other officer under him to cancel or retire any more of the United States legal-tender notes, and when any of said notes may be redeemed or be received into the Treasury under any law from any source whatever and shall belong to the United States, they shall not be retired, canceled, or destroyed, but they shall be reissued and paid out again and kept in circulation: *Provided*, That nothing herein shall prohibit the cancellation and destruction of mutilated notes and the issue of other notes of like denominations in their stead as now provided by law.

After the law passed, the Secretary fixed the amount to be kept in existence at \$346,000,000; and between the passage of the resumption act and the passage of this act there were retired greenbacks under the resumption law to the amount which has been stated. After that there has been no retirement, except possibly by destruction; and while new ones were issued instead—

Mr. HAUGEN. You have before you the banking laws, and I would like to have you refer to the resumption act and see what it states in regard to the maximum. What is said in the earlier laws in regard to the maximum to be issued?

The CHAIRMAN. It is as follows:

And on and after the first day of January, A. D. 1879, the Secretary of the Treasury shall redeem, in coin, the United States legal-tender notes then outstanding, on their presentation for redemption at the office of the assistant treasurer of the United States in the city of New York, in sums of not less than \$50.

That was the authority to redeem them and there was no authority to reissue. When they were presented for redemption, they were canceled.

Mr. HAUGEN. I wanted to find out what the maximum was.

The CHAIRMAN. I presume Mr. Haugen's question refers to this part of the law:

And whenever and so often as circulating notes shall be issued to any such banking association, so increasing its capital or circulating notes, or so newly organized as aforesaid, it shall be the duty of the Secretary of the Treasury to redeem the legal-tender United States notes in excess only of \$300,000,000.

This is the resumption act of January 14, 1875.

Mr. HAUGEN. Then the maximum of this act was changed afterwards from \$300,000,000 to \$346,000,000, that being the amount outstanding at the date of the later act.

#### CURRENCY LOST OR DESTROYED.

Mr. McLAURIN. I will take up the discussion of that section in which I provide that \$25,000,000 be declared lost or destroyed. The reason I introduced a section of that kind was because I feared some trouble along the line indicated by Mr. Hall. I find a precedent for declaring \$25,000,000 lost and destroyed and authorizing the Secretary of the Treasury to credit the redemption fund with that amount, in the act of June 21, 1879. In that act, you will see, between \$8,000,000, and \$9,000,000 have been declared lost or destroyed; and again the Secretary of the Treasury, in his report of 1884, admits that \$1,000,000 of Treasury notes were burned up in the Chicago fire. There are no means, however, of determining the exact amount, but some idea of the amount lost or destroyed may be formed by a comparison with the fractional currency.

The largest amount of fractional currency outstanding at any one time was \$46,012,000, which was in 1874. In January, 1875, Congress passed an act providing for the retirement of fractional currency; and I suppose by this time it has all been retired and redeemed under the provisions of that act. On June 30, 1880, the amount outstanding was \$15,589,888. On June 21, 1879, Congress declared that \$8,375,954 had been lost or destroyed. Since then, only \$299,210.40 has been redeemed, and the probability is that the other \$6,000,000 has been lost or destroyed. At least, I can cite as high an authority as Mr. Sherman in support of the statement.

Now, here is proof that, out of the \$46,981,000 of fractional currency in circulation for a period of sixteen years, more than \$15,000,000 has been lost or destroyed. Now, of these Treasury notes there is, say, an average of \$400,000,000 in circulation for thirty years. Therefore the question would be, if \$15,000,000 of fractional currency was lost in sixteen years out of \$46,000,000, what amount would be lost out of \$400,000,000 of Treasury notes in circulation for a period of thirty years?\*

The CHAIRMAN. I think you should take into consideration the difference between the fractional notes and the large notes. These fractional notes were very easily destroyed, being small, and they were lost very readily, and were stuffed into pockets—

Mr. McLAURIN. Of course, they were not as valuable, being small amounts.

Mr. HAUGEN. Would it be fair to follow that out on the rule of three? In that case, it would only be a question of time when they would all be destroyed.

Mr. McLAURIN. No, sir; but we can take into consideration, by way of comparison, the amount of fractional currency lost or destroyed;

\*Over \$244,000,000.

and in making my estimate I have not taken out anything like as large a per cent as that, as you will see. I have taken into consideration the difference in value, size, etc. This is the only guide, as far as anything like figures were concerned, on which you could possibly base any conclusion. Senators Plumb, Stewart, and some others have placed the amount at \$50,000,000. Senator Plumb, in 1888, said:

No man can tell the volume of greenbacks outstanding. Nominally it is \$346,000,000 and a fraction, but that volume has been subject to all the accidents which have occurred during the past twenty-five years whereby money has been consumed, worn out, and lost, and it is doubtful if the amount is really over \$300,000,000 to-day.

The CHAIRMAN. Have you compared, in this connection, the amount of the old demand notes which were issued by the Government and the amount of them which were subsequently returned for cancellation?

Mr. MCLAURIN. No, sir; I have not made that comparison.

The CHAIRMAN. I think you will find nearly all of those got back safely. The rule you want to apply is the destruction of the national bank notes, and that will bring you to a comparison with the greenbacks.

Mr. MCLAURIN. I did not make that comparison. I adopted this other mode of argument and relied on Senators Plumb and Stewart as men who had given a great deal of attention to the subject and who ought to be authority.

The CHAIRMAN. You will find, if you compare the amount of the national bank notes retired, that it is very small.

Mr. MCLAURIN. Senator George, of Mississippi, also, in a speech of March 14, 1892, incidentally referred to this subject. He states:

We have \$100,000,000 in gold as a fund, as Senator Beck says, to guard the greenbacks. We have \$346,000,000 of these greenbacks or legal-tender Treasury notes. Mr. Beck says, and he has never been successfully contradicted, that \$50,000,000 is ample to guard the \$346,000,000. If that be so, and he proves it, as I have read in the hearing of the Senate, it is clear that we may increase the volume of greenback currency double the \$346,000,000, and it will remain a safe, sound, redeemable currency, equal to coin.

#### THE PRESENT SITUATION.

In this connection I will say, Mr. Chairman and gentlemen, I frankly confess my inexperience and ignorance upon many, perhaps too many, of the propositions which go to make up the great questions of finance. Called together by the President in an extra session to devise means of relief, I began, as best I could, an honest study of the situation. The press and the people were clamoring for more money, and business failures were seen on every hand because of a declared want of money. My own people were driven to the necessity of issuing due bills and clearing-house papers, as I have shown; and, considering their welfare and finding laws upon the statute books which seemed to me ample to afford relief, I introduced this resolution.

Doubtless one objection that will be made to the resolution is that it increases the volume of paper currency, and this will be followed by the statement that the present panic was caused by a return and sale of securities which were held by foreigners, who feared that the volume of paper money would become so great that gold payment would not be maintained, and that the principal and interest or dividends of their holdings would be paid in silver or paper. I have heard that objection raised upon the floor of the House, and I have no doubt that, in the minds of many of the committee, this is one of the chief objections to a resolution of this character.

But, Mr. Chairman and gentlemen, if it be true that it was the return and sale of the property of the foreign security-holders in this country that caused the panic, then it is true that Congress has been called together to enact laws which will be satisfactory to foreign investors. Speaking for myself, I would say that I am too much of an American to be willing to see any such laws and thereby to have my own people suffer. It is best, perhaps, to meet that objection fairly and squarely at the beginning of my remarks. It is doubtless true that the return of these foreign securities from abroad is largely responsible for the panic.

It is well for us, then, to consider what kind of securities were held abroad and returned here and sold in such large quantities as to produce a panic. The bonded debt of the nation amounts to \$585,000,000, of which \$200,000,000 are held by national banks. A large portion of the balance is held in trust funds by estates and for investments of a similar character; only a small portion, as I am informed, of our national debt is held abroad by foreigners. This being true, it follows that the securities which were held abroad and returned here in these large quantities were either private or corporate bonds and stocks. This fact changes the entire face of the proposition; and because of that I make the broad statement, as my opinion, that at this period of our national existence we do not want to bid for foreign investments, and I will briefly undertake to give my reasons for making a statement of that character.

Foreign investments in this country are conclusive evidence of the fact that the necessities of the people here for the use of money are greater, their financial standing being considered, than elsewhere, and hence they are willing to pay a larger tribute for the use of the money. The only logical remedy for such a condition is to supply the people with a sufficient volume of domestic money, and thereby relieve them of the necessity of going abroad for their currency, and this, my resolution, seeks in part to accomplish. Foreign investments are dangerous to the best interests of our country, as is disclosed by the statement that the return and sale of those securities produced the present panic.

In other words, we are at the mercy of foreign security-holders who, from an unreasonable fear, or from malice, or any other cause, can at any moment produce a panic and cause our people to suffer. One of the chief objections urged against Chinese immigration is, that they never become naturalized. They come here and secure a competency, either great or small, and when it is secured they go back home. Just so it is with the foreign investor. He comes in here and reaps as much tribute as possible—

Mr. BLACK, of Georgia. And he does not even come here.

Mr. McLAURIN. No, sir; he sends his money and he reaps all the tribute possible, and then at the very first token of alarm he takes his flight homeward and leaves us to work out our own destiny.

Mr. HAUGEN. Have you any statistics in regard to the amount of securities returned?

Mr. McLAURIN. No, sir; I have not. I am just making the statement on the general tenor of remarks, and—

Mr. HAUGEN. I think you are perfectly correct in your theory, while I doubt the efficacy of the remedy you propose.

Mr. McLAURIN. I thought that in the minds possibly of a part of the committee that was an objection I had to meet; and I wanted to show I was not unreasonable in making a proposition of this character,

and that I had at least reasons which were to me of a satisfactory nature.

While the primary cause of the panic was a lack of domestic money which made possible this invasion of foreign capital, it is no less true than the immediate cause was the want of currency to maintain prices, and thus enable the people to continue the payment of tribute to foreign investors, as I will attempt now to explain. The stocks and bonds held abroad were principally those of railroads and other corporations. Those stocks were usually watered to the fullest extent they would stand. This watered stock is usually more or less divided in its ownership between the resident and the foreigner.

For years the people have been enabled to pay this unfair and exorbitant tribute. During this time the foreign investor received his dividend, and as long as he got his dividend he was content. In the meanwhile the stocks of the resident owner were pledged with a trust company and funds raised to start new enterprises. The stocks and bonds of these new ventures were often placed in the same way and other enterprises built upon that.

In this manner a perfect network of such deals were made, all depending upon the stability of the first. Statistics show that the railroads of the United States cost, on an average, \$20,000 per mile, while they are bonded at \$63,000; the patrons of the roads must pay the interest on this \$43,000 of watered stock. As these corporations became more numerous and the watered stock greater, the demand for tribute upon the people also became greater, until it arrived at a point where they could no longer stand it. A fall in the price of products made a rigid economy on the part of the people who have to pay these dividends and interest a necessity. Hence there was less travel, less freight, less exchange of manufactured and other products. This economy and lessening of business brought about as an inevitable result less dividends, and the foreign investor became alarmed.

This alarm continued and increased until these investors threw their holdings upon the market. So long as the foreigner was content, the resident holders of these securities could manipulate his stocks with comparative safety, but when the foreigner began to realize upon his portion and the prices declined as a result, the resident holder and all of his interests began to suffer. It became necessary for him to keep his margins good; and, in such a rapid decline as followed, this became impossible, and he went down, and all the enterprises with which he was connected. In my judgment, it was a fear of the loss of permanent dividends, by reason of the poverty of the people, and not the fear of any particular kind of money used in the final liquidation, that caused the panic.

We are asked to enact laws which will protect the foreign investors in gold payments, forgetting that such laws would bring ruin and disaster upon our people. While we legislate to make the investment of the foreigner satisfactory to him, we are legislating lower prices for the productions of our own people and robbing the farmers and producers of this country of a just and equitable remuneration in return for the products of their labor. To this, so far as I am concerned, I will never consent, but I will oppose with all the limited ability which I possess.

The fear of an increasing volume of paper money is either a cunning pretext or an absolute absurdity. The paper money outstanding is as follows: Gold certificates \$80,414,049; silver certificates \$326,206,336; Treasury notes (greenbacks) \$346,681,016 (nominal); Treasury notes

of 1890, \$149,881,958; national-bank bills (about) \$175,000,000. The gold certificates are payable in gold deposited for their issue. The silver certificates are payable in the silver dollars deposited for their issue. The Treasury notes of 1890, issued in payment of the purchase of silver, are payable in silver dollars as is shown in section 3 of the Sherman act, which is as follows:

That the Secretary of the Treasury shall each month coin 2,000,000 ounces of the silver bullion purchased under the provisions of this act into standard silver dollars, until the first day of July, 1891, and after that time he shall coin of the silver purchased under the provisions of this act as much as may be necessary to provide for the redemption of the Treasury notes herein provided for, and any gain or seigniorage arising from such coinage shall be accounted for and paid into the Treasury.

This leaves the Treasury notes amounting to \$346,681,016 and national-bank notes amounting to about \$175,000,000, or a total of \$521,681,016 of paper money, whose final redemption can become a matter of dispute. Upon this point I would like to submit the following, although there are volumes of such statements. This is from Mr. Pierrepont, Attorney-General of the United States, and afterwards minister to England, in a letter in the New York Times of April 18, 1884, in which he says:

There is not an outstanding bond coupon, or greenback issued by the United States which may not lawfully be paid in silver. Not one of them on its face or back, or in the statute authorizing the issue, or in declaration, or in resolution of Congress, has any proviso that they shall be paid in gold. And the act of February 20, 1878, directing the coinage of silver dollars, declared that such dollars shall be a legal tender at a nominal value for all debts and dues, public and private, except where otherwise expressly stipulated in the contract.

In the discussion of the silver question in the House, which if referred to escaped me at the time, as I have not heard it mentioned in the debate, there was a resolution which passed the United States Senate, January 25, 1878, and the House of Representatives on January 28, 1878, by a vote of 42 to 20 in the Senate and 189 to 79 in the House. It was to this effect:

That all the bonds of the United States issued or authorized to be issued under the said acts of Congress hereinbefore recited, are payable, principal and interest, at the option of the Government of the United States, in silver dollars of the coinage of the United States, containing 412½ grains each of standard silver; and that to restore to its coinage such silver coins as are a legal tender in payment of said bonds, principal and interest, is not in violation of the public faith nor in derogation of the rights of the public creditor.

The CHAIRMAN. What is the date of that act?

Mr. McLAURIN. This was a joint resolution which passed the Senate January 25, 1878, and the House January 28, 1878.

The CHAIRMAN. That was not an act, that was a concurrent resolution.

Mr. McLAURIN. I so stated. The national-bank currency can only be made a charge upon the Treasury through the Treasury notes, and the law expressly declares that such notes shall not be retired, but shall be put immediately into circulation. But counting the entire volume of \$521,681,016 with the amount of paper money which is provided for in my resolution, \$125,000,000, we would have \$646,681,016 in all.

If we deduct from this amount the amount lost or destroyed, \$25,000,000, we would have, in round numbers, \$575,000,000. This would give as a reserve 17½ per cent, which, under the circumstances, is plainly abundant, as can be briefly shown by the national bank statistics. I have a report here from the Comptroller of the Currency, which I will

not read, but from which I can summarize the facts which I want in this way. The deposits in these national banks amounts to \$1,556,761,230. I will not read all these items, but they amount to \$1,754,222,429.

Mr. HAUGEN. What is the date of that?

Mr. McLAURIN. August 17. After deducting the clearing-house certificates and other items counted as currency that are unavailable for immediate use in payment, there remains only \$271,183,295 as actual reserve, or 15½ per cent. The situation then is as follows: The Government would be doing business with the full amount of \$450,000,000 legal tender issued and the present amount of national bank issues upon a reserve of 17½ per cent, while the banks would be conducting their business upon a margin of only 15½ per cent reserve.

I submit that it is unfair to demand of the Government more and a better reserve security than they are willing to put into practice among themselves. With this statement, based upon the facts and backed up by the business intelligence and experience of the banking interests, I submit that the fear of an increase of paper money is without any logical foundation.

#### PRESENT AUTHORITY TO INCREASE THE CURRENCY.

Mr. HALL, of Missouri. What authority is there in law for the Secretary of the Treasury to issue any legal-tender greenback notes for money lost or destroyed? I want to read the only authority you have thus far cited. I read from the act of May 31, 1878, omitting the first part.

That from and after the passage of this act it shall not be lawful for the Secretary of the Treasury or other officer under him to cancel or retire any more of the United States legal-tender notes, and when any of said notes may be redeemed or be received into the Treasury under any law, from any source whatever, and shall belong to the United States, they shall not be retired, canceled, or destroyed, but they shall be reissued and paid out again and kept in circulation: *Provided*, That nothing herein shall prohibit the cancellation and destruction of mutilated notes and the issue of other notes of like denomination in their stead as now provided by law.

Now, I wish to know if you have any authority outside of this statute for basing your resolution, which is that the Secretary of the Treasury shall keep the amount up to \$346,000,000 for lost and destroyed currency? There is nothing said in this section about lost or destroyed.

Mr. McLAURIN. If it is lost or destroyed it does not need the Secretary of the Treasury to retire it, because it has retired itself.

Mr. HALL, of Missouri. You think, then, that the word "retired," as herein used, means to include money lost?

Mr. McLAURIN. I think so. I think that the money has already been retired by fire and loss of various kinds and I have placed the amount far below what might be reasonably expected, so as to prevent any question of that kind; because, as a matter of common sense, if the money is gone it will never have to be redeemed, and as a business man, if you had debts charged against you which you knew that you would never be called upon to pay, you would credit your bills payable and not have it stand as a debit when it should be a credit.

Mr. WAENER. I presume the gentleman from South Carolina, in his argument, does not intend to make a point upon the peculiar wording of his resolution. What he intends is, by the first section of the resolution proposed by him, to indicate whatever legislation the com-



mittee may find necessary, to declare a certain amount of greenbacks to have been lost and destroyed and to authorize reissue; so that although the point is perfectly proper, I do not understand the gentleman from South Carolina means to confine his argument to the very wording of his resolution.

Mr. HALL, of Missouri. I will say in explanation of this, I heard this objection made, and I wish to say I am favorably inclined to the gentleman's first section; but I want to hear him on that point, knowing that he has given it some examination and I have not.

Mr. McLAURIN. I thought of that, but did not think it necessary, for this reason: I do not pretend to be an expert financier, but in looking around got this idea, and thought I would present my views by embodying them in a resolution; then as to technicalities, that is the business of this committee. I have plainly stated our troubles in South Carolina and elsewhere; and, if you can give us help of any kind, we would be very glad to get it, without regard to the particular form in which the blessing is to come.

#### THE BEST REMEDY.

Mr. WARNER. If the gentleman from South Carolina will permit me, in view of a somewhat extended and very forcible presentation made by him in the early part of his remarks, of the actual situation in South Carolina, and the very effective way in which it was made, and especially in view of his own reference to the argument made by Col. Oates yesterday, I would like to know if I understand him correctly in this statement, that the means adopted by the bankers in Columbia, S. C., provided there was no question about its legality, were such as practically to solve the problem as to the shortness of currency, and that if they are permitted to do that in a legitimate way for themselves or if some plan like that proposed by Col. Oates—if some such plan could be adopted as a permanent matter, would that in your view be a satisfactory solution? But so long as the Government does not permit Col. Oates's plan or the plan of the bankers of South Carolina to be carried into effect, I understand that you insist that the Government provide the greenback or currency which it does not permit you to provide for yourself?

Mr. McLAURIN. Yes, sir; that is one of the branches of my argument, but I go further and say that what the banks adopted as an expedient, the Government can do more thoroughly and effectually, and she ought to come in and do what the symptoms of this financial disease show is necessary to be done. The trouble with the certificates is they might be subject to the manipulations of speculators. Give us a good legal-tender currency instead.

Mr. WARNER. The resolution presented by the gentleman, as I understand, provides for two things: First, a rehabilitation, if you may so call it, of currency that for one reason or another has become useless for the purposes of circulation. In that, I may say I regard the suggestion as a very valuable one. The second one is, the increase of the amount of currency by an estimated amount of \$100,000,000.

Mr. McLAURIN. Yes, sir.

Mr. WARNER. As I understand, that increase is to take the form of notes issued by the Government and paid out by the Government for its expenses, debts, etc.

Mr. McLAURIN. Yes, sir.

## EMISSION OF CURRENCY: LOAN TO BANKS.

Mr. WARNER. Now, in view of the suggestion of the gentleman that this was proposed in the midst of a pressing emergency, may I ask him to dwell a little longer upon the precise means for the placing of these notes to be issued and in the possession of the Government, by which the present or any other similar emergency would be met. Say they have got them in the Treasury here or in the Printing Office.

Mr. MCLAURIN. That is the milk in the cocoanut. There is no doubt about it. It is a question of emission. How are you going to get rid of them? I have thought of two plans, and one was suggested by the speech of Mr. George, from which I read a few moments ago. There are a large number of contracts under the Government which have been suspended for want of funds. It might be used in this way, to pay current expenses of the Government, etc. This idea is from the speech of Senator George, but my original intention at the time of the introduction of the resolution was this: We were in a tight place and we needed help, and that quickly, and I realized the fact that the only relief from this panicky condition was to come from the cotton crop of the South and the wheat crop of the West; that as soon as we could get these big money crops upon the market, gold would begin to come in, and everything would lighten up.

Now, I believe during Mr. Cleveland's administration—and if I am incorrect I know the gentleman from New York will correct me—at one time, when there was about to be a panic in New York, \$60,000,000 was deposited by the administration in the Wall street banks without interest.

Mr. WARNER. I think that is a slight mistake, but at the same time I do not find any fault, because deposits have been made to relieve stringency.

Mr. MCLAURIN. This is the argument that I make: Before this time when there was a money famine or likely to be tightness in the money market, the administration would go to the relief of the New York bankers, and when the Government gets in a tight place it expects the New York bankers to return the favor. Sometimes it is hard to differentiate between the Government and the New York bankers, to tell where one stops and the other begins.

Now, then, realizing the importance of marketing the cotton and wheat crops, I did not see why this currency could not be taken and deposited in the country banks. Why not put some of it in the Columbia banks; and, if the Treasury wanted to have a proper understanding with those bankers, it could be placed in there coupled with the condition that they would charge farmers only 6 per cent. There is no better security in the world than a bale of cotton, for if there is any money at all in the country, it will sell for something, and this was the idea I had at the time the resolution was introduced.

Mr. WARNER. As I understand, the resolution provides only that a sum should be credited to the general fund to pay current expenses. This proviso was simply to define the amount of money, and not to indicate the use to which it was to be put?

Mr. MCLAURIN. Yes, sir.

Mr. WARNER. And the use contemplated by this was the deposit of the money so issued in different parts of the country that might need it in the emergency?

Mr. MCLAURIN. That was entirely with the Secretary of the Treasury; a matter within his discretion.

The CHAIRMAN. Allow me to suggest that the indications are now that there will be a deficit of probably \$50,000,000, and \$25,000,000 of bonds which have been extended, to be paid by the Treasury of the Government, and those two items must absorb \$75,000,000, and it is conceded by all persons that our finances are rather lower than they should be for the successful administration of the Treasury Department. Mr. Foster testified before the Ways and Means Committee that the Treasury ought to have \$50,000,000 more than it had in order to meet its obligations.

Mr. WARNER. I do not think the gentleman misunderstood me. My question was not as to the possibility of this Government using \$125,000,000. My question was, how was it to be made immediately available? Because by the wording of his resolution "the same is to be credited by the general fund and to pay current expenses," and I wanted to know how that was to be paid out immediately.

Mr. McLAURIN. Yes, sir; that is the idea; and, in addition to what the gentleman has stated, it seems to me, as a matter of business, in place of the issuing of gold bonds and selling them abroad to bring money here, it would be far better for the benefit of the people if Congress should issue these notes, which would bear no interest at all, and which our people would very readily accept, than it would be to issue gold bonds, sell them abroad and pay interest upon them.

Mr. WARNER. A prompt use of this permission is practically a further issue of greenbacks to be loaned to local banks in parts of the country where currency is most needed?

Mr. McLAURIN. That is exactly it; better than I could have said it.

The CHAIRMAN. I desire to direct the attention of the committee to the constitutional authority to issue any more legal-tender notes than \$360,000,000. The Supreme Court held in the legal-tender acts that issued was a war issue and grew out of the necessities of the war, and I think there was some doubt whether they could increase the legal-tender issue under these acts mentioned in this bill and make them legal-tender. I do not want you to answer that, but I merely direct the attention of the committee to this.

#### THE PRESENT SITUATION.

Mr. JOHNSON, of Indiana. You spoke in the early part of your argument about the planter having brought his cotton to town and having been obliged to take it home because there was no money. Is this the first instance that has occurred in your history down there?

Mr. McLAURIN. This is the first time I have ever known of such a thing.

Mr. JOHNSON, of Indiana. During this late money stringency, has there been any run upon your banks down there?

Mr. McLAURIN. No, sir.

Mr. JOHNSON, of Indiana. Was money hoarded down there—such money as the people had?

Mr. McLAURIN. No, sir; we did not have it to hoard. We have been making cotton at a steady loss for several years, and I could tell you something about the banks there, to show you our people have confidence in our banking institutions. There is a bank in the little town in which I live, and at one time it did not have over \$2,000 or \$3,000 in it, but our people were not uneasy. They knew it was safe, and that it was honestly administered, and therefore we had no runs in South Carolina. I do not recollect but one single bank failure in the whole

State, in spite of all the stringency in money matters, and that was a bank which resumed very speedily—only suspended by reason of the failure of a bank outside of the State.

Mr. BLACK, of Georgia. Was it a national bank or a State bank?

Mr. McLAURIN. It was a State bank at Florence, but it very speedily resumed, and is now perfectly solvent.

Mr. JOHNSON, of Indiana. I understood you to say you did not suffer from a scarcity of money for marketing your crops?

Mr. McLAURIN. We generally have plenty of money to market the crops. Our terrible time in the South is in the summer and spring, when everything runs on a credit, and that was why I was so much impressed with Col. Oates' argument. He evidently understands the situation in the South.

Mr. JOHNSON, of Indiana. What I am driving at is this: Whether there has occurred at various times recently in the history of your people a scarcity of money other than what you cite as having occurred in the last four or five or six months, or is that simply an unusual condition?

Mr. McLAURIN. It is an unusual condition. They will send from New York all the money we want to market the crop in the fall; there has never been any trouble about that. There is no scarcity of money at some price, but sometimes there is little scarcity of change, and always a low price.

Mr. WARNER. You are dependent upon the actual currency being forwarded from New York about three months every year?

Mr. McLAURIN. Yes, sir.

Mr. JOHNSON, of Indiana. You have never had any trouble about it before?

Mr. McLAURIN. Not until now, except with low prices.

Mr. JOHNSON, of Indiana. Your remedy is designed to meet this specific trouble which existed?

Mr. McLAURIN. Yes sir.

Mr. JOHNSTON, of Indiana. Then it is not necessary for the general condition which has prevailed there?

Mr. McLAURIN. No, sir.

Mr. COBB, of Alabama. I would state that the farmers had to pay too much interest for this money which comes from New York.

Mr. HAUGEN. How do you expect to get this money out of the Treasury?

Mr. McLAURIN. I just answered Mr. Warner; by the way of the deposits of which I spoke.

Mr. SPERRY. You would have it sent down by express?

Mr. McLAURIN. No, sir; the question of the gentleman from Indiana was about the scarcity of money in general, and that opens up a big question; and, whenever you come to study that and reason it out, you will see what caused the organization of the Farmers' Alliance and gave birth to the subtreasury bill and every measure of that kind. It is just like the working of the laws of evolution, and it is going on now and getting worse and worse, and will continue to do so unless there are some means devised to remedy it, by giving elasticity to the circulating medium.

#### VOLUME OF MONEY IN CIRCULATION REGULATES PRICES.

Mr. SPERRY. You attribute the low price of cotton to the want of money, to the want of circulating medium?

Mr. McLAURIN. I certainly do.

Mr. SPERRY. Mr. Catchings in his speech attributed it to two extraordinarily large crops, and said that the agricultural associations throughout the South were trying to get together in some way and curtail the output of cotton.

Mr. McLAURIN. I listened to Gen. Catchings's speech and I thought it was one of the best speeches from his standpoint that was made on the floor of the House: but he did not state the condition of the South, and the causes of our poverty correctly, and I believe that if I had the time I could answer the argument, because it was the special pleading of a trained lawyer, from the Wall street standpoint.

Mr. SPERRY. The Statistical Abstract shows that the two crops of 1889 and 1891 were two of the largest crops you had, and that the surplus in sight was so great that it caused the low price in the market.

Mr. McLAURIN. The price is dependent upon the volume of money.

Mr. SPERRY. Rather than the volume of the product in sight?

Mr. McLAURIN. Yes, sir; that is my idea.

Mr. SPERRY. That is absolutely different from anything I know.

Mr. McLAURIN. Just let me ask you a question, if you will pardon me. From the Statistical Abstract of 1892—I do not know I can give the exact figures, but I can give you the idea. In South Carolina in 1873 there was 973,158 acres in corn and there was raised thereon 9,245,000 bushels, the value thereof being \$8,690,300. In 1892 South Carolina had in corn 1,691,677 acres and raised thereon 16,713,000 bushels, the value thereof being \$9,526,000. Thus we have in 1873 and 1893 an increase of over 63 per cent in the number of acres, of 80 per cent in bushels, and less than 10 per cent in value. You can not account for this if the volume of money be not taken into consideration.

Mr. SPERRY. I do not understand you; perhaps the rest of the committee do.

Mr. McLAURIN. If I could get the Abstract I could explain it to you.

Mr. COX. He means that the increased price received from the crop in 1890 was not equivalent to the smaller crop of cotton made in 1880, when money was more plentiful.

Mr. McLAURIN. I do not want to undertake to go into all that; but I got the idea—I may be incorrect—that if you take the amount of money in circulation and the amount of crop made, and take the decrease in the amount of money in circulation and the increase in the crop, and run them down each year together, a man can not avoid the conclusion that the volume of money has an effect upon the price of products.

Mr. COBB, of Alabama. Anything which influences its price at Liverpool has an effect upon the Southern prices. Does it control it?

Mr. McLAURIN. I think so. That is the place where the price for cotton is fixed for the world.

Mr. SPERRY. If it is true that the Secretary reported that there was more money in circulation in 1890 than in 1880, then, on your theory, it ought to be higher?

Mr. McLAURIN. I know the Secretary of the Treasury can get up some very pretty reports, but I agree with Mr. Hall that we have learned not to have a great deal of confidence in them. I do not believe that, on the average, there is over \$1.50 per capita in circulation in South Carolina the year round.

Mr. WAENER. You mean outside of the bank reserves?

Mr. McLAURIN. Yes, sir. Now, you take it in New York, where it

is stated there is \$272 per capita in circulation, and in South Carolina, according to the same statement, there is \$12 40. Well, I have no doubt that \$272 in New York is about right, but there is not even the \$12.40 in circulation in South Carolina.

Mr. SPERRY. Just wait one moment right there. I do not care how much per capita is in circulation. That is a greenback idea. My suggestion was that there was more circulation in 1890 than in 1880, and the Treasury statistics as given in 1880 and 1890 are on the same basis exactly and the bank reserves remained the same, and the detailed statements of the different classes of money remained the same, and relatively it is precisely the same in 1890 as in 1880, and with this difference there is more volume in 1890 than in 1880!

Mr. McLAURIN. And more people in 1890, too.

Mr. SPERRY. So, if the Treasury statement is not correct in 1890 it was not correct in 1880, but it was made up in the same way by the Department, and the point I am trying to make, and which I wish to bring to your attention, is that in 1890 there is more money in circulation according to the Treasury statement than in 1880 according to the Treasury statement. Now, on your theory that it is the volume of money which makes prices, will you explain to the committee why, in 1890, with a larger volume of money, prices are lower than 1880 when we had a smaller volume of money?

Mr. McLAURIN. I do not admit as a matter of fact there is as much money in circulation now; as a practical fact I can not admit that.

Mr. SPERRY. Then you dispute the detailed figures of the Treasury of the United States in relation to the amount of money in circulation?

Mr. McLAURIN. In circulation among the people; I know it is not in South Carolina.

Mr. SPERRY. How do you account for the fact that the New York banks are surrendering their circulation now?

Mr. McLAURIN. I do not know, unless it is for speculative purposes or to produce another panic.

Mr. SPERRY. You would not conclude that they were surrendering that circulation because they could not properly use it?

Mr. McLAURIN. Well, I would not think they would keep it outstanding if they could more properly draw it in. I am certain they would do what they thought best for their own interest.

Mr. COBB, of Alabama. I do not know whether I understood you. Do you mean that the volume in circulation in this country controls the price of cotton in the South?

Mr. McLAURIN. No, I mean the amount in circulation for the purpose of buying that cotton; I do not care where it is.

Mr. COBB, of Alabama. You agreed to my statement just now that the price of cotton in South Carolina was based on the price at Liverpool?

Mr. McLAURIN. Yes, sir.

Mr. COBB, of Alabama. If that be true, how can your other statement be true, that the amount of volume in circulation in South Carolina fixes prices?

Mr. McLAURIN. I was answering Mr. Sperry's question then in regard to the correctness of the figures of the Treasury Department of the amount of money in circulation.

Mr. SPERRY. You said that when the crop was harvested you had an abundance of money, which came in there from New York?

Mr. McLAURIN. We had an abundance of money, but they fixed the

price of our cotton by combination between Liverpool and New York, and sent just enough money to buy it at that price.

Mr. SPERRY. Then it is your opinion that Liverpool and the New York Cotton Exchange are in a combination?

Mr. MCLAURIN. You know very well, and everybody knows, there is a combination of those exchanges to hammer the price of cotton down or up for speculative purposes, without regard to the amount of cotton produced.

Mr. SPERRY. You have the opinion that a great body of fiat money issued by this Government would break up all possible combinations to control prices?

Mr. MCLAURIN. I am only in favor of fiat money to a certain extent.

Mr. SPERRY. Not unlimited?

Mr. MCLAURIN. No, sir.

Mr. WARNER. I understand the gentleman that his proposition is to only meet an emergency?

Mr. MCLAURIN. Yes, sir. I agree with what Mr. George says in that speech, and it seems to me very sensible. He says:

We have \$100,000,000 in gold as a fund, as Mr. Beck says, to guard the greenbacks. We have \$346,000,000 of these greenbacks or legal tender Treasury notes. Mr. Beck says, and he has never been successfully contradicted, that \$50,000,000 is ample to guard the \$346,000,000. If that be so, and he proves it, as I have read in the hearing of the Senate, it is clear that we may increase the volume of greenback currency double the \$346,000,000, and it will remain a safe, sound, redeemable currency equal to coin.

I do not make any such statement, but I say it would be safe on a reserve fund of 17½ per cent.

Mr. SPERRY. Is it your idea that the price of cotton is fixed in Liverpool?

Mr. MCLAURIN. I have always heard that and always read it was true, and have no doubt it is so. They fix it low enough, God knows. It is fixed very much without any consultation with the man who makes the cotton, and at such a price that everybody makes a profit from it except the man who raises the cotton and who has the best right, therefore, to expect a profit.

Mr. SPERRY. Now, if the cotton price is fixed in Liverpool, that is a gold price?

Mr. MCLAURIN. Yes, sir.

Mr. SPERRY. Liverpool draws London exchange to pay for cotton, and that is gold. If you state that the price of cotton is fixed in Liverpool in gold, how can any quantity of paper in South Carolina help you out?

Mr. MCLAURIN. I do not want to go into a discussion of the whole financial system.

Mr. SPERRY. Only a little piece of it.

Mr. MCLAURIN. Yes, sir. But my idea is this, that with a proper system of finance, with something that was fair and just, that we would break up the fixing of the price of our cotton in Liverpool, and that America can fix the price of her products here. My whole argument was directed against your allowing these men in Liverpool, foreigners, to come in here and fix the price of our cotton, wheat, or anything else, which they can only do by our adopting the single gold standard.

Mr. HAUGEN. You believe in manufacturing the cotton in this country?

Mr. MCLAURIN. Yes, sir.

Mr. SPERRY. If you intend to break up Liverpool prices and London

exchange, do not you think you ought to have more than \$125,000,000 ?

Mr. McLAURIN. Yes, sir; but we will take that if we can get it!

Mr. JOHNSON, of Indiana. But you think they could increase that quantity?

Mr. McLAURIN. Yes, sir.

Mr. JOHNSON, of Indiana. Could you upset the Liverpool and London exchange with \$125,000,000.

Mr. McLAURIN. No; I do not propose to do that.

#### VALUE AND PRICE.

Mr. HALL, of Missouri. I object very much to the gentleman from Connecticut mingling and obscuring the distinction between price and value as utterly as he does. Nobody maintains for a moment that the price of cotton is fixed in Liverpool.

Mr. SPERRY. Do you understand there is any difference between price and value?

Mr. HALL, of Missouri. Yes, sir; and everyone who has studied the works of political economists understands that thoroughly, and would agree with what I say.

Mr. SPERRY. Following the suggestion of the distinguished political economist from Missouri, will you describe to this committee the precise difference between the price and value of a commodity when it is put on an auction market?

Mr. McLAURIN. I have no doubt that the gentleman from Missouri can describe that with a great deal more accuracy and ability than myself, and I will yield the floor to him. I might say, however, that value is utility, price is debt-paying power, and while the price is artificially fixed in Liverpool, the value of cotton is determined by the number of naked backs it will clothe, and is the same whether they get our cotton at 5 cents or 10 cents per pound.

Mr. HALL, of Missouri. I am very glad to take the position. I maintain, with Prof. Taussig, of Harvard, that the man who does not draw a distinction, and keep it fairly in his mind, between price and value is a mere tyro. Gentlemen, I claim that the political economists—and I do not pride myself on that—and the gentleman, I suppose, sprays down his blood by speaking of me as a distinguished political economist from Missouri—

Mr. SPERRY. You spoke of other political economists agreeing with you on the subject.

Mr. HALL, of Missouri. I think there is not a single writer that I have examined, and I think I cited some fourteen in the argument I made on the floor of the House on this question—

Mr. SPERRY. And a very good argument it was.

Mr. HALL, of Missouri. Thank you. I know in that argument I cited the leading political economists of the different universities of this country and abroad. I quoted Adam Smith, the professor of Amherst, the professors of Williams and Yale, John Stuart Mill, Prof. Taussig of Harvard, Prof. Sumner and others, in which they lay down the doctrine and principle that any increase whatever in the volume of the circulating medium increases prices, and any decrease in the volume decreases prices. Now, I am going to quote John Stuart Mills's exact language, and refer the gentleman to volume 3, chapter 5, section 4, where he states:

That an increase of the quantity of money raises prices, and a diminution lowers them, is the most elementary proposition in the theory of currency, and without it we should have no key to any of the others.



Now, I take this illustration. There is a building, say here in this city, and if the circulating volume in the United States was \$25 per capita, which it is not, and the price of that building in the market will sell for \$10,000, increase the volume of that currency to \$50 per capita in circulation, and the price of that building will be double that amount. If this volume per capita should be lessened, the price of that building will follow the lessening of the per capita. I can explain why that is. In increasing the volume of the circulating medium, that increases the value of the crops not a dollar; it does not affect the value of the crops at all, but it does increase the price the farmers receive, and price is what they pay their debts with.

Mr. HAUGEN. Is it not true, in fixing the value of this house, that it must be fixed where the house is located, and it can not be fixed in Liverpool or elsewhere, and for that reason it differs from the value of a commodity that finds its way to a general market?

Mr. HALL, of Missouri. I say that the value of the house is not changed by the increase of the volume of money; the value remains the same, but the price is increased, and if that man has any debts to pay, he pays his debts with price and not value.

Mr. COBB, of Alabama. I would like to put this question, and have you draw a distinction: What is the distinction between the effect which the Liverpool market has upon our cotton crop and the increase or decrease of volume in our own States?

Mr. HALL, of Missouri. The effect of increase or decrease of volume in our own States is the increase or decrease of the price of products.

Mr. COBB, of Alabama. Without reference to Liverpool?

Mr. HALL, of Missouri. I can not say without reference to Liverpool; but a correct statement of the matter would be this, that, by limitations and surroundings, the supply and demand being the cause in one instance the same as it is in other instances, then the price would be affected by the volume of circulation; it is a thing like real estate, that is affected by the volume of the circulating medium.

Mr. COBB, of Alabama. Then, if the cotton producer gets more for the cotton, he pays more for anything he consumes.

Mr. HALL, of Missouri. There is no question about that. But what I want to say is, a report has been handed in from the United States Treasury, and read in the United States Senate not over thirty days ago, in which it was stated that the volume of the debt of the United States to day is \$31,000,000,000, and that debt has to be paid by price and not by value; and this gentleman comes forward here and argues the proposition that we increase the volume of the currency—

Mr. COBB, of Alabama. Would you advocate an inflation of the currency simply in view of the debtor and creditor relations?

Mr. HALL, of Missouri. Understand me in this way: When I was asked by a National Alliance, the State Alliance, and by the suballiance known as my Congressional District Alliance, if I would agree to a per capita volume of \$50, I said:

No, sir; I will only pledge myself to vote one way; that you shall have the right to pay your debts in the same value of money as when the debt was contracted; but if \$50 or \$20 enables you to repudiate 1 cent of your honest debt I shall never vote in Congress in favor of that proposition, but I shall demand, as far as my ability is, that you have the right to pay your debts in the same volume of money as when the debt was contracted; and that is a doctrine that is sustained by all writers, and is a doctrine that is sustained by the plainest tenets and principles of Christianity.

Mr. SPERRY. Mr. McLaurin and I were not talking about this house on the other side of the street, but we were talking of cotton in Liver-

pool. Will you describe to this committee the difference between the price and value of cotton sold in the exchange of Liverpool?

Mr. HALL, of Missouri. I will say, with all due deference, that I thought I made that question clear to everybody and I thought even to yourself, but I see I see have failed.

Mr. SPERRY. You have drawn an illustration of some house on the other side of the street and—

Mr. HALL, of Missouri. I said an increase of the volume of money in the United States does not affect the value of the cotton in Liverpool as between value and price; supply and demand control it; but the price of cotton is determined by the volume of the circulating medium in this country.

Mr. COBB, of Alabama. Did you ever know cotton to sell in America at a price higher than the value in Liverpool?

Mr. HALL, of Missouri. I will answer that, gentlemen, in this way: If you mean that the value of the cotton in the United States has never exceeded the value of the cotton in Liverpool, I answer you no; but if you mean that the value of the cotton in Liverpool has not been different from the price of the cotton in the United States, I answer you yes.

Mr. COBB, of Alabama. I am talking about what the farmer gets in his pocket which jingles as money. Does he get for his cotton one cent or part of a cent per pound more than the quotations from Liverpool every day? I do not care whether you call it price or value. I am talking about the money which he gets. Is it not a principle of political economy that, where a considerable portion of a product of a country is exported, that that part of it which remains at home is always governed by the export price?

Mr. HALL, of Missouri. There is no difference whatever on that question. That is an old settled doctrine that the price of the surplus exported fixes the price of the home product. Of course they are using the word price here in relation to the word value and in relation to the question here—

Mr. COBB, of Alabama. I say that this distinction has nothing to do with the amount of money the farmer puts in his pocket.

Mr. McLaurin. Gentlemen, I will state that I am indebted for your patient hearing and the courtesy with which I have been heard. I desire to add to my remarks the following:

#### APPENDIX.

Mr. Harter, of Ohio, has introduced a bill providing for an increase of currency by enlarging the amount which national banks may issue upon their deposits of bonds. We both have the same objective point, to-wit, an increase of the volume of currency, with this difference:

Mr. Harter proposes to give the benefit accruing from such increase to the national banks, in order to benefit a privileged class.

Mr. McLaurin proposes the Government to make the increase for the benefit of all the people. In this connection I submit a table showing two things:

First. The enormous profits which have already accrued to this privileged class, called national bankers.

Second. A table showing, in connection with the questions of Mr. Sperry, of Connecticut, the effect of contraction upon the price of products.

## BANK PROFITS.

The following table, showing the bank profits for a series of years, is given below. It is taken from the World Almanac, and is presumably correct:

Year.	Capital.	Net earnings.	Year.	Capital.	Net earnings.
1872	\$465,676 023	\$58,075,430.05	1883	\$494,640,140	\$54,007,148.00
1873	488,100,951	65,048,578.00	1884	518,605,725	52,362,783.00
1874	589,938,284	50,680,931.00	1885	534,699,605	43,625,497.00
1875	497,864,833	58,946,224.00	1886	532,556,921	55,185,385.00
1876	500,472,271	43,678,152.00	1887	578,462,965	64,506,866.66
1877	486,324,852	34,857,990.00	1888	583,538,144	65,362,286.73
1878	470,331,890	30,600,589.00	1889	596,322,518	59,618,265.07
1879	455,132,056	31,551,860.00	1890	625,089,645	72,055,163.52
1880	456,315,002	51,187,034.00	1891	760,108,201	75,763,514.00
1881	458,934,485	53,321,563.00			
1882	476,947,715	53,321,234.00			
			Total earnings		1,081,988,586.98

The following figures, taken from the United States Statistical Abstract, issued by the United States Treasury Department, shows the effect of a contraction of the currency, and falling prices on farm products:

Year.	Products.	Aggregate crop.	Home value.
1867	Wheat.....bushels..	212,441,400	\$421,796,460
1892		515,949,000	322,111,881
1867	Corn.....bushels..	788,320,000	610,948,390
1892		1,624,464,000	642,146,630
1867	Potatoes.....bushels..	97,783,000	89,276,830
1888		202,365,000	81,413,580
1867	Hay.....tons..	26,277,000	372,864,070
1888		46,643,094	408,489,565
1867	Tobacco.....pounds..	313,724,000	41,283,431
1888		565,795,000	43,696,665
1870	Cotton.....bales..	3,114,592	303,600,000
1891		8,652,597	366,863,788

Thereupon, the committee rose, to meet on Tuesday, October 3, 1893.

COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C., Tuesday, October 3, 1893.

## AN INCREASED VOLUME OF CURRENCY.

STATEMENT OF HON. JOHN DAVIS, REPRESENTATIVE IN CONGRESS:  
FROM THE STATE OF KANSAS.

Mr. Chairman and gentlemen of the committee: I appeared originally on an invitation from Mr. McLaurin to speak on behalf of the bill which he has before this committee. I have also a bill here, and probably these bills all look to the same thing, increasing the currency of the United States. There comes in a very important question, the question asked by the gentleman from Connecticut, Mr. Sperry, which, to my mind, was not fully answered. The question is, will the increase in the currency in the United States increase the gold price of cotton, wheat, or any other article sent to London, and in any way affect the gold prices in London?

## HOW VOLUME OF MONEY IN CIRCULATION MAY REGULATE PRICES.

I take the ground that, to increase the currency of the United States will increase the gold prices of cotton, wheat, and other articles in London. All must admit that gold prices are fixed by supply and demand. If we can increase the demand in the world for cotton, then we can increase the gold price of cotton in London. I propose to show that we can do that. There is a statement made on good authority, the authority of the report of the Labor Commissioner, as well as prominent speakers in both the House and Senate, that 1,000,000 people are usually out of work in this country, and, being out of work, are not buyers of goods. It is also admitted that many more than that have been thrown out of employment by the present panic. Some writers have stated that the laborers out of employment are now 2,500,000. Assuming, then, that half of these laborers are married men, and assuming that 6,000,000 of persons who should be consumers are not now buyers and consumers, because they are out of work, we will start with that proposition. If we can devise some way which will put them to work, and enable them to buy goods, we have increased the sale of goods. This increased demand for cotton, wheat, or any other product marketed abroad will increase the demand of the world for that commodity. And we may safely assume still further, that if 6,000,000 of people are so reduced that they cease to be buyers, at least 30,000,000 more are buying less than they should. They having ceased to buy, in whole or in part; the merchants and farmers, having failed to sell, also cease to buy; so that at least 60,000,000 of people in the United States are buying smaller amounts than usual. So that 60,000,000 of people would double their present purchases if they had the means, through constant employment and good markets for their products. Now, will the increase of the currency in this country set these people to work and furnish better markets for products? All history answers in the affirmative.

I have here the reports of the New York clearing house, from 1854 to 1892. I take that clearing house because it does two-thirds of the clearing-house business of this country, and therefore is a good index to the prosperity and business of the country. We all agree to that. If, now, by contracting the currency we check business, and throw labor out of employment, we have reduced the purchasing power of the people. If, by contraction, we have changed the amount of currency employed, we have stopped the purchasing power and the consuming power of that much money. That being so, will not an increase of currency raise prices, employ labor, and increase the purchasing power of the people? Plainly it will. Let us take the condition of the country at the close of the war, when the Secretary of the Treasury reported that the people were out of debt and prosperous. In 1866 we passed a law cutting off the currency; and in 1873 we cut off silver. The effect on the clearings were at once seen. The clearing-house reports show that clearances stopped rising until 1868. In 1868 there was a law passed to stop the decrease of the currency, then the clearing-house receipts went up to \$37,000,000; more than it had ever been before in the history of the country. But the suppression of money in the United States Treasury checked the clearing after 1869, and the demonetization of silver in 1873 added to the depression until 1878. Then the law of 1878 to prevent the further retirement of greenbacks, and the Bland law for the purchase and coining of silver gave instant

relief. The clearings indicated that relief by increasing figures until 1881, when they went above forty-eight billions. Then came further hoardings in the Treasury followed by the retirement of bank currency, which have perpetuated falling prices and hard times to the present moment. With a large increase of population the clearings of 1892 are twelve billions less than in 1881.

The following is a comparative statement of transactions of the New York clearing house for thirty-nine years and shows for each year the number of banks, aggregate capital, clearings and balances, average of the daily clearings and balances, and the percentage of balances to clearings:

Year.	No. of banks.	Capital.*	Clearings.	Balances paid in money.	Average daily clearings.	Average daily balances paid in money.	Balances to clearings.
1854	50	\$47,044,000	\$5,750,455,937	\$297,411,494	\$19,104,505	\$988,078	Per ct. 5.2
1855	48	48,894,180	5,362,912,098	289,694,137	17,412,052	940,565	5.4
1856	50	52,833,700	6,906,213,328	334,914,489	22,278,108	1,079,724	4.8
1857	50	64,420,200	8,333,228,718	365,313,902	26,968,371	1,182,240	4.4
1858	46	67,140,018	4,756,664,386	314,238,911	15,393,736	1,016,954	6.0
1859	47	67,921,714	6,448,005,856	363,984,083	20,867,333	1,777,944	5.6
1860	50	69,907,435	7,231,143,057	360,693,438	23,401,757	1,232,018	5.3
1861	50	68,900,605	5,915,742,758	353,383,944	19,268,520	1,351,988	6.0
1862	50	68,375,820	6,871,441,591	415,530,331	22,237,682	1,344,758	6.0
1863	50	68,972,508	14,867,597,649	677,626,483	48,428,657	2,207,252	4.6
1864	49	68,586,763	24,097,196,656	885,719,205	77,984,455	2,866,405	3.7
1865	55	80,363,013	26,032,384,342	1,035,765,108	84,796,040	3,371,828	4.0
1866	58	82,370,200	28,717,146,914	1,066,135,100	93,541,185	3,472,753	3.7
1867	58	81,770,200	28,675,159,472	1,144,963,451	94,101,167	3,717,414	4.0
1868	59	82,270,200	28,484,288,637	1,125,455,237	92,182,164	3,642,250	4.0
1869	59	82,720,200	37,407,028,987	1,120,318,308	121,451,393	3,637,397	3.0
1870	61	83,620,200	27,804,539,406	1,036,484,822	90,274,479	3,365,210	3.7
1871	62	84,420,200	29,300,986,682	1,029,721,029	85,133,074	3,927,666	4.1
1872	61	84,420,200	33,844,369,568	1,428,582,707	109,884,317	4,636,632	4.2
1873	59	83,370,200	35,461,052,826	1,474,508,025	115,885,794	4,818,654	4.1
1874	59	81,635,200	22,856,927,636	1,286,753,176	74,692,574	4,205,076	5.7
1875	59	80,435,200	25,061,237,902	1,408,608,777	81,899,470	4,603,297	5.6
1876	59	81,731,200	21,597,274,247	1,295,402,029	70,349,428	4,218,378	5.9
1877	58	71,085,200	23,280,243,701	1,373,996,302	76,358,176	4,504,906	5.9
1878	57	63,611,500	22,598,438,442	1,307,843,857	73,555,988	4,274,000	5.8
1879	59	60,800,200	25,178,770,691	1,400,111,063	82,013,540	4,560,622	5.6
1880	57	60,475,200	37,182,128,621	1,516,538,631	121,510,224	4,956,009	4.1
1881	60	61,162,700	48,565,818,212	1,776,018,162	159,232,191	5,823,010	3.5
1882	61	60,962,700	46,552,846,161	1,595,000,245	151,637,905	5,195,440	3.4
1883	63	61,162,700	40,293,165,258	1,568,983,196	132,543,307	5,161,129	3.9
1884	61	60,412,700	34,092,037,338	1,524,930,994	111,048,982	4,909,202	4.5
1885	64	58,612,700	25,250,791,440	1,295,355,252	82,769,480	4,217,069	5.1
1886	63	59,312,700	33,374,082,216	1,519,565,365	109,067,589	4,965,900	4.5
1887	64	60,882,700	34,872,818,786	1,569,626,325	114,337,209	5,146,316	4.5
1888	63	60,767,700	30,863,686,609	1,570,198,528	101,192,415	5,148,192	5.1
1889	63	60,762,700	34,796,465,529	1,757,637,463	114,839,820	5,800,784	5.0
1890	64	60,812,700	37,690,686,572	1,753,040,145	123,074,139	5,728,889	4.7
1891	63	60,772,700	34,053,698,770	1,584,635,500	111,651,471	5,195,526	4.6
1892	64	68,233,500	36,279,905,236	1,861,500,575	118,561,782	6,083,335	5.1
Total.....		168,515,265	986,597,212,585	244,285,630,425	182,470,719	13,701,983	4.4

\* The capital is for various dates, the amounts at a uniform date in each year not being obtainable.  
 † Yearly average for 39 years.  
 ‡ Total for 39 years.

I have mentioned the law of 1878, which stopped the further burning of greenbacks, and added \$2,000,000 per month to the supply of silver. Business increased everywhere, and the clearings in 1881 were over \$48,000,000,000. They were more than ever before in the history of the United States. After that the hoardings in the Treasury increased up to \$400,000,000, and went up to \$500,000,000 at one time. That was followed, as already stated, by the retirement of bank currency as described by Senator Plumb in 1888 and in 1890.

In April, 1888, Senator Plumb, of Kansas, discussed this contraction subject as follows:

But this contraction of the currency, by means of retirement of national-bank circulation, has been going on for more than ten years, and all the committee has to say now is that it has considered some bill, but it is not completed. If the committee will not complete some measure the Senate must. If the Senate will not, and the other House will not, then the country is going upon the breakers of financial disturbance. As a Senator says in my hearing, "it is there now." I think it is there now. We are dealing with a question which has more to do with the welfare of the people of the United States, which is of more concern to them than any other thing that is pending in either House of Congress, or which can be pending—the volume of the circulating medium of the country, the value of its property, the difference between debt and bankruptcy on the one hand and freedom from debt with prosperity on the other.

It is estimated that there are in circulation, including that which is locked up in the Treasury and held in the banks as a reserve fund, about \$1,600,000,000 of all kinds of currency of the United States, gold and silver, the overplus of gold and silver certificates, greenback notes and national-bank notes, all told, and there are more than \$60,000,000,000 of property which must finally be measured by this volume of currency. It has been contracted during the last year more than 5 per cent in addition to all that has occurred by reason of abrasion and loss. No man can tell the volume of greenbacks outstanding. Nominally it is \$346,000,000 and a fraction, but that volume has been subject to all the accidents which have occurred during the past twenty-five years, whereby money has been consumed, worn out, lost, and it is doubtful if the amount is really over \$300,000,000 to-day.

But saying nothing about that, the retirement of the national banking circulation during the past twelve months has been 5 per cent of the total amount of the currency outstanding. There has been during that period a phenomenal depreciation of the prices of property. There has been the greatest depreciation of the price of agricultural products the country has ever known.

The contraction of the currency by 5 per cent of its volume means the depreciation of the property of the country \$3,000,000,000. Debts have not only increased, but the means to pay them have diminished in proportion as the currency has been contracted. Events based upon non-legislation have proved of advantage to lenders but disastrous to borrowers.

The Senator from Delaware [Mr. Sanlbury] the other day spoke with great feeling about the mortgaging of farms in this country. So far as that complaint relates to a general condition, to the lack and to the shortcomings of legislation, it is more nearly related to the diminished volume of currency than to any other one thing.

In June, 1890, Senator Plumb continued the discussion of this subject, as follows:

Let us see, therefore, how much money is available for actual use among the people. From the total of \$1,560,000,000, arrived as above, must be deducted an average of \$260,000,000, which the Treasury always keeps on hand, and about which something has heretofore been said in the debate on this bill, and that leaves as the maximum which can by any possibility be used \$1,300,000,000. There ought, in fairness, to be deducted from this \$150,000,000, error in estimate of gold in the country, which would reduce the money outside the Treasury to \$1,150,000,000. From this is to be subtracted the \$600,000,000 kept as reserve, as before computed, leaving a balance of \$550,000,000, which is available for delivery or use in the transaction of the business of all the people, or a frife over \$8 per capita. But the force of my argument is not materially weakened by conceding the gold coin to be as estimated by the Treasury Department, which would leave in actual circulation \$700,000,000. In order to make up this amount all doubt must be resolved in favor of the Treasury and against the people, both the doubt as to the amount of lost and destroyed notes and that as to the gold supply.

If I were deciding this case upon what I consider the best evidence, I would be bound to say that I believed the money in actual circulation did not much, if at all, exceed \$500,000,000. Upon this narrow foundation has been built the enormous structure of credit of which I have spoken. It is the greatest of the kind that was ever built, because it was built by the best people that ever built anything. Over twenty thousand millions of debts, the enormous and widely extended business of sixty-five millions of people, all rest upon and must be served by a volume of currency which must seem to the most veteran financier as absolutely and dangerously small.

By increasing the currency we start the spindles of industry and business, and start the people to work. By increasing the currency we give the country rising prices, making the employment of labor profitable. Labor is hence employed, prosperity becomes general, and the aggregate purchasing power of the people is greatly increased, if not doubled.

In discussing this question we must not confine ourselves to South Carolina or to Kansas. We must take in the whole country and the whole world. We must not forget these localities, however, because they are important. What we are experiencing now is merely a repetition of what has transpired before in other countries, what transpired in England after the wars of Napoleon.

It is stated by various writers that when the people of England had passed through the terrible struggle ending with the battle of Waterloo, they stood before the world victorious and jubilant. It is said that had it not been for the issue of paper, the British Isles would have become a province of France. In 1816 there was a law passed to cut off silver; in 1819 there was a law passed to cut off paper. By the year 1826, according to Peter Cooper, four-fifths of the land-holders of England had lost their lands through the contraction of the currency and the foreclosure of mortgages. And they had troops on foot day and night to keep the people quiet while they starved. Lord Castle-reagh became alarmed, and he brought into the House of Commons measures which, under the suspension of the rules, were passed, making money plentier. They passed five money bills, reassuring the people. They authorized the circulation of one-pound notes for ten years. That law increased the money facilities. Factories were soon busy, mines and shops soon began to go, the people were employed and contented, and the troops were dismissed.

Mr. Chairman, the experiences of the English people should teach us a lesson.

At the close of the wars of Napoleon, in 1815, England stood at the front among the victors, in a blaze of glory unequalled in modern times. She was mistress of the ocean, had acquired an empire which encircled the earth, and dictated the policies of Europe. Her people were prosperous, happy, and jubilant. Ignoring or defying the lessons of history and the "inexorable laws of finance and trade," the British Parliament enacted a law restricting the use of silver, in order to establish the famous single gold basis for money. This checked the prosperity of the country by decreeing falling prices for agricultural products and the commodities of commerce.

Then were heard the first murmurs of distress among a people that for twenty years had uncomplainingly paid the troops which met Napoleon on so many bloody fields; a people that had carried victory on their bayonets throughout the Peninsula, on the Rhine, and on the field of Waterloo; a people whose cannons had won the victories of Trafalgar and the Nile and maintained the glory of British arms and British power as only Anglo-Saxons could. These people were now to be sacrificed by the millions to the false god known as gold-basis money. In 1819, in pursuance of this murderous policy, the British Parliament enacted a law for the retirement of the paper money which had conquered Napoleon—that money which Mr. Alison, the great English historian, said had saved England from becoming "a province of France." The process of contraction, bringing falling prices, began in 1816; it was accelerated in 1819. By the year 1826, we are told, four-fifths of the landholders of England had lost their lands and the laboring people of

the country were in such a condition of suffering that troops were necessary to compel men, women, and children to starve in peace. Landlordism was greatly extended, the relative number of the serfs and tenants of the realm was greatly multiplied, and the public distresses among the innocent people were such as no tongue can adequately describe.

As far as possible, I think we should in these money discussions relieve our minds of all prejudice and all preconceived opinions. But there are two things which I refuse to relieve my mind of. I will not consent to try any new experiment in finance. I think men and nations have tried experiments enough, and we can choose from the well-tried systems what we prefer to have. It is too late to invent any new system. And I think it criminal to adopt an old system which, when fairly tried, has failed. We should adopt a system which has been tried and which has succeeded even under the most difficult circumstances; such as have succeeded at all times, when they have had a fair trial. Out of these we can choose our money system.

Now, then, as to the gold prices in London: If the people of the United States—through increase of money and rising prices should find employment, as they did in England in the case I have cited, and as they did in this country after the law of 1863, and after the law of 1878—should all find regular employment, at good prices, by earning something, they would be greater buyers of cotton, wool and wheat. This would increase the gold prices in London of those staples. Having settled that point, I think there is no doubt but the addition to the currency of the United States, I mean the money of final payment, would add to the purchasing power of this country at least twice over. It would add to the demand for cotton goods, and for those things which we consume, and which meet us in the foreign markets. I will now pursue that point no further. I think these examples in the history of this country and Great Britain, should teach us something. I am offering you nothing new and untried, and I shall not do so.

#### PARITY BETWEEN GOLD AND SILVER.

There is one more point not mentioned here, but which has been mentioned by prominent members both in the Senate and in the House. It is a thing which has great influence on foreign markets for beef, cotton, wool and hides, etc. In 1873 silver bullion had uniformly, with some exceptions, been higher than gold bullion. At that time it was 3 per cent higher. The law of 1873 cut off the demand for silver and increased the demand for gold, until there was a separation. Cutting off the demand for silver lowered its price, and, adding to the demand for gold, raised its price. That is the case uniformly everywhere. Supply and demand are the agencies which fix prices. As we cease to use and treat silver as a money metal, the price will fall. There are three demands on the money metals, and if they are allowed to work out their own ends without coercion by law, they will perform their functions naturally, and will preserve the parity between the metals. The first demand is a demand for export. That uniformly falls on the dearer metal. Before 1873, the demand fell on silver usually. That is why we coined so little silver. Although we coined so little silver at that time, we used silver for export, which permitted gold to remain at home. If we had not used silver for export we must have used gold. And, in either case, with two money metals one is



retained at home as a domestic money metal; but as it was, silver was generally used to pay our balances of trade, and hence was but little coined for home use.

Suppose a man has two horses; either one answers his purposes for home use. But he is compelled to sell one, which one will he sell? He will sell the one which will bring the most in the money market. For that very reason we formerly sent silver abroad to pay trade balances, because it was the dearer metal. The demand for export always falls on the dearer metal. There are two home demands which always fall on the cheaper metal, if permitted by law and practice to do so. I mean the demand for loaning and the demand for payments. If I borrow money from a man, he loans me the cheapest money he has at hand. That is his option. The debtor must have the same option, to pay in the cheapest money he can get. When I come to pay my debt I should not ask which money I must use. I should be permitted to pay in the money which is easiest for me to get. I should pay in the lawful money of the contract. I should exercise my option the same as my debtor did. That works naturally and satisfactorily, and it will always preserve the parity of the moneys in use.

As an example, I will say I stand here on my two feet. I have a double standard. I am harder to push over when I am on a double standard. How do I preserve the parity of my two feet—my double standard—when walking? Simply by calling on my hindmost foot for action. I lay my hands on the cheaper money for payments. The Secretary of the Treasury is not doing that. He holds the dearer metal to be the proper one, and that keeps it high. Suppose I attempt to walk by calling on my front foot for action. I call on my gold foot and move it forward, and I continue to do so in every effort to walk; very soon I get into trouble and a condition arises which calls for the convening of Congress to redress the situation.

We ought to allow the people their option in payments, as we allow an option in loans. Before 1873 we had a parity of metals, and during that period of 80 years there was a time when silver was produced about four times as fast as gold; and then there was a time when gold was produced about four times as fast as silver, yet there was no trouble as to the parity of the metals.

Mr. WARNER. I understand you to say that you favor (or from your remark I suppose it would be proper to infer that you favor) absolute laws that would interfere between citizens as to the parity of gold or silver or the metal in which payment is made.

Mr. DAVIS. I would have a law which would make payments in legal tender.

Mr. WARNER. You would have a law to compel a man to accept one metal as being worth a certain proportion of another metal?

Mr. DAVIS. I would start off with this arbitrary rule, that gold weight for weight is more valuable than silver. I would fix the ratio of the weight of gold and silver, and stick to that all the time. I claim there is nothing to prevent the parity of 16 to 1 as the ratio. There is no trouble as to making payments. Usually contracts are made in the cheaper metal. The metallic value of silver is different in bullion and in coin. Our silver bullion is worth less than when it is used as coin, but that is not important, as the value of the money is monetary value, and not metal value. But, silver bullion would rise in price, if the legal discriminations against silver and in favor of gold were removed. Treat the two metals fairly and equally and the parity of metal values will take care of itself.

Mr. HALL. I understood you to criticise the Secretary of the Treasury because you claim he discriminates against silver.

Mr. DAVIS. The law gives the option to the Secretary and he pays out the higher monetary metal.

Mr. HALL. Suppose the Secretary of the Treasury had done as you suggest, would not that in effect be a recognition by the United States that there is not a perfect parity between the two metals, and would it not have the effect of depressing business more than anything that could be done?

Mr. DAVIS. No man has the right to demand gold coin of the United States Treasury on merely coin contracts. A man has the right to demand lawful money, but he has no right to demand any particular money. He has a right to demand any legal money. The law says greenbacks shall be money and that gold and silver coin shall be money. When a man brings a monetary obligation of any sort to the Secretary of the Treasury, calling for money in general he can be paid in any lawful money. If the obligation calls for coin, then it is within the option of the Secretary to pay either coin he pleases. If the Secretary should pay out silver it would have a tendency to increase the demand for silver, and it would increase the price of silver bullion. Demand and supply controls prices.

Mr. HALL. That would be an admission that Congress was unable to maintain a parity between the two metals, and thereby it would ruin silver.

Mr. DAVIS. The Secretary should have settled that matter. He should say: "You demand gold when the obligation calls for coin, and I will pay you coin. I am not representing the bondholders. I will pay you in the cheapest money mentioned in your bond."

Mr. WARNER. Am I correct in assuming that it is your suggestion that we should have an arbitrary law allowing a debtor to exercise the right always to pay in the metal or money which commercially or financially speaking is depreciated, and do you claim that that would keep the two metals together?

Mr. DAVIS. I take the ground that the value of both gold and silver is fixed by law. They are together by law. When we borrow money the contract fixes the money of payment. I would pay according to contract. Even Shylock should ask no more.

Mr. WARNER. Is it the basis of your argument that it is arbitrary law which depreciates silver?

Mr. DAVIS. Very largely. I will take the case of gold and silver when not used as money. If you will look in Prescott's History of Peru you will find a statement there which says that it took \$116 in weight of gold bullion to buy a quire of paper, and a proportionally large amount to buy a bottle of wine, a sword, a cloak or a saddle, and that it took \$30,000 in weight of gold bullion to buy a horse.

Mr. WARNER. It is possible that that may have been by reason of the scarcity of those articles.

#### VALUE AND PRICE.

Mr. DAVIS. The law of supply and demand operated in that country at that time. There was no other law to interfere in the matter. There has been some discussion here in regard to values. In discussing values we should separate them. Monetary value and price are the same. There is a value which is not price. Air and sunlight have great value, but no price. They taxed windows at one time in England,

and in that way it might be said that there was a monetary value attached to the air indoors, but it did not increase the intrinsic value of the air out of doors. Suppose I am cast away on an island. On that island I can crack nuts with a stone, and therefore that stone has an intrinsic value to me. The next day I get on a ship and go to a city and I find that my stone is pure silver and it has commercial value. With it I can buy a hammer, which is a better implement with which to crack nuts. I remember a conversation I had with a gentleman now in the Senate, and he said to me, "Mr. Davis, do you propose to say that if there was no money, horses would have no value?" I said, "No, if there is plenty of money, horses will have high monetary value; if there is little money, horses will have little monetary value; and if there is no money, horses will have no monetary value." But the horses will have a value expressed in the units of the article of payment, as so many pigs, or whatever else they are exchanged for. If you decrease the supply of pigs, you decrease the price of horses. If I have enough money to buy one hundred horses, and my supply of money is cut off one-half I can then only buy fifty horses, unless I reduce the price.

#### MAINTAINING EQUAL PRICES.

This money question may be made very plain by a simple statement of an arithmetical example. Thus:

$$\left( \begin{array}{c} \text{Divisor,} \\ \text{Commodities} \end{array} \right) \text{Volume of money} \left( \begin{array}{c} \text{Dividend,} \\ \text{Prices.} \end{array} \right) \left( \begin{array}{c} \text{Quotient,} \\ \text{Prices.} \end{array} \right)$$

The people and their commodities are the divisor in the problem which we are solving in this country. The volume of money afloat is the dividend. The quotient is the general average of the prices of property. The divisor is continually increasing, through the increase of population and the energy and enterprise of our people. The dividend decreases through the various devices of the gamblers in cornering and suppressing money. Is it any wonder that the quotient is less and less from day to day, in the form of declining prices? There is but one practicable remedy, namely, add money to the circulation as the people and their transactions increase. Increase the dividend as the divisor increases, that the quotient may remain the same. This can only be done by supplementing the coins with legal-tender Treasury notes.

In the school of finance to which I belong this is our doctrine. That is where I would stop in the expansion of the currency. I would maintain level average prices. Money is valuable in proportion to its limitation.

#### REDEMPTION OF CURRENCY.

Mr. SPERRY. What is the name of your school of finance? Is it the fiat school?

Mr. DAVIS. Yes, sir; I never saw any other kind of money except fiat money. We believe in lawful money only.

Mr. JOHNSON, of Indiana. Is that money redeemable entirely in silver?

Mr. DAVIS. I am in favor of the broadest and most liberal redemption. Money that is irredeemable is worthless. It must all be redeemed. Both coin and paper must be redeemed with commodities.

Mr. HAUGEN. You want to keep below the danger line in issuing fiat money?

Mr. DAVIS. Yes, sir; we would not approach the danger line.

The CHAIRMAN. Would you redeem in gold?

Mr. DAVIS. Primarily, the redemption of money is receivability in the revenues by the issuing government. Paper and metal have been so redeemable again and again by governments. We had about twenty issues of paper prior to 1862. Every paper dollar ever issued by the Government in this country prior to that time was made receivable by the Government of the United States in the revenues, and it was always as good as gold. That was set forth very fully by Mr. Calhoun. He says that such issues in a reasonable proportion to the revenues are always as good as coin.

Mr. JOHNSON, of Indiana. From what book are you reading?

Mr. DAVIS. It is a book entitled "Money of Nations," by the late Judge Martin.

In the years 1837-'38 John C. Calhoun, of South Carolina, discussed this matter of government paper very fully in the United States Senate. Mr. Calhoun said:

I now undertake to affirm positively, and without the least fear that I can be answered, what heretofore I have but suggested—that a paper issued by government, with a simple promise to receive in all dues, leaving its creditors to take it or gold and silver, at their option, would, to the extent to which it would circulate, form a perfect paper circulation, which could not be abused by the government, that would be as steady and uniform in value as the metals themselves. I shall not go into the discussion now, but on a suitable occasion I shall be able to make good every word I have uttered.

We are told there is no instance of a government paper that did not depreciate. In reply I affirm that there is none, assuming the form that I propose, that ever did depreciate. Whenever a paper receivable in the dues of a government had anything like a fair trial it has succeeded.

It may throw some light on this subject to state that North Carolina, just after the Revolution, issued a large amount of paper, which was made receivable in dues to her; it was also made a legal tender, but which, of course was not made obligatory after the adoption of the Federal Constitution. A large amount—say, between \$400,000 and \$500,000—remained in circulation after that period, and continued to circulate for more than twenty years at par with gold and silver during the whole time, with no other advantage than being received in the revenues of the State, which was much less than \$100,000 per annum. (Money of Nations, pp. 64, 65.)

Mr. Chairman, I offer no new experiment. This subject is too important for the permission of empiricism. New experiments are hazardous. They may fail. Old experiments which have uniformly failed are criminal. Gold-basis paper is an old experiment which always fails when the strain comes. Government paper, legal tender and receivable in the revenues, is an old and well-tested system. It is preferred to coin, and never fails while the issuing government stands.

Mr. E. G. Spaulding, a banker in Buffalo, N. Y., in time of the war; chairman of the Subcommittee on Ways and Means in 1861, 1862, and 1863, and known in financial history as "The Father of the Greenback," has discussed commodity redemption of money as follows:

Every time a hundred-dollar bill passes from one person to another, it is a practical redemption of it by the person who takes it. Every time a merchant at Chicago pays to a farmer \$500 in national currency for a carload of wheat, the farmer by the operation redeems such national currency, not in greenbacks, nor in gold, but in a commodity better than either, namely, wheat, a staple article useful to all. So every merchant in New York that sells a bale of cotton goods and receives his pay for it in currency, redeems such currency, not in the way that banks redeem it, but in cotton goods, which is far better, because it performs the true functions of money by

facilitating the legitimate sale of commodities. So every time that a merchant or manufacturer pays his internal-revenue tax to the United States collector in national currency, the Government redeems such currency by receiving and discharging such tax. So every mechanic or laborer that receives national currency for his services, redeems such currency by the labor performed. So it will be seen that just so long as the national currency is practically redeemed every day in its passage from hand to hand in the payment of commodities and services, and in the ramified operations of trade and business, both with the Government and the people whose operations it greatly facilitates, there is not the slightest necessity for resorting to the expensive and risky operation of assorting and sending it home for redemption. (Spaulding's History, Appendix, p. 10.)

North Carolina had a legal money before the Revolutionary war. It was a legal tender and it passed current. When the Constitution was adopted that money lost its legal-tender quality. North Carolina, however, received it for revenues. That paper money remained as good as coin as long as it existed.

Mr. WARNER. Do I understand the gentleman to say that so long as a currency is receivable for revenues, it could probably be floated?

Mr. DAVIS. Yes, sir; that currency worked well.

Mr. WARNER. How do you reach that conclusion, that if such a money were so adopted by the United States, it could be floated?

Mr. DAVIS. We have reached that conclusion by experience. As to the quality of legal-tender money I have known men to advertise their eagerness to redeem it. The newspapers are filled with advertisements asking the people to come and bring their money and have it redeemed. Mr. Spaulding in his "History of the Greenback," page 10, says, that money passing from the hands of a merchant in Chicago to buy a car-load of wheat, say \$500, is redeemed every time it passes. After going on in the discussion, Mr Spaulding, who is the father of the greenback, says that it needs no other redemption; that the fact of a bill passing from hand to hand gives it redemption. I have stood before audiences and made that argument and I have never heard it controverted. A money issued by a responsible government, receivable in the revenues, and made a legal tender for debts generally, is just as good as the government and it never goes below par while the government stands. A money can be no better than the issuing government. This accounts for the fact of paper money dying with the government; coin will seek another market and will usually go away when it is most needed. Coin always fails first, and it does not usually meet the demand of the times of greatest trial.

Mr. HAUGEN. Coin fails by going out of the country?

Mr. DAVIS. It fails by getting out of the way.

Mr. HAUGEN. The general supposition is that the disappearance of coin is due to the depreciation of paper?

Mr. DAVIS. Values are measured by the money of account. A dollar may be so many grains of gold or so many grains of silver. We call it a dollar. Money is based on the money of account. A dollar is so many dimes, and a dime is so many cents, a cent is so many mills; but have you ever seen a mill?

Mr. HALL. Do I understand your proposition to be that, if paper money is received in payment of dues by the Government, that makes the money good?

Mr. DAVIS. That is primary redemption. If you add the quality of legal tender then you have a complete money.

Mr. HALL. I heard Senator Vest say that the Confederate money was received in payment for dues; but he said that he paid \$300 for a chicken and paid a man \$500 to catch the chicken.

Mr. DAVIS. And yet this money lived as long as the issuing government. I will state this in that connection: In 1776, when we got into

trouble with Great Britain, coin failed utterly. They issued a paper currency, but it could not be received in the revenues or dues of the Government because the old confederacy collected no revenues. We then had no government capable of collecting revenues or of conferring the quality of legal tender on money. The very best thing that could be done was to issue paper money and to ask men to take it or to threaten them if they did not take it. We issued the very best possible paper money under the circumstances. That money was founded on patriotism. It was neither receivable for revenues by the Government nor legal tender. Yet Albert Gallatin, who was the Secretary of the Treasury in 1820, says it can not be denied that the paper currency carried us through five of the most perilous years of the war and "saved the country."

The CHAIRMAN. What currency was that?

Mr. DAVIS. That was the continental currency.

The CHAIRMAN. That was a forced loan.

Mr. WARNER. You said that, while reserving for the present the question of proper proportion, there was a proportion which should be sought out in adjusting the currency issued by the Government to the amount of revenues. Do I understand you to say that there is a proportion between any revenue factor and the amount of currency which can be floated?

#### DEBTOR AND CREDITOR RELATIONS.

Mr. DAVIS. I will give you a better rule to which I attribute it. I enter into a contract by which I am compelled to pay a certain amount of money on a certain monetary obligation. There is a certain volume of money afloat which preserves certain prices. If the Government issues more money it will raise prices, and the creditor is cheated because I pay him in less valuable money than I agreed to pay him. If the Government contracts the currency, then I have got to sell more property to get money to pay the debt, and I am cheated. We should make the volume of currency such as will preserve as nearly as possible an absolute level of prices on the average.

Mr. WARNER. I did not mean to ask you to go into the matter, but simply meant to ask you whether there is such a proportion.

Mr. DAVIS. All I ask is a sufficiency of currency to preserve level prices on the general average.

Mr. JOHNSON, of Ohio. I want to ask you whether there would be any other objection to it than the effect it would have between debtor and creditor.

Mr. DAVIS. I suppose there would be other objections.

Mr. JOHNSON, of Ohio. Do you think the mere change of prices affects any other classes?

Mr. DAVIS. It unsettles values, and if prices are falling no man will undertake a new enterprise or make a time contract. He will not build a house or a factory at all, because he thinks he can do it cheaper next year than he can now. If one can lock his money up, and by so doing it is gaining 10 or 15 per cent per annum in value, he will do that, because it is gaining while it is lying still. There is nothing in the world that gains in value, as a rule, under falling prices except money.

#### VOLUME OF MONEY IN CIRCULATION REGULATES PRICES.

The CHAIRMAN. Are we to understand that, for instance in Kansas, if your people were permitted under any law of Congress or any

law of the State to double the amount of paper money in circulation, it would be immediately convertible into coin and would maintain the parity and inflate prices 100 per cent in the State of Kansas?

Mr. DAVIS. I am not in favor of any such money. I do not think it could be done.

The CHAIRMAN. Assuming that the amount of circulating notes were doubled and were made convertible into coin in the State of Kansas, would that double the price of products for sale in that State?

Mr. DAVIS. No; it would add something to the price. Say in the State of Kansas there are one hundred horses being offered for sale, doubling the money would raise prices. The rise of prices would cause the offering of other horses. That would check the rise and prices would not be doubled. The price of horses will rise by the addition of money, but doubling the currency would not double the price of horses or other commodities.

Mr. JOHNSON, of Indiana. Would not the price of everything else rise?

Mr DAVIS. Certainly.

Mr. CHAIRMAN. Would not the price of horses depend upon the cost of transportation plus the price in the cities to which they are sent?

Mr. DAVIS. But the Kansas people having money, and thereby being able to employ more horses on their farms, would take quite a supply from the general market. But taking a single State in that respect is not a fair proposition; take the United States and it has a tremendous influence. More money and rising prices will enable the people to buy more manufactured products, and thus create better times among all classes except the money changers.

The CHAIRMAN. Then you say that in the State of Kansas it would not be true?

Mr. DAVIS. It would be true to such a small extent that you would hardly appreciate it. If you make it extend to the whole country, and instead of having a thousand millions of money, if we have two thousand millions of money, it would increase values a great deal.

The CHAIRMAN. How much? 100 per cent?

Mr. DAVIS. No; 10 or 15 per cent, because it at once brings into the market a large amount of commodities which are not now offered for sale.

The CHAIRMAN. Then you do not agree with John Stuart Mill, that a depreciation of the currency increases prices?

Mr. DAVIS. I am not in favor of a depreciated currency. A contraction of the currency lowers prices as measured in that currency. When John Stuart Mill's proposition is fully and fairly stated he and I agree.

When we have to sell more products at low prices, that means hard times. Senator Plumb said that when we reduced the currency to the amount of 5 per cent in volume we reduced the prices of property in this country to the amount of \$3,000,000,000. He said the banks, by the contraction of the currency, in twelve months had done this. That loss was as much as the war debt was at the close of the war and more.

The CHAIRMAN. Is it not a fact that that contraction was approached from a depreciation basis, and it went up to a gold basis, and as far as that is true the amount of value was not changed?

Mr. DAVIS. If contraction lowered the prices to that extent, what would be the effect if we had a proportionate increase of currency? Would not the effect be just the opposite? Suppose I am a laboring

man and own a lot, and I build myself a house for, say, \$1,000, and I pay \$500 down. My wages are, say, \$6 a week, and it costs me \$3 a week to live. I have \$3 left each week to apply on my debt. Then, if the money is increased and my wages go up to \$10 a week, and the cost of my living rises to \$5, this allows me to lay aside \$5 each week to apply on my debt. Then, if the currency is further increased and with it prices rise, I get better wages and can pay my debt faster notwithstanding the increased cost of living. On the other hand, with contraction of money and falling prices all debts, all taxes, and all monetary obligations become constantly more and more burdensome.

Mr. JOHNSON, of Indiana. As you go on increasing prices you are paying more for your groceries and other things. It resolves itself into a question of easy debt-paying.

Mr. DAVIS. No; as it is now we can not pay our debts.

Mr. JOHNSON, of Indiana. Do you think that a rise and fall in prices would hurt nobody but debtors and creditors?

Mr. DAVIS. That is hardly a fair way to put it. Say I am about to assume certain contracts, and if I see that prices are falling I will not assume those contracts. Falling prices kill all future contracts, and the employment of labor ceases. Men in great numbers are idle, and great distress and loss ensues.

#### FARM MORTGAGES.

The CHAIRMAN. What do you refer to when you say "we can not pay our debts?" Whom do you mean by "we" in that case?

Mr. DAVIS. I mean that the people of the United States, with present gold prices for products, can not pay their debts.

Mr. HALL. You do not mean the people of Missouri.

Mr. DAVIS. Then the people of Missouri are an exception.

Mr. SPERRY. Nor do you mean the people of Connecticut.

Mr. JOHNSON, of Indiana. It is not true of the people of Indiana.

The CHAIRMAN. I would like also to take the people of Illinois out of the list.

Mr. DAVIS. Mr. Joseph H. Walker, of Massachusetts, in May, 1892, was speaking with reference to the prosperity of New England farmers. He was speaking of their great prosperity, and went on to discuss the question, and, finally said that the farms in New England were on the average, selling to-day at "about one-half the first cost of improvements." This means that the lands are worth nothing, and half the improvements thrown in.

The CHAIRMAN. Please state why you think the people can not pay their private indebtedness.

Mr. DAVIS. Because their products will not sell for enough money to do it. The annual products will not pay the annual interest on their monetary obligations, and we are getting deeper and deeper in debt. The property of the people at present prices will scarcely pay the debts of the country at forced sale.

The CHAIRMAN. Please state whether it is true that the State of Kansas is largely reducing the mortgage debts of her farms year by year.

Mr. DAVIS. Yes, and I will tell you how she is doing it. There were thirty-five cases of foreclosure at one time in one county. The debts on the farms were \$64,000. The farms passed to the creditors. The mortgages were canceled, and so published widely in the papers. Yet there remained \$28,000 unpaid, resting on the former owners, in the



form of judgments. This mode of payment simply means the unhousing and eviction of the people.

Mr. HAUGEN. Do you mean that the mortgages are being foreclosed?

Mr. DAVIS. Yes, sir. The editor of the leading Republican paper in 1890 wrote to all the clerks in the county courts in the State of Kansas, amounting to more than one hundred, and received replies from about sixty counties. Those replies indicate that in the State of Kansas there is about one mortgage foreclosed per week in each county. There are fifty-two weeks and one hundred counties, which shows that there were 5,200 foreclosures in the State of Kansas in one year. Yet he said that the farmers need not trouble themselves, as other people were bankrupting also. He congratulated the farmers on their outlook. I think the farmer ought to be congratulated on something, and an "outlook" is about the only thing a farmer has to be congratulated on.

The CHAIRMAN. State to the committee how long each individual existing mortgage contract has been in existence in Kansas.

Mr. DAVIS. Some contracts have been in existence perhaps, by frequent renewals, since 1880, but mostly they are later than that, because it is not an old State. The thing has come to a point where a man can not sell his land at any fair price. There is no price on real estate except in select spots.

The CHAIRMAN. Real estate mortgages did not run more than five years on an average.

Mr. DAVIS. Usually about three to five years.

The CHAIRMAN. Is it not true that the existing mortgages in Kansas if renewed within seven years are on a gold basis?

Mr. DAVIS. And there being no gold to buy with, there is no price on the farms. I have in mind a case which will illustrate the situation. A man had a home that six years ago was worth \$4,000. He needed money, but did not want to sell his home. He borrowed \$1,800 on it, and that shows that it was worth at least twice \$1,800. The mortgage fell due and he could not pay it. The place is taken by the debt, and the man who got it is cheated, because it is not now worth \$1,800. The former proprietor of that land is now on the property and is paying rent, \$8 a month, and the owner keeps up the insurance and taxes. This leaves only \$4 a month for a home which, six years ago, was worth \$4,000.

Mr. WARNER. How large a place is that?

Mr. DAVIS. Three acres laid out in town lots.

Mr. WARNER. Do I understand you to say that for the purposes of a farm that was worth \$4,000?

Mr. DAVIS. Yes; he borrowed \$1,800 on it, and the improvements cost over \$2,000, perhaps \$3,000.

Mr. WARNER. It was not a farm, although he was using it as such, and it was probably in the suburbs of the town. We, in New York, have had real estate booms which for luridity are superior to anything produced in the West.

Mr. DAVIS. There has been no such boom in my part of the State of Kansas. We are no worse off than other States; and the county I live in has the smallest delinquent tax list of any in the State.

Mr. WARNER. How can the effect of the rise or fall in value of a farm come up with reference to a 3-acre lot which somebody thought was worth \$4,000 five or six years ago? Are there any farm lands there worth that money?

Mr. DAVIS. There is another point. I suppose that property which has risen may still rise gradually.

Mr. WARNER. As a darkey said to me "the boom cooled."

Mr. DAVIS. The difficulty was not with the boom. My part of Kansas has had no extraordinary boom.

Mr. JOHNSON, of Indiana. You would not advise immigration to Kansas under those circumstances?

Mr. DAVIS. I do not know where I would advise a man to go. It seems that Pennsylvania is not a good place to immigrate to. That State has \$613,000,000 of mortgage indebtedness, and many thousands of idle and starving laborers. If a man goes to Kansas with some money, he can buy a home very cheap. I think a man with money could buy lands in Kansas as well as in most of the States, as cheap as even Shylock himself could desire.

**LEGAL-TENDER TREASURY NOTES REDEEMABLE IN PAYMENT OF TAXES.**

The CHAIRMAN. Will you explain to the committee what your plan is as to the means of supplying the people with sufficient money?

Mr. DAVIS. Why, sir, I would authorize the Treasurer of the United States to issue legal tender Treasury notes, in addition to the free coinage of gold and silver. I would require enough to be issued to restore to the country normal prices; such as existed a dozen years ago. So that our people could pay their debts with money about as valuable as that we borrowed. I think creditors should not be cheated by undue inflation, nor debtors by undue contraction. I ask only for justice between man and man.

We hear much of checks and drafts in business, and that with them very little money is needed. That is true, but what money is needed is badly needed, and it can not be dispensed with.

In practice it is found that checks do not balance and cancel each other in full, as men do not owe each other the same amounts, but that there must be used in every clearing house some money of final payment; that is, money, or general checks on society at large, issued by the sovereign government or society in the concrete, which all are willing to accept as money of final payment. By the records of clearing-house business for long periods it is found that, on the average, the amount of money of final payment necessary to settle balances is about 5 per cent of the business done.

This is not much, but it is absolutely necessary to prevent bankruptcies. Ninety five per cent of the business is done with individual checks and drafts, 5 per cent with money of final payment. In view of these well-settled facts some flippant writers and speakers have taken the ground that all business may be done with individual checks and drafts, and that the volume of actual money cuts no figure. This is not correct. The 5 per cent of actual money is small, but it is absolutely necessary to prevent bankruptcies. The entire business is based on this 5 per cent; and for every dollar of this money which may be withdrawn from circulation \$20 of business must stop. This shows the importance of watching closely the volume of money of final payment. Even a small contraction deranges business, causes bankruptcies, and reduces the volume of the business of the country.

That final payment must be good money. Some men contend, as I have said, that because we do so much business with checks and drafts we do not need any money. It requires, as I have said, absolutely 5 per cent of money of final payment to meet this 95 per cent of drafts. Of every dollar of business done we must have 5 per cent,

or \$5 out of every \$100, of good money with which to do business. It does not matter whether it is United States notes or other good money. I am in favor of actual payment of balances with money which is as good as gold in law. I am in favor of a currency issued by the General Government, and received by the Government for all dues, and which shall be a general legal tender, and I am not in favor of any other sort of money.

#### RIISING PRICES PREFERABLE.

**Mr. SPERRY.** Before you pass from that subject of prices I would like to ask you a question. Does your school of finance claim that the American people in general are benefited by downward or upward prices?

**Mr. DAVIS.** We claim that the people are benefited by rising prices.

**Mr. SPERRY.** Your suggestion, then, is that if the people pay more for bread or more for clothes they will be better off than if they pay less?

**Mr. DAVIS.** No; if we have something with which to buy we are better off than if we have nothing. Falling prices compel idle labor. When prices are rising the industries are going, and the people are prosperous. A man who has nothing can buy nothing at any price. If you double wages you double the ability of the people to buy.

**Mr. SPERRY.** You do not expect to level prices in that way?

**Mr. DAVIS.** Yes, sir; first raise prices to the former average level and maintain them there.

**Mr. JOHNSON,** of Ohio. You are not in favor of scaling prices?

**Mr. DAVIS.** I have quoted Thomas Doubleday on that.

**Mr. SPERRY.** Do you think it is injurious to the people of Pennsylvania that they have constructed railroads and can get bread cheaper from the Northwest than they formerly could from Buffalo without railroads?

**Mr. DAVIS.** The building of railroads has been a benefit to the East and the West both.

**Mr. SPERRY.** Then it is not true that rising prices are a benefit to humanity in general?

**Mr. DAVIS.** It is true. Railroads are beneficial.

**Mr. SPERRY.** Then you think the building of railroads has benefited everybody by raising the prices?

**Mr. DAVIS.** In building railroads prices are both lowered and raised. Lowered to the buyers of the East and raised to the producers of the West. Both sellers and buyers are benefited.

**The CHAIRMAN.** Do you not think that improvements in machinery tend to the reduction in prices?

**Mr. DAVIS.** If you have increased the money as the surplus commodities are produced you have maintained the general level of prices. Particular commodities may rise or fall as the billows of the ocean, but the general sea level of prices should be maintained by the addition of money as commodities increase. As already mentioned, we must add money to the dividend as commodities are added to the divisor, in order to maintain the quotient, or general prices, at the same average level.

**Mr. SPERRY.** It has lowered prices without regard to money at all.

**Mr. DAVIS.** You can not make prices or do justice to humanity without regard to the volume of the money.

**Mr. SPERRY.** Without regard to the money in circulation improve-

ments in machinery have cheapened production so that the consumer can get lower prices. Has not that been a benefit to the people ?

Mr. DAVIS. Money is valuable in proportion to limitation. If there is a general increase in commodities through the increase of machinery, then certainly there should be more money.

Mr. SPERRY. Keep your eye on the question. Machinery has produced articles and made them cheaper than they would be without machinery.

Mr. DAVIS. Yes, sir.

Mr. SPERRY. Has it not been a benefit to mankind in general that both machines and commodities are cheaper than before ?

Mr. DAVIS. That is true, if in the process of cheapening thousands of men have not become idle, and hence unable to purchase even the cheap articles. The men who make our laws to contract our currency know quite well what they do. Mr. Doubleday speaks of the matter in England as follows :

It is not easy to believe that the bill of 1819 was brought in and passed in utter ignorance of its real consequences. The Portuguese Government has never been deemed a very enlightened one, and yet a measure of the same kind was, about this time, adopted by it, and carried through, on equitable principles, and without material difficulty. The minister found it prudent, by withdrawing a portion of the paper money, to enhance the value of the currency of Portugal twenty per cent. He did so, but at the same time he made a commensurate reduction on all debts, public and private, so as to adjust the payments to a higher standard, and the fairness of this was so manifest and prices so rapidly adjusted themselves under the enhanced currency, that few murmured under the measure, and no one was appreciably injured by it. (Doubleday's Life of Sir Robert Peel, Vol. II, p. 167.)

That is the only case I have been able to find where contraction has not damaged the people. It is usually a ruinous process. Senator Sherman once called it "an act of folly without example for evil in modern times." Senator Wade said it would be "about as bad as a fire."

Mr. SPERRY. You mean paper money ?

Mr. DAVIS. I see no difference in lawful money. The quality or value of the monetary material cuts no figure.

Mr. SPERRY. In increasing currency to the extent that it will make prices higher, do you not expect prices of commodities would also be higher ?

Mr. DAVIS. Yes, sir. And a paper money which is not equal to coin I would not have.

#### FIAT MONEY.

Mr. SPERRY. Does your fiat school of finance contemplate paper money which is immediately redeemable in coin ?

Mr. DAVIS. They can be made exchangeable if you like, but there is no necessity for it. It requires about two years of time, they say, for a man to get over the difficulty under which you are now laboring. We must have a money which rests upon something, not only on gold, but upon all values. In former times people differed much as to the foundations of this earth. They said that the earth must have rocks to rest upon. If a man asked what the rocks rested on it was found easier to silence him with an edict than to answer his question. Finally, men investigated and found that the whole thing, this great earth, was a round globe sweeping through space, and that it rested on nothing but the FIAT of the Maker—of the issuing power.

Mr. SPERRY. It was not a fiat of Congress ?

Mr. DAVIS. Congress does not make globes, but it can make money, and that money should, like the earth, rest on the fiat of the maker—of the issuing power.

Mr. SPERRY. Without regard to the redemption of paper in coin?

Mr. DAVIS. Paper rests on the same basis that coin rests on—the quality of legal tender. The trade dollar of 1873 was made a legal tender for five dollars. It was then good money. We removed that legal-tender quality and it immediately went down to ninety cents. Congress can make a dollar by attaching to it the monetary function, which is the material thing.

Mr. SPERRY. The fiat school of government teaches that a piece of paper is just as good as coin.

Mr. DAVIS. When paper and coin are treated just alike. Whenever that has been the case, from 1812 until now, paper has been uniformly preferred to coin.

Mr. JOHNSON, of Indiana. Do you think we could pass an arbitrary law and compel the people to respect it?

Mr. DAVIS. If the Government respected its own enactment by receiving its own money in the Government revenues, yes.

Let us for a moment compare coin and paper under the most trying circumstances. At the beginning of the American Revolution coin, or intrinsic money, failed to materialize. It was not to be had. It was an utter failure. Our fathers had no resources but paper. They had no government capable of issuing a proper money of any sort, but they did the best they could. They could print paper and call it money, but they could not receive it in the revenues of the Government, because the old confederacy did not collect revenues. They could not endow it with the quality of legal tender, because the old confederacy was not a sovereign government. They could not even make it redeemable in coin, as there was no coin to be had. Coin is always absent when most needed. But the patriot fathers had wit as well as patriotism, and they issued the best money they could. It was rudely executed and easily counterfeited, hence in practice must be unlimited in amount. People were expected to take it as a matter of patriotism. This was the only foundation of that continental money; yet for five years it met the requirements of the country, and Mr. Albert Gallatin afterwards spoke of it as follows:

The paper money carried the United States through the most arduous and perilous stages of the war, and, though operating as a most unequal tax, it can not be denied that it saved the country.

If the American colonies had depended on coin money as a war power they would have remained subject to the tyranny of King George. American liberty would never have been born.

MR. WARNER. Would it not have been equally as efficacious in saving the country if the Government had simply gone and taken it by force from the people?

MR. DAVIS. Mr. Gallatin said the currency saved the country. That currency was largely overissued, and also counterfeited by the shipload by the British Government; yet it was five years fighting the battles of liberty as it gradually reached the point of worthliness. Let us take another case.

In the year of 1797, money of intrinsic value failed in England. The bank paid out its last silver sixpence, and the nation was on the verge of ruin. A paper money not redeemable in coin was adopted, which met every monetary requirement for twenty-five years, through all the terrible trials of the wars of Napoleon. It carried the country

triumphantly through every crisis, conferring on the Empire a prosperity and glory unequalled in ancient or modern times. On this subject Sir Archibald Alison says:

It is in these moments of public and private suffering that the paper circulation steps in to sustain public and private credit during the interval when national industry has been paralyzed by the disappearance of the precious metals from circulation. \* \* \* But for its aid the Empire would certainly have been destroyed. \* \* \* Had bank notes been rendered scarce when gold disappeared, the nation and all its trading classes would have been bankrupted, and we should long since have been a province of France.

And there are other cases.

In the year 1813, during the wars of Napoleon, gold utterly failed to meet the needs of the allied armies on the continent of Europe. England, Russia, and Prussia issued a joint paper money, which supported the armies, broke the power of Napoleon, and saved the continent. The late Judge Martin, in his work on *The Money of Nations*, says:

It met the emergency as coin could not.

Mr. Alison says:

It passed as cash from Kamchatka to the Rhine, and brought the war to a successful issue. \* \* \* Without this paper money, the vast armaments of the allies would have been dissolved for want of funds for their support.

During the war of the rebellion, when gold left the field, there were three kinds of nonmetallic war money which stood the shock of arms to the end. The revolutionary government of the South issued the best paper possible for such a government. It was precisely as good as the issuing power—no better, no worse. It was a brave money—far better than cowardly metal. It staid with the armies, and fought with them to the end.

Mr. WARNER. Was that money at par with gold?

Mr. DAVIS. Most of the time it was, though it was never made a full legal tender. It was receivable by the Government for certain purposes. In 1813, Napoleon was carrying everything before him. England formed an alliance to fight Napoleon. England, Russia, and Prussia made a joint paper in 1813, which beat Napoleon and saved the continent, as just stated.

At one time, the coins of England were worn and clipped and they had decreased in weight very much. Macaulay says, to restore that currency cost the country more than all the bad laws and all the wars of the bad kings that the country had ever had.

Mr. WARNER. That was the cost of recoinage it?

Mr. DAVIS. The recoinage cost a mere trifle; it was the contraction of the number of pieces that did the damage.

Mr. HAUGEN. Macaulay attributes that to the clipping of the coin. The Government bore the expense of recoinage it, and it cost the Government twelve million pounds sterling.

Mr. DAVIS. Certainly, the Government paid for the recoinage, but the bill was footed by the people. The reduction of the number of pieces was the main damage. It was a contraction of the money.

Mr. HALL. Was that at the time that Newton was director of the mint?

Mr. DAVIS. Yes, sir. The clipping and coinage altogether made the damage complained of.

Mr. HALL. He attributed that solely to the consequences of the clipping of the coin?

Mr. DAVIS. Yes, sir. Of course, the cost of recoinage and the contraction of the money were all consequent on the clipping; but it was the contraction which did the great damage.

Mr. Alison attributes the dark ages to the contraction of the Roman money. At the Christian era there were \$1,800,000,000 of metallic money afloat in the Roman Empire. By the thirteenth or fourteenth century there was only two hundred millions of money. Society was disintegrated and people living in clans upon each other. When the American mines were discovered money increased, society became rehabilitated, and human rights gained ascendancy.

Mr. HALL. What kind of money was discovered then? Was it fiat or gold?

Mr. DAVIS. It was fiat. Before it left America it took \$116 in gold bullion to buy a quire of paper. When the gold was carried to Europe, where it became fiat money, it rose in value.

In ancient Peru, gold was plentiful; but it was not used as money. There was no artificial monetary demand created by law. It passed from man to man on its commercial value only. When thus left to itself, on its own merits, it had very little commercial value. Mr. Prescott, in his Conquest of Peru, tells us that on one occasion, in the open market of Cuzco, the capital of Peru, it required gold bullion of the weight of \$116 to buy a quire of paper. A bottle of wine sold for the weight of \$690 in gold bullion. A sword was worth \$500; a cloak \$1,160; a pair of shoes \$400 or more; and a horse about \$30,000 weight of gold bullion. Between that low price of gold and the high charges for it by the gold gamblers of our time, there is room for ten thousand stages and degrees of fluctuation.

Mr. WARNER. Was not silver ordinarily fiat as a matter of fact?

Mr. DAVIS. It was both coin and fiat.

Mr. WARNER. Was it not so in England and France?

Mr. DAVIS. A portion of the time it was.

Mr. WARNER. Was not gold doing its work as money?

#### "COINING" PAPER.

Mr. DAVIS. Usually it was. Men could pay gold on their obligations. Gold was not good money at one time. I claim it is the constitutional duty of the American Congress to coin gold and silver and paper until we have enough money to maintain prices on a just and reasonable level. They tell me that coining paper is a far-fetched and inappropriate phrase; that coining only applies to metal. Some great writers have said that coining refers to paper as well as to metal. If you will notice, the first meaning of the word in Webster is "to stamp."

Mr. JOHNSON, of Indiana. To what book do you refer?

Mr. DAVIS. This is "Alison's History of Europe," Volume VII, p. 92. Speaking of French paper in 1805, Mr. Alison says:

In the midst of the apparent prosperity produced by that excessive increased (of paper money), the sagacious mind of Napoleon perceived the seeds of future evil; and amidst all the turmoil of his military preparations at Boulogne he immediately wrote to the minister of finance on the subject and warned him of the danger of the Bank of France trusting too far the delusive credit of individuals engaged in excessive transactions or pushing to an undue length in the form of paper circulation the royal privilege of coining money.

September 24, 1805, Napoleon wrote from Boulogne as follows:

The evil originates in the bank having transgressed the law. What has the law done? It has given the privilege of *coining money in the form of paper* to a particular company; but what did it intend by so doing? Assuredly, that the circulation thus

created should be based on solid credit. \* \* \* In one word, in discounting after this manner *the bank is coining false money*. So clearly do I see the dangers of such a course that, if necessary, I would stop the pay of my soldiers rather than persevere in it. I am distressed beyond measure at the necessities of my situation, which, by compelling me to live in camps and engaging me in distant expeditions, withdraw my attention from what would otherwise be the chief object of my anxiety, the first wish of my heart—a good and solid organization of all that concerns the interest of banks, manufactures, and commerce. (Allison's History of Europe, Vol. VII, p. 92.)

That statement was written only sixteen years after the adoption of the American Constitution, which authorized Congress to "coin money and regulate the value thereof." It was not uncommon in those days among good writers to speak of "coining" paper currency. The word "coining" applies to paper as well as to metal. It is the business of the United States Government to furnish the people with good money.

Mr. WARNER. Is that your opinion or is it something you are quoting?

Mr. DAVIS. It is the opinion of Napoleon.

Mr. WARNER. I would as lief have your opinion as that of Napoleon. Is it an expression or a quotation?

Mr. DAVIS. I give this as my own opinion as well as that of Alison, Napoleon, and others.

Mr. WARNER. That is satisfactory.

Mr. DAVIS. I say that it is the duty of the Government to furnish this money. There is now no question but what the Government can issue paper money and make it a legal tender. In that case it will be uniform in all sections as long as the Government exists.

Mr. JOHNSON, of Indiana. Do you not think there would be danger of an excess being issued by the Government?

#### VALUE AND VOLUME.

Mr. DAVIS. I said, "Sufficient money to keep prices on a level." Is there any other method by which paper money can be issued? I think there is not. I know that we have a decision of the Supreme Court that national banks are constitutional. But there has never been a question before the court as to the validity of the question of banks issuing lawful money. I have not been able to find it. If they are necessary fiscal agents of the Government, then the court held them constitutional, but they are not authorized to issue money. That question has never been adjudicated. It is the prerogative of the Government to make money, and when Congress so authorizes, it is the duty of the Government to coin money and regulate its value. Money is valuable according to its limitation. The Government can coin money and control its value, or fix its volume or value. The terms "volume" and "value" in connection with money are interchangeable.

Mr. WARNER. Could the word "volume" be inserted in the phrase, "to regulate the volume thereof and of foreign coins?" How could the Government regulate the volume of foreign coins?

Mr. DAVIS. Before we coined silver to any great extent we admitted the Spanish dollars which were a legal tender for debts. Werepealed that law. Now we regulate the amount of legal money which comes from Spain. That is to say we do not admit it as lawful money.

Mr. WARNER. Is that what the law means—to regulate not the value but the volume of foreign coins?

Mr. DAVIS. I take the ground that it means to regulate the value of dollars by regulating the volume.



**Mr. WARNER.** Does it not mean that they shall regulate the value at which they shall be received?

**Mr. DAVIS.** The Government regulates the volume of foreign coins which come into this country, by regulating the value at which they shall be received, or by refusing to do so.

**Mr. WARNER.** Then the United States Mint may be wrong in supposing that the settlement of the value as distinguished from the volume of foreign coins is authorized by the Constitution?

**Mr. DAVIS.** The Mint has a perfect right to do that.

**Mr. WARNER.** My question is whether there is any distinction between "value" and "volume" in the way you put it.

**Mr. DAVIS.** There is none as it relates to money. The value of money is in proportion to its volume. You cannot regulate its value, unless you control its volume. Another point I propose to make now is this: First, we have a deficiency of money in the Treasury. It seems that we have reached the sky in our tariff income, and have not enough money to meet the demands of the Government. There is a great want of money among the people. Can we increase the volume of currency at present by act of Congress? It is stated on good authority, and it can not be controverted, that there has been a great wasting away of greenbacks. Mention has been made as to how much the greenbacks have wasted away. In 1888, Senator Plumb stated that there had been at least \$46,000,000 of greenbacks wasted and destroyed. The banks have retired about \$150,000,000 of their currency, besides the bank currency which has been wasted and destroyed, during the twenty years of its use. I think at least \$200,000,000 of greenbacks should now be issued to fill the place of the wasted, destroyed, and retired currency. There would be no inflation in that. When William H. English, some years ago, retired from the presidency of the Indianapolis National Bank, he issued a statement to the stockholders in which he said that the capital of the bank was about half a million dollars, and the currency of the bank had decreased \$36,000 in bills lost or destroyed. That occurred in fourteen years in a bank having a capital of one-half a million dollars. Then it appears that Senator Plumb was not far wrong when in 1888, he said that \$46,000,000 of currency had been lost or destroyed. In looking over the tables of the national banks, I find that they have not issued as much currency as they have retired by \$150,000,000. If we are to keep the currency on a level, in view of the increase of population, we would require more and more money, and now we should issue at least \$200,000,000 or \$300,000,000. The greenback currency should not be reduced below \$346,000,000.

**Mr. HALL.** While you are on that point, I want to know where you find any authority in law for the United States Treasury to issue money to take the place of that lost or destroyed.

**Mr. DAVIS.** There may be none; but we as a Congress have a right to make a law.

**Mr. HALL.** You do not claim that there is any authority now?

**Mr. DAVIS.** No, I do not blame the Secretary of the Treasury for this. I do blame him, however, for not showing all the facts; that the people may at all times be fully and truthfully informed in the matter. The Treasury Department has made an admission that there were some eight or ten millions of fractional currency destroyed. The greenbacks, then, must have been destroyed too to some extent. There was not less than one million destroyed in the flood at Johnstown. We know that by fire and flood there has been a vast amount destroyed. There is a great waste each year in mutilated bills. We certainly have a

right to issue additional bills for those destroyed. We can authorize the Secretary to issue them. All I would criticise the Secretary of the Treasury for is this: that if he, in his reports, makes a deduction for the lost and destroyed fractional currency, he ought to give us some idea as to what he thinks is the amount of other currencies destroyed. I think he should be allowed to issue at least \$200,000,000 because of the retiring of bank currency and the vacancy by this loss and destruction of bills.

MR. HALL. You can not criticise the Secretary of the Treasury for not issuing this money?

MR. DAVIS. No. If I were the Secretary of the Treasury myself, I would not issue the currency. But I would say to Congress that in all probability a vast amount has been lost or destroyed. I do not blame the Secretary of the Treasury for not issuing more currency under the present laws. But he should inform Congress that more currency is needed.

MR. WARNER: You have referred to the propriety of making good the contraction of the currency. As a matter of fact, has not that lost money been more than made good by additional issues?

MR. DAVIS. Certificates have been issued.

MR. WARNER. Do not understand me as criticising you in that regard. What I want to get at is this: if we issue more currency, have we got to issue it upon the same basis?

MR. DAVIS. I have a speech made by Senator George (and he is no fiatist), in which he claims that according to present conditions we are justified in issuing more currency and that it can be done without increasing the gold reserve. He quotes Senator Beck, showing that it could be increased to double the present volume. It does not require a large reserve to float legal tender greenbacks. President Hayes in his message to Congress of December 1, 1879, said:

The demand on the Treasury for gold and silver in exchange for United States notes has been comparatively small, and the voluntary deposit of coin and bullion in exchange for notes has been very large. The excess of the precious metals deposited or exchanged for United States notes over the amount of United States notes redeemed is about \$40,000,000.

When the Constitution authorized Congress to coin money, that word "coin" meant the coining and issuing of both metal and paper. It was common in those days to speak of the issuing of paper as coining money, and an over issue of paper was mentioned as "coining false money." I have already proven this point by quotations from Alison and Napoleon. Good paper money needs no gold basis, more than we now have.

The banks should not be permitted to issue currency. I think banks have no right to perform the functions of Government. It is much more costly to have national-bank currency. The greenback is manufactured in the Treasury of the United States, and is paid out only for Government expenses. It is paid to Congressmen and others who perform services for the Government. Every greenback thus far has left the Treasury in payment of Government obligations. The Government has just two ways of getting money to pay obligations: one is to make the money, and the other is to tax somebody. I would make greenbacks the only paper money, and I would maintain the level of prices by regulating the volume of money. This is the only way that Congress can "regulate the value thereof."

MR. SPERRY. Would you make and pay out enough so that you would not have to levy taxes?

Mr. DAVIS. I would not. That was the trouble with the continental money. It was overissued by the Congress because they could not levy and collect taxes. And it was largely overissued by the English Government in the form of counterfeits. The same was true as to the French assignats. During the French revolution, they largely overissued the assignats, but not so largely as did the British Government. The British Government had 17 establishments working 400 men in the city of London, manufacturing French assignats.

Mr. WARNER. But when the assignats were deprived of legal-tender qualities, did not gold reappear in circulation and remain so throughout the Napoleonic wars?

Mr. DAVIS. No sir; the assignats were all dead in 1796, before the Napoleonic wars had fairly begun. Napoleon was a hard-money man, and got his coin and other supplies by robbing the conquered nations.

Mr. WARNER. Do I understand you to say Napoleon sent back to France such enormous quantities of money that the whole amount of actual existing coin in France, whether it was sent there, or came there, was equal to the amount lost in blood and brawn withdrawn from production to follow Napoleon?

Mr. DAVIS. That coin had to come from some place.

Mr. WARNER. It came from the outside?

Mr. DAVIS. It certainly did.

Mr. WARNER. The French people are notoriously conservative about accepting foreign coins. History is absolutely clear in teaching that that gold promptly appeared in France and staid there.

Mr. DAVIS. It appeared, and it had to come from some place, and after going to the French mints it was French coin. And here is the way some of it came, as related by Mr. Alison:

The victories of Ulm and Austerlitz provided the means of solving the (financial) difficulty. From the moment the grand army crossed the Rhine it was fed, clothed, lodged, and paid at the expense of Germany. On the 18th of November, an edict of the Emperor directed the transmission of all funds to the army of the north to cease, and on the 18th of December a similar order was given in regard to the army of Italy. Thus the three principal armies of the Empire ceased to be any longer a charge upon its finances, and the tributary or conquered states bore the burden of the greater part of that enormous military force by which they were overawed or retained in subjection. This system continued without intermission during the whole remainder of the reign of Napoleon. From the castle of Wurtemberg Napoleon wrote, October 4, 1805, to the minister of finances at Paris:

"The army maintains the most exact discipline; the country hardly feels the presence of the troops. We live here on *bons*; I have no need of money from you."

These *bons* were treasury bills, which were discharged by the French Government out of the contributions levied on the inhabitants, or the sums extracted from the conquered countries. (Alison's History of Europe, Vol. vii, p. 100.)

THE CHAIRMAN. Will you appear before us at the meeting to-morrow morning?

Mr. DAVIS. Yes, sir. There are several points of which I wish to speak. I wish to mention the comparative cost of bank and greenback money.

I am much obliged to the committee for its kindness in hearing me at such length.

Thereupon, the committee rose, to meet to-morrow, Wednesday, October 4, 1893, at 10 a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Wednesday, October 4, 1893.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

**STATEMENT OF HON. JOHN DAVIS, A REPRESENTATIVE FROM THE  
 STATE OF KANSAS—Continued.**

Mr. Chairman and gentlemen of the committee: I am very much obliged to have this second opportunity to say something which I was diverted from by the great number of questions yesterday; questions, however, that were very proper and useful and I enjoyed them very much. The points I want to make this morning I can pass over very rapidly and I will not occupy more than thirty minutes unless I am interrupted. One point I tried to make yesterday was this: That the addition of money in this country would give our people rising prices, and, hence, call into action all the activities of our people, all idlers and tramps and all such men; and, employers would be hunting employes instead of employes hunting employers. A change to that policy can be easily done, according to the history of this country and other countries, by the addition of money and rising prices. It would make all the people prosperous; and having done that, having called into existence all these activities of our people, we have increased consumption by this nation of the products of the world; thus raising the gold prices of cotton and wheat in London. By increasing the demand, by doubling the demand, from this country, it would be adding the demand of thirty million people in their consuming power above what we have now.

Having decided that, the point comes: How are we to increase money, and what kind of currency are we to float? I think we should float the United States Treasury note. The Government of the United States is authorized to coin money for the people. "Coin," I proved yesterday, applied to paper as well as metal, and I proved it by quotations from Alison, Hume, Napoleon, and other writers of the times when the Constitution was made. Napoleon Bonaparte was certainly considered a hard-money man, and he declared over and over that he never would issue Treasury notes, and you all know the reason for that, yet Napoleon applied the word "coin" to paper. Hume speaks of "coining land" into money. We should adopt the gold and silver coin of the Constitution, making them full legal tender at the present ratio; we should then add legal-tender United States Treasury notes, as much as needed to maintain reasonable and level prices for property. We should adopt the idea of Treasury notes as the proper money; first, because it is constitutional; second, because it has been the practice of this country ever since 1812, about eighty-one years; third, because I do not think the Government of the United States can delegate an act of sovereignty to a corporation or to an individual. I do not think the Congress of the United States—the Government of the United States—should delegate the power of declaring war or making peace or issuing money to a corporation or to an individual. No corporation or individual should be authorized to issue money or to do any other sovereign act.

I am met with the claim that the banks issue currency, and that banks have been declared constitutional. As issuers of currency they have not been declared constitutional; they have been declared constitutional on the ground that they are necessary fiscal agents of the Government. The question of banks issuing currency has never come before the court in that particular form; hence, let me add, bank cur-

rency of this country has not been made a legal tender because that would at once bring the question of issuing "lawful money" before the courts, and the banks are afraid to do it. But suppose the Supreme Court has decided that bank currency is constitutional, which I deny, then this question may go to the very highest court; and then comes the question, What is the highest court? I remember in 1858, when Senator Douglas and Mr. Lincoln were discussing the Dred Scott decision of the Supreme Court, and Mr. Douglas asked Mr. Lincoln how he would get around the decision of the Supreme Court of the United States. Would he appeal to a town meeting? Mr. Lincoln replied in effect:

Yes, sir; I will appeal to a town meeting, and to another town meeting, and another town meeting, and all the town meetings; and I will reverse that decision.

So there is then a higher court. The people are a higher court than the Supreme Court of the United States, and on five occasions they have decided that "a national bank is unconstitutional and dangerous to liberty;" at five different elections, commencing with the second election of President Jackson, and then the election of Mr. Van Buren, on up through the forties and fifties. Jackson was elected the second time on the absolute issue of the banks. He was opposed to the banks, and he took that ground absolutely and positively, as message after message show; and in documents to his own cabinet, and in various ways he affirmed that the banks were "unconstitutional and dangerous to liberty." Mr. Van Buren was elected on the same ground. There was no platform reported, but he said in regard to the bank question that he would "walk in the footsteps of his illustrious predecessor." That was his position and he was elected. There were seven times, including two verbal statements, five written and two oral, where it was stated that "a national bank is unconstitutional and dangerous to liberty," and that the funds of the United States should be kept separate from all banking funds. In 1840 the Democrats weakened on the bank question, and Mr. Harrison occupied an equivocal position. The bank was not strictly the issue. But five times in seven the Democrats gained the day, showing that the people were of the opinion that a national bank is unconstitutional and dangerous to liberty.

Thomas Jefferson, the first great Democrat in this country, expressed himself on various occasions substantially as follows:

Bank paper must be suppressed and the circulation restored to the nation to whom it belongs.

The power to issue money should be taken from the banks and restored to Congress and the people.

I sincerely believe that banking establishments are more dangerous than standing armies.

I am not among those who fear the people. They, and not the rich, are our dependence for continued freedom. And to preserve their independence we must not let our rulers load us with perpetual debt.

Put down the banks and if this country could not be carried through the longest war against her most powerful enemy without ever knowing the want of a dollar, without dependence on the traitorous class of her citizens, without bearing hard on the resources of the people or loading the public with an indefinite burden of debt, I know nothing of my countrymen.

The first real contest with the bank power occurred under the administration of President Jackson, who in one of his messages described the case as follows:

It being thus established by unquestionable proof that the Bank of the United States was converted into a permanent electioneering engine, it appeared to me that the path of duty which the executive department of the Government ought to pursue was not doubtful. As by the terms of the bank charter no officer but the

Secretary of the Treasury could remove the deposits, it seemed to me that this authority ought to be at once exerted to deprive that great corporation of the support and continuance of the Government in such a use of its funds and such exertion of its power. In this point of the case the question is distinctly presented, whether the people of the United States are to govern through Representatives chosen by their unbiased suffrages, or whether the power and money of a great corporation are to be secretly exerted to influence their judgment and control their decisions. It must now be determined whether the bank is to have its candidates for all offices in the country, from the highest to the lowest, or whether candidates on both sides shall be brought forward, as heretofore, and supported by the usual means.

Thomas H. Benton, in the United States Senate, declared himself as follows:

The Government itself ceases to be independent, it ceases to be safe when the national currency is at the will of a company. The Government can undertake no great enterprise, neither war nor peace, without the consent and coöperation of that company; it can not count its revenues six months ahead without referring to the action of that company—its friendship or its enmity, its concurrence or opposition—to see how far that company permit money to be scarce or to be plentiful; how far it will let the money system go on regularly or throw it into disorder; how far it will suit the interest or policy of that company to create a tempest or suffer a calm in the money ocean. The people are not safe when such a company has such a power. The temptation is too great, the opportunity too easy, to put up and put down prices to make and break fortunes; to bring the whole community upon its knees to the Neptunes who preside over the flux and reflux of paper. All property is at their mercy. The price of real estate, of every growing crop, of every staple article in the market, is at their command. Stocks are their playthings—their gambling theater, on which they gamble daily with as little secrecy and as little morality and far more mischief to fortunes than common gamblers carry on their operations.

The sad experiences of the country in its struggle with the bank power in the earlier days of the Republic, and the bold and patriotic teachings of the great Democrats of those times, instilled into our people a just and prudent jealousy toward the banks which usually insured the success of the Democratic party at the national elections. President Jackson began his memorable contest with the bank power during his first term. His second election was on the bank issue. His signal and glorious victory showed that the people were with him. He declared in his fight that a national bank is unconstitutional and dangerous to liberty. And at the polls the people declared that Jackson was right.

Martin Van Buren was elected in 1836, because it was understood that, on this bank question, he would "walk in the footsteps of his illustrious predecessor." Seven times the people voted on this bank question, with the expressed or implied understanding that the Democratic party was in deadly hostility to the existence of a national bank and was opposed to the mixing of the Government money with the funds of banking institutions. Five times at those seven elections the people elected the Democratic ticket on the antibank platform. In 1860 and since that time the Democratic platforms have expressed no hostility to national banks. Since 1860 the Democrats have been beaten seven times in nine. And a new antibank party is organizing and coming to the front to renew the fight of the old Democrats on the money question.

To show the form and nature of the contests in the national elections referred to, I quote from the Democratic platforms of 1852 and 1856 the following resolutions:

*Resolved*, That Congress has no power to charter a national bank; that we believe such an institution one of deadly hostility to the best interests of the country, dangerous to our Republican institutions and the liberties of the people, and calculated to place the business of the country within the control of a concentrated

money power, and that above the laws and will of the people; and that the result of Democratic legislation in this and all other financial measures upon which issues have been made between the two political parties of the country have demonstrated to candid and practical men of all parties their soundness, safety, and utility in all business pursuits.

*Resolved*, That the separation of the moneys of the Government from banking institutions is indispensable for the safety of the funds of the Government and the rights of the people.

Mr. Chairman, that was the emblazonry on the proud and victorious banner of the ancient Democracy hoisted by the immortal Jackson at the close of the most memorable political contest in our history. Through seven Presidential campaigns it was carried aloft to almost certain victory, winning the day by the approval of the people five times in seven. All this, the ancient leaders of your party and their followers did, with that hydra, chattel slavery, gnawing at their vitals, and on their shoulders that pile of tigers—the moneyed institutions of the east.

Speaking of Jackson's victory over the national bank and its branches, Senator Benton said:

She is not dead, but holding her capital and stockholders together under a State charter she has taken a position to watch events and profit by them. The royal tiger has gone into the jungle, and, crouched on his belly, he awaits the favorable moment of emerging from his covert and springing on the body of the unsuspecting traveler.

During the late war, when this country was in a death struggle to avert dismemberment, and while the minds of the people were intensely occupied with that contest, the "favorable moment" came; and for thirty years the progeny of that "royal tiger," in the form of 3,000 whelps, have had this great nation by the throat fattening on its life blood.

Mr. Chairman, let us compare the national bank note with the Treasury note as to the matter of economy. The greenback is manufactured by the Government in the Bureau of Engraving and Printing, and when a bill is completed it leaves the Treasury of the United States; it passes out and the people get it. When the greenback leaves the treasury it pays a monetary obligation of the Government and the taxes of the people. The Government has two ways to raise money to pay expenses; one is to make it as currency or greenbacks, and the other is to tax somebody and get it to pay out. These are the only ways in which the Government can get money. Even by borrowing they have finally to pay the money with which to meet the loans. The bank bill, manufactured by the same Government, leaves the Treasury of the United States without value received. It goes out but does not pay any debt when it leaves the treasury; it does not pay any monetary obligation of the Government. At one time there was over \$350,000,000 of bank currency afloat. When that currency went out it paid no monetary obligation whatever. We had just as many debts to pay and just as much interest to pay as formerly. That currency went into the hands of men who make money by loaning it to the people. It went out without value received by the Government. If that \$350,000,000 had gone out in the form of greenbacks, it would have saved \$350,000,000 of taxes. Now, if the matter stopped there we might make it a loss and let it go. But when the bank bill went out from the treasury a bond went in; that bond draws, say 4 per cent interest. It costs us 4 per cent per annum to put these bills into the banks. But that is not all; they go into the hands of the banks. The banks loan them, say, at 6 per cent. The banker receives 6 per cent from the people and 4 from

the Government, on the bonds, so there is 10 per cent which is paid on the bank notes which are out. We have to pay 10 per cent on the whole of the bank circulation as long as it circulates at this rate of interest. What does the bank pay?

They pay a tax of 1 per cent per annum to the Government for the printing of the notes and renewing them when mutilated. That is the total cost to the banks. But the people pay to the bankers 10 per cent per annum as the cost of keeping these bank bills afloat.

This important matter can not be viewed too carefully from every standpoint. Suppose that, under the laws as they now exist, five men shall become organized into a corporation for business purposes. They unite their funds and purchase \$50,000 of United States bonds with the intention of borrowing money from the United States Government at 1 per cent per annum, on twenty years' time. Their agent proceeds to Washington, and having found the office of the Secretary of the Treasury, the following dialogue might naturally occur:

Agent: "You have money to loan, I believe, Mr. Secretary, on United States bonds at 1 per cent per annum?"

Secretary: "Plenty of it. How much do you want?"

Agent: "I have \$50,000 in Government bonds which I desire to deposit as security for a loan of \$45,000 in currency to be used by our corporation in opening and operating its farming lands."

Secretary: "Stop! Stop! You need say no more. This Government has no money to loan for farming purposes. That would be 'paternalism,' such as President Cleveland condemns in his inaugural address."

Agent: "I am surprised, Mr. Secretary, that I can not borrow money for agricultural purposes; but, since the lands our corporation own are underlaid with valuable mineral deposits, if I may be allowed to use the money for the purpose of opening and working our mines it will answer our purpose quite as well."

Secretary: "You can not, sir. The Government has no money to loan for mining purposes."

Agent: "Can we have this 1 per cent money, then, for the purpose of operating the plant in which our ores will be refined by the use of coal from our mines? If not, by your leave, we will take the loan for the purpose of building a steamer in which to transfer the products of our mines and farms to distant markets."

Secretary: "You can not have the money for any such purposes. A law authorizing such loans as you mention would be one of those class laws, 'the unwholesome progeny of "paternalism,"' which is 'the bane of Republican institutions.' The doctrines of paternalism which you seem to have imbibed 'ought to be unlearned, and the better lesson taught, that while the people should patriotically and cheerfully support their Government, its functions do not include the support of the people.'"

Agent: "Thank you, Mr. Secretary, for your kind advice. I know that I and my people are not very wise, but by keeping ourselves in a receptive frame of mind we may learn something. Perhaps I may venture to assert that just now I am learning very fast. The information you have just imparted gives me a wonderful insight into the philosophy of government. The members of our corporation knew of an instance wherein a certain banking corporation was granted a loan of \$45,000 in currency for twenty years, at 1 per cent per annum, on deposit of \$50,000 in United States bonds as security, and we innocently supposed that our corporation, for the same security, would be



granted an equal sum to be used in industrial pursuits which will give employment to labor and develop the resources of the country."

Secretary: "That is entirely a different matter, sir. For banking purposes you can have all the money you desire (up to 90 per cent of the bonds you deposit) at 1 per cent per annum, on twenty years' time. I will pay you gold interest on the face value of your bonds, while they are on deposit, one year in advance, exempt your currency from all State or local taxation, and renew your currency when old bills become mutilated, without extra charge. Your bonds are already exempt from all taxation. Your currency, which costs you 1 per cent here, can be loaned in most of the Western States at 10 per cent, compounded from four to twelve times per annum. Your taxes will be light, and the profits on the cost of your currency will be approximately \$10 to \$1; or, a protection of about 1,000 per cent. No business in this country is guaranteed by the Government such profits as banking."

Agent: "Again, Mr. Secretary, I thank you. But is there no paternalism about this?"

Secretary: "You will get all needed information regarding details of the loan from the Comptroller of the Currency, who will, in due time, forward you the money. I will be much pleased to see you at any time you are in Washington. Good day, sir."

I claim, first, that the national-bank note is unconstitutional, so decided by the people; second, it is costly; and third, it goes into the hands of men who are dangerous to the country. The great case in which the right of Congress to charter a bank was passed upon by the Supreme Court is that of *McCulloch vs. Maryland*, decided in the year 1819 and reported in 4 Wheaton, p. 316.

The main point decided in this case is that a State has no right to tax the constitutional means employed by Congress in carrying into effect its constitutional powers; and it was incidentally decided that the United States Bank was constitutional.

The case was argued by the ablest constitutional lawyers, among whom may be noted Daniel Webster, and the decision was delivered by that great jurist, Chief Justice Marshall, in one of his ablest opinions. The decision has been confirmed a number of times by the Supreme Court and stands as unquestioned authority in all that it passed upon. It is because of the incidental finding of the court in this case that the old United States Bank was constitutional, that the impression has become general that "national banks, as banks for the issue of money, have been held constitutional."

In *McCulloch vs. Maryland*, the question of the right of Congress to charter a bank for the issue of money was not before the court at all. The question was simply whether Congress had the right to charter a corporation to carry on a general banking business. Mr. Webster, in his argument for the bank, contended for its constitutionality on the ground that it was a suitable and proper instrument to assist the Government in the collection and disbursement of revenue. The grounds of contention on which the constitutionality of the bank were based is indicated in few words in the following from the argument of the Attorney-General (p. 353 of the report):

We contend that it was necessary and proper to carry into execution several of the enumerated powers, such as the power of levying and collecting taxes throughout this widely extended empire; and of paying the public debts, both in the United States and in foreign countries; of borrowing money, both at home and abroad; of regulating commerce with foreign nations, and among the several States; and of raising and supporting armies and a navy, and of carrying on war.

Counsel who opposed the bank did so principally on the ground that Congress had not power to charter a corporation of any kind, and that it was not a "necessary and proper" means for carrying into execution any of the granted powers to Congress. They were careful *not* to contend for the right of Congress alone to issue money; for they wished to substitute State banks for the national bank as banks of issue. They contended that the functions of the "national bank had been and could be all performed by the State banks as well as could have been done by a bank incorporated by Congress."

Nowhere was the question of the right of the bank to issue money presented to the court; nor did it consider it in deciding the case, as may be seen by the following extract from the opinion of Chief Justice Marshall (p. 403 of the report):

Although among the enumerated powers of the Government, we do not find the word "bank" or "incorporation," we find the great powers to lay and collect taxes; to borrow money; to regulate commerce; to declare and conduct a war; and to raise and support armies and navies. The sword and the purse, all the external relations, and no inconsiderable portion of the industry of the nation are intrusted to its government. \* \* \* It may, with great reason, be contended that a government entrusted with such ample powers \* \* \* must also be entrusted with ample means for their execution. \* \* \* It is not denied that the powers given to the Government imply the ordinary means of execution. That, for example, of raising revenue, and applying it to national purposes, is admitted to imply the power of conveying money from place to place, as the exigencies of the nation may require, and of employing the usual means of conveyance.

The question whether the bank was a necessary means for executing the power "to collect revenue," the court would not decide, saying that Congress was the sole judge of that. Thus the court decided that the United States Bank was constitutional as a bank to aid in the collection and disbursement of revenue, etc., provided Congress thought it a necessary and appropriate means for that purpose. The question of the power of Congress to delegate the right to issue money or currency has never been submitted to the Supreme Court.

The late Senator Plumb, who was then president of a national bank, and for fifteen years a Senator of the United States, and who doubtless spoke from observation and experience, said at the time of making his speech "that the banks during the last twelve months have contracted the currency 5 per cent of its volume, which has reduced the price of property in this country \$3,000,000,000." His statement proves that one single financial stroke by the banks hurt the finances in this country as much in one year as the late war did in four.

Mr. SPERRY. Do you believe that?

Mr. DAVIS. I believe that it is half true.

Mr. SPERRY. Do you believe a contraction of the currency is as dangerous to this country as a war?

Mr. DAVIS. I did not say that; I said it was as damaging to our finances. I said it cut our finances. Yesterday I said it was as much as the national debt was at the close of the war. Now, I will tell you something more while we are on that subject: Senator Plumb said this contraction had been going on for ten years, and that it had driven the country on to the breakers. Have I answered the question? Here is Senator Plumb's statement:

In April, 1888, Senator Plumb, of Kansas, discussed this contraction subject as follows:

But this contraction of the currency, by means of the retirement of national-bank circulation, has been going on for more than ten years, and all the committee has to say now is that it has considered some bill, but it is not completed. If the committee will not complete some measure the Senate must. If the Senate will not, and

the other House will not, then the country is going upon the breakers of financial disturbance. As a Senator says in my hearing, "it is there now." I think it is there now. We are dealing with a question which has more to do with the welfare of the people of the United States, which is of more concern to them than any other thing that is pending in either House of Congress, or which can be pending—the volume of the circulating medium of the country, the value of its property, the difference between debt and bankruptcy on the one hand, and freedom from debt with prosperity on the other.

It is estimated that there are in circulation, including that which is locked up in the Treasury and held in the banks as a reserve fund, about \$1,600,000,000 of all kinds of currency of the United States, gold and silver, the overplus of gold and silver certificates, greenback notes and national-bank notes, all told, and there are more than \$60,000,000,000 of property which must finally be measured by this volume of currency. It has been contracted during the last year more than 5 per cent in addition to all that has occurred by reason of abrasion and loss. No man can tell the volume of greenbacks outstanding. Nominally it is \$346,000,000 and a fraction, but that volume has been subject to all the accidents which have occurred during the past twenty-five years, whereby money has been consumed, worn out, lost, and it is doubtful if the amount is really over \$300,000,000 to-day.

But saying nothing about that, the retirement of the national banking circulation during the past twelve months has been 5 per cent of the total amount of the currency outstanding. There has been during that period a phenomenal depreciation of the prices of property. There has been the greatest depreciation of the price of agricultural products the country has ever known.

The contraction of the currency by 5 per cent of its volume means the depreciation of the property of the country \$3,000,000,000. Debts have not only increased, but the means to pay them have diminished in proportion as the currency has been contracted. Events based upon non-legislation have proved of advantage to lenders but disastrous to borrowers.

The Senator from Delaware [Mr. Saulsbury] the other day spoke with great feeling about the mortgaging of farms in this country. So far as that complaint relates to a general condition, to the lack and to the shortcomings of legislation, it is more nearly related to the diminished volume of currency than to any other one thing.

In June, 1890, Senator Plumb continued the discussion of this subject, as follows:

Let us see, therefore, how much money is available for actual use among the people. From the total of \$1,560,000,000, arrived at as above, must be deducted an average of \$260,000,000, which the Treasury always keeps on hand, and about which something has heretofore been said in the debate on this bill, and that leaves as the maximum which can by any possibility be used \$1,300,000,000. There ought, in fairness, to be deducted from this \$150,000,000, error in estimate of gold in the country, which would reduce the money outside the Treasury to \$1,150,000,000. From this is to be subtracted the \$600,000,000 kept as a reserve, as before computed, leaving a balance of \$550,000,000, which is available for delivery or use in the transaction of the business of all the people, or a trifle over \$4 per capita. But the force of my argument is not materially weakened by conceding the gold coin to be as estimated by the Treasury Department, which would leave in actual circulation \$700,000,000. In order to make up this amount all doubt must be resolved in favor of the Treasury and against the people, both the doubt as to the amount of lost and destroyed notes and that as to the gold supply.

If I were deciding this case upon what I consider the best evidence, I would be bound to say that I believed the money in actual circulation did not much, if at all, exceed \$500,000,000. Upon this narrow foundation has been built the enormous structure of credit of which I have spoken. It is the greatest of the kind that was ever built, because it was built by the best people that ever built anything. Over twenty thousand millions of debts, the enormous and widely-extended business of 65,000,000 of people, all rest upon and must be served by a volume of currency which must seem to the most veteran financier as absolutely and dangerously small.

Mr. WARNER. Let me understand. You have made a distinction between harming the country and hurting the finances. Now, as I understand it, so far as the matters to which you have referred are concerned, the country at the end of the particular contraction to which you have referred had the same number of bushels of wheat, the same number of houses, the same amount of real estate, and, in other

respects, the same conditions as though there had been a greater amount of money in the country—just as much paper, just as much bullion, just as much everything we could drink, wear, or use. Now, I understand that you utterly disavow the idea that that condition was comparable to that of a country desolated by a destructive war which had blotted out of existence a great part of its material wealth; but I do understand you to still maintain that it had an equally bad effect on our finances. Now, what is the particular bad effect upon the finances to which you have referred?

Mr. DAVIS. I will give a historical example. I went over this yesterday, and I find I have got to do a great deal of work the second time, for it seems that some of the men of the East do not understand this matter much better than a schoolboy of Kansas, and I will leave a pamphlet here for the edification of inquiring gentlemen who desire to learn. Now, then, the point is this. I will illustrate it by another case in history. At the close of the British war with Napoleon the people of Great Britain were in excellent circumstances. They had, during that war, created more wealth than they had during the same time in a state of peace, in any former period or since. The whole activities of the nation had been brought into play. During that war they placed themselves on the highest pinnacle of glory and prosperity, and when they came through, just after the battle of Waterloo, they were in the very best industrial and financial condition. Then came the contraction of the currency in 1816, by the demonetization of silver. Then followed the contraction of paper in 1819. That at once closed the mills and stopped the factories, and the people were reduced to the greatest distress, through the contraction of the currency, falling prices, and enforced idleness.

I repeat again what I said yesterday:

In 1819, when Mr. Peel's bill for specie resumption was passed, Mr. Cobbet predicted that it would never be fully enforced.

Mr. Cobbett said:

Before this bill can be carried into complete execution a million of persons at least must die of hunger; that it never would be completely carried out; and that, if it were so, he would suffer Castlereagh to broil him alive, while Sidmouth stirred the coals and Canning stood by to make a jest of his groans.

Even as late as 1830 the time for broiling Cobbett had not yet arrived. Expedients were still being devised to enable the bank to resume. It was arranged ultimately that a portion of the currency should rest on its legal-tender quality, amounting to about £16,000,000, and the rest should be redeemed in coin. So the broiling time of Cobbett never came, but the "million people" and more were duly starved in the attempt to reach specie payment.

Mr. Herbert Spencer quotes Prof. Jevons as saying that two-thirds of the British paper is issued without \$1 of gold behind it. Now I claim—

Mr. WARNER. Do I understand you to say that two-thirds of outstanding British paper is not represented by gold behind it?

Mr. DAVIS. Thirty and one-half millions; fifteen millions by the banks of England and the rest by the Scotch and Irish banks.

Mr. WARNER. Do you mean that this is uncovered? That they have not this gold reserve?

Mr. DAVIS. I did not say about what gold they have, but I say they are authorized to issue that much without any gold basis.

Mr. WARNER. Do you mean to say for a moment that they have issued that without it being covered by gold in their vaults?

Mr. DAVIS. I say they are authorized by this statement from Jevons which I have quoted from Herbert Spencer, which says in 1874 they had thirty and one-half millions without gold or silver behind it, the English banks having 15,000,000, and the rest divided among the Scotch and Irish banks.

Mr. WARNER. Do not the reports show steadily that from late years, dating clear back to the time you mention, the amount of uncovered currency is not far from \$50,000,000 or ten million pounds sterling?

Mr. DAVIS. I am giving this statement according to the quotations I have here. I will give you the authority and I will stand precisely on that.

Mr. HALL. Quote the page in Jevons in which that is stated.

Mr. DAVIS. I am giving it here as Herbert Spencer quotes it. The statement is this, that the law authorizes the Bank of England to issue 14,000,000 to 16,000,000 without the gold being behind it, and the other banks make up the thirty and one-half millions. That was the condition in 1874.

Mr. JOHNSON of Indiana. You do not claim that it is issued to that extent?

Mr. DAVIS. Yes, sir; it was issued to that extent in 1874.

Mr. WARNER. But was it issued *and uncovered* to that extent?

Mr. DAVIS. Here is the statement. Prof. Jevons, in Herbert Spencer's work, *Tampering with the Currency*, is quoted as saying:

The acts of 1844 and 1845 placed a fixed limit on the amount of notes which can in this country be issued without an equal deposit of gold. At present (April 1875) the Bank of England can issue without gold, fifteen millions; the private and joint stock banks of England are individually restricted to fixed amounts, which added together make about £6,460,000, while the Scotch banks can in a similar manner issue notes to the amount of £2,750,000, and the Irish banks to the amount of £6,350,000, making in all about thirty and one-half millions. In addition to this, the Bank of England and the Scotch and Irish banks can issue as many more notes as they have deposits of bullion or coin, and in the year 1874 the extra amount thus issued was about fourteen and one-half millions.

Mr. WARNER. Does not the word "deposit" there mean a special deposit?

Mr. DAVIS. No, sir; it means currency issued.

Mr. WARNER. The "deposit of gold" means a special deposit as distinguished from a general deposit?

Mr. DAVIS. It means precisely that the gold is not in the banks on which the banks issued the currency, thirty and one-half millions.

Mr. WARNER. Not as a special deposit?

Mr. DAVIS. I do not say so; I can not infer it from that. Now what I want to get at is this. I have given you one condition, and I do not want to be diverted from my point. If I say or quote anything in which the authorities do not bear me out, I wish to be corrected. I can only learn from what I read, see, and hear. The other point I want to make is this: At the close of our war we found more railroads, more manufactured goods, we found more things in existence in the form of products created during the war than we had before the war, notwithstanding the destruction of the war. When we call into activity all the labor in this country by an increase of money and raising prices you have no idea what we can create. We are losing at this moment by an absolute close calculation, daily, by the idleness of unemployed labor, more than we lost during the most disastrous period of the war, daily. There is not a particle of doubt of that. Take the case of France and Germany. At the close of the German war with France,

France paid to Germany a thousand million dollars in gold; that put Germany in a good fix and France in a bad fix, financially—

Mr. SPERRY. What authority have you for stating that France paid that money to Germany in gold?

Mr. DAVIS. Please go and study something before you ask questions as to matters of current history. It is understood by all that France paid it in gold; that is, money on a gold basis. But it hurt the Bank of England more than it did France because they were able to draw on the Bank of England in making payments. I will now add, that France paid an indemnity of one billion one hundred million dollars, including interest, fines on cities, and incidentals; will you take that as the true statement?

Mr. SPERRY. Wait a minute; I am taking your statement. You make the statement that France paid an indemnity of a thousand million dollars in gold?

Mr. DAVIS. It practically amounted to gold.

Mr. SPERRY. What is your authority? I say it is not true. What is your authority?

Mr. DAVIS. I have it here, and I can refer you to a great many books when it is necessary. There is not any doubt but what she paid an indemnity, is there?

Mr. SPERRY. I have not disputed that point; she paid an indemnity, but she did not pay it in gold.

Mr. DAVIS. I say it was paid on a gold standard. Practically in gold.

Mr. SPERRY. She did not pay it all in gold or silver.

Mr. DAVIS. She paid it in gold, silver, and first-class exchange, and that is why I say it hurt the Bank of London more than it did France.

Mr. SPERRY. Then it comes down to this, she paid an indemnity?

Mr. DAVIS. She paid an indemnity of one million one hundred thousand dollars. Will that do?

Mr. SPERRY. As a matter of fact there is a discount from that.

Mr. DAVIS. Well, here is the statement from reliable histories of the Franco German war. McCabe's history of the war between Germany and France, page 674, says:

Heavy fines were imposed on several of the cities occupied by them (the Germans), and the contribution of 200,000,000 francs (\$40,000,000) levied on the city of Paris was exacted and collected by the letter of the armistice.

On page 701 the same history says:

The third part of France had been overrun, ravaged, and laid waste; enormous fines had been levied on the cities of Tunis, held by the conquerors. Apart from the five milliards (\$100,000,000) to be paid to Germany, the nation had incurred a war debt, etc.

As to the payment of the indemnity, Rustow's History, Vol. III, p. 285, says:

Payments can only be made in the chief commercial towns of Germany, and must be paid in metal (gold or silver), bank notes on the banks of England, Prussia, Holland, and Belgium, in demands payable to order, or in first-class bills of exchange.

When it is remembered that silver at that time was worth more than gold, it will be seen that the indemnity was paid in funds as good as gold, or gold basis funds. And that the indemnity and fines, interest, etc., would be at least \$1,100,000,000. So you see France paid Germany in "fiat money"—that is, lawful money—or exchange payable in lawful money on a gold standard.

Mr. SPERRY. No, it was not paid in fiat money.

Mr. DAVIS. Well, in gold-standard money, legal tender which is fiat. Law is fiat.

Mr. SPERRY. But you would pay it in fiat money?

Mr. DAVIS. We never pay with anything but fiat money, that is, lawful money. France paid it in fiat money, as there is no other money but fiat money, and alleged money that is not fiat money is not money, as it lacks the fiat or legal tender quality.

But to take up that point: France was evidently in bad condition, financially, after giving the indemnity of gold, silver and first-class exchange on London, Amsterdam, etc. Germany was in good fix financially. Germany then started on a gold basis, having a thousand millions to start with. What was the effect upon the country? Germany resolved to stick to a gold basis. She started with high prices, which encouraged the enterprise and industry of her people. She contracted her currency and demonetized silver. Then came falling prices, and next the idleness of her people. Our consul, in 1889 or 1890, residing in Germany, said that 80 per cent of the German real estate was mortgaged beyond redemption. France, on the other hand, considered herself in bad fix, and hence kept afloat plenty of silver and paper. Our consul in France reported in 1890 that about 13 per cent of the French real estate was encumbered with mortgages, and they were paying them off. These are the two extremes. France with a full flow of currency and Germany with a small volume of currency—one prosperous and the other sinking deeper and deeper into debt, going down to the bottom loaded with mortgages. One started at the bottom of the ladder and the other was at the top. They have now changed places through opposite financial systems.

Now, the question arises, does the contraction of the currency hurt anybody? I will revert to the case of England again. Although the English people were prosperous at the close of the war, they could stand but little contraction. In 1819, when the last law of contraction was passed and they were to go to the resumption of specie payments in 1823, they were prosperous, but in 1826 four-fifths of the landholders of England had lost their lands, and the people were in such a condition of suffering that they had to have troops on foot day and night to keep the people silent while they were starving. Mr. Castle-reagh became frightened. He went into Parliament one night and told them that something must be done. So they suspended the rules and passed five money bills to make money easier. In a short time the mines, shops, and factories were going, the people were employed, and the troops were dismissed.

Mr. WARNER. May I ask the gentleman where he gets his authority for saying that four-fifths, or one-half, or one-third, or one-fourth, of the landholders of England then, or at any time in the last hundred years, lost their property?

Mr. DAVIS. That statement has often been made. You will find in Mr. Doubleday's history of Sir Robert Peel that all the smaller landholders were reduced to the sorest distress; and Mr. Peter Cooper tells us that in 1816 the landholders numbered 160,000, and, when they got through, say by 1826, there were only 30,000 landholders in England.

Mr. HALL. Does that mean that these men might not have become prosperous and bought out their neighbors?

Mr. DAVIS. It meant that there was a fall of prices, and consequently their estates were mortgaged and they got into debt, and the same causes which compelled the debts prevented the payment of them, so

that these farms, these lands, these homes were transferred under foreclosure of mortgage for debt.

Mr. WARNER. Does the gentleman mean that there has been a time when there has not been but 30,000 landholders—in historical times, in England?

Mr. DAVIS. I do. Landholders are now less numerous than formerly. There is another point I want to get at. Yesterday we discussed the French assignats. They were not a good money, but their agency was not wholly bad. There were some good results. As the assignats depreciated they were invested in lands by the poor people. These lands could be paid for with assignats and the people buying them cut them into small homes, and Mr. Alison states that there are millions of people who have subdivided France into small homes, and Mr. Alison ascribed the whole—

Mr. WARNER. Was it the assignats or the confiscation that authorized the sale of the lands in small tracts? I agree with the gentleman thoroughly on one point, and I hate to differ with him on the other. I understand these estates were in the main confiscated and sold by the State, and that these prices—

Mr. DAVIS. I will read from Mr. Alison. After describing the evil consequences of the failing of the assignats, Mr. Alison says (History of Europe, Vol. IV., p. 371, A. D. 1797):

On the other hand the debtors throughout the whole country found themselves liberated from their engagements; the national domains were purchased almost for nothing by the holders of government paper; and the land, infinitely subdivided, required little of the expenditure of capital, and became daily more productive from the number and energy of its new cultivators. These vast alterations in the circulation induced social changes more durable in their influence, and far more important in their final results, than all the political catastrophes of the Revolution, for they entirely altered, and, too, in a lasting manner, the distribution of property, and made a permanent alteration in the form of government unavoidable from a total change in the class possessed of substantial power.

Now, then, if it is better for a country to have a great many small estates, which Mr. Jefferson said were "the most precious part of the community," than the larger estates, then the assignats did that thing.

Mr. WARNER. Does my friend say the assignats could possibly have made a subdivision of the property of the landed proprietors, except by a prior confiscation of those lands by the Government? Does the gentleman believe for a moment, but for their being confiscated by the General Government, they could have been subdivided?

Mr. DAVIS. I claim that the assignats did the subdividing?

Mr. WARNER. Did not the French Government confiscate them?

Mr. DAVIS. No, sir. "The various revolutionary governments" did the confiscating. There was no French Government at the time.

Mr. WARNER. There was no French Government?

Mr. DAVIS. I am going according to history, and Mr. Alison says: "The various revolutionary governments."

Mr. WARNER. Well, any government. They confiscated the lands of the great proprietors, and sold them out to small proprietors just exactly as they did in the State of New York after the Revolution. In Putnam county and other counties in New York, after the Revolution, that very thing happened.

Mr. DAVIS. I gave you the statement of Mr. Alison. The confiscations converted the land into "public domain." The assignats subdivided them into small homes. I am not discussing the subject of the various confiscations.

I will proceed to another point, Mr. Chairman. I stated, in regard



to the Treasury note, as being a benefit which goes forth to the country to bless the people, because it pays debts and taxes, passes from hand to hand among the men who earn it. The bank note does not do this. It goes into the hands of corporations, and it goes forth without value received by the Government and the people. It costs 4 per cent on the bonds, and, as we will say 6 per cent on the note of the man who borrows it from the banks. This makes 10 per cent per annum to keep this bank money floating. It goes into the hands of corporations which have the power of contraction and inflation, and of damaging us largely. Senator Plumb stated that the damage was \$3,000,000,000 in twelve months. Then Senator Benton says that when you put this currency into the hands of a corporation the Government ceases to be independent, it can neither declare war nor make peace, nor do any other important thing, without consulting the neptunes who preside over the ebb and flow of the currency. Mr. Garfield, I remember here, thirteen years ago in the House, said that whoever had control of the volume of the currency was the absolute master of all industry and commerce. That being so, it is very dangerous to place the money in the hands of corporations, who can raise or depress prices without consulting the people. In 1881, there was what is called "a bankers' strike," like we have now, to compel President Hayes to veto a bill which they did not like—a refunding bill. Senator Voorhees made a speech on this subject at the time, just as during the present bank panic, and even the President of the United States now says he hopes the Senate will not compel the country to endure a greater panic than we have already had, and advises that we must let silver go.

Mr. HAUGEN. You advocate the discontinuance of national-bank notes. Do you want, arbitrarily, to take up the bonds before they are due? The bonds that are now outstanding; how would you get rid of them?

Mr. DAVIS. The people and the banks have made a contract. Every contract has two sides. We have agreed with the banks that they shall have a charter for twenty years, and, if they have understood that we will not interfere with those charters prior to that time, then are not they bound, also, not to stop the issue of currency during that time? They claim the right to cut loose from the banking system, to retire their currency, and even their charters, when they choose to do so. Should not the people and their Government have similar rights?

Mr. HAUGEN. Does any of your bills provide for this?

Mr. DAVIS. One provides that, if they voluntarily withdraw their currency—

Mr. WARNER. The gentleman knows, of course, that the withdrawal is limited by law to \$3,000,000 a month?

Mr. DAVIS. No, sir; it is not limited at all.

Mr. WARNER. May I ask the gentleman a question? I want to get at this 10 per cent business.

Mr. DAVIS. Ten per cent is very low. In many cases the banks get 12 and 15, and even more by evading the law.

Mr. WARNER. I understand about the 4 per cent, which is lost as you claim, and I admit that you are correct upon the facts as claimed by you.

Mr. DAVIS. I am glad you admit that.

Mr. WARNER. Now you add 6 per cent as the rate at which money was loaned, and what I wish to get at as this: How would it be possible, no matter how great the issue of greenbacks, for gentlemen in

Kansas or elsewhere to borrow money, even with these greenbacks, without paying interest for them?

Mr. DAVIS. I will state that this money is not loaned by the Government, that is, the greenback money, but is paid out for running expenses of the Government and for monetary obligations. It goes forth, and if issued as fast as needed in order to keep prices level, our people do not want to borrow money. The borrowing of money proves an abnormal condition of things. If we had not been compelled to get money mostly through the banks, if we had not been compelled to accept falling prices, through currency contraction, we would not have been in debt.

Mr. JOHNSON, of Indiana. Can you conceive of any condition of society in which there would be no borrowers?

Mr. DAVIS. There were no bonds at the time I was born; we had a very small debt of the old Revolutionary war, and I remember when I was ten years old it was all paid and the General Government had a surplus to distribute among the States.

Mr. HALL. Is it not a fact that the best business men we have in the States and in the country, as far as that is concerned, are the largest borrowers?

Mr. DAVIS. That is true under an abnormal condition of things; under falling prices men must borrow; and, even under level prices, they borrow temporarily, but there are no dangerous mortgages or long debts. With level or rising prices a man borrows if he sees he can make something by it, but under falling prices and in bad times he has got to borrow or lose his home.

Mr. WARNER. Then I understand the 6 per cent which would be gained by the people of this country is simply that they will be kept from debauching in loans to the extent which now causes them to obtain loans at the rate of 6 per cent interest?

Mr. DAVIS. If you will change the word "debauch" to the word "compel," I will agree with you.

I want to mention another subject. There is proposed by some an issue of State currency. There are several things necessary to keep any currency good; one is that it must be legal tender; second, it must be received in the revenues of the issuing power. Now a State can not make legal tender paper money, and that is one big cog knocked out of the machine. The State government which owes debts payable in coin can not receive currency in its revenues, because it must receive a money in which it can pay its debts. So you see it is impossible to keep this nonlegal currency good.

I am very much pleased, gentlemen, to have had this opportunity of stating my views, and I will not now take up your time any longer, only to say to those gentlemen who have asked me so many interesting questions, that there are also several other members of Congress who are seeking information. These important financial questions are worthy of the most serious consideration and study.

I am very much obliged to you for this present hearing.

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At the meeting of the committee on Monday, October 9, 1893, the following occurred:

Mr. WARNER: With permission of the committee I will put upon the record a letter from the editor of the Engineering and Mining Journal, Mr. R. P. Rothwell, a well-known authority upon financial

matters, which bears upon the point alluded to the other day by Mr. Davis, of Kansas; that is, the question as to the extent of the uncovered currency of the United Kingdom:

[The Engineering and Mining Journal, 27 Park Place, P. O. box 1833.]

NEW YORK, October 7, 1893.

JOHN DE WITT WARNER, Esq.,  
House of Representatives, Washington, D. C.:

DEAR SIR: In reply to yours of the 28th ultimo, I beg to say that the figures of my little book were made up by Director of the Mint Leech from the Bankers' Magazine of London for September, 1893. On page 473 of that magazine it appears that the total note circulation in the United Kingdom in August averaged £41,252,516. Against this the issue department of the Bank of England (see same magazine, p. 466) held on August 16 £16,630,115, and the Irish and Scotch banks (p. 473) £7,755,197, making the total amount of cash held for the redemption of outstanding notes £31,385,312. Deducting this sum from the notes outstanding we have for uncovered notes £9,867,204; in round numbers £10,000,000, or \$50,000,000.

Very truly,

R. P. ROTHWELL.

**NATIONAL BANKS—SECURITY OF DEPOSITORS.—ISSUES TO FULL SECURITY VALUE—ISSUES ON OTHER SECURITY.**

**STATEMENT OF HON. MICHAEL D. HARTER, A REPRESENTATIVE FROM THE STATE OF OHIO.**

Mr. Chairman and Gentlemen of the Committee: I am much obliged for the courtesy which enables me to occupy a part of your time, and I shall try to show my appreciation of it by not being prodigal in its use.

In regard to this general matter of the currency I entertain no peculiar, and certainly no opinion, which ordinarily would be considered among the general business public as cranky. In fact, I can not say that I have any ideas on which I have any patent right. I think that the views that I have to express are those which have been crystallized by the experience of the world, broadly by the experience of the world. My ideas of money are those of the commonly received authorities. I regret that there has ever been such a thing as legal-tender money, and I think the occasion for it never existed. The best money is that which by its real merit finds acceptance everywhere. I think the matter of contract would be all-sufficient in lieu of all legal tender. Legal tender, or the forced quality of legal tender, is a nest of fraud always. I have no desire to present a system which will enable the Government to regulate prices; neither to keep prices high, or to keep them level, or to keep them low. I consider that is beyond the rights of any government. I have taken the liberty of presenting three bills before the committee.

The first bill to which I wish to call your attention is number 64, and that simply goes to the end of proposing and authorizing the national banks to put in circulation money up to the par value of their bonds.

It seems to me the justice and wisdom of doing this has scarcely been questioned and I will not occupy your time upon it. There is certainly nothing like original thought in the bill, but I claim for it utility, safety, and common sense.

Mr. JOHNSON, of Indiana. It has been a question that they would not take the full extent of the circulation. How would it be in regard to that?

Mr. HARTER. The best answer to that, Mr. Johnson, is that the plan proposed would add to the profits of the bank, and if you add any-

thing to their profits they will take it, for they are generally intelligent men. You know there are some men who are opposed to these national bankers, who not only say they are intelligent but go further than that and impute to them a certain rascality, but with this view I have no sympathy whatever.

Mr. JOHNSON, of Indiana. It is claimed that the profit would not be such that they would issue the money.

Mr. HARTER. Let us see. Take a national bank to which this bill would give an additional \$18,000 circulation at no expense except the 1 per cent per annum tax. I know of no banker who would not consider this an extremely desirable addition to his profit. I do not believe that there is a bank in the United States that has bonds on deposit but what would avail itself at once of the privilege, and the immediate effect would be to disburse this additional circulation just where it was needed.

Mr. JOHNSON, of Indiana. Why are the banks surrendering their circulation now?

Mr. HARTER. Banks are surrendering their circulation very naturally because it is not profitable. This would make it more profitable. National banks have a circulation within 10 per cent of the par value of the bonds, and it is not as profitable as it would be at 100 per cent of the par value of the bonds, and by this step I make circulation more profitable to the banks.

Mr. COX. Now, it is a well-known fact that there are bankers in the United States who take their bonds and comply with the law by the deposit of bonds and they take out no circulation at all. Does not your bill leave the whole question to the discretion of the bankers whether they will take it out or not?

Mr. HARTER. Yes, and of course that is just where it ought to rest, too.

Mr. COX. Not to make an argument, as I do not want to make an argument with a man on the floor, that being true, the national banks under your statement with an increased circulation that might perhaps also increase the advantages which national banks now have for the contraction of a currency or expanding it at their will?

Mr. HARTER. I think that the idea that they exercise such a privilege as that is purely chimerical. I have never been a believer in this doctrine that the banks were the engineers of any of our panics or stringencies. I know of no interest during the last seven months which suffered so severely as the banks, as the figures showing the liabilities of defunct institutions in every line of business indicate. In other words, among the failures of the United States, not speaking by the book, I should say nearly 60 per cent of them have been confined to banks. A hundredfold more destruction has therefore resulted to the banks than their fair proportion, and it seems preposterous to admit or imagine for a moment that intelligent men would be the architects of the destruction of their own wealth. I know of no set of men who eat so little or sleep so poorly during periods of panic as the bankers, and the idea that they conspire to bring about such conditions is more than I can imagine and more than I am willing to ask others to believe. There could have been no sane motive for it. The very first effect of a stringency reaches the banks; it renders their means unavailable. You will not find at such times the discounts of banks as large as under ordinary circumstances, notwithstanding the pressure of their dealers and customers. So anything like panic or stringency in the country acts with doubled distilled potency upon the banks and bankers, and the theory

that they combine, or connive to bring about their own wretchedness, misery, loss, and suffering is certainly chimerical.

Mr. COX. I have not made that point.

Mr. HARTER. I would not have spoken, Mr. Cox, if you had expressed it.

Mr. COX. I want to call the gentleman's attention to one point. I am not discussing the motives of the banks or bankers. We know as a fact that since 1882 the banks have retired a large portion of their circulation. Now, there was some motive for their doing that.

Mr. HARTER. And you would like to have my views as to what that motive is ?

Mr. COX. I do not care anything about the motives; I am trying to get the result. They did retire the circulation, and do not you think that was a serious disaster to this country ?

Mr. HARTER. I do.

Mr. COX. If you increase the circulation and increase the power, whatever may be the motives for what they have done since 1882, would not it bring about the same result ?

Mr. HARTER. In other words, would it be a proper incentive to anybody ? I would put a proper incentive before them. I do not regard banks as different from other institutions.

Mr. COX. Nor do I.

Mr. HARTER. I consider the same human feeling of selfishness and desire for profit pervades the bank circles as it pervades all others. I have had dealings with all classes, and I find the same kind of human nature in each of them.

Mr. HALL. I object to the gentleman from Ohio speaking of people living on farms as Populists.

Mr. HARTER. I may be as properly considered a farmer myself as much as 99 out of 100 Populists. If every farmer is a Populist, then I would have to sail under that banner myself, because I am to an extent a farmer. But I find this disposition for gain and to take advantage of every proper means for a profit exists in all kinds of natures, under all kinds of names; that it fills every man's shoes, no matter what his occupation may be.

Mr. COX. Now, referring back to the proposition I submitted to you, if you increase the power of the banks to increase the amount in circulation, of course the object they would have in taking it out is to make money. That is the only incentive that there would be. Now, knowing what has been the case since 1882, do you propose to increase the circulation up to the par value of the bonds and then not put any restriction or any compulsion on the banks in any shape to compel them to keep up any amount in circulation ?

Mr. HARTER. I certainly do. I am not one of those people who propose to put everybody into a straight jacket by law. In fact I take an opposite view of the case. I would take away every law which we could do without and control people as little as possible, and I would put a legitimate motive before citizens or corporations which would lead and direct their course rather than compulsion by law. I am not a believer in much law; I am a believer in little law. I would let the Populists do without law as much as possible, and I would let everybody do without law as much as possible. I would not put a sentence of law in the statute books, except where it was absolutely necessary, and government, I believe, would be more efficient and purer if that was the rule.

Mr. WARNER. Before you get off that point. I understand the

gentleman has explained that in his view there would probably be an increase of currency to the extent of one-ninth?

Mr. **HARTER**. A positive increase.

Mr. **WARNER**. Do I understand the gentleman to urge his bill mostly upon that ground, or rather upon any expectation that the measure he proposes will be productive of a greater increase than that?

Mr. **HARTER**. I am coming to that, and I thank you for the suggestion. In speaking as I did, I only spoke of the positive increase. Now, I come to a point largely suggested by my friend Mr. Warner, and that is the negative increase. The profit on circulation equal to the par value of bonds is much greater than it is now. You will have not only the increased circulation upon the bonds already deposited, but upon all that may hereafter be deposited; therefore you see you have made the deposit of more bonds profitable. Banks will buy further securities upon which to take out circulation. The advantage to the banks is so obvious that there can be no reasonable doubt but they would take out, practically without exception, at least the additional circulation on the bonds which are already deposited, amounting to say \$20,000,000, and it would be distributed just where it is wanted in all parts of the country. Twenty million dollars distributed, all the banks would be far more effective for the purposes of business than \$20,000,000 dumped into any central market, whether it be San Francisco, Chicago, New York, or elsewhere, because from that central market it would take weeks and months to get it into channels where it would do the most good. Whereas under this law the new money will go where it is needed and where it is most useful. The negative advantage is also very great. Every bank with a large deposit on which it pays no interest; nearly every bank in the country indeed would be inclined to buy additional Government bonds and get out circulation, because it would then become profitable.

Now as to the point that the banks since 1882 have reduced their circulation. That is a pure matter of business, and not of conspiracy. It has been the individual work of each banking institution, not by connivance with others. A bank finding Government bonds bearing 4 per cent interest sold as high as 130 and, knowing that when bought at 130 and held until 1907 it would lose the 30 per cent and that meanwhile the bonds pay but 4 per cent, and that upon the par value only and not upon the market value, and as the bank can get but 90 per cent circulation it knows that it can employ its money more profitably in direct loans, and therefore banks have had an inclination to withdraw bonds they had on deposit, and in many cases they brought down the quantity of bonds so deposited to the lowest amount that they were allowed.

Mr. **HALL**. I am, up to the present against your proposition, and I want to get a right idea of it, and I want you to make it clear to me why it is that, if you allow the additional 10 per cent to be issued, that will be an inducement to the banks to take out that additional currency.

Mr. **HARTER**. Suppose we get at this thing in a practical manner. I now suppose a case where he and I own a national bank, having a capital of \$100,000 and some surplus, and say we had on deposit with the United States Government \$100,000, at par, of Government bonds drawing 4 per cent interest. Now, upon that we would receive \$90,000 circulation. The fact we had those bonds on deposit and the fact that we had taken out that circulation is presumptive evidence that you and I as owners of that bank, up to this time, were doing

wisely. Now, under this law, without the expenditure of another dollar, without the investment of another penny of our assets, we would be able to take out \$10,000 additional circulation. You would come to me and say, "Mr. Harter, what are we getting for money?" Now, while we may not be getting the rates my friend from Kansas mentions—

Mr. DAVIS. Sometimes they get as high as 36 per cent.

Mr. HARTER. I suppose those are Populists who lend money at 36 per cent?

Mr. DAVIS. There are none of them in the banks.

Mr. HARTER. I did not suppose a national bank would be apt to get 36 per cent, even in Kansas.

Mr. DAVIS. They tell me so; I never paid it.

Mr. HARTER. If that is so, I think the watchfulness of the leaders of the Populist party ought to be confined more closely at home, and after they have corrected the evils at home (and 36 per cent interest is a crying evil) they could better correct those abroad, on the principle that after having disposed of the beam in their own eye they could more easily remove the motes in the eyes of others.

Mr. DAVIS. We have done that in Kansas, and now we have come to Congress to do it.

Mr. HARTER. But let us return to the illustration. You would say, "Mr. Harter, I discovered by a law passed the other day, which was signed by the President, that we are entitled to take out \$10,000 additional circulation; ought not we to do it?" And I say, "Let us see what effect it would have upon our profit for a year. Ten per cent circulation would give us \$10,000." I say, "We could not, under the law, lend all of that, but we can lend \$8,500." Ten per cent (the Kansas rate) on \$8,500 would bring our bank \$850 a year net profit, absolutely with no expense to us.

Mr. HAUGEN. There is the expense of the tax on this additional circulation?

Mr. HARTER. That is \$85.

Mr. HALL. It would be \$100, as it would be 1 per cent on the \$10,000.

Mr. HARTER. You are right. So we have \$850; and, taking \$100 from that, would leave us \$750, which would be absolutely net profit to be divided between you and me jointly and equally, which would not be possible, of course, under the present law.

Mr. COX. Most every banker has gone through that reasoning time and time again.

Mr. HARTER. Yes, sir.

Mr. COX. Let me call your attention to this. Of course, we started upon the point that there must be an inducement to take out circulation; that is the only method. If you have this issue increased in that way it would naturally advance the price of the bonds.

Mr. HARTER. A little.

Mr. COX. And it is impossible to prevent it. Now, we know as a matter of experience that the reasons that the banks retired their circulation so much was the bonds got to such a high price that when they sold at 130 the bankers made more money by withdrawing the bonds than by keeping up the circulation.

Mr. HARTER. Now, I may with proper courtesy answer my friend's question?

Mr. COX. Certainly.

Mr. HARTER. When he assumes that the price of bonds would advance he answers himself, because the advance in price would be owing to the fact that more bonds were being bought for deposit.

Mr. HALL. But would not that very advance prevent their taking out circulation the way it does now?

Mr. HALL. We have evidence here from the president of one of the largest banks west of the Alleghenies—President Gage, of Chicago—in which he says that his bank has not taken out a dollar's circulation.

Mr. HARTER. That bank is a notable exception and it is one of the greatest banks in existence, and it enjoys advantages which are uncommon among banks. It has a perfectly enormous deposit without any interest, and circulation is of no consequence to such a bank; but such banks are exceptions.

Mr. HALL. I have been informed that the same is true of five of the largest banks in New York.

Mr. HARTER. They are also exceptions, and we must not judge business by exceptions; an exception usually proves a rule.

Mr. SPERRY. I would like to call your attention to the fact—it is assumed that these banks deposit bonds to the full amount of the capital.

Mr. HARTER. Oh, no.

Mr. SPERRY. They deposit the minimum amount which the law allows them to deposit under the national bank act?

Mr. HARTER. There are some things to account for this. It is something to say, for a banker like Mr. Gage—it is a pleasant thing perhaps to him to be able to say that his bank has no circulation and that it does not care for it. But there are not many banks like his bank. I am not proposing a compulsory measure, but I am doing that which I believe is far better. I present to the bankers of this country an opportunity for an additional profit without any additional investment.

Mr. COX. Now, I want to call your attention to this, for I am greatly interested in this bill. You propose to issue dollar for dollar upon the par value of the bonds?

Mr. HARTER. Yes, sir.

Mr. COX. You put that in the hands of a corporation, and it goes to work with that money?

Mr. HARTER. Yes, sir.

Mr. COX. Now, then, you turn around, and after you have done that and given dollar for dollar for the bonds and tax the people of the United States 4 per cent in order to pay those identical bonds that they have, let me ask you now, as between man and man, and as a legislator, if that is right?

Mr. HARTER. I think the gentleman is mistaken in his view of this matter. These bonds are already in existence.

Mr. COX. There is only one tax on the banks and that is charged up on every man's bank books as part of the expenses, 1 per cent; but I ask you as a legislator, would you provide a system that gives a banker dollar for dollar on his bond to loan to people at such a rate of interest as rules, and they pay for it according to what it is worth; now, what right then, when they do that, have you to turn around under your system of taxation and make them pay 4 per cent more on that same identical bond?

The CHAIRMAN. Allow me to suggest the additional question, as to whether the same principle would apply if you allow the State banks to issue circulation upon State bonds and get interest on the State bonds, and also from the people. Do you think that is right, or not?

Mr. HARTER. I think it is, but I think the whole situation as stated by my friend Mr. Cox is a fallacious one.



Mr. COX. The chairman's question seems to be a part of your argument, and that is what it was intended for.

The CHAIRMAN. I simply desired to have that go along with your question.

Mr. HARTER. I will not incorporate it as a part of my argument, but it is proper that I should take the opportunity which is given to make use of it, and I know that nobody would be more willing I should than Mr. Cox. But the point is this: Your question is stated in this way: "Would you have the Government issue bonds expressly for this purpose upon which it should pay 4 per cent interest; would you have the Government go into debt to pay interest for the purpose of providing security for these notes?" I should answer no, sir. But we must take the situation as we find it. These bonds are in existence. The Government is compelled to pay the interest upon them whether in the hands of private holders or not, so there is no loss of interest to the people, there is no heavier burden upon the taxpayer because these are deposited by banks, and therefore there is no room for the question Mr. Cox has asked me. There is no tax put upon the country because a bank buys bonds in the open market and then deposits and gets circulation upon them. They are in existence now and the Government is obliged to pay interest upon them, and it makes no difference to the Government or the taxpayer whether that interest goes into the hands of a bank or to a private holder. The national-bank system puts no burden upon the people and it is a mistake, it seems to me, to urge that view. I certainly would be willing that any national bank in the United States should buy in the open market existing Government bonds and deposit them as security for circulation.

Mr. COX. Now, right at that point, I understand that worked very well. Suppose you take your bonds and deposit them with the Government of the United States and you get issues on that bond dollar for dollar of its par value. The tax upon the circulation is not paid by the bank—every man understands that—it is a part of the expenses of the bank, and that is 1 per cent. Now, suppose you take the bond and get dollar for dollar of the par value and you repeal that 1 per cent tax on the circulation and you have got no use for the 5 per cent, assuming you admit that. Now, then, if you get that money dollar for dollar, clear of all expense, clear of any cost, what can be unfair in that proposition to you and which would relieve the people; you get the very thing you are trying to get, an increased circulation, and at the same time you reduce the tax that has to be paid on the bonds?

Mr. HARTER. I believe the gentleman is now alluding to the Johnson bill?

Mr. COX. What would be the harm in that?

Mr. HARTER. I confess I have no objection whatever to the Johnson bill. I think his bill is very wholesome legislation, but his bill in no way interferes with the measure we are now talking about. They may well go hand in hand; and the passage of the Johnson bill would be no objection to the passage of this bill; but I would like to answer the question of the chairman also. I can see no injustice if State banks were authorized to issue notes after depositing adequate securities, and if it should be done I see no injustice whatever in the State banks receiving interest on these securities they deposit. I have another bill which I am about to present, in which I endeavor to provide circulation without collateral security, which would do away with this entire question Mr. Cox has just raised.

Mr. WARNER. Is it not a fact, in addition to whatever force there

may be in the answer of the gentleman from Tennessee, that the payment of 4 per cent interest upon the bonds is not a particular hardship caused by the banking system or any burden upon the people caused by the banking system? Is it not a fact that the people have actually been relieved from a large portion of taxes which they otherwise would have had to pay on account of the fact that the demand for these bonds for banking purposes has been largely instrumental in reducing the rate of interest the Government has had to pay—from 7.3 per cent down to 3 per cent?

Mr. HARTER. In reply to the gentleman I will say he is quite right, and I am obliged to him for the suggestion, which adds a great deal to the force of what I have said.

Mr. JOHNSON, of Indiana. Repealing the 1 per cent tax on national-bank circulation would be an additional incentive to get the money; you would not advise that, however?

Mr. HARTER. You would intrench upon the rights of the people and inject a real element of injustice in place of the imaginary one which has been suggested here to-day. In other words, I think the tax of 1 per cent is a very moderate and a very fair tax indeed upon bank-note circulation, and I do not think it ought to be decreased, especially at a time when the revenues of the United States are decreasing and its expenses are increasing, and when we are face to face, as everybody knows who looked at the last quarterly return of the Government of the United States, with a great deficiency which must be met by the issue of bonds bearing interest.

Mr. HALL. Was it not expressly asserted and understood at the time when the tax of 1 per cent was put on the circulation that it was for the purpose of meeting expenses incident to the issuance of the circulation, and will not one-half or one-quarter of 1 per cent pay all those expenses and leave a surplus?

Mr. HARTER. I can not answer positively whether that was the statement or not, but certainly it was not in the nature of a contract, and it is equally certain that the present time is not one when the Government can afford to be generous to corporations which are in profitable existence and whose profits depend somewhat upon the advantages they secure through the incorporation given them by the United States Government. If the Treasury was overflowing with money I should say it would be quite right to reduce the tax, and my friend, Mr. Davis, might have more money circulating in the United States, but under the present condition of affairs I would not favor any reduction in the tax on national-bank circulation.

Mr. SPERRY. You think it would give a demand for them if it was adopted?

Mr. HARTER. Because I think the profit under a system like this would be very considerable on circulation, and the law is not compulsory, and the banks would not be required to take out the extreme amount of circulation unless they chose to do, but if they so chose it would be evident that the banks considered it was profitable to them to take out the circulation and pay the tax, just, for instance, as the producer of whisky at Peoria regards it as a profitable enterprise to make whisky and pay 90 cents a gallon tax upon it.

Mr. JOHNSON, of Indiana. You admit the only way to accomplish this is to make it profitable?

Mr. HARTER. Yes, and this will make it so I think. I think also, rather than to work upon any new theory either you or I might develop here, it is better to make as little change in existing laws as possible.

The laws are very good and they have been working very satisfactorily until recently, therefore, it seems to me, the changes ought to be small and moderate in amount and extent and they ought to be made slowly. If, however, this should not be effective in increasing the circulation under the 1 per cent tax, then it might be wise to reduce that tax.

Mr. SPERRY. In your judgment if you relieve the bank tax the effect would be to inure to the benefit of the banks?

Mr. HARTER. Instantly, yes, sir; to the benefit of the banks.

Mr. SPERRY. You agree with Mr. Cox that the people pay the tax?

Mr. HARTER. I think all taxes are distributed. Where you levy a tax, if it is on real estate, it is the renter who finally pays it; if on capital, the borrower pays; but it seems to me the banker has the feeling that he gives it, and that he gets the whole benefit of it, and he is very anxious, as you must have observed, to have the tax taken off.

Mr. SPERRY. Mr. Cox's suggestion is that the burden falls upon the people; do you agree with that?

Mr. HARTER. All burdens finally rest upon the people, who get the favors of the banks by being borrowers. You can not change that by law.

Mr. SPERRY. If Mr. Cox's theory is true it will benefit the people to have the tax off by reducing interest on the money loaned?

Mr. HARTER. It would benefit them infinitesimally, and very indirectly, but it would be a direct and large disadvantage to the General Government. As a matter of economy in the long run, I am certain it will be wise and well to keep the tax of 1 per cent circulation.

The CHAIRMAN. Did I understand you to say you favored taking off the 10 per cent tax on the circulation of State banks?

Mr. HARTER. Under proper conditions I favor it, but without what seems to me to be proper conditions I should not.

The CHAIRMAN. Would you under equal conditions say the circulation should be taxed 1 per cent, the same as national banks?

Mr. HARTER. They certainly should be taxed to the same extent as the national banks. I would not legislate to give disadvantages to State banks or give them circulation under more favorable conditions than national banks get it on.

The CHAIRMAN. With proper regulations you are in favor of the reduction of the 10 per cent to 1 per cent?

Mr. HARTER. I certainly am.

Mr. WARNER. You consider it entirely practicable?

Mr. HARTER. Thoroughly so.

Mr. BLACK. Do not you think it is in the Democratic platform?

Mr. HARTER. I have interpreted that to mean that we would take an excessive and unreasonable tax off of State banks by reducing it to a fair and equitable tax, and that—

Mr. HALL. You recollect those words in the platform?

Mr. WARNER. You would take off the prohibitory tax?

Mr. HARTER. Yes; it is fair to assume that our party, indeed, that all of us, have some common sense left in us, and it is not to be supposed that the national Democratic platform proposes to authorize the issuing of unsecured paper by State banks.

The CHAIRMAN. I believe you said there was another bill that you had?

Mr. HARTER. Yes, and I now come to House bill No. 62, and this I consider one of the most important bills, in a business sense, and a human sense as well, that has ever been presented to the House, and I do not think I can claim anything like entire originality for it either. It is a bill in the nature of an insurance policy for the depositor and

stockholder. It is a bill providing that under no circumstances shall an officer or an employé of any national bank be permitted to borrow any money whatever from the bank he is connected with; but it does not prevent a director of a bank, whose sole connection is that of a stockholder and a director, from borrowing money, nor does it prevent an officer or employé of one national bank from borrowing from other national banks all the money he can get.

Mr. COX. Has your attention been called to the bill that has been reported by this committee?

Mr. HARTER. Yes, sir.

Mr. COX. You remember this same bill of yours was under consideration and there was a bill formulated by the committee and reported to the last House?

Mr. HARTER. I say in response to that, Mr. COX, I think the bill reported is a good bill, and I am one of those men who are willing to take less when he can not get the whole, and I believe your bill is in the right direction, and I am very confident that the result will show it to be so. Your bill will be a wedge which will ultimately secure the passage of such a bill as this of mine, and I shall vote for your bill with a great deal of pleasure.

Mr. HAUGEN. Wherein does your bill differ from the bill reported by this committee?

Mr. HARTER. It does in this particular, that under no circumstances does it permit an officer or an employé of a bank, directly or indirectly, by overdraft, discount, or loan, to borrow anything from the bank he is connected with. It makes him absolutely a trustee for the capital and deposits of that bank.

Mr. HALL. Mr. COX's permits no borrowing except by a vote of the directors?

Mr. HARTER. No.

Mr. HALL. Yours allows the directors to borrow?

Mr. HARTER. Just as now.

Mr. HALL. In that regard, your bill is looser than Mr. COX's bill?

The CHAIRMAN. Mr. COX's bill does not refer to the directors at all.

Mr. COX. I beg your pardon. When you get your mind on the proposition you will find no trouble with this bill. The bill in the House which was reported by this committee prohibits the directors, president, vice-president, and employés of any character in the bank from borrowing any of the assets of the bank except in a certain way—

Mr. HARTER. By giving due publicity, I believe.

Mr. COX (continuing). And it must be kept as a part of the minutes; and in addition to that there is another restriction upon them, that it is made upon the reports called for by the Comptroller of the Currency showing the liability of everyone in any capacity whatever who is connected with the bank, though that report is not made public for reasons very obvious. Now, let me give you the reasons why the bill was made so it would be stringent, but not absolutely prohibitive. You take the rural district, take my own country, where our banks hardly ever exceed \$100,000. You can not organize a bank with such stringent restrictions. There are very few men who have got the money to go into it. And if you say to them that they are absolutely restricted and can not borrow money out of the banks, that just leads the officers into another bank. That is the result and that was the reason last Congress that we qualified your bill to that extent, so as to facilitate, if possible, the organization of banks in the rural country with small capital, so that the directors and president or vice-president

could borrow money under such conditions as I have stated to encourage banking in that way. Now, when you come to the proposition of overdrafts, this bill that is in the House absolutely prohibits it because there was no way to get at that only to cut it off. Now, I think if you will take your bill, if I had your bill before me, and examine it carefully with the bill before the last Congress and then take into your mind the scope of country which it is intended to cover—the agricultural and rural country—I think you would see that we have gone pretty nearly as far as we can in that direction.

Mr. **HARTER**. While I can not say I am entirely converted to the view expressed by Mr. Cox, I can say, with the utmost heartiness of this measure that it is a wholesome one, a long step in the right direction. As a member of the House I will vote with great cheerfulness for that bill.

Mr. **COX**. This bill in the last House was submitted to the Comptroller of the Currency, who made an examination of it very carefully and it met with his approval, and I have not had time to submit it to the present Comptroller of the Currency, but I am sure that no one will object to that bill when he understands it.

Thereupon the committee, with the understanding that Mr. Harter should continue his remarks at the next meeting, rose to meet on Thursday, October 5, at 10 a. m.

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COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C., Thursday, October 5, 1893.

The committee met at 10 a. m., Hon. William M. Springer in the chair.

**FURTHER STATEMENT OF HON. MICHAEL D. HARTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO.**

Mr. **HARTER**. Mr. Chairman and gentlemen of the committee: I believe, with your consent, I will ask to have the hearing on House bill No. 66 begun *de novo*, from the fact that I think if there are fewer interruptions during my main statement, I can make it both briefer and clearer.

The **CHAIRMAN**. The notes taken in reference to the bill will be erased, and you may start *de novo*.

Mr. **HARTER**. I wish to say that I will be glad to answer any questions which my statement may call forth. The object of this bill is to perpetuate and extend the usefulness of the national-bank system, not to curtail it in any way, and to do this in a safe manner by making just as few changes in the existing law as possible. It has been my effort to have these changes so clearly stated that their effects can be followed readily and therefore the consequences of the adoption of this bill will be foreseen from the start.

Clearly, I think, unless the Government is to increase its bonded indebtedness, the limit of circulation of the national-banks has been, if not reached, nearly so. As the country goes on developing, it would seem to an impartial observer that it would be a great misfortune to abridge the system, certainly it would be in the mind of a man who considers the system to have been safe and useful. Owing to its wide dissemination through the country and the dependence upon it of

nearly every interest, the curtailment or the abolition of it would be one of the most stupendous disasters that could occur to this country. Any prudent man who cares to look at these questions from the standpoint of the general welfare will, I think, be glad to recognize the usefulness of this system and be anxious to perpetuate and extend it.

The aim of this bill is to provide a means by which the circulating notes of national banks will always be thoroughly secured and safe, so that they will have the confidence of the people and continue to be regarded as they have been regarded during the last thirty years. In doing this an attempt has been made, as will be seen, to protect the Government amply and at the same time to put no unreasonable burden upon the banks. I believe the efforts to make the system more profitable to the banks, and therefore more attractive to capital, without being in any respect burdensome to the people, can be accomplished.

The first section of the bill provides for doing away with collateral security in the shape of United States bonds for the circulation of notes of national banks, and authorizes banking associations having such collateral bonds on deposit to remove them from the custody of the Government.

Section 2 presents a security which it is proposed to substitute for the collateral security, and this security is a first lien upon all assets of every national bank association.

Section 3 proposes to insure the Government absolutely from any loss by adding another kind of security, which is the power to make assessments upon the other national banks in any given State in which delinquent banks may be located, to make up any deficiency in the security which the Government receives under section 2. You will observe that it is arranged that those assessments shall be equitable, being based on the capital and surplus of the banks located in the State in which the delinquent bank had been doing business. It is very clear that section 3 protects the Government absolutely and perfectly from any possible loss growing out of the substitution of the security described in section 2 for the security which the Government now receives from the banks in the shape of United States bonds. A clause should be added to the bill as a part of section 2 clearly making the United States responsible for the redemption of national bank notes issued under it, which I have in the draft before you overlooked.

To a practical man the first question arising would be this, I think: Had the provisions of this law prevailed since 1863, or during the whole of the last thirty years, what would have been the result to the United States, and what would have been the effect upon the banks themselves growing out of this change in the method of securing the circulation of their notes? I answer that a first lien upon the assets of the banks, as provided for in section 2, would have supplied the Government with the funds to make it whole for its full and prompt redemption of all national bank notes, less an aggregate sum of not more than one million and a half dollars. This deficiency, covering a period of thirty years, would, under the terms of this bill, have to be made up of assessments upon the banks, which is provided for in section 3. An assessment amounting to about one-sixth of 1 mill per annum upon the capital stock of the national banks in existence during this period would have made up this deficiency to the Government. It is easy to see that an assessment of this size is so infinitesimal as not to give rise to any criticism or to be open to objection on the part of stockholders in these institutions.

The CHAIRMAN. Will you explain whether there might not be a

greater liability of loss if the bonds of the United States were not put up as collateral?

Mr. HARTER. I think probably that there would have been a somewhat greater liability to loss, but, in view of probable legislation, which will reduce the power of the officers of national banks to borrow the funds of the banks over which they have charge, and the fact that my bill in section 4 provides that the aggregate circulation, secured in the manner proposed by the bill, shall not exceed 75 per cent of the amount of the paid in and unimpaired cash capital of each bank, I think that losses would not be as large in the coming thirty years, with the circulation secured in this manner, as they have been during the past thirty years of operation of the banks under the existing law. It might possibly be contended that in giving the Government a first lien upon the assets of national banks as its security would injure to some extent the interests of depositors, but this objection I think disappears when you remember that under the present system the Government already has a preferred lien upon every bank in the shape of United States bonds deposited as collateral security for the circulating notes. Directly replying, sir, to your question, I think there would be no possible loss to the Government.

The CHAIRMAN. The Government has never been compelled to assert its lien, owing to the fact that the bonds have always been sufficient.

Mr. HARTER. The bonds being a portion of the assets of each bank, the result is finally the same, that the Government has a preferred lien upon the assets of each bank to secure its circulation.

The CHAIRMAN. Not upon the assets as represented by the deposits, but upon the assets as represented upon the capital stock, which is merged into the bonds.

Mr. HARTER. The lien would be of the same general nature. The bond lien of the Government is a first lien upon the total assets, no matter what they may consist of. Under this law a lien of the Government would be a first lien upon the assets of the bank, and while it might be said there is a distinction, there is really no difference, and that, so far as stockholders or depositors are concerned, it makes no difference whether the United States is secured by bonds or in the manner the bill under consideration proposes.

The CHAIRMAN. Not unless it should be dissipated by losses or be stolen.

Mr. HARTER. I think also the fact that under section 3 each bank would have a tolerably direct interest in the control and management of the other banks in the State would be wholesome, and would result from the passage of a bill like this.

During the last thirty years the Government has received in taxes on the national bank note circulation about \$72,000,000; and even with the omission of section 3—a section which, however, I think is very necessary to the completeness of the bill and just to the banks, as well as necessary for the full protection of the Government—the Government losses, as already stated, would have amounted to only a million and a half dollars, leaving the net profit to the Government in the shape of taxes on circulation of the banks during this period about \$70,000,000.

The CHAIRMAN. You do not take into consideration the cost of printing?

Mr. HARTER. From which, of course, would have to be deducted the cost of the printing of the bills and the administration of the comptroller's office. The expenses attending these items I have somewhere among my papers, but I have not had time to look them up, nor do I

think it is necessary, for I can say the total of such expenses is but a small part indeed of the sum which the Government has received from the taxation on the circulating notes of the banks. Under a bill like this, which would give a reasonable opportunity for the increase of national bank capital and which would almost certainly result in a large average increase in the amount of circulation issued by each bank, it is certain that the receipts of the Government from the taxation on national bank circulation would greatly increase in future. It will be seen, I think, that the circulation granted upon these terms to national banks would be more profitable to the banks than the circulation they have received from the Government under the present law when the price of United States bonds and the rate of interest received upon them are taken into consideration.

Another great advantage to the people of the country, and to the business interests of the country, in the continuation of a system like this, would be the practical increase of available bank capital in the United States. I will endeavor to make this clear as it appears to my mind.

Mr. WARNER. Do you mean as a basis for currency?

Mr. HARTER. I mean as a basis for loans to the public.

Mr. JOHNSON, of Indiana. For all banking purposes?

Mr. HARTER. For all banking purposes. For the purpose of illustrating this feature in a general way, and avoiding unnecessary fractional sums, we will suppose that a national bank is now in existence having a capital stock of \$100,000 and a surplus fund of \$15,000. We will now suppose that this \$115,000 is invested in United States bonds, and that this sum has enabled the bank to place in the Treasury of the United States, through the office of the Comptroller of the Currency, \$100,000 at par in 4 per cent bonds of the United States, and that the bank has received \$90,000 of circulating notes. Let us suppose that this bank has no individual deposit whatever, and that its total assets are represented by the figures just stated. Let us see, under this state of affairs, what service, in the way of accommodation to borrowers, this bank could render to the community in which it is located.

The present law, I think wisely, requires that at least 15 per cent of the liability of a bank—whether such liability be caused by circulating notes or its deposit account—shall be held by the bank as a reserve. This would require that the bank should keep on hand, out of the \$90,000 of circulating notes received from the Comptroller, the sum of \$13,500. This would leave available for loans upon the part of the bank the sum of \$76,500. Now let us see what amount of accommodation to the community in which it was located a bank could extend, if its circulation was secured under the provisions of the bill we are now considering.

In the first place, its \$115,000 of capital and surplus could be loaned out, as there is nothing in the law, and there should be nothing, requiring any reserve to be held against the capital and surplus.

Mr. HARTER. The bank will start then with an ability to loan \$115,000, and the bill provides that a bank under these circumstances would be entitled to \$75,000 of circulating notes, and under the law it would be necessary to hold a reserve of 15 per cent against this \$75,000 liability.

This reserve would amount to \$11,250. Take this sum from \$75,000, the amount of the circulating notes received, and it would leave \$63,750 which the bank would be authorized to employ in discount. By adding this \$63,750 to the \$115,000 already referred to, we find



that the bank would have power to accommodate the community depending upon it for loans to the extent of \$178,750, instead of having the power to loan only \$76,500; so that under this bill the national bank capital of the United States would be practically doubled.

In section 4 an emergency circulation is provided for. The security for this, it will be noticed, is made the same as the existing collateral security provided for by the law now in force. This circulation is intended to meet a sudden and desperate commercial condition in the country—such a state, in other words, as we have been going through for seven months, more or less, in the United States. This circulation, as the bill describes it, is not intended to be of a permanent character, but to operate as a kind of safety valve, and would be elastic in its character, providing this very necessary element at a time when, under our present system, it is always wanting. It provided a bridge, it seems to me, over every dangerous crisis likely to occur, financially speaking, in the future history of the country. You will observe that the tax upon this emergency circulation, instead of being the ordinary tax of 1 per cent, is fixed at the enormous rate of 6 per cent. The object in fixing so high a rate is to cause the prompt withdrawal of this emergency circulation as soon as the necessity for it ceased. One of the misfortunes of the ordinary way of meeting commercial panics and financial crises in this country has been that the cure has been, in its results, almost, if not quite, as bad as the disease. The locking up of money (caused in the main by the timidity of those who held it, and rarely, perhaps never, by organized banking institutions) under panic circumstances has always and largely reduced the supply of current money in the country. Section 4 of the bill would meet this condition, and upon the return into general circulation of the ordinary currency of the country so locked up, the emergency circulation provided by the bill would be promptly retired. I think it would be a calamity in the future, as it has been in the past, to allow all emergency money, thus called into existence by dangers of a temporary character, to remain in circulation, producing a redundancy, after the crisis is over; for, considered in connection with the business interests of the country, immediately succeeding a period of panic, it would probably, in its consequences, be only second in injury to the real business interests of the country of the panic or condition of the crises itself.

Section 5 is the usual section which provides for the repealing of such portions of the law as would be in conflict with the bill under discussion. I have stated briefly, and as clearly as I can on the spur of the moment, the objects of the bill, and the manner in which these objects would be carried out if the bill became law. I am conscious that in doing so I have overlooked, perhaps, some features of interest, and have probably disregarded some of the apparent objections, at least, that may have arisen in your minds, and if you desire to ask me any questions in connection with the bill to the extent that I am able to answer, I will do so with great pleasure.

Mr. JOHNSON, of Indiana. Under the existing law each bank is responsible only for its own administration.

Mr. HARTER. Yes, sir.

Mr. JOHNSON, of Indiana. And under your system the banks in a given area are made responsible for the proper administration of each one of the banks in that territory?

Mr. HARTER. To a very limited extent.

Mr. JOHNSON, of Indiana. That would be a drawback to banking?

Mr. HARTER. I would have to answer that by saying that people

who expect to go into the business would consider the extent to which that would be a drawback, and in considering that, they would probably do as I have endeavored to do in my argument before you this morning—ascertain from the experience of the past what would probably be the liability that would be incurred in future under this law; and this, as I have already stated, would be infinitesimally small.

Mr. JOHNSON, of Indiana. But you must remember that under the past condition of affairs it has been found impossible that there should be a deficit, owing to the fact that Government bonds were up as security.

Mr. HARTER. I am aware of that; but I wish to say this: The number of banks can easily be reduced, very much indeed. In fact, I think the word "enormously" is proper, under the circumstances, especially if, as seems probable, the bill reported by your committee, which limits the power of the officers of national banks in borrowing upon their own accounts, directly or indirectly, from the funds of the bank they happen to be in charge of, becomes a law. Investors in national-bank stock will conclude (if both bills become law) that instead of their liabilities in succeeding years being largely more under this law, the chances are that their liabilities as stockholders would be very much smaller; and if this is true (and I believe it is), then the inducement to invest in national-bank stock would be increased rather than decreased.

Mr. JOHNSON, of Indiana. It seems to me you attach too much importance to the effect of this bill limiting loans to officers of banks; and it does seem to me that the making of each bank responsible for the conduct of every other bank in the State would be such a drawback that people would go into State banks of issue, and thereby bring about a scarcity of money, instead of a sufficiency of money.

Mr. HARTER. The safest prediction for the future must be drawn from our experience of the past, and fortunately an illustration which will go to establish the correctness of my prediction in this matter is at hand, for I recall that one of the most popular banking systems we ever had in the State of Ohio was our Ohio branch, or State banking system. Under that system each bank was liable, to a greater extent than this bill provides, for the debts of the other banks; and not only was there no difficulty in inducing capital to go into our State branch banking system, but charters were very eagerly sought for.

Mr. JOHNSON, of Indiana. That was probably before the present system was known. Banks might be willing to accept circulation under the conditions existing at that time, but might not do it now.

Mr. WARNER. What was that system?

Mr. HARTER. It was the branch system in the State of Ohio. This class of banks were all closed up in consequence of the 10 per cent United States tax placed on State bank circulation.

Mr. JOHNSON, of Indiana. The point I was making was that since this time it has been developed that there is an easier and safer system of banking than existed then, and perhaps with this knowledge a man who would have gone into the old system would not be willing to do so now and be liable for the defalcations of other banks.

Where do you get your ideas which are embodied in this bill?

Mr. HARTER. It is a little hard to answer that question positively. This is a subject to which I have given more or less attention for about thirty years, and I have been obliged at times to change my opinion and to shift my views upon these questions.

The strongest argument I have ever read or heard in favor of notes secured as proposed in section 2 of the bill was made by Mr. Horace

White, at Drexel Institute, in Philadelphia. Up to the time I heard his argument, I was of the opinion that it was essential that bank-note circulation should be secured by some kind of acceptable collateral. Since that time I have changed my mind on that subject. The additional security proposed in the bill, which gives the Government the right of assessment, I got from a book published, I think, by the president of the Philadelphia National Bank. The emergency-circulation feature, I supposed, I had discovered for myself—

Mr. JOHNSON, of Indiana. You evolved that from your own inner consciousness?

Mr. HARTER. Yes; I supposed I had evolved that from my own inner consciousness, so to speak; but I found within a very short time after I had made this supposed discovery that the same general principle was embodied in a law which controls the operation of the Reich-bank, in Germany, and it is not very dissimilar from the protection given to the business interests of Great Britain by the suspension of the bank act in that country. I claim no special merit or novelty in the measure. I simply claim for it that it takes the national banking law as it now exists, and, upon safe and simple lines, modifies that system so that it may continue to be at least as useful in the future as it has been in the past.

Mr. JOHNSON, of Indiana. Under the present system the people are protected against failures; but under the system which you propose banks would have to go into liquidation.

Mr. HARTER. This bill makes no such changes as the gentleman's question would indicate.

Mr. JOHNSON, of Indiana. The Government would have to settle for the bank?

Mr. HARTER. Yes, sir.

Mr. JOHNSON, of Indiana. Do you consider it safe to the bill-holder? Under the present system it is impossible for a bank to squander the people's money; but under this system they could do so.

Mr. HARTER. Section 3 of the bill provides that these assessments shall be paid within thirty days. I think assessments, however, from the experience of the past, would be exceedingly infrequent.

Mr. JOHNSON, of Indiana. I did not notice whether you gave a lien on the bank for assessments to supply deficiencies.

Mr. HARTER. The power to assess would be a lien on the bank subject to assessment, and therefore there is no special clause to that effect in the bill.

Mr. WARNER. You refer in section 2 to this Government guaranty of a note. There is no guaranty.

Mr. HARTER. I would provide for such a guaranty.

Mr. WARNER. In other words, you do not propose that the Government shall give a guaranty?

Mr. HARTER. I propose that the Government shall guarantee the redemption of the notes.

Mr. WARNER. What is the present Government guaranty?

Mr. HARTER. Redemption guaranteed.

Mr. WARNER. Is there any such guaranty?

Mr. HARTER. Yes, sir. It will be found in one section, I think, of the so-called Sherman law.

The CHAIRMAN. He refers to the Government holding bonds, and when the bank is dissolved the Government takes up the notes.

Mr. WARNER. In other words, it is an acceptance of the notes. This is an entirely different thing from a guaranty.

Mr. HARTER. Here is a practical guaranty which is almost as efficient as it would be in specific terms. I exhibit a five-dollar bill issued by the First National Bank of Orlando, Fla., which shows the nature of the liability of the Government as set forth in the following terms:

This note is receivable at par in all parts of the United States in payment of all taxes and excises and all other dues to the United States, except duties on imports; and all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest upon the public debt.

I would also state that another thing making the notes absolutely secure in the hands of holders is the fact that, while they are not legal tender otherwise, they are under the present law, and would remain under this bill, a legal tender between national banks.

Mr. WARNER. In reference to this guaranty by the Government to which you refer, you do not refer to any Government liability beyond that under the present law?

Mr. HARTER. Yes; for the full and prompt redemption of such notes.

Mr. WARNER. Do you propose that these notes should be made a legal tender or specially receivable in any other degree than as under the present national-bank law?

Mr. HARTER. I do not; in other words, I would make no change in that portion of the existing law.

Mr. WARNER. You have referred to the branch banking system of your State. How was that managed? Was each of the banks left entirely to manage its own business affairs, or was it managed by some committee or representation of different banks?

Mr. HARTER. That was managed by a central committee or board of control located at the capital of the State. But the supervision of that banking system bore no comparison in promptness and thoroughness to the supervision of the Comptroller of the Currency as exercised over the national banks of the United States.

Mr. WARNER. As I understand the arrangement of that system described by you, it was something of a Lloyd's arrangement.

Mr. HARTER. In a general and modified way.

Mr. WARNER. Where is there a precedent to any extent for business men being willing to go into such a Lloyd's arrangement as is proposed by your bill? Is there any precedent from the beginning of the business of the world to the present time where men have been willing to become partners with other men in liabilities without a possibility of sharing profits and without the possibility of sharing in the control?

Mr. HARTER. I think the case I have cited in Ohio is only one of a large number in point.

Mr. WARNER. I appreciate the fact that in some respects it is peculiar.

Mr. HARTER. It becomes a precedent, and will become more valuable than ever because the supervision exercised over banks then was not as thorough and careful as that exercised over the national-bank associations now, and the liability under such a system as is proposed by this bill would be much smaller for stockholders than it was then; and I argue from that that the willingness, and I may say the anxiety, that existed during the time that that system was in use in Ohio to invest in the capital stock of banks would be increased instead of diminished.

Mr. WARNER. While you do not claim that there has ever been a precedent which involves the distinction which I make, yet in your

opinion the plan you propose is less objectionable as an original proposition than that outlined by my question?

Mr. HARTER. I mean to say that I do not think they are exactly parallel, but practically so.

Mr. WARNER. The Ohio circulation was secured by collaterals.

Mr. HARTER. Not the circulation of the branch banks. Our stock banks, organized under our free banking law of 1852, were secured by deposits of public stocks.

Mr. WARNER. I do not quarrel with the gentleman as to their probable safety. I wanted to know whether there was any precedent on earth for this.

Mr. COX. How can it be expected that a man would take his money and invest it in an institution that was subject to danger from the action of other institutions?

Mr. WARNER. I am free to say that I would not; but I agree that Mr. Harter is as good a business man as I am, and I do not want to quarrel with him as to a matter of opinion. As I understand, there is between \$600,000,000 and \$700,000,000 of national-bank capital now employed in this country. I may be mistaken about the amount. You propose to permit this issue to the extent of 75 per cent and an emergency issue of 50 per cent?

Mr. HARTER. Yes, sir.

Mr. WARNER. You are providing for a currency which is enormous—between \$400,000,000 and \$500,000,000—and which, in an emergency that might arise, would be increased to between \$700,000,000 and \$800,000,000 perhaps. If that be the case, what earthly basis of argument, as regards possible risk, does the gentleman make, from our experience with the national-bank currency, which is now outstanding to the extent, I believe, of less than one-fourth of the capital of all national banks, and which, before it was allowed to be issued, was backed by special security?

Mr. HARTER. I really can not understand the scope of the question.

Mr. WARNER. It is this: We have had an experience with currency which has been but a comparatively small per cent of our banking capital, and which, antecedently to being issued, was backed by special deposits. Even if the result is as you have stated, what conclusion can be drawn from that fact as to what the probable results would be of a currency issued to two, three, or four times that amount, upon the same capital, without any special security whatever?

Mr. HARTER. I answer that security would be precisely the same in one case as in the other, or, rather, under this bill the security would be greater, because the percentage of circulation to be issued would be smaller; it would be smaller as 90 is to 75. Under the present law there is no *legerdemin* by which the assets of the bank are in any way increased. In one case the assets remain in the bank, and in the other case a portion of them are specially set aside and are deposited with the United States Government.

Mr. WARNER. I doubt if I have made myself clear. You say that our experience has shown that the Government has called upon the banks of the country for only \$1,500,000 in thirty years in which we have had a national-bank system; and you say, even if there had been no special security there, that the risk would have been infinitesimal. Admitted that the risk was only \$1,500,000 by a system which provided ample security to meet it, and under which the result of experience shows only one-fourth to one-half of the capital represented was at any time represented by notes, now I ask him if that is any criterion of

the risks that would be involved under his system, under which it is proposed to leave the matter entirely under the control of the officials who do break banks, without the security which now lessens risk, and with double, treble, or quadruple the amount of currency issued on the same capital?

The CHAIRMAN. That matter will be considered by the committee later.

Mr. HARTER. I will endeavor to answer the question. When I stated that the losses would have amounted to but a million and a half dollars, I meant to state that under the conditions governing the conduct of banking for thirty years past that had been the loss, and had not the Government received this collateral security this record of failed banks during this period shows that the losses on circulation, if the Government had had only a first lien upon the assets instead of collateral, would not have aggregated more than a million and a half dollars. I take it for granted, first, that the conditions in the management of banks will not be any more perilous during the next thirty years than they have been in the past. I can safely go further and say that as a result of salutary legislation proposed by this committee the risk of loss must be decreased. My estimate, too, is based upon the supposition that banks will be managed as well and no better than they have been in the past thirty years.

Mr. WARNER. Does not the gentleman's plan involve an increase of currency to a greater amount than is now taken out by the banks?

Mr. HARTER. Yes, in the aggregate.

Mr. WARNER. But you propose to increase the amount of currency outstanding against the same capital?

Mr. HARTER. The percentage of liability of loss would not be increased thereby. The securities received from borrowers would increase the assets of the bank, which would be an offset against the increased circulation liability. I do not argue that if in the course of twenty years circulation should double or triple itself the aggregate losses during that thirty years would not in dollars and cents exceed the aggregate as stated for the last thirty years. I think it would; but the ability to bear such losses would be correspondingly increased.

Mr. WARNER. You depend upon the virtue of a first lien upon the the assets. Now, another question. You were speaking about assessments. If I issue a certain number of bank notes, say \$100,000, and my total assets amounted to \$200,000, that first lien practically gives a mortgage of 50 per cent on all of the securities. If I issue bank notes to the extent of \$150,000 against assets of \$200,000, the result is that the security is only that of a mortgage of 75 per cent on the assets.

Mr. HARTER. The assets have in the meanwhile been increased.

Mr. WARNER. You do not consider a mortgage of \$150,000 upon \$200,000 collateral as good security as a mortgage of \$50,000 upon \$100,000 collateral, do you?

Mr. HARTER. No.

Mr. WARNER. I am trying to draw a parallel between these two systems. How can you say that your first mortgage lien, which is secured by a margin of only 15 to 25 per cent, is equal to a first mortgage lien, which is only about 40 to 50 per cent of value of the collateral?

Mr. HARTER. The assets necessarily increase with the liabilities of the bank.

Mr. WARNER. Exactly; but the value of the preference is in proportion to the percentage of the lien to the security, is it not?

Mr. HARTER. The ratio of lien decreases somewhat, but not in a

rapid proportion, especially as the amount which this bill provides for issuing is only 75 per cent of the paid-up capital; whereas, under the present system, 90 per cent may be issued, so that in the end the securities vary but little, if any.

Mr. WARNER. But the gentleman has already admitted that the amount of the currency now outstanding is somewhat less than one-third of the capital of the national banks. The object of this bill is to increase the amount outstanding in proportion to that capital. If you increase that, doubling or trebling that amount of the lien upon the same amount of capital, do you not thereby reduce the comparative value of that lien?

Mr. HARTER. Necessarily, somewhat. We fall back upon the experience in these matters in the past, and that experience will amply justify the position I have taken before this committee.

Mr. WARNER. You think that the notes will be entirely safe?

Mr. HARTER. The bill amply provides for their security.

Mr. WARNER. Is there any reason why the State banks should not be included in the operation of this law, except to the extent to which they are not at present subject to inspection?

Mr. HARTER. I think the only reason why State banks should not be included in this bill is it would mix the authority of the State with that of the nation, and would result in complications highly undesirable.

Mr. WARNER. In other words, it is an attempt to confine the control of the currency to the Federal Government, because you recognize that complications might arise if you attempt to do otherwise.

Mr. HARTER. Yes.

Mr. WARNER. Would not a result of the passage of this act be to drive out of business instantly and finally every national bank doing business which did not wish to substitute its present method and join this combine?

Mr. COBB, of Alabama. I would supplement that question with the inquiry whether you have a right to do that under the law?

Mr. WARNER. I have assumed that the law would be gotten around.

Mr. HARTER. As to the legal portion of the question, I am unable to answer; nor can any other man until after a case is made and a decision secured. As to the other part of the question, I would say it would necessarily result in the retirement from the national-bank system of such banks as, after weighing the advantages and disadvantages, concluded upon the whole that it was undesirable to do business under this system.

Mr. WARNER. So that the extent to which the currency might be increased would have to be discounted by the extent to which it would be decreased.

Mr. HARTER. The gentleman's statement is entirely accurate if he takes into the account the increase due to the organization of new banks.

Mr. WARNER. Your hypothesis, I presume, is correct, upon the hypothetical statement which you make as to the inducement offered by your bill to issuing more currency on a given amount of banking capital. It was, however, I believe, based upon the assumption that there were no deposit accounts; that is to say, your calculations would have to be varied to the extent to which deposit accounts would vary the figures.

Mr. HARTER. I think that the deposit accounts need not be taken into consideration, because the size of them is not controlled by law,

and therefore they are a factor which can be safely eliminated from the discussion of the bill, for the bill does not in any way control the volume of deposits or the method of employing them.

Mr. WARNER. That is what I supposed was your intent. That being the case, the only security that is left for this currency, short of a final resort to assessments upon the capital of other banks, is a first lien upon a fund only 25 per cent greater than itself; and, indeed, it becomes a lien upon collateral less in nominal amount than the notes at par whenever, by default, bad management, or otherwise, the capital of a bank becomes impaired to the extent of 25 per cent.

Mr. HARTER. Not exactly. In practical banking, which would be different from the case supposed, every bank would have a deposit liability.

Mr. WARNER. You are perfectly correct, but in the hypothetical statement what would be the case? It is only upon the hypothetical case that you can imagine that there would so great an increase of the circulation in proportion to the capital. Is not that so?

Mr. HARTER. The same inducement would exist as in the hypothetical case, except that the assets upon which the Government has a first lien would be more or less increased.

Mr. WARNER. Present a hypothetical case and the amount of risk in it.

Mr. HARTER. Take the case of a bank having a capital stock of \$115,000, including surplus, which I have already mentioned. In that hypothetical case the lien for the \$75,000 circulation which the Government has given it would rest simply upon the \$115,000 originally paid in, but the chances are that the bank would have—

Mr. WARNER. May I ask you from whence you get that \$115,000?

Mr. HARTER. It is \$100,000 capital and \$15,000 surplus.

Mr. WARNER. And part of the notes which you received from the Government.

Mr. HARTER. I do not think you understood me fully. Suppose in the hypothetical case referred to we took the capital stock at \$100,000 and allowed the bank \$15,000 reserve; that is, under the hypothetical case, the first lien of the United States for the ultimate payment of the \$75,000 rests upon the \$115,000 assets, but the probabilities are the bank would have a deposit at least equal to its capital stock. It would probably be nearer three times that amount; but suppose the deposit would equal the capital stock, then the assets of the bank would aggregate not \$115,000, but \$215,000, so the lien of the United States would be against, not \$115,000, but against \$215,000.

Mr. WARNER. That is quite clear. Now, your assumption as to the security for the notes is based not so much upon the provisions of this bill as upon your knowledge of the banking business, so that it seems that under the legitimate exercise of banking business the first lien would be not merely upon the capital but upon the deposits, which would be largely in excess of that.

Mr. HARTER. You are quite correct.

Mr. WARNER. Is it legitimate to do a banking business without deposits, but simply for the purpose of floating currency?

Mr. HARTER. Banks might be tempted to do that, but would naturally wish in all cases to add the profitable feature of receiving deposits.

Mr. WARNER. They should not be tempted to do that which they ought not to do. Having the Government's franchise for that purpose, do you think they ought to do that instead of doing a legitimate business?



Mr. HARTER. That there would be cases of that kind I have no question, but the circumstances are such that they would be very limited in number.

Mr. WARNER. There would be no objection to providing something in the bill to guard against that?

Mr. HARTER. There might be a proviso that each bank should open its doors and do a legitimate business.

Mr. WARNER. Or that the currency outstanding should not exceed 75 per cent of its capital or 33½ per cent of its gross assets?

Mr. HARTER. I should not object to that.

Mr. WARNER. The next question is this: You provide a tax of five or six per cent upon the emergency circulation?

Mr. HARTER. Yes, sir.

Mr. WARNER. That, of course, would be issued at a time at which the ordinary limit of circulation would have been practically reached and at a time at which it would be profitable to a bank to pay this 6 per cent per annum for the right to have further currency?

Mr. HARTER. Yes, sir.

Mr. WARNER. What is the reason that you prefer a lump tax of that kind instead of a progressive tax to allow for a steadily increasing stringency?

Mr. HARTER. For this reason: Our experience in the past has been that banks having that privilege take out emergency circulation for an extremely short period of time. During this progressive period of stringency referred to, the banks usually fortify themselves in the ordinary manner.

Mr. WARNER. By reducing discounts?

Mr. HARTER. Yes. It is a wholesome thing to do and often times checks the growth of a panic and brings borrowers gradually to realize that money is difficult to obtain, thereby inducing them to curtail operations and limit their wants.

Mr. WARNER. Your answer is, that while a progressive taxation might be theoretically preferable, this would not compensate for the complexity involved?

Mr. HARTER. Yes.

Mr. SPERRY. I do not see in your bill where you provide for any circulation whatever.

Mr. HARTER. Section 4 provides [reading]:

That each national banking association shall be permitted to issue and circulate notes, as per section 2 of this act, equal to seventy-five per cent of its paid-in and unimpaired capital stock, and every national banking association shall have the right to issue and circulate an additional amount of notes equal to fifty per centum of its paid-in capital.

The provision, of course, is not mandatory.

Mr. SPERRY. Section 2 reads:

That the United States shall have a first lien upon all the assets of every national banking association to secure it from loss growing out of its guarantee of the notes of such banking associations.

That does not provide for notes or anything. It merely assumes that there are notes. Where do you provide for notes except the emergency notes?

Mr. HARTER. Section 2 provides that the Government shall have a first lien.

Mr. SPERRY. That assumes that notes have been issued, but where in your bill do you provide for them?

Mr. HARTER. That provides security, and authorizes a bank under

such security to issue them. It is not mandatory, but permissive. It does not command, but gives them permission under section 4.

Mr. BLACK. You authorize an additional 75 per cent.

Mr. HARTER. The bill does not command the issue of notes. It is left optional with each bank.

Mr. SPERRY. I read the next section as meaning the emergency circulation solely. Where do you provide for a guarantee of circulation by the United States.

Mr. HARTER. It should appear in section 2, but has been unintentionally omitted.

Mr. SPERRY. You intend that that shall be stated when you get your bill to suit you—that the United States should in fact redeem all the notes?

Mr. HARTER. Yes, sir.

Mr. JOHNSON, of Indiana. The loss would fall on the Government.

Mr. HARTER. There could be no loss to the Government.

Mr. BLACK. I confess my unfamiliarity and lack of knowledge on these matters for I have a great deal to learn. I understand that the law as it now exists contains a guarantee of these notes by the Government!

Mr. HARTER. It does not contain a specific guarantee. Inasmuch as the Government receives this money in the payment of dues of the United States it guarantees them. Section 2 should be so amended as to make the Government responsible for the prompt redemption of all notes issued under the bill.

Mr. SPERRY. You can not find any such law.

Mr. BLACK. It seems to me the provisions of your bill gives the Government a first lien.

Mr. HARTER. Even as the bill now reads, if it became law, the Government would be liable practically for every dollar of this money because in case of the failure of a bank the people would pay every dollar of the notes into the Government on dues, and therefore the Government would be liable in reality for every dollar issued by a national bank.

Thereupon the committee rose, to meet on Monday, October 9, at 10 o'clock a. m.

COMMITTEE ON BANKING AND CURRENCY,

Monday, October 9, 1893.

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

*REPEAL OF TAX ON CIRCULATION OF STATE BANKS.*

**STATEMENT OF HON. R. E. LESTER, A REPRESENTATIVE FROM THE STATE OF GEORGIA.**

Mr. Lester appeared before the committee in favor of bill No. 97, which is as follows:

A BILL to repeal sections thirty-four hundred and twelve and thirty-four hundred and thirteen of the Revised Statutes of the United States, and all other laws which impose a tax on circulation other than that of national banks.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That sections thirty-four hundred and twelve and thirty-four hundred and thirteen of the Revised Statutes of the United States, and all amend-

ments thereof, and all other laws or parts of laws which impose a tax of ten per centum, or any other sum, on circulation of notes or other things of currency, or which impose a tax on all banks and associations and persons who receive or pay out the notes or circulation of other than national banks, or which discriminate in taxation against circulating notes, be, and the same are, hereby repealed.

Mr. Lester spoke as follows:

Mr. Chairman and gentlemen of the committee: I shall not detain the committee a great while this morning or at any other time. The matters that I may suggest to the committee are those with which the committee are all familiar. There are some provisions of the Constitution, however, which bear upon the question in the bill I introduced here so old and hackneyed I am afraid, Mr. Chairman, that their being old and hackneyed is some reason even for their being overlooked and not considered. The bill I introduced is simply to repeal the provisions of the national bank act, which imposes a tax of 10 per centum on the notes of all banks, banking associations, and persons who may issue them. The provisions to which I refer are sections 3412 and 3413 of the Revised Statutes. Section 3412 provides that—

Every national banking association, State bank, or State banking association, shall pay a tax of 10 per centum on the amount of notes of any person or of any State bank, or State banking association used for circulation and paid out by them.

Section 3413 provides:

Every national banking association, State bank, or banker, or association shall pay a tax of 10 per centum on the amount of notes of any town, city, or municipal corporation paid out by them.

This bank act inaugurating and putting into operation the national banks of the country was made, Mr. Chairman, as we understand and as we know very well, for purposes which the conditions existing at the time of the making of that act made something of a necessity. The purposes and objects of it, like the purposes and objects of every other act and measure, ought to be considered when we come to the question whether the law shall stand or whether it shall be repealed. The reasons why those provisions, at least of the national bank act of 1863 and 1864, should be repealed independent of their unconstitutionality, are two. One is that the reason for the law has long since ceased to exist. The other reason is (and I think it is clear) that, having served its ends, it now stands as an obstacle in the way of what we or I conceive would be the interest and the convenience of the people.

The national bank act took the place of the policy which was adopted during the war of issuing Treasury notes, commonly called greenbacks, to meet the demands of the Government. It was suggested (and it was put into operation), arising from the necessity of raising funds with which to prosecute the war, that national banks, such as we have, should be put into existence for the purpose mainly and chiefly of sustaining the credit of the Government or supplying the Government with the means of prosecuting the war. I think, Mr. Chairman, that this is a historical fact known to everybody who has any knowledge whatever upon the subject, viz, that that was the main and chief object and purpose of the national bank act—to furnish the means of disposing of the national obligations, the national bonds—that is, to furnish a market for them by supplying inducements to individuals to take and use and pay for the national bonds the national obligations. In other words, to furnish a market for the national bonds. The devices which they undertook to make are expressed in these national bank acts—that private corporations under one general system under the law of the Government should be

inaugurated, should be chartered, which charter and which right given by the Government were inducements, of course, for individuals to place their means and money into these institutions, the result being the benefit which the Government itself of course received by the disposal of its bonds. That it served its purpose and it served it well there can be no doubt. It did accomplish that object in a large measure—perhaps to the fullest extent of what was expected of it. That act, however, made for the purpose of meeting an emergency and for the purpose of helping the Government and assisting the Government in its operations has been continued after the emergency had passed, and the reasons for it had ceased.

Mr. Chairman, this law having an existence under the authority of the Government, and serving its purposes, as I have stated, had the effect, and intended effect I may say, of doing an injury which was considered of course an incidental and a minor one at the time by giving an absolute monopoly of the circulating medium, as we may call it, of the whole country to these institutions, thereby depriving the citizens and the country of the use of such means as might become a necessity from time to time of facilitating their exchanges, of transacting their business, of carrying on their affairs. It destroyed all State banks by giving that monopoly to the national banks. It was not considered sufficient, or to answer the purpose, that the national banks should have the right to exist as corporations, to have the many privileges of corporations. But in order to make it effective still more in favor of the banks and to have what was considered to be a national currency. This provision was made, viz, of putting a tax upon the State bank issues and the State bank notes, and the notes, I may say, Mr. Chairman, of any individual person which might be used one time or a hundred times over the counter of a bank. That was to perfect the monopoly. That was to drive out of existence all currency, notes, papers, and documents, or whatever might be used for the purpose of currency in the common business of the country, and to drive that all away in order that the national banks might have, as I said, the monopoly of the business. That was the effect. The State banks now, Mr. Chairman, and banking institutions can not in a single transaction use your note or my note over its counter even to pay the bank's own debt. If I owed you \$100 and my note is in a bank, that note can not be passed over the bank's counter to you in payment of a debt which the bank owes to you. It is about as strict and as perfect a piece of legislation, taking in the amendments and constructions which have been placed upon it (which I think are legitimate), as has ever been accomplished to serve an intended purpose.

Mr. COBB, of Alabama. Do you mean to say if the bank held your note for \$100 and the bank owed Mr. Springer \$100 that the bank could not pay Mr. Springer that except—

Mr. LESTER. Except by paying the 10 per-cent tax.

Mr. JOHNSON, of Ohio. How about the clearing-house certificates?

Mr. LESTER. It is the same way; in other words, you can not adjust the balances which individuals owe one another in that bank.

Mr. COBB, of Alabama. Would that sort of transaction come under the definition of "used for circulation?"

Mr. LESTER. Yes; that has been construed so, and the limit has never been given to the term circulation.

Mr. COBB, of Missouri. That has never been enforced?

Mr. LESTER. Perhaps it has never been discovered. It may or it may not have been. I am telling you now the scope of this particu-

lar provision. At any rate I know bank notes, and municipal corporation notes, and all other kinds of notes and obligations or even individual private notes can not circulate through a bank, without payment of the penalty tax of 10 per cent.

Mr. JOHNSON, of Ohio. How do you get around the clearing-house certificates; are they violations of law?

Mr. LESTER. They violate the law, so they say, that is one trouble. Now, to see how this thing works. The national banks have a monopoly of the currency. That is clear. Now, there is no provision of that law which seeks to compel the national banks to issue the amount of currency beyond, I think, about one-fifth of its capital; is that it?

Mr. HALL. They are not required to issue a dollar.

Mr. JOHNSON, of Ohio. Not a dollar, but they are required to put the bonds in.

Mr. LESTER. That is what I mean. They have to put in the bonds equal to only a small amount of their capital stock. It is true that they have to deposit a certain amount of bonds. Now, say a \$250,000 bank deposits \$50,000.

Mr. COX. One-fourth of the capital stock.

Mr. LESTER. Now, they put in the bonds and, as you say, they are not required to take out currency, but may do so. Assuming they do take it out, as I understand it, they put up their bonds and take out currency, as they have done. It is all very well and very easy for them, if a national bond would remain at par or below par. It might be a good transaction. But it depends upon the business of the country and the state of it, whether it would be to their interest or not, as for every bond they put into the Treasury they have to pay for it. Of course that is known. They have got to pay for them, and the very act of putting those bonds in the Treasury increases the price of the bonds and, therefore, diminishes the inducement for them to take out the issue. Now, the last report of the Comptroller of the Treasury, I think, showed \$143,000,000 of currency of national banks in use.

Mr. WARNER. Two hundred millions in all taken out, and I think a hundred and eighty odd millions in use.

Mr. LESTER. They have taken out some since the last report.

Mr. COBB, of Missouri. That is not all in circulation.

Mr. LESTER. There is no provision in the act to compel them to supply the currency which is necessary for the country to have. They have not only a monopoly, but an option. Even if the act was constitutional, if the act was right and proper, and the Government's duty was to supply currency to the people, they have not provided and can not well provide for the issue through these national banks of enough of the currency to supply the demands of the people. You all know that \$143,000,000 will not do it, or \$200,000,000 will not do it. Now, to show the effect of the stringency of this provision. If you and I and all the members of this committee are interchangeably dealing with each other from time to time, and there is a balance in favor of you against someone else, we could meet through our banks or associations, perhaps, in our business and settle our balances there. But, as it is now, unless you use national bank notes, every single one of these transactions is a separate one, which must be adjusted and fixed upon its own basis. The banks of New York and other places undertook to ease the pressure which was brought upon them by the tying up of the money, which lately occurred, and undertook to do what looks like ought to be a legitimate transaction, and whether it affected other places and banks or not, it was a convenient one, and there was nothing against

it except this tax law. The banks in New York and other places had large balances against each other. So instead of paying the balances in currency they issued so-called clearing-house certificates. The clearing house is an association of the banks, by which one demand goes against another, and one transaction closes up the whole business. Now, this looks like an innocent helpful transaction, yet if one of these certificates passes over the counter of a bank in an ordinary transaction between the bank and an individual, it or rather the bank becomes liable to this penalty-tax.

Mr. COBB, of Alabama. Have you any judicial construction for those words, "used for circulation," the words of that act?

Mr. LESTER. I think I have a construction of it made by the Comptrollers of the Currency. I went with some gentlemen before the Comptroller of the Currency and they discussed this question with him when the trouble came up, just after Congress met in August, when the banks of Savannah were apprehensive of trouble, on account of the stringency in currency, when they could not even draw their balances from the banks which owed them. They were about to undertake to be security each for the other, and those banks wished to do something or other by which balances might be adjusted and their matters carried on without greenbacks or national bank notes. They went before the Comptroller and submitted to him various forms of obligations. Certified checks was one, then these clearing-house certificates was another, where each bank became pledged to pay the debts of the other, so much of the securities of each bank being up as security—

Mr. JOHNSON, of Ohio. You mean so many securities, collaterals?

Mr. LESTER. Yes, sir; in other words, each bank being surety for each other for the amount each bank took the certificates for. The Comptroller referred to the constructions which had been placed upon this act and it was just as I tell you now. They applied to every single transaction which might have the appearance of passing notes of any person over in payment of a debt.

Mr. JOHNSON, of Ohio. They would not allow you to do in Savannah what they did in New York?

Mr. LESTER. I believe they are going to take them up in New York. I understand that matter is to be investigated.

Mr. WARNER. All over the country?

Mr. LESTER. They did not do it in Savannah because they happened to get along without it. They did not care to take the responsibility.

Mr. JOHNSON, of Ohio. They perhaps were more law-abiding citizens there than in New York?

Mr. LESTER. I would not say that.

Mr. COBB, of Alabama. Has your mind been directed, and that of the Comptroller, to this point, passing over these certificates of the bank and class of paper attempted to be put out, in regard to the certificates issued upon the sale of cotton and such things? Did you have a discussion with the Comptroller of the Currency in regard to the tax upon that?

Mr. LESTER. Whatever the paper may be, I do not care what it is, if the bank passes it over the counter it is liable to the 10 per cent tax.

Mr. COX. If it is negotiable, it is subject to that rule?

Mr. LESTER. If it passes, if it is a note of any person that passes over their counters, they are liable to pay the 10 per cent.

Mr. COBB, of Alabama. As a lawyer are you prepared to sustain the construction of the Comptroller?

Mr. LESTER. I am, I think. I do not complain of the construction, but of the law itself.

Mr. COBB, of Alabama. And the words "used for circulation" will apply to circulating notes?

Mr. LESTER. Used for circulation.

Mr. COBB, of Alabama. The words in the act there are "used for circulation," and the point I want to make is whether or not it is used for circulation to pay out to them and—

Mr. LESTER. They pay out his note to you, and you take the same note and pay it to somebody else.

Mr. COBB, of Alabama. Not necessarily.

Mr. WARNER. Is not there a distinction between putting out a note for circulation as distinguished from putting it out for collection?

Mr. LESTER. Suppose the same note got back to the bank again and they put it out twice, do you think twice would make putting it out for circulation where once would not?

Mr. COBB, of Alabama. It seems to me that in construing the act something of the intent must be taken into consideration. That is the difference between taking your note owned by the bank, paying an individual obligation to the bank is a different thing from an issue for circulation which bears upon its face the intention to circulate from hand to hand as money.

Mr. LESTER. It is a "note" "of a person" and they use it whenever they pass it over in payment of their obligations.

Mr. COBB, of Alabama. Not for circulation; to pay a debt.

Mr. LESTER. That is what every circulation is, everything which passes for money goes for that purpose. It would make no difference for my purpose even if the construction should not embrace clearing-house certificates. This tax, excluding the class of cases you speak of, would embrace enough.

Mr. COBB, of Alabama. I agree to that.

Mr. JOHNSON, of Ohio. Do you favor the repeal of the 10 per cent tax for the purpose of increasing the circulation as the best means of getting more money in circulation, or would you prefer to have a national currency, a national bank currency?

Mr. LESTER. I will show you before I get through that we can not have an exclusive national bank currency. That is not feasible, in my opinion.

Mr. JOHNSON, of Ohio. We have it now.

Mr. LESTER. No, sir; we have something which does not answer the purpose.

Mr. JOHNSON, of Ohio. All the currency we have in circulation is national currency?

Mr. LESTER. Simply because it is marked "national currency," and all other excluded. That is about the only reason for it. It is not a currency furnished by the Government, and is not a national currency in that sense.

Mr. JOHNSON, of Ohio. The national banks guarantee it.

Mr. LESTER. It is a currency that happens to be national because there is nothing else but that to have, but it is not a national currency.

Mr. JOHNSON, of Ohio. I do not think you mean that quite?

Mr. LESTER. Yes, I do mean that. Now, I was speaking of the effect of this act, which is to give to the national banks a monopoly of the currency without any provision in it to compel them to supply what is sufficient and what is necessary, but with a provision that

practically prohibits every other kind of currency but that of the national banks.

Well, now, if what they have provided here in the national-bank act, by reason of this little provision imposing this prohibitory tax, is not sufficient to supply the wants of the people or to take the place of other currency; if it does not serve that purpose, but actually hurts or injures that purpose, why ought it not to be repealed? It absolutely does no good there, except as I have stated. It supplies, but does not supply sufficiently. It prevents the supply, because it is a monopoly, and will not allow any other source of supply. Now, was it not wrong to put in the act this prohibitory tax provision without a provision of some kind to compel a sufficient issue? If the Government had the power to force a general currency upon the country of a particular kind, was it not proper it should provide that it should be sufficient? Well, it does not do this.

Now, as to another thing, before I forget it. I do not think when I am repealing this act I am destroying the national banks; although I do not think, with my ideas of the Constitution, that the national-bank acts were constitutional; yet, at the same time, they have been passed upon in the country, and there are rights vested which would, perhaps, make it not proper to destroy them, no matter what construction of the Constitution would be placed upon it now. It seems to me that, notwithstanding this repeal, they would still have all the rights and privileges that they now have, except that harmful one, the monopoly of the currency, and I would let them supply it as far as they can and as much as they lawfully can.

Now, taking up the other proposition, I say that the Government of the United States has no power and no authority to fix or fasten a currency upon the country. It is under no obligation to supply the people with a circulating medium, although I know that some of the courts have assumed to find such new and latent power in the Constitution. Judge Chase in his report as Secretary of the Treasury said it was a necessary power, and I believe President Grant may have said in one of his messages that it was the duty of the Government to supply a circulating medium. Well, I say this, that we ought to have a supply of paper money, but I submit, the Government is under no obligations to furnish the supply; that it never assumed any such obligation to do it in the 70 odd years of its existence before the passage of this banking act, or rather before the act authorizing the issue of greenbacks. What powers has it? As I stated, these are old and hackneyed things of which I am speaking, but the Government's duties are prescribed clearly enough in the Constitution. If this Government was a sovereign state of itself, there might be some question as to what it might assume to be sovereign powers, or sovereign duties if you please. But it is not. It is a Government as we all know of limited powers; limited to the extent given to it by the States and by the Constitution of the United States, that is of the States united. Now, that Constitution is either the limit of the Government's powers or it is not. If it is, then it is to be construed with some regard to propriety, with all regard as to the meaning of it, I say with all regard to the meaning of it. If it is not, then we have no Government at all, yet are of course, all, under obligations to support, it and as Representatives we have sworn to do so. What do we mean when we say that? We mean to say we will maintain it of course as we understand it and as it is written. Some differ about the construction of the language, the various parts of it; but, Mr. Chairman, there is little difficulty in the construction in my



mind of the Constitution in all of its essential features and none whatever with reference to the question of finance.

Mr. JOHNSON, of Ohio. Has not the Supreme Court decided in regard to that?

Mr. LESTER. It has, in regard to the legal-tender quality of greenbacks.

Mr. JOHNSON, of Ohio. Do not you agree with that?

Mr. LESTER. It has decided it twice; it was decided one way in one court, and another in another. Which one do you think is right?

Mr. JOHNSON, of Ohio. The last one?

Mr. LESTER. No; the first one was influenced only by considerations, I believe, of what the court understood the Constitution to be, and the other by considerations I know not of. At any rate, the two opinions are irreconcilable. One court or a majority of it decided, Judge Chase at the head of them, that Congress could not make anything legal tender except gold and silver. When the case came up again two judges had been added to the court, and they decided it differently, and they had a majority of, I think, 5 to 4, just about the same as the first decision, except the other way. Now, which is worth anything?

Mr. JOHNSON, of Ohio. I think the last decision was wrong, but I am glad of it.

Mr. LESTER. You mean you are glad of the decision. Now, if it was a question of our making a Constitution—

Mr. JOHNSON, of Ohio. They made it?

Mr. LESTER. I think they had hardly any power to do that.

Mr. JOHNSON, of Ohio. They stretched it like thunder.

Mr. LESTER. They stretched it, and they broke it. It is liable to be stretched some, perhaps, but not as much as that. Now, I say you can not find in the Constitution a power in Congress to do this. The enumeration of the powers of Congress on the subject of money embraces these two only, viz, "To coin money," and to "regulate the value thereof and of foreign coin," and "to borrow money on the credit of the United States" (Art. I, Sec. 8, Const. U. S.). The framers of the Constitution of the United States evidently recognizing the fact, which they had apparently expressed in that provision, gave Congress the right to coin money. That coin only should be money, and that gold and silver only should be the coin by providing that the States should not "make anything but gold and silver coin a tender in payment of debts" (Art. I, Sec. 10, par. 1).

Mr. JOHNSON, of Ohio. And that prohibition was not against the Federal Government?

Mr. LESTER. That was in the interest of the people, and in the interest of the policy which apparently the authors of the Constitution had in view or acted upon when they put that provision in giving Congress the power to coin money. In other words, the framers say that nothing but coin should be money or tender money, and in order to keep it from being anything else they curtailed the powers, or rather did not give the powers to the National Government to do this, viz, to coin money, and then took away from the States themselves the right to make anything but gold and silver coin a tender in payment of debts. The power to make anything a legal tender is not given to the United States. Powers not delegated belong to the States (amendment to Constitution, X), but the States are prohibited from making anything but gold and silver coin a legal tender, therefore gold and silver coin are the only legal-tender money.

Mr. HALL. Alexander Hamilton in a letter, in two-thirds of it, is quite clear on that question.

Mr. JOHNSON, of Ohio. Was not an argument made here that coining money was coining paper money?

Mr. LESTER. I should say that such a proposition is too absurd to be considered by people who undertake to construe the Constitution as a written document.

Mr. JOHNSON, of Ohio. The gentlemen had pretty good authorities?

Mr. LESTER. What were they?

Mr. JOHNSON, of Ohio. I do not remember them all.

Mr. LESTER. I heard another proposition, viz, that to "regulate the value of money" meant to regulate the volume of it; that is to say, Congress when it undertook to coin money—

Mr. JOHNSON, of Ohio. It seems to me that you heard that argument before the committee the other day.

Mr. LESTER. I did. That to coin money and regulate the value of it, meant to make money, and as you said the gentlemen construed, I think, the coining of money to be the making of it, that is, that the stamping anything with the Government stamp is money, and that the coining of money and fixing the value of it, meant the fixing the volume of it. That to me is an absolute absurdity, as a proposition. Why if the Government has the right as expressed here to coin money and fix the value of it and that meant to make money, and to fix the value of it, I would ask, why is there a provision of the Constitution giving to the Government the power to borrow money; why should it not make all that it is required?

Mr. JOHNSON, of Ohio. I did not hear the fellow answer that question.

Mr. LESTER. The Government has power to do what? It has the power to borrow money. It has the right to coin money and regulate the value of it. What is money then? We can understand that it means coin, and the Government has the right to borrow coin. But if this means that the Government may make money, or make anything money it pleases, why should the Government undertake to borrow that which it can make and which it may declare to be money? Of course, I hardly think that proposition worthy of consideration at all. But it comes with these theories and demands made which have been occasioned by pressure owing to the condition of financial affairs as they were for some time in this country. There has been great stress upon the people in reference to money and in reference to prices, especially in reference to the currency. We know how people come to make construction of laws by their own feelings and by their own desires. Some one suggested that proposition, that this was the meaning of the Constitution, and of course it took at once with somebody else who wanted relief and wanted money; so, wanting money, needing money, that, as they thought, being a cure for all evils of the kind from which they suffered, it was easy to consider the Government to be the source of money.

The CHAIRMAN. Will you explain your views of the Constitution in section 10 of article 1, wherein it is stated that no State (omitting the other part) shall emit bills of credit. How do you reconcile that with your desire to have the State banks established by the States authorized to issue bills of credit?

Mr. LESTER. I have not said that I desire State banks to be established. They are already established and may issue bills if the State shall so authorize, provided this prohibitory tax imposed by the national-bank law is repealed. To issue bills of credit by the State is a differ-

ent thing from the issuing of bank notes by chartered banks, because that is not issuing bills of credit by a State, but they are bank notes, issued by the maker and not by the State and must be payable in gold and silver coin.

The CHAIRMAN. Do you hold that the creature is greater than the creator?

Mr. LESTER. I do not, but I do not consider the creator or creature has anything to do with that question.

The CHAIRMAN. A State has not the power to emit bills of credit, then how can it give the power to a corporation created by its authority?

Mr. LESTER. It is not a State bill of credit. I had a decision here, I think, made by the Supreme Court in 11 Peters' Reports, page 257, where that question came up and it was decided that a bank bill was not a State bill of credit by the State. It was the case of *Brisco, vs. Bank of Kentucky*. A State may not issue bills of credit, but it may charter a bank, and the bank may issue a bill of credit, if you are pleased to call it such. It is its own obligation, and it is bound to redeem that obligation in gold or silver coin.

Mr. JOHNSON, of Ohio. Would they have the right without the intervention of law—would they have the natural right?

Mr. LESTER. A person has the right of doing anything not restricted by law.

Mr. JOHNSON, of Ohio. The chairman makes the point that we have a law and they can not pass that, because the State could not give a power which it did not have.

Mr. LESTER. It does not require any law to do it.

Mr. JOHNSON, of Ohio. Then they have a natural right?

Mr. LESTER. Only in so far as the charter of an incorporated bank gives permission to issue notes and bills can they do it; only because of the fact that in all the States, wherever they had banks, the issuing of bills of that sort was prohibited by statute or regulated by statute.

Mr. JOHNSON, of Ohio. Does not this cover the point that State banks have all the powers not expressly granted to national banks?

Mr. LESTER. The chairman's point was that this power was taken away from the State.

Mr. COBB, of Alabama. Do not you strike the point here that in the absence of any provisions of the law of the State any individual or combination of individuals may issue money at pleasure and circulate it as money?

Mr. LESTER. Anyone may do it. You can do it in Alabama to-day and I in Georgia. I may issue bills and pass them to any person, provided there is no law to prevent it.

Mr. COBB, of Alabama. The power to issue money; is not that right conferred by the States when not prohibited by a State?

Mr. LESTER. In the first place, it is not money at all.

Mr. COX. Take the clause of the Constitution which prohibits a State from having anything tendered for debts except gold or silver. Now, if the power has been conferred upon the States, or the power had remained in the States to issue bills of credit, could not you see at once that the powers existing in the States to issue bills would have provided another thing and been in contradiction to the clause cited?

Mr. LESTER. I suppose that is right. That may have been the reason. I do not undertake to say what the reason for this provision is other than I have already stated.

Mr. COX. Would it not have that result?

Mr. LESTER. But for these provisions the States might and perhaps

would have issued bills of credit and might have made them a legal tender.

Mr. LESTER. Well, it so happens so far as the danger of taking that 10 per cent off, that prohibition in other words, call it what you please, of circulating money or a similitude of money, that it might make a redundancy of the currency, that whatever may be the apprehension about that it could be no worse than the present condition is under the other system. The notes would pass in the community for the purpose of paying debts by agreement of the parties; and, wherever that might be the case, bills would be issued where they are permissible, but by the law of almost every State a prohibition is placed, and doubtless would be placed, on every bank they chartered limiting their amount, and a prohibition is put upon the issuing of change bills or anything that has a similitude of money by individuals. That is the case in Georgia, and I believe it is in Alabama and a number of other States. That was for the protection of State banks, I believe.

Mr. JOHNSON, of Ohio. Was not that wrong?

Mr. LESTER. No; the State has the power to do it.

Mr. JOHNSON, of Ohio. Is not that the same character of wrong of which you are now complaining?

Mr. LESTER. No, sir. Those were communities, and the State had the power to do that. I do not believe, Mr. Chairman, that when you come down to the circulation of promises to pay but that everybody would desire to know the source of them.

Mr. JOHNSON, of Ohio. And you want the best?

Mr. LESTER. Yes; you want some restriction, otherwise you might flood the country too much, and I say that such provisions are a prohibition, or rather a safeguard, against the over issue of State bills. If they are not good, if these bills are not as they should be, if confidence in them is lost, having to be redeemed in gold or silver or legal-tender money, they will be presented for redemption, and that ends that question of their existence. If they did pass and are taken by the community in its transactions, and they settle balances and differences between the people, is anybody hurt? The difficulty with the present system is that the currency is liable to congestion all the time, whereas the other plan would not be so liable to it because it would be more generally distributed. Why, suppose the banks of any State, in the emergency, had been called upon, and the communities had the right to settle their obligations with anything they pleased to settle them with, commerce would go on, trade would go on and continue, prices of commodities would increase and be advanced in a way, or at least commodities would command reasonable prices, not being dependent upon a restricted currency; whereas, if currency is cornered and restricted, prices do not obtain at all, and there is a stoppage of business.

It has been suggested, I believe, that we need a national currency. For what? Convenience. Does it make any difference, Mr. Chairman, so far as that matter is concerned, does it make any difference to the people generally of a community whether they have that convenience or not? The great business of this country is not traveling. The business of the country is producing and manufacturing and the exchanging of commodities. This is done most largely at home. Transactions are made and business is carried on there. Why does a man want a national currency or something that will circulate in every State of the Union—and I do not say a good bank bill would not do that? When you go to New York and travel, as you frequently do, when you go there

to buy goods or to sell goods, or for any other purpose, do you carry your money in a roll of greenbacks?

Mr. JOHNSON, of Ohio. You had to do it lately because you could not get anything else.

Mr. LESTER. Because your check was not good there. You could not get anything on the check lately and you had to do it. You do not do that unless you are obliged to do it in such an emergency as Mr. Johnson mentions. You take your money and go into your State bank and you buy a check on New York, reserving only enough to pay your traveling expenses, so that the inconvenience arising from the fact that the currency may not be current everywhere is infinitesimally small. It is not of sufficient consideration, it seems to me, to outweigh the other considerations which go into this matter.

Mr. BLACK. What you propose would not diminish this so-called national currency?

Mr. LESTER. I say no. You would still have the so-called national currency.

Mr. JOHNSON, of Ohio. But you are opposed to it?

Mr. LESTER. No, I am not. I am opposed to its exclusiveness.

Mr. JOHNSON, of Ohio. I thought you were.

Mr. LESTER. Do not misunderstand me. I would not interfere with national-bank notes or the national-banking system now, except to take away the evil features of the national-bank acts.

Mr. JOHNSON, of Ohio. Or greenbacks?

Mr. LESTER. No, sir; of course not. Now, the currency is congested and in places where it can be controlled like New York city it has been sold at a premium, because people must have it to effect exchanges and discharge obligations which might as well be discharged with some other means.

Mr. JOHNSON, of Ohio. What other kind of currency is best; is it not best to extend one that has proved itself than to create a new one that may be doubtful?

Mr. LESTER. How can you extend the national-bank matter?

Mr. JOHNSON, of Ohio. You can extend the national currency.

Mr. LESTER. In what way?

Mr. JOHNSON, of Ohio. By converting bonds into greenbacks, if you want to increase your gold reserve.

Mr. LESTER. Suppose you have not got the bonds?

Mr. JOHNSON, of Ohio. When you have not any bonds, you decide that when you get to that particular place.

Mr. LESTER. That would not do much good for our country in the south and west, I mean in regard to the currency. We want to increase the general prosperity. The trouble is not so much as to the quantity of currency as to its distribution.

Mr. WARNER. Do I understand the gentleman from Georgia to suggest also that if the inconvenience should occur, which the gentleman from Ohio apprehends, that that very fact would give a market for the national-bank currency, and his question would answer itself; that the mere deprivation of the national-bank currency monopoly would not deprive its bills of the market which they have?

Mr. LESTER. That is correct.

Mr. WARNER. And if anybody wanted them—

Mr. LESTER. They could take them.

Mr. JOHNSON, of Ohio. I am not advocating the national-bank bills, you understand.

Mr. LESTER. When you talk of national banks and their issue of bills you should bear in mind that recently bills could not be had although the outstanding issue was \$200,000,000. This shows that they do not meet the emergency when the emergency comes. Then, if you can provide another means by which the troubles from this cornering and hoarding may be prevented, why should it not be done? The repeal of this clause, thereby giving the State banks and people the right to use notes and bills, would supply a remedy. You still retain what you have and all that is good in the national-bank system, and you take away from it all the bad, and in taking away the bad you give to the people something that supplies a deficiency made by the exclusive character of the national-bank currency.

Mr. JOHNSON, of Ohio. Do not we issue greenbacks to buy silver?

Mr. LESTER. How?

Mr. JOHNSON, of Ohio. Treasury notes are greenbacks.

Mr. LESTER. What do you mean by that?

Mr. JOHNSON, of Ohio. Does not the law which we are now trying to repeal provide for issuing Treasury notes to buy silver?

Mr. COBB, of Alabama. I do not know of any law to issue a Treasury note to buy silver.

Mr. JOHNSON, of Ohio. The Sherman law which we are trying to repeal is a law issuing Treasury notes to buy silver bullion?

Mr. LESTER. Yes; I am afraid I am detaining the committee too long if you are to get into a silver discussion. I do not think that has anything in the world to do with this.

The CHAIRMAN. We are not on that subject.

Mr. JOHNSON, of Ohio. I was only showing you that if we bought silver with Treasury notes, we could buy other things and get more money in circulation.

Mr. LESTER. What right has the Government to do that? I would meet you there and say it had no right.

Mr. JOHNSON, of Ohio. I would say that the Supreme Court decided it had the right.

Mr. LESTER. Then I would say the Supreme Court has stated the case both ways and you are left to yourself to determine.

Mr. CHAIRMAN. I do not know that I have anything further to add.

Mr. HALL. You have discussed thus far the constitutionality of this matter and the public policy of it. I would like to ask you, if in your judgment, a limit, or what our friend from New York would call an administrative control over this State bank currency would be a violation of the Constitution?

Mr. LESTER. By the Government?

Mr. HALL. Just this far. Suppose that there was a provision, conditional repeal in the line of the bill contemplated by Col. Oates, of Alabama, in his argument, that it should be conditionally repealed, that the banks should comply with certain conditions, for instance, that all moneys issued by these State banks should be stamped here by the national Treasury and an administrative control of that kind given as distinguished from economic control, now, I want to know whether that would be in violation of the Constitution?

Mr. LESTER. That would, in my opinion, be as much as the other. I do not think the General Government has the power to do anything of that kind, of course. As a matter of policy or a matter of practice it would be a great deal better to do that than not to do anything at all, but I do not see that the Government has any power or right to interfere in such matters. If it has, then you may as well adopt the propo-

sition which imposes upon the Government, by virtue of its sovereignty, the duty to provide a currency for the people. If you do that, if it is the Government's duty to provide a currency for the people, why then the Government ought to issue its own notes or whatever else it can do in that way directly. To such proposition, of course, I am thoroughly opposed. I do not believe in fiat money, and I do not believe in it simply because I say the Government has no power to make it.

Mr. JOHNSON, of Ohio. If it is redeemable in gold it is not fiat money?

Mr. LESTER. What is redeemable in gold?

Mr. JOHNSON, of Ohio. All these notes which are put out are redeemable in gold?

Mr. LESTER. What is put out?

Mr. JOHNSON, of Ohio. Treasury notes; these national currency notes, they are redeemable in gold by the Government at the option of the holder of the note, then they are not fiat money?

Mr. LESTER. What are you discussing now?

Mr. JOHNSON, of Ohio. You were answering him, and you said you were opposed to fiat money; is that fiat money when the Treasury note is redeemable in gold?

Mr. LESTER. No; provided the Government borrows the money and issues the note.

Mr. JOHNSON, of Ohio. If it circulates—

Mr. LESTER. Let it circulate, there is no question about the Government borrowing. By virtue of that power, I suppose it has the right to issue notes.

Mr. JOHNSON, of Ohio. If the Government makes legal tender, is that fiat?

Mr. LESTER. I understand "fiat money" to be inconvertible paper money not containing even a promise to pay, but issued by the Government upon the assumption that mere fiat of the Government can give value to it as a circulating medium.

Mr. JOHNSON, of Ohio. And irredeemable?

Mr. WARNER. Whether irredeemable or not?

Mr. LESTER. Irredeemable.

Mr. WARNER. May I ask the gentleman from Georgia, because my friend did not exactly express my idea, although he referred to it. A tax for purposes other than revenue I take it every Democrat deems is absolutely unconstitutional and absolutely indefensible. Now, supposing this tax was absolutely repealed, but that the Government, in recognition of the condition of things which would be left by a naked repeal—a condition of things due to restricted development during the last thirty years, a paralysis during the last thirty years of the State banking system—should undertake to exercise its power of regulating commerce between the States and insist as a prerequisite to the permission of any currency to circulate outside of the State in which it was issued, that, for example, it should be printed all at one place to obviate counterfeits, that it should be registered at one place to obviate overissues, or such other administrative provisions as should have nothing to do with the amount, from time to time, of the currency—would that, in the gentleman's view, be unconstitutional?

Mr. LESTER. I think that would be unconstitutional because there would be no power to do it. To those who believe that the Government has power to regulate commerce and apply it in every sort of way, of course that would be legitimate, but to me it is not. I do not think that under the power to regulate commerce, to coin money, or to

tax, the Government has any power to make money or to regulate currency, the representative of money. I have heard this suggestion, that the Government has the right to prescribe and regulate internal commerce, and thereby the right to prescribe the shape, form, and dimensions of a steamboat, and as money is necessary to internal commerce, it follows that Congress can regulate the matter of money. But if we extend this analogy a little further, so as to apply it to this matter of money, we would give the Government the power to say there should not be a steamboat, or that some particular person should own that steamboat and nobody else. That would not be regulating commerce. It would be a power to destroy it as well as to regulate it.

Mr. WAENER. We agree, I think, on the fact that the use of the taxing power, except for revenue, is absolutely unconstitutional, but that the power of regulating commerce between the States—though on the interpretation of that question we might differ—is constitutional. That is to say, the power to regulate interstate commerce is expressly given by the Constitution to Congress and the Federal Government?

Mr. LESTER. Yes.

Mr. WAENER. So this distinction comes in: We are absolutely abandoning the exercise of a power which does not legally exist—which is absolutely unconstitutional—to tax for the purpose of prohibition. That is not in the Constitution. My question is as to whether, if the legitimate power can be found there, the gentleman would object to its use?

Mr. LESTER. If you find a legitimate power under the Constitution I do not object to its exercise if it serves a good purpose.

Mr. WAENER. In other words, as far as the exercise of concerns the power to regulate commerce, you would have no objection, but you do object in any case to the present tax because it is unconstitutional?

Mr. LESTER. I do not think under the power to regulate commerce you could get any question of this sort which you apply to it, that is to say, in regard to the right to regulate commerce. How has putting restriction upon the issue of money or promissory notes anything to do with the regulation of commerce?

Mr. WAENER. The gentleman misunderstands my question. What I was getting at was this: Any provision which would be a legitimate regulation of commerce as distinguished from taxing power, would not be objectionable.

Mr. LESTER. I perfectly agree with you. If you can find a provision which would make the act constitutional, why of course I would not object to it except in this way; I would prefer the other for the reasons I have mentioned, as a matter of public policy.

The CHAIRMAN. I would like to ask the gentleman from Georgia whether he would regard a provision which might make the States liable for the issues of the banks of the States the same as the General Government is liable for the national-bank issues as coming within the provisions of the Constitution?

Mr. LESTER. I do not think the States ought to do that. I do not think they ought to be made responsible for the debts of the bank. If, however, they allow them to issue their notes upon State bonds of course there should be some provision made by the State for the redemption of the bills as a matter of policy, because the State has to redeem its bonds in gold or silver.

The CHAIRMAN. Could not Congress require the States to be



responsible for the issues of their banks the same as the Government of the United States is responsible for the issues of the national banks?

Mr. LESTER. You mean, why can not Congress do that?

The CHAIRMAN. As a condition preceding the removal of the tax?

Mr. LESTER. I say in the first place the Government has no constitutional power to demand a condition of the kind.

Mr. BLACK. They would be required to do one unconstitutional thing to do another?

Mr. LESTER. I have no doubt in this matter but the States will be very careful about the issue of the bills. I have no doubt in the world when the banks are chartered hereafter, if the repeal of this law takes place, that restrictions would be thrown around the banks by the States. They might require as a condition of charter that they should hold in the treasury of the State, or somewhere else, even State bonds or other thing as security for redemption.

The CHAIRMAN. I want, in this connection, to call the attention of the committee to the decision of the Supreme Court of the United States, in 1869, in the case of Veazie Bank against Fenno, as reported in 8th Wallace, p. 548, and I want to read one extract from that opinion in this connection as bearing exactly on the line of argument and answer of the gentleman. It is as follows:

It can not be doubted that under the Constitution the power to provide a circulation of coin is given to Congress, and it is settled by the uniform practices of the Government and by repeated decisions that Congress may constitutionally authorize the emission of bills of credit. It is not important here to decide whether the quality of legal tender, in payment of debts, can be constitutionally imparted to these bills; it is enough to say that there can be no question of the power of the Government to emit them; make them receivable in payment of debts to itself; to fit them for use by those who see fit to use them in all the transactions of commerce; to provide for their redemption; to make them a currency, uniform in value and description, and convenient and useful for circulation. These powers, until recently, were only partially and occasionally exercised. Lately, however, they have been called into full activity, and Congress has undertaken to supply a currency for the entire country.

The methods adopted for the supply of this currency were briefly explained in the first part of this opinion. It now consists of coin, of United States notes, and of the notes of the national banks. Both descriptions of notes may be properly described as bills of credit, for both are furnished by the Government, both are issued on the credit of the Government, and the Government is responsible for the redemption of both; primarily as to the first description, and immediately upon default of the bank as to the second. When these bills shall be made convertible into coin, at the will of the holder, this currency will, perhaps, satisfy the wants of the community, in respect to a circulating medium, as perfectly as any mixed currency that can be devised.

Having thus, in the exercise of constitutional powers, undertaken to provide a currency for the whole country, it can not be questioned that Congress may constitutionally secure the benefit of it to the people by appropriate legislation. To this end Congress has denied the quality of legal tender to foreign coins, and has provided by law against the imposition of counterfeit and debased coin on the community. To the same end, Congress may restrain by suitable enactments the circulation as money of any notes not issued under its own authority. Without this power, indeed, its attempt to secure a sound and uniform currency for the country must be futile.

Let me call your attention to the fact that that opinion was pronounced by Chief-Justice Chase, and the court at that time consisted of Associates Nelson, Clifford, Miller, Grier, Wayne, Davis, and Fields, and it was the opinion of the court, with the exception of Nelson and Davis, who dissented, but you will find there is eminent Democratic authority upon the bench, without those two gentlemen, in the opinion of Justice Chase delivered as the opinion of the court, and this opinion has never been reversed and is now the law of the land as much as if it was a part of the Constitution of the United States.

Mr. LESTER. That is where I differ with the gentleman. The argument I have been attempting to make here in this room is antagonistic to the dicta of Judge Chase expressed in that decision.

The CHAIRMAN. I understand the gentleman has taken a different view, but that does not change the fact that the Supreme Court has here decided in this way.

Mr. JOHNSON, of Ohio. And is not the Supreme Court the authority in this Congress for legislation?

Mr. LESTER. No; the Constitution of the United States is the only authority. In reference to that decision, you will notice that it contains a recital of assumed facts upon which the decision is based. Among them, that Congress had undertaken to provide a currency for the country, and that it would no doubt provide legislation for the purpose to accomplish that end. What would you say now in view of the fact stated, and in view of the present condition of the currency? Would you say Congress did undertake to provide currency for the people? I say that Congress never did it and never undertook to do it, and I say further, if they did undertake it they have not done it, and that decision, while it might sustain the views of those who assume to think such things to be constitutional, it is not authority to command the acquiescence nor to bind the consciences of Representatives sworn to support the Constitution.

The CHAIRMAN. There is now paper circulating as money to the amount of \$1,100,000,000 pursuant to acts of Congress, and it was deemed sufficient for the wants of the trade of this country by the Congress of the United States. It may not be, but how do you supply more?

Mr. LESTER. If the Congress of the United States has determined that, I was not aware of it.

The CHAIRMAN. By the issuing of this amount?

Mr. LESTER. That is another construction or interpretation in which I do not concur.

The CHAIRMAN. Congress has taken to itself by passing legislation the sole power of furnishing currency to the people, first by imposing a 10 per cent tax upon State banks, and undertaking to furnish through the various acts of Congress, which have passed, a proper currency adapted to the wants of the trade, and up to this time the judgment of Congress is that a sufficient amount of currency has been provided, and it is the duty of this Congress to determine whether a sufficient amount has been devised or not, and if not to provide more of it.

Mr. WARNER. And it is the duty of Congress to determine whether to provide it that way or not?

The CHAIRMAN. Certainly.

Mr. WARNER. Is it not also its duty to determine whether it has any business to go into the banking business at all?

The CHAIRMAN. It is the business of Congress to determine what authority they have under the Constitution, and there must be an interpretation of it.

Mr. LESTER. I say with reference to the Congress of the United States that it has never done anything of the kind; that they have never undertaken to do that as a primary object, and the only way you can infer what they intended is to consider that they imposed an illegal tax upon State bank issues.

Mr. COX. Do not you agree that this proposition is true independent of that decision, to issue notes to circulate as money is a right existing in an individual except as restrained or restricted by local authority?

The Constitution of the United States restrains the State, and the State legislature may restrain or regulate the power of the individual to issue bills to circulate as money, hence the power is not in the State to empower individuals to issue bills, but only restrains or regulates the right already existing in the individuals. It follows also the United States Government has no right to restrict or regulate the power of individuals to issue bills to circulate as money.

Mr. LESTER. You have expressed my opinion better than I could have expressed it, perhaps. Every individual has the right to do what he pleases provided he is not restrained by law, and it makes no difference what it is he may do unless it violates a law of God or man. He is a citizen of a State, and that State of course has a sovereignty of itself and has a right as a community to punish or impose upon him restrictions, but without those restrictions he can do what pleases him, because there can be no power other than law superior to him.

Mr. COX. I want to see if you agree with me. The chairman spoke about the rights conferred by a State; my contention is that the State confers no right by legislation to the individual to issue bills, but that right exists above any State regulation, except as it may be restricted by that power which is inherent in the State to restrain individuals as well as other matters.

Mr. LESTER. That is true. I say he can do what he pleases, unless he is restrained by law. The reason why States have given the right to banks to issue bills—I think you will find it so in New York and in other places—why they have given to a particular corporation like a bank the right to issue bills, is because by other laws they have restricted the people.

Mr. COX. I say individuals.

Mr. LESTER. That is it. I would say this further, it has been suggested (I heard it from Col. Oates, the other day, who was here) that Congress had the right to impose this 10 per cent tax, in the exercise of power of taxation. I do not agree with that. I think they have a right to collect revenue, but I do not think in doing that in this instance they followed the Constitution. But suppose they did. There is an objection made, which may have force with the national banks and those people who think with them, that if this 10 per cent tax is repealed it would make a discrimination against the national banks, because they are taxed 1 per cent on their issues. Well, now, while I do not think that makes any difference in the matter, it has been suggested that you put as a condition upon the State banks the same provision; in other words, repeal the 10 per cent and put on 1 or 2, or whatever national banks pay as a condition of their issuing bills. I think that would be violative of principle. I will say, however, in order to meet that difficulty, the 1 per cent tax can be easily removed from these national banks in order to remove the objection.

Mr. JOHNSON, of Ohio. Does your argument equally apply to the tax proposed in the so-called antioption bill, a tax not intended as a revenue tax?

Mr. LESTER. I think it would. I do not think any of those laws are constitutional laws. It was plain the intent was not to raise revenue, but to suppress the thing proposed to be taxed.

Mr. JOHNSON, of Ohio. You think that was plain?

Mr. LESTER. It was plain enough.

Thereupon the committee rose, to meet at 10 o'clock a. m. Tuesday, October 10, 1893.

COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C., Tuesday, October 10, 1893.

**NATIONAL BANKS: SECURITY OF DEPOSITORS; ISSUES ON SECURITIES OTHER THAN NATIONAL BONDS. STATE BANKS: REPEAL OF TAX ON CIRCULATION.**

**STATEMENT OF HON. JOHN S. WILLIAMS, REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI**

ON HOUSE BILL 2014.

Mr. Chairman and gentlemen of the committee, I want to say in connection with this bill, in the first place, that I have tried to the best of my ability to prepare the bill so that it should not have an original feature in it, and that I think is the best part of it. There is nothing in it, as far as I could prevent, that does not seem to me somewhere in some particular banking system to have stood the test of time. The skeleton of the bill is taken from a bill introduced in the House by Mr. Harter, of Ohio, in the last Congress, and it is numbered 9707. In so far as I could, I have preserved Mr. Harter's language, and in some sections I have preserved it verbatim, because I thought that the provisions of his bill had been discussed. The two bills proceed upon the same idea to some extent.

I found this bill first in the proceedings of the American Academy of Political Science. I found in the proceedings of that society an article by Mr. Horace White, and another by Mr. Walker, of Massachusetts, and various other articles from various other sources. Besides that, I have analyzed the banking system known as the Suffolk bank system of Massachusetts; and also the bank systems of Indiana, Louisiana, South Carolina, and others.

Underlying the whole question of a banking system with me are two central cardinal ideas; one idea is that the Government has no right to make anything a legal tender except money, the idea in my mind being that nothing is money except something which can be coined; the Constitution saying Congress has the right to coin money (the verb "coin" fixing the significance of the substantive "money" and indicating clearly metallic money) and "regulate the value thereof." That last phrase means that Congress had the right to regulate the value of one coin with reference to that of the other coin. Of course if there had been but one coin, Congress could not regulate the value of that, as its value would have been regulated by reason of supply and demand; so that I believe the Government has a right to take a metal coin and stamp it, the stamp saying that there is so much weight and certain grade of fineness. I do not think the Government has a right to make anything a legal tender except money. I do not stand here to say that the Supreme Court is not a higher authority than anything else. The cardinal point is first that the Government has no right to take away from the money of the Constitution its legal-tender quality; and, secondly, the Government has no right to give that quality to anything else.

The Government must begin to educate the people. I conceive that there is nothing more important at the present time than this question of the education of the people. I think in the main we are suffering because we have never really resumed specie payment. We have a greater proportion of paper currency of a fiat character outstanding than any solvent people in the world. We have educated our people

up to a point where it is difficult for them to understand the difference between money and a promise to pay money.

The first clause in this bill is that the Government shall not hereafter guarantee the payment of the circulating notes of any banking association. The Government does not now guarantee such notes. The clause is inserted for its educational influence. The people down in my section of the country think the Government does guarantee the payment of national-bank notes. At the forefront of legislation that announcement should be made, and it is important.

Although I do not think the Government has a right to make anything except money a legal tender—either the Government's promise, the State's promise, a bank's promise, my promise, or any kind of a promise a legal tender—yet I think the Government has a right to say, where a man or a corporation proposes to put in circulation, not *as* money, but *instead* of money, notes to pass current as money, and that it is the duty of the Government to see, in behalf of its citizens, that that note has the soundest, safest, and best possible security back of it looking to its redemption.

The main fault in our national-bank system is one which, in my mind, was not sufficiently construed by the Supreme Court in the Veasey case. That was that the national-bank note was not payable in money, but in a legal tender; so I think the first thing we have to do is to provide for an ultimate redemption in coin, and not in what is called "lawful money of the United States."

The next idea following that was this: that there must not only be ultimate redemption, but there must be current redemption, which is lacking in the present system, and which deprives it of all elasticity. You will find that I provide for that. With the permission of the committee, I will go on and take up the bill clause by clause, explaining it as well as I can.

Section 2 is as follows:

SEC. 2. That there shall be no limit to the amount of circulating notes which any national-bank association may issue, except that said notes shall at no time exceed one hundred per centum of the par value of the bonds and coin deposited to secure the same by such association.

In reference to this, I want to come to the question how a national-bank system and a State-bank system, both of whom issue notes, shall go along side by side in carrying on the business of the country. The question occurred to me that they ought to go along on an exactly equal footing; so that this bill provides—for it is entitled "A bill to amend the national banking acts, to repeal the ten per cent tax on State bank issues, and for other purposes"—it provides for certain amendments to the national-bank act, and then generally it provides, in the first place, that any bank chartered by a State to issue notes may do business on the same sort of security, under the same charter, provisions of inspection, examination, and reserve, as national banks may, the only difference being that when they are chartered by a State there shall be such verbal variations as are necessary in order to adapt the banking system to the State machinery instead of to the federal machinery—that is, wherever the words "Comptroller of the Currency" occur, the proper State officer will be named to take the place of those words; and whenever the United States Treasurer is mentioned, the proper State officer will be inserted, my intention being to put the two systems upon an exactly equal footing in the bill; then to leave things to the law of nature, which is the "survival of the fittest." My idea is that the national-bank system will continue to do most of the business in the large

cities of the country where it is best adapted; whereas the State banks will be best adapted to the sparsely settled communities and smaller cities, and will do their business.

When we come to large places like New York and Chicago, people want uniformity as well as perfect safety; so that a bank in those cities may reach out to a very great distance, and may do a very diversified business, almost international in its nature, in some cases. Although it is true that gold is a kind of money or currency in which international balances are made payable, I know by experience that these others were used as substitutes. In a large city a man wants the stamp of the nation on the money to give it authority in the "markets of the world;" whereas in smaller communities that is only a secondary or a tertiary matter. The object there is safety, so as to give to currency confidence and elasticity.

Section 2, which has been read, should be taken in connection with section 4, providing that coin, as well as certain public securities, must be deposited with a properly designated State officer, etc.; and also in connection with this clause in section 7:

That no national-bank association shall be hereafter required to keep on deposit with the Treasurer of the United States any further security or fund for the payment of its circulating notes than that provided for in this act, to wit, twenty per centum of gold and silver legal-tender coin, and eighty per centum of bonds of the character hereinbefore provided for.

That is the most important feature of this bill. Its importance consists in this: it requires not a deposit of bonds alone, but it has a two-fold feature. It requires a deposit of bonds and coin, the two together amounting to 100 per cent of the total issue of the bank, the coin amounting to 20 per cent of the total amount deposited to secure circulation, and of that 20 per cent deposited half to be gold coin and half to be silver coin, and provides that there shall not be kept on deposit at any time more than 60 per cent of either metal against 40 per cent of the other.

That kind of mixed deposit of coin and public securities is the basis of the system of the Bank of England, and it is that which gives it elasticity and strength. That is the basis of the Reichs bank system of Germany, and it has made that system the soundest institution (without the advantage of experience and historical confidence to bolster it up) that now exists in the world. The system of the Bank of England is not based upon law in this respect, but upon custom and usage. Of course you are acquainted with it, and I want to indicate where it comes in here, and to show you where it might help you and give you an understanding of how this bill will accomplish the same purpose. The Bank of England has £14,000,000 sterling of circulation based on Government securities and it issues notes upon that basis to the full value. The bank is divided into two separate departments: the deposit department and the issuance department. They are kept so entirely separate that the banking department can not go with a note of the Bank of England itself to the issuance department and get it back in the shape of a note. It was found that the Bank of England could not supply a paper currency necessary for the commerce of Great Britain upon the basis of this amount, £14,000,000 sterling. Hence it was permitted to issue other notes on deposit of coin. Frequently crises would come to the bank, as we have found that one has come recently in this country. In such cases it would be found that the banking department would hold immense amounts of Government securities over and above the amount required as security for its notes, and it would

be found when it was necessary to convert its securities into money in order to meet a run, that the securities could not be converted. There was no law for this system. It was an expedient of Parliament. That shows how our English friends have established their system. When a run was made upon the banking department of the Bank of England, and when finally it was found that a run might cause a suspension of the bank, the officers of the bank would indicate to the officers of the "Government," or the Cabinet, and would receive a letter from the Government saying:

If you transcend the amount allowed by law we will stand between you and Parliament to the best of our ability.

In that case the Bank of England would be made safe. Invariably Parliament makes that rule. The banking department of the Bank of England carrying the securities would take them to the issuance department and receive in return notes of the Bank of England, and that would give this margin of elasticity in times of crises. Everybody would know in that case that the Bank of England was safe. Every time the Bank of England has received that Government letter, it has stopped a panic in Great Britain. There is a provision which Parliament always subsequently makes, and that is that the bank must pay over to the Government the amount of profit which it has made on this excess, and this acts as a check upon the bank to prevent harmful or unnecessary inflation. As the bank makes no profit it does not want to continue, except to save the bank from impending ruin, or in answer to positive necessities.

My bill provides for that in this way: In the Bank of England they have a provision to prevent the bank in ordinary times from transcending that amount, unless it deposits par for par coin for the Bank of England notes which it issues; so that the Bank of England's system practically rests upon a mixed deposit of bonds and coin, because it has never been found that the original amount of issue was sufficient to do the business. About one-sixth of the circulation of the Bank of England is now—and the general average varies—secured by deposits of coin in the vaults of the bank.

I provide here that there shall be this mixed deposit. I think it will work this way: Instead of checking the panic by taking the profits on excessive issues when there is a crisis, it is provided that there shall be no limit to the amount of notes it shall issue, except the amount of its deposits; but there is here a check upon the bank which will prevent it from undue inflation, and that is that for every \$100 in notes which it issues it must deposit \$20 of coin in addition to these public securities, which it must buy in the market, and for which it must pay or has paid money. It will prevent in ordinary times banks from over-issuing, and will enable them, with a slight increase of securities in times of crisis, to convert (for otherwise they would be inconvertible) public securities into currency for purposes of relief, and to avoid impending trouble.

If that system had been in vogue this year, for example, when the banks had any amount of public securities on hand, they could have simply carried those public securities to the Treasury of the United States. The banks could not sell them. There was no sale for them, not because they were worthless, but because there was no money in the hands of the people with which to buy them; that is, in the hands of people who had "confidence." The banks could then have relieved the currency stringency—and this was a currency panic, and nothing

else under the sun—by coming up to the Treasury and obtaining instead of these securities \$100 in national-bank notes by the deposit of \$80 worth of public securities, and also a deposit of \$20 in lawful coin of the United States. This requirement of the coin is at once a check and a safeguard.

Here were banks holding immense amounts of these securities as good as gold, and all that was necessary in the world was that they could be turned into actual currency for the time being; and a certain amount of those securities would have tended to restore confidence.

It has been found in England that actual conversion is hardly ever necessary. The very moment that the people know that the "Government letter" has been written confidence is restored. This has happened three or four times.

I think that clause, taken in connection with another clause which I wish to add to this bill—and I thought I had done so until I examined it—will have an important effect, and that is that national banks shall be prohibited, after a certain date, which you could fix, from issuing any notes under a certain denomination. My own idea is that \$10 is the right figure. The Bank of France has practically ceased to issue notes under denominations of fifty francs. The Bank of England has never issued notes under the denomination of five pounds, and I think the stability of their finances has been due to the fact that the people were in the habit of handling coin and knowing that coin was money. Therefore the coin staid in the country.

We have never resumed specie payment in this country. There never has been a day since 1860, practically, when the United States was upon a specie basis, and we are not upon a specie basis to-day. Men talk about standards of money, one set of men contending that we are under a gold standard; another a bimetallic standard, and another a silver standard. We are to-day on a fiat-money standard, and there has never been a day when the United States or the banks of the United States could have redeemed its money in specie. This is all right. There is no better peace-and-prosperity currency than a promise to pay given by a people who are able to keep their promises ultimately, where they are able to redeem, provided they have not issued so many promises to pay as to create distrust. Our present system, if serious international trouble should come, would topple in twenty days. There is no doubt about that.

I do not know that I could explain any further the effect and advantage of the mixed deposit system unless I were to give you a general idea of my views of the system and its actual working. You have before you the book from which I have read containing these proceedings, and it is not necessary for me to read it all. You will find it in "Theories and History of Banking," by Mr. Dunbar.

Mr. COX. Concerning notes of small denomination, your idea is now solely to drive them out by taxation?

Mr. WILLIAMS. Yes, sir. Or rather, I do not drive them out, but I prevent them from coming into existence. As to national-bank notes I do not drive them out, but after a certain date national-bank notes below a certain denomination are not allowed to be a part of the currency. I think one of the greatest benefits accruing from this system of State banking on county and district and State securities is this: that it will decrease the interest burdens now resting upon the people. There has been much discussion about the advisability of having in each State or national bank charter a provision that no bond should be



accepted which bore above a certain rate of interest unless the party depositing such bond and getting currency upon it would agree that during the period for which he deposited the bond it should draw interest only to a certain amount. I call the attention of the committee to that, and that may be fixed hereafter. A provision might be put in the law that a depositor should receive interest at the rate of 5 per cent in payment of all interest. I concluded in this bill that that was not necessary, because I believe the effect of it would be that the States will control the matter. I think that the system itself will provide a means so that whenever refunding time comes along, the counties, States, or districts will be enabled to float their bonds from that time on at a decreased rate of interest. It will be a natural effect of the increased demand for the bonds. This would not be coercing anybody, but if banks take advantage of this they should agree as part of the consideration not to receive over a certain amount.

Section 3 reads as follows, and I want to call your special attention to it:

SEC. 3. That State banks, State banking associations, and bankers expressly authorized under State statutes to issue circulating notes shall pay no Federal or United States tax upon such notes: *Provided*, That all such notes are secured in the same manner and to the same extent as the notes of national banks; that is, by coin and bonds of the precise character designated in this bill, which bonds and coin must be duly deposited with a properly designated State officer in the State in which the issuing bank or banking association or banker is domiciled, and provided the State charter authorizing such bank of issuance contain provisions safeguarding issuance and depositors identical with the provisions herein contained, except in so far as a change of verbiage is necessary to adapt such provisions to State instead of national governmental machinery. No circulation of any State bank or banking association, or banker, not having complied with provisions identical with those of this act, is or shall be hereby in any manner exempt from taxation as now established by law, and every national banking association shall pay a tax upon the circulating notes issued by it and in circulation of one per centum per annum upon the average amount of the same. Such taxes shall be paid semi-annually, and shall be collected by the internal-revenue collectors of the United States.

Under the present law there are certain limitations as to capital, both as to the amount of notes which can be issued and the minimum of taxation that a bank has to pay. There is in this bill no limitation upon the amount of the notes which a bank can put in circulation except as to the amount of coin and securities deposited. That is variable from time to time as the needs of business may require, and for that reason when I came to the provision in reference to the 1 per cent (which has been read) upon the average amount of circulating notes for the year, I put in the provision regardless of capital or individual deposits, "such taxation to be paid semi-annually," etc.

Mr. COX. At what rate do you fix that in your bill?

Mr. WILLIAMS. At 1 per cent. But I devote its net proceeds to the establishment of a "redemption fund." That is a feature of the bill which is not at all new. It has been tried in several banking systems and has been seen to work very well. I took this tax of 1 per cent to make a fund for the protection of the note holder. After that there is a provision to reimburse the Government for the cost of engraving and printing the notes.

Mr. COX. That is for the benefit of the note holder?

Mr. WILLIAMS. Yes, sir; that leaves the stockholders' liability over and above the stock for the general protection of all the creditors of bank. It was my idea that bonds of the character designated here to be deposited, together with this redemption fund, and standing also in the back ground for the protection of the note holder, and also giving

the lien on all the assets of the bank in favor of the note holder, would be sufficient protection without the further provision which has been made in so many bills for this liability over and above the stock for the benefit of the note holder.

There are some things which I would like to mention in connection with the redemption fund. Mr. Horace White, I think it was, treated that very ably.

[Mr. Williams here read from the Annals of the American Academy of Political Science, a copy of which is in the hands of most of the members of the committee. The portion which he read is found on page 24 of Volume III of the date of March 5, 1893.]

Section 9 of my bill reads as follows:

SEC. 9. That a fund of one million dollars shall be created out of the taxes collected under this act (after deducting the cost to the Government of the United States of printing, engraving, and delivering the circulating notes), and the said fund shall be maintained from the same source; and if the coin and the proceeds of the bonds deposited to secure the circulation of any banking association and the first lien upon its assets together are insufficient to reduce the outstanding notes of the association, then the deficiency shall be made good out of this fund.

That gives a first lien on all assets of the bank to protect the note holder. If this and the circulation deposit together shall not be sufficient to redeem outstanding notes, then the deficiency shall be made up out of this fund.

I think that the 10 per cent tax should be repealed, and that each State should be left to fix a currency system suited to itself. I think that would be best as a theory and a political principle into which no practical consideration of mine would enter. I think it of the highest importance, however, that a State banking system should be established, and that it shall be one which will be upon a sound basis and not subject to any reaction of public sentiment. In the present condition of affairs, considering the lack of experience of present State legislatures in handling financial and banking questions, I do not believe it would be safe to leave the question to their undefined control. I believe if it were so left, that the legislature of South Carolina to-morrow would issue notes and pass them as money upon the sub-treasury scheme. I have fears also about the legislatures of some other States. I believe that in Nevada, and perhaps some other Western States, they might issue notes upon deposits of silver bullion. The point I want to make, however, is that two or three States out of the forty-four might not introduce safe and sound banking principles although the other forty-odd did, the attention of the people would be called to the two or three systems which were rotten and visionary, more than to the forty-two that were sound and all right. There is need of education upon the subject of the uniformity of the circulation and the security of our money, because as soon as the American people get it into their heads that some where there is unsound money in circulation, there would be a reaction against the State banking system which would kill it. I want to introduce a State banking system which shall stand the test of time. It might be a fact that two or three of the States, so far from having a system of sound notes, would have a system which would be the by-word of the American people for visionary and impracticable provisions. What we should do, in my opinion, is to provide a means to aid us who want to carry the Government back to its original moorings upon this question. You should consider the conditions in bringing it back so that when you get it back it will be there to stay.

I think we have got to come to it gradually. At the present time the Federal Government does not redeem notes in coin, but in fiat money. The Government made that fiat money a legal tender, and followed it with this legislation, and started out upon a system which is wrong. I do not believe we can remedy it in a day, but must work to it gradually, and after a while we will have a system not only practical and sound, but thoroughly sound for all time.

I will read section 4:

SEC. 4. That in addition to the United States bonds now required by law to be deposited with the Treasurer of the United States to secure the circulating notes of national banking associations, the Comptroller of the Currency is hereby authorized and required to accept registered bonds issued by any State, county, municipal corporation, or taxing district of a State, subject to the following restrictions—

I want to explain what I mean by the term "taxing districts" of States. The soundest bonds afloat to-day in the State of Mississippi are bonds of the levee district, and in the State of my friend Mr. Cox, they have taxing districts, for instance the city of Memphis. I thought I would insert that language in reference to taxing districts so as to include those municipal corporations. These bonds are subject to certain restrictions, as to being at par, etc.

The bill of my friend Mr. Harter, which was introduced in the last House, provided that those bonds should be listed on a stock exchange. Mr. Harter did not understand the business as it is conducted down our way. We have no stock exchanges upon which bonds can be listed. He also provided in his bill that they should be listed on a stock exchange of a city of not less than 500,000 population. I would rather have a Yazoo County bond than a bond of any other kind. It can not be bought. I do not suppose that it is listed or that it could be listed in any stock exchange in a city of 500,000 population. And yet it is perfectly good. Our people who would do business with local banks know that it is good. The local bank could deposit that bond under the provisions of this bill, because at par and above par. It could not be deposited in a Chicago or New York bank because they always deposit securities which are listed upon their own exchanges, because they are in the habit of judging of the soundness of securities by the fact that they are listed on their own exchanges.

Mr. Cox. Do you know of any existing bonds which have the provision to be paid in coin, which you require. They are mostly payable in dollars.

Mr. WILLIAMS. There are a great many payable in coin.

Mr. COX. I suppose that bonds of the State are payable in dollars like they are in my State?

Mr. WILLIAMS. It would come about finally that they would be payable in coin, and it is the underlying principle of which I spoke in the beginning of my remarks, when I said that I wished to bring about a system as nearly as possible where promises of all sorts are payable in coin, and I think that State bonds in nearly all the States of the South to-day are simply payable in lawful money of the United States. But there is no reason why they should not be made payable in coin. The idea in my mind was that bonds deposited ought to be like the notes issued, made payable in coin.

Paragraph 3 of section 4 is as follows:

Third. No bond shall be accepted upon which payment of interest has at any time within five years been in default, or which at any time within two years prior to the date of its offer for acceptance has sold publicly upon any stock exchange where it was listed, or in market overt, for less than 100 cents on the dollar of its face value.

Mr. Harter's bill contained nearly this exact language, except that he confined the text to sale on stock exchanges.

Fourth. No bond shall be accepted if the total levy of the county, city or taxing district issuing it exceeds 2 per centum per annum, and if at any time subsequent to the deposit of any bond the levy of the county, city or taxing district issuing it shall be increased, so that the total levy shall exceed 2 per centum per annum, the Comptroller shall have the right and it shall be his duty to call for new security, in the stead of such bond, of the character of bonds herein required to be deposited.

Fifth. No banking association or banker shall be permitted to have more than 20 per centum of its bonds on deposit in the bonds of any one State, any one county, any one city or any one taxing district.

Sixth. Whenever any class of bonds on deposit has been publicly sold below par for the period of thirty days on any stock exchange where listed, or the Comptroller learns and believes that its actual marked value for thirty days has been below par, the Comptroller shall require a bond to be substituted which will in all respects meet the requirements of this act.

That is all in reference to the limitations or safeguards as to the character of the bonds to be deposited. I think I have dwelt sufficiently upon this feature of the security, which is to be part coin and part public securities. There is one feature of it that I would like to ask that you carry in your minds. The practical working of this requirement for 20 per cent of coin and 80 per cent of securities would have the additional effect upon the present system of making it singularly elastic instead of ironclad, as at present. This is, in my opinion, one of the chief things to be aimed at, that we should have a currency which will adapt itself necessarily and automatically to trade needs and necessities. We need currency per business necessity and not per capita. This is a system which, when a business stringency arises, will in an automatic way provide for inflation, and in using that word "inflation" I do not give it the commonly accepted meaning, because the word has been abused and used in a wrong sense. In a time when everything was going on right and when there would be a redundancy of currency, this system would enable a man to come and get his security, withdrawing it and using it for other purposes, and therefore it would destroy his liability upon the notes.

Mr. HALL. I think I have heard enough of the discussion to get a pretty clear idea of what you are driving at. Does the State or the National Government issue these charters to these banks?

Mr. WILLIAMS. That depends. The National Government would issue charters to national banks and the State governments would issue charters to State banks.

Mr. HALL. What authority would a State have to issue a charter which would be under the direction of the Comptroller of the United States Treasury? What power does this bill give the Government over a bank created by a State charter?

Mr. WILLIAMS. No authority under the sun. This bill declares that all State-bank issues which are relieved from the 10 per cent tax shall be the issues of banks having State charters, whose provisions are identical with the provisions under which the national banks are organized, being subject to like provisions for examination and inspection and for the safety of the notes issued. The Comptroller of the Treasury never interferes with the administration of the State banking system. The line of demarcation between the State-charter institution and the Federal institution I keep perfectly clear all the time. The only thing in the bill that would seem to confuse the two systems is this, that the 10 per cent tax is not repealed out and out. It is repealed only as to such banks and bankers as issue notes or are authorized to issue notes by the State under charter provisions prescribed as neces-

sary and prerequisites; such as shall have in their charters provisions for examination, deposit, etc., that are required of the national banks.

Mr. HALL. You have in one of the subdivisions of section 4 a provision that where bonds fall below par the Comptroller shall have the right to call for new securities.

Mr. WILLIAMS. Another clause provides that every clause of any State banking act shall conform to the requirements of the national banking law, except so far as a change shall be necessary in order to adapt the verbiage to the State-government machinery. The name of the proper State officer would be substituted for that of the Comptroller.

Mr. COBB, of Alabama. That is, where State charters apply?

Mr. WILLIAMS. Yes, sir; and that would work in this way: You are a banker and you establish a bank in the South. The Government would come to you and say "Your circulation is subject to the 10 per cent tax." You would say "No, I am exempt;" and you present your charter from the State which authorizes you to do business. It is found to be in proper shape, and you are exempt.

Mr. COBB, of Alabama. Suppose it is not so decided?

Mr. WILLIAMS. Well, you would appeal from the internal-revenue collector to the courts. But practically that question would never come up, because nobody would undertake to float any very considerable quantity of notes without being satisfied, before doing so, whether the notes would be subject to the 10 per cent tax. Practically charters would have the opinion of the United States Attorney-General. What I want to emphasize upon that subject is that I have studiously drawn the line of demarcation, so that under no circumstances could a Federal officer supervise or examine into the administration of affairs of a State-chartered institution, dictate its management, or do anything else. The only thing that the Government can do is that before it surrenders its right under the law to certain revenue, it shall see to it that the State charter conforms to the Congressional requirement. My idea is that these systems should run *pari passu* on an equal footing as to burdens and opportunities. After they are established they are separate and independent systems, under separate and independent sovereignties, for the purposes of control and administration. I am willing to let the national-bank law stand, provided State banking can be put on an equal footing with those institutions. Whenever we provide State charters and put State banks on the same footing they should be exempt from Federal taxation. The provisions of this bill are not all that can be put into a State charter. It provides that these provisions shall be put into a State charter, but other things may be put in besides, provided they do not conflict.

Mr. HALL. In other words, you inject into the State statutes the national-bank statutes?

Mr. WILLIAMS. I do, in so far as it is capable of adaptation to the State government machinery.

Mr. HALL. There are a great many provisions in your bill in regard to the circulation of national-bank notes; you make it a condition, precedent to the establishment of this system, that we shall inject the national-bank law into the State statutes; suppose these provisions are not complied with in a State charter?

Mr. WILLIAMS. Then a State bank would not be exempt from present taxation.

Mr. HALL. In other words, one of the conditions is that the United States Government has absolute control over the matter?

Mr. WILLIAMS. Not absolute control over the matter.

Mr. HALL. By virtue of this 10 per cent tax?

Mr. WILLIAMS. The 10 per cent tax already applies and the banks will have to pay it. If some of the State legislatures went to work and started a bank on cotton, grain, and other perishable commodities as security for their notes, they would have to pay the 10 per cent tax. It would be in the interest of the State banking system to do that. While there might be forty-two out of the forty-four States which would have a good, sound, safe, uniform system of currency based upon securities and the deposit of coin, which would make them perfectly good, yet if only two States started wildcat schemes, those two States would be more in the public mind, and would do more to bring the system into discredit than the other forty-two to encourage its growth. It would kill the State banking system and fasten upon us the clutches of the national banking system closer than ever.

Mr. HALL. Does not this national-bank system extend throughout the whole country?

Mr. WILLIAMS. Yes, sir. It is the use of the taxing power of the Government to stamp out State banking institutions. We propose to make them safe. It is not an extension of the national-bank system, but it is an establishment of a safe banking system for the States as well as for the Federal Government. You know exactly what I mean, but I object to your way of stating it. Your way of stating it would appeal to prejudices which would be unwarranted under the circumstances.

Mr. COX. Suppose you deposit, say county bonds. I know how the thing works practically in my own State. If you deposit county bonds and the county fails to levy a tax to pay interest on the bonds or to pay the bonds, and I know of instances where magistrates have resigned to prevent the levying of taxation, what would you do?

Mr. WILLIAMS. The State officer, who takes the place in the bill of the Comptroller of the Currency, would refuse to receive such bonds, or, if already received, would require other bonds to be substituted for them.

Mr. HALL. Suppose he did not?

Mr. WILLIAMS. I am glad you mention that. A bank having complied with all the provisions of the law, it is for a State officer to say whether this particular county bond A or State bond B is of the kind required under the provisions of the bill.

Mr. WARNER. Your plan provides in some regards for a very strict limitation of State banking institutions. You explain that your reason is to provide against possible trouble and to avoid any apprehension of unsound financiering in currency issues?

Mr. WILLIAMS. Yes, sir.

Mr. WARNER. In view of that aim allow me to ask you whether it would be well or in accord with your scheme to provide for some judicial proceeding by which the Comptroller of the Currency might at any time, in case he saw fit, test the extent to which the corresponding officer in each of the States had carried out the law? Would it be proper under your plan to provide some means or some process similar to a *quo warranto* by which the Comptroller would have the right to inquire into this matter?

Mr. WILLIAMS. No; and my objection is a fundamental one, and it is one which goes to the very soul of the matter. I think it is proper that a strict line of demarkation should be drawn between the State and the Government machinery. I believe that the Government of the United States has a right to say that there shall not be injected into the system by unsound charter anything which would unduly and

unfairly discriminate against its own fiscal agents, the national banks. When you come to the point of saying that a Federal officer shall interfere with or at any time supervise, correct, or sit in judgment upon the administration of a State bank by State officers, then I should object.

Mr. WARNER. The gentleman misunderstands me.

Mr. WILLIAMS. No, sir; I do not.

Mr. WARNER. Let me explain. My suggestion would not exclude any person from bringing similar proceedings in court. It is a suggestion which would not work either in favor of the Government system or the State system.

Mr. WILLIAMS. If you are speaking of the Comptroller as an individual, I think he could do that anyway, provided he had an interest and status in court, as any other individual might, but he could not do it as a Government officer. Wherever the Comptroller of the Currency thinks that a State charter did not comply with the law, of course the collector of internal revenue simply goes to the bank and levies the tax. Then the question would necessarily come up as to whether the State charter had provided these safeguards which are a prerequisite to the exemption of the bank issue from taxes. When it comes, however, to the administration of the system, that must be left to the State, because the moment you overstep the bounds of the State authority and allow a Federal officer, judicially, or otherwise, to exert authority of this kind over a State bank, that moment you have done a thing which would be of more importance than the entire financial question itself.

Mr. WARNER. I do not become enamored of these things on short acquaintance. As I understand the gentleman, he calls to my attention the fact that as a necessary result of the power of collecting the 10 per cent tax, all matters which have been suggested as a basis of litigation would actually become such, and as I understand the gentleman, he sees nothing insuperable in that objection?

Mr. WILLIAMS. The distinction in my mind is one that is clear to me, but it is one that is difficult to make clear to others. In my mind the two are entirely separate and distinct.

Mr. WARNER. Has the gentleman suggested any way by which the taxing officer of the United States, the Secretary of the Treasury, or any other officer could meet this question?

Mr. WILLIAMS. Not at all. The officer simply meets one question, and that question is, does the charter of the institution comply with the law? Are its provisions such as are required in a charter before exemption can follow? The question of administration and the faithful performance of the conditions of the charter by its officers and agents is a question to be determined by the authority which grants the charter.

I want the committee to understand distinctly that this bill is introduced as a mere means of getting the general idea before the committee, as a basis to work from, and is not to be considered as a bill which is complete in all its provisions. I think the bill you agree on ought to go more into detail than I have done—ought to be, in fact, a codification of the banking laws, with these amendments.

Mr. JOHNSON, of Indiana. It seems to me that the logical course for you gentlemen to pursue who are jealous of the power of the National Government and its right to interfere in these questions is that you should introduce a bill for pure and simple State banks.

Mr. WILLIAMS. That is my ideal exactly, and it is the thing towards which I am aiming. I would introduce such a bill now if I considered it safe now. The education and experience which State legislators have

not had for thirty years any occasion or opportunity to receive upon financial matters is to be considered. It would not do to thrust responsibility upon them at once without preparation. I would be glad to do it. I think the State legislators need a little training before we can go quite that far.

Mr. HALL. You have been speaking about the bad financial ideas in the minds of the people of the United States which you and I, and especially our colleagues in the Western States, have come in contact with; and is not that education due in a great measure to the financial legislation of this Government for the last thirty years?

Mr. WILLIAMS. Yes, sir. The people of this country have been mis-educated until the ordinary common citizen does not understand the difference between money and a promise to pay.

Mr. COBB, of Missouri. Did you say that the legislature of Mississippi was in favor of the subtreasury scheme?

Mr. WILLIAMS. No; but I should not be very much surprised if some scheme like that were inaugurated in Mississippi, and I should be surprised if it were not inaugurated in South Carolina.

Mr. COBB, of Missouri. You think this style of legislation would have its start in the banking system?

Mr. WILLIAMS. That particular legislation ought not to start any sort of a false system. I think that these things ought ultimately to be left to the State legislatures; and let them make errors, if they choose. From error would be evolved true principles and soundness. But why not prevent possibility of error at the start by establishing a sound system?

Mr. COBB, of Missouri. Then the people would have to suffer for those errors.

Mr. WILLIAMS. The people who sent those legislators to the legislative halls would have to suffer. At present I think we ought not to do anything of a kind that would lead to a reaction in public sentiment on this question and a consequent deathblow to State banking. To me, this is a question of policy and feasibility. It is very seldom that I go off on a question of pure policy, but for this once I think that this is the practical and politic thing to do.

Section 10 is as follows:

SEC. 10. That no officer or director of a national banking association can borrow from said banking association on terms different from the terms extended to the public; nor can any national bank lend on the security of its own stock, nor can any officer or director of a national bank indorse for another in said bank, or borrow money from it on the indorsement of other officer or officers, director or directors. Any director shall be individually liable for any losses accruing from an infraction of the laws governing national banking associations by the board of directors, unless he shall have voted against the same and caused his vote to be entered on the minutes, and notified the Comptroller of the Currency of such infraction within thirty days after its occurrence; or, if not present at the meeting of the directors at which the infraction occurred, then within thirty days after the fact of the infraction came to his knowledge.

Section 11 is taken from the old Massachusetts banking system, and is as follows:

SEC. 11. That any director of a national bank going out of the State for more than sixty days or absenting himself from five successive meetings of the board shall be deemed to have resigned, and his place shall be filled at once. No person can be a director of a national bank whose stock is pledged for debt.

I want to call especial attention to section 12. I think one of the chief disadvantages of the present system of banking is that there is no provision for current redemption. Final redemption is indubitable; but there is no provision for current redemption.



## Section 12 is as follows:

SEC. 12. That the refusal or failure to pay coin for its own notes on presentation at its counter, and on demand of coin therefor, at once or within ten days after such demand, shall, if the bank so refusing or failing be a national bank, constitute cause for the appointment of a receiver, and, if the bank so refusing or failing be a State bank or a State banking association, or a banker expressly authorized by the laws of a State to issue circulating notes, the said failure or refusal shall take the circulation of said bank from within the provision for exemption in this act, and shall, ipso facto, work a reimposition of the ten per centum tax on its circulating notes, as heretofore imposed by law, for the current fiscal year.

The present system is a system of paper redemption. The national-bank notes are redeemed in greenbacks. This change will make them redeemable in coin, after ten days' notice. There is another thing which ought logically to follow the idea of this bill; but I did not put it in the bill, because I thought it would meet with so much objection that it was hardly worth urging. Not only in my opinion should 20 per cent of the deposit to secure circulation be reserved in coin, but in my opinion banks ought to be required to keep the reserve to protect depositors in coin entirely. That would provide a real bimetallic basis for this country. It is true that the gold and silver would be chiefly in the reserves of the bank, but there would be in the country as money a perfectly safe, sound, automatic currency convertible into coin at any time and based on coin.

Mr. JOHNSON, of Indiana. Is that inserted in contemplation of bimetallicism?

Mr. WILLIAMS. No, sir; it is inserted more in contemplation of the fact that bimetallicism has perhaps obtained its deathblow. There are a great many people who believe that the principles and objects of bimetallicism can be accomplished by putting paper in circulation. If you get a system where no bank note or paper under a certain amount is issued, you provide for actual circulation of the coin in retail transactions to start with, and if you get a bank system in which reserves are kept in coin, you provide for a circulation on the basis of coin.

Mr. WARNER. Your bill would be practicable if we should have a single gold standard, or—

Mr. WILLIAMS. Bimetallicism. It would be equally applicable in any case, and at the same time would have the effect—

Mr. JOHNSON, of Indiana. In your opinion that law would be much more feasible if we had genuine bimetallicism?

Mr. WILLIAMS. If we had genuine bimetallicism I would never have introduced this bill, because it would have been entirely unnecessary. But that has very little to do with this discussion.

Mr. JOHNSON, of Indiana. Your bill would be much easier of operation if we had the use of gold and silver as standard money.

Mr. WILLIAMS. As current and actual money in circulation, no matter what was regarded as the "standard," it would be easy.

Mr. JOHNSON, of Indiana. If we had both gold and silver in use as standard money it would be much easier to comply with your bill.

Mr. WILLIAMS. You are confused in your mind as to what is bimetallicism—I mean as to what is the actual current circulation of both coins. No matter what ideal standard should be used my idea would operate successfully. Your idea is that true bimetallicism would be really a double "standard."

Mr. JOHNSON, of Indiana. There is no confusion in my mind, I think. Would not the effect of that bill of yours be strongly in favor of the use of silver as a standard money in order that its terms might be applied? Would it not require that?

Mr. WILLIAMS. Not at all. It would require silver as money; not necessarily as a standard money.

Mr. JOHNSON, of Indiana. Would it not be much easier to accumulate a reserve of both gold and silver than it would be if you had gold or silver alone as a standard?

Mr. WILLIAMS. History settles that thing. All the standard France has at present is a gold standard, but the actual reserve in France is half and half of each metal, not mathematically but substantially. There is an answer from current history.

Mr. JOHNSON, of Indiana. The Bank of France redeems in gold.

Mr. WILLIAMS. She redeems in both metals. I do not mean half and half mathematically. The Bank of France has a right to use both, and does use both always and freely in meeting its notes and other obligations.

Mr. JOHNSON, of Indiana. Is not one of the objects you have in the introduction of that bill to create a necessity for the use of silver as standard money?

Mr. WILLIAMS. As money, yes; but not as standard money.

Mr. JOHNSON, of Indiana. Will you answer the question?

Mr. WILLIAMS. I am trying to. One of the incidental objects of this bill is to make room for the use of silver as money, but not necessarily as standard money.

Mr. JOHNSON, of Indiana. Then you answer "No"?

Mr. WILLIAMS. As far as your question puts the word "standard" in front of the word "money," I answer no.

Here is something which I want to call attention to in a general way.

Section 13 is as follows:

SEC. 13. That the present prohibition upon national-banking associations preventing them from lending money on real estate security is hereby removed.

If you put in a section like that which I have read, safeguarding the action of the directors in a bank and requiring them to be present at all the meetings, and requiring that they shall not leave the State, and compelling the actual participation of the directors in the conduct of the bank, it will make the affairs of a bank safe and sound, no matter how free it is left as to choice of security for loans. I do not think there is any danger from a bank in leaving it free to loan money on real estate. Real estate is, after all, the source of all wealth. It is usually the case that real estate is not immediately convertible into money, but I think we may safely leave that to the business sense of private enterprises, and let the directors of a bank elect what they shall do in this respect. They will guard their own interests. Down in my own part of the country that is the only security men have. Well-to-do planters have no other security under the sun.

Mr. WARNER. About what percentage of assets of a bank should be invested in this particular kind of security? Would you say the amount ought not to exceed 10 per cent of the assets?

Mr. WILLIAMS. So far as I am concerned it would depend upon the character of the limitation as to whether it would meet my approbation that any limitation should be put upon it at all. I think it could be safely left to the banks.

When you go to a city the banks will not take real estate as security, because, to a large extent, it is speculative in value; but down in my section real estate has no speculative value. Its value has been about so much for twenty or thirty years. The board of directors would be governed by their surroundings, and I think they may be safely left free to be so governed.

Section 14 is as follows:

SEC. 14. That all parts of existing laws controlling national-banking associations not in conflict or inconsistent with the provisions of this act are hereby reenacted, including all provisions for examination and for protection of depositors.

There is a good deal of meaning in that. It requires that the provisions of the national-bank law for examination and inspection shall also be substantially a part of the provisions of the State banking system. I think the provisions for examination and reports is the most important, safest, and soundest feature of the national-banking system.

Section 15 is as follows:

SEC. 15. That no State bank or banking association, or banker authorized by the law of a State to issue circulating notes, shall be exempt from the operation of the present existing Federal law taxing such notes, unless in the charter from the State so authorizing it to issue circulating notes there be provisions complying with and according with the requirements of each and every provision of this act, except section nine hereof, and lines nineteen, twenty, and twenty-one of section three hereof. The State banks and banking associations hereby intended to be exempted are not exempt until they are chartered with provisions substantially identical with the provisions of this act, such compliance of provisions being prerequisites to the exemption herein and hereby enacted.

If that section had been read earlier it would have saved a good deal of discussion.

Mr. HALL. Is it made a prerequisite to the issuance of the charter?

Mr. WILLIAMS. Yes, as to the provisions being in the State charter, no, as to the administration and performance of the charter requirements under the charter after its enactment.

Mr. HALL. Under your bill can a State issue a charter?

Mr. WILLIAMS. Yes, sir; but the banker does not obtain exemption from the 10 per cent tax on circulating notes unless the charter under which he operates be a charter whose provisions are in compliance with the provisions of the national-bank act.

Mr. HALL. Who says whether a charter complies with the provisions of that act?

Mr. WILLIAMS. Ultimately the courts might. It is the duty of the collector of internal revenue in the first instance under this bill, because it is a Federal tax. If the collector of internal revenue and a bank disagree, then the disagreement must be determined judicially. I do not see anything in this bill which could be construed as allowing either of the two systems to nullify the other. Will you state your question again?

Mr. HALL. In the last section of the bill which you have just read, and which excepts section 9, you say that this charter issued by the State must comply with every provision of this act, except this section 9.

Mr. WILLIAMS. And lines 19 to 21, which I neglected to insert in the bill.

Mr. HALL. That puts the entire State-banking system under the supervision and control of the National Government?

Mr. WILLIAMS. No; but this Federal officer must see whether the charter provisions under which a man proposes to issue circulating notes is in accordance with the provisions of this bill. That is all. If that is determined adversely to the party it is decided judicially.

Mr. JOHNSON, of Indiana. In a State court or in a United States court?

Mr. WILLIAMS. In a United States court because it is a question of Federal taxation.

The CHAIRMAN. The process which the Government would pursue would be this: The collector of internal revenue would demand taxes.

The person from whom taxes were demanded would refuse to pay; and, when the collector insisted upon payment, the party would pay under protest. He could sue the collector to get the money back, and the party losing the suit could take it to a United States court, which would finally decide the question as to whether the charter complied with the act of Congress.

Mr. WILLIAMS. It would decide that one question, and somebody must of course decide that. That is the sole question, determining the prima facie or substantial identity of charter provisions. There is nothing else left for the Federal officer to decide at all.

Mr. HALL. What does that charter issued by the State set forth?

Mr. WILLIAMS. The charter of the State sets forth whatever it chooses to, provided it sets forth these provisions, and provided that nothing in it conflicts with these provisions, safeguarding issues and deposits.

Mr. HALL. It must set forth that every condition precedent has been complied with except section 9.

Mr. WILLIAMS. The charter does not set forth that the conditions precedent have been complied with. The State charter itself, containing these provisions, is the condition precedent.

Mr. HALL. Suppose a state issues a charter, and the conditions are set forth as being complied with, when in fact they have not been?

Mr. WILLIAMS. That case could not exist.

Mr. HALL. It is arrived at by a quo warranto or in a suit between the collector and the party.

Mr. WILLIAMS. If the State in its charter had complied with the requirements, then the State by its charter would have conferred the right of exemption upon the State bank issuing these notes. There is nowhere any question as to whether a bank in its administration has complied with the provisions of its charter. The whole question is to be determined by the Federal authorities as to whether the conditions precedent of legal enactment in the charter have been complied with, and the State must be left to determine for itself whether the administration of the affairs of a bank have been in accordance with the law or not and to enforce compliance with its law. In other words, it is just like this: When we come to consider the question of the operation of the Fifteenth amendment, there can be passed by no State a law which conflicts with that law, or with any law of Congress passed to carry the Fifteenth amendment into execution; but when you come to the question of determining whether a State law, carrying out the provisions of the Fifteenth amendment, has been violated, then the State law punishes that. These provisions, Federal and State, are required to be in accordance. The two systems must be on an equal footing of legal enactment, and when it comes to a question of administration subsequent to the granting of the authority in the legal enactment, each is separate. But before this can be done the Federal law requires an enactment by the State in accordance and substantially identical with the legal enactment under which the Federal bank system has been authorized.

Mr. HALL. Suppose a State issues a charter and says in that charter that all the conditions precedent in reference to this bank have been complied with—the 80 per cent of bonds and the 20 per cent of coin—when in truth not one single bond has been deposited?

Mr. WILLIAMS. You do not understand me yet. It is not necessary to the exemption of this taxation that they shall have been deposited. It is necessary that the charter shall require it. The State enforces the

requirement for its banks and the nation enforces the requirement for national banks.

Mr. HALL. It is necessary that the States should have certified to the fact.

Mr. WILLIAMS. Yes; and that a man doing business should do it under a charter with these provisions.

Mr. HALL. Without Federal interposition, nobody would know whether it had been complied with or not.

Mr. WILLIAMS. Your question takes for granted that it would be possible for some State in the Union to issue a charter requiring that these things should be done, and certifying that they had been done, when they had not been done. That is not even possible of consideration. All that is necessary is that we shall have the two systems running along on all fours, coming under the same character of authority with the same provisions in reference to the safeguarding of its circulating notes.

Mr. HALL. Then where is the national inspection?

Mr. WILLIAMS. Nowhere; but there is a State inspection for State banks identical with the national inspection for national banks provided for under the bill.

Mr. JOHNSON, of Indiana. You have a system for State banks pure and simple?

Mr. WILLIAMS. Of course; as far as administrative control goes.

Mr. JOHNSON, of Indiana. There is no power in the Federal Government to investigate that system. If the statutes are disregarded it is for the State to determine.

Mr. WILLIAMS. Of course.

Mr. JOHNSON, of Indiana. Why not introduce a pure and simple State-bank bill?

The CHAIRMAN. I think Mr. Williams has answered the question fully, and I believe the members of the committee understand the matter.

Mr. WILLIAMS. I hope so; but I am singularly unfortunate in one respect, and I appreciate it as much as anybody can—the difficulty which I have to make clear to the minds of others things which are quite clear to my own mind. I think this is clear.

Mr. JOHNSON, of Indiana. I simply wanted to get it into the record correctly and to show very plainly that this is a State banking system.

Mr. WILLIAMS. I was not thinking of the record, but you can put this in the record: the legal provisions of safeguard for issuance and depositors under the two concurring systems of national and State banking would be substantially identical. The question as to whether the substantial and identical provisions of law were in each case in good faith carried out in the administration of the respective systems would be left for determination to the officers of the respective systems. The State government after having once chartered an institution in such a way as to comply with the provisions which Congress required as charter prerequisites to exemption from Federal taxation, would enforce its provisions; and the act which would confer upon the chartered bank a right to issue certain notes, would, under the joint operation of the State charter and the act of Congress, exempt the notes of the bank. The agents of the Federal Government would have nothing to do with the administration of the affairs of the State bank by the State officers and the agents of the State government would have nothing to do with the administration of the affairs of the national banks by the officers of the National Government. If I have failed in any way in the bill to

keep the line of demarkation after the charter containing prerequisites of exemption has been granted to a State bank, it is perfectly clear to you that it has been caused for lack of ability on my part to keep them distinct.

That is about all I wanted to say; but I would like to call attention to this bill which I have marked, and which I will leave here. It shows in various places the history of these laws.

There is another practical difficulty, at least it would strike you as a practical difficulty, but it is not. A man might object that a bank might be chartered and issue its notes, and a Government officer would come along afterwards and say that the Government would tax those notes; but practically there would be no difficulty about that, because no man would go to work under a State charter until that matter had been settled. The granting of that privilege would be in the nature of a permit or release by the Federal Government.

Thereupon, the committee rose, to meet Thursday, October 12, 1893, at 10 a. m.

**COMMITTEE ON BANKING AND CURRENCY,**  
*Thursday, October 12, 1893.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

**STATEMENT OF HON. T. C. McRAE.**

Hon. T. C. McRae, Representative from the State of Arkansas, appeared before the Committee on behalf of H. R. 127, which is as follows:

A BILL for an increase in the issue of Treasury notes and the retirement of national-bank notes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Secretary of the Treasury shall, on the first day of July, eighteen hundred and ninety-four, or as soon as practicable thereafter, increase the issue of the United States Treasury notes to an amount equal to the total taxes and revenues of the United States Government collected for the fiscal year ending June thirtieth, eighteen hundred and ninety-four; and thereafter he shall annually, on said day of each year or as soon as practicable, further increase the issue of said notes as the aggregate taxes and revenues may have been increased for the preceding fiscal year.

SEC. 2. That whenever any national-bank notes shall be surrendered the Secretary of the Treasury shall issue an equivalent amount of Treasury notes of the same denominations, and deposit the same in the Treasury, to be paid out as other moneys belonging to the Government. No national bank shall hereafter be allowed to issue circulating notes of any kind whatever, and so much of the national-bank law as authorizes the issue of bank notes is hereby repealed.

SEC. 3. That the Treasury notes provided for in this act, and all other Treasury notes heretofore issued, shall be a legal tender for the payment of all debts and dues, public and private, including import taxes, and when they shall be received into the Treasury under any law from any source whatever, and shall belong to the United States, they shall not be retired, canceled, or destroyed, but shall be re-issued and paid out again, and kept in circulation.

SEC. 4. That a sum sufficient to carry out the provisions of this act is hereby appropriated out of any money in the Treasury not otherwise appropriated.

SEC. 5. That all laws and parts of laws providing for the sale of bonds of the United States and all other acts and parts of acts inconsistent with the provisions of this act are hereby repealed.

Mr. McRae addressed the Committee as follows:

Mr. Chairman and Gentlemen of the Committee: I thank you for the invitation to appear here this morning and make a statement in

support of my bill 127. I will not undertake to elaborate the principle and idea involved in it but will simply state it and ask the careful consideration of the committee before final action upon the bill. I understand that if the expenditures of the Government are not already in excess of the receipts of the Treasury, they are very likely to become so very soon unless there is an increase in taxes or a reduction of expenses. It is pretty generally conceded that we need more money. Speaking from the standpoint of the needs of the Treasury I would say that we must have it soon or run on a credit. Taxes are already too burdensome to the people, and speaking for my constituents I protest against an increase of taxes or the sale of interest-bearing bonds to get gold when we can issue notes just as good without interest. If, therefore, we can by this measure issue more money for the Treasury, and avoid an increase of taxes, or a sale of bonds without violating any established principle of our Government or of sound finance, then I contend we should not hesitate to adopt it. The first section of this bill provides for an increase of the Treasury notes, known as greenbacks, to the extent of the difference between the existing volume and a sum equal to the total amount of taxes and revenues annually collected. I know of no authority in finance for adopting this limitation, rather than a fixed amount. I have suggested this because I believe we can easily maintain a volume of paper currency bottomed on and limited by the amount of our taxes. I think the actual business of the Government will go far toward determining the amount of paper that can be floated with safety. When there is a dollar of taxes collected for every dollar of Treasury notes issued by the Government I think we can keep such notes at par with our coined money with smaller per centum of reserve than is required now.

I believe we can do it with as little or less reserve than is required of national banks. For the most of the time for the last century we have had some kind of national paper circulation. Some of it has been a legal tender for private debts and some of it not. Some of it has been redeemable in coin and some convertible into interest-bearing bonds. At times of inflation it has been at a heavy discount, while at other times of financial disturbances it has been at a slight premium. But, Mr. Chairman, when convertible into coin on demand and not issued in excess of the ability of the Government, such currency has always been satisfactory and necessary to the people because portable and convenient. The Supreme Court of the United States has decided, whether correctly or not, that Congress can make these notes a legal tender in times of peace as well as war, and so I have provided that the notes to be issued under this bill shall be a legal tender for all debts public and private. The bill would provide an immediate increase in the Treasury notes of something over \$150,000,000. If it is true that the receipts of the Government are less than the expenditures, there will be no difficulty in getting that amount into active circulation in a short time. One trouble about notes of this kind heretofore has been in getting them into circulation. The receipts of the Treasury have been in excess of the expenditures, but we are now confronted with a deficit instead of a surplus. I do not want to be understood by the committee as favoring irredeemable or flat money, or even an over issue of redeemable paper money.

I am opposed to such an idea as much as any person can be. I do not believe that a dollar of paper money ought to be issued by this Government that is not convertible on demand into coin, but in as much as it has been determined to be necessary that we should have

a national paper circulation, and the people have found it economical and serviceable, we should, I think, use all we can with safety before we resort to the use of bonds. If the Government receives it for all taxes and debts due it, and pays it out for all debts due from it, and makes it a legal tender between citizens, there is, in my opinion, no difficulty in keeping the amount provided for by this bill at par with coin and in active circulation. They are promises to pay, and their whole value lies in the credit of the Government and the fund or taxes pledged to their redemption. I know, Mr. Chairman, that there are those who contend that we can issue an unlimited amount of irredeemable Treasury notes, but I have no sympathy with such visionary schemes, and I would not ask you to venture beyond the point of safety and soundness. Money that is not safe is dangerous. The great Kentuckian, the late Senator Beck, contended we could double the amount of the greenbacks we now have without increasing our gold reserve. I do not wish to controvert his position, but I have not asked the committee to go so far as he thought we could go. I know that as long as we keep within the limits of this bill we will be perfectly safe. It may be that when we go this far that the way will be clear to go a step farther. The second section is aimed at the national-bank circulation, and is intended to prevent a contraction of the circulating medium by substituting Treasury notes for the bank bills as they are retired. I would like to see the national-bank notes all retired. I think the time has come to discontinue the national banks as banks of issue, if not entirely. If continued at all, let them confine their business to that of receiving deposits, making discounts, issuing exchanges, etc., without issuing notes. But there is no reason why the committee should not adopt the principle contended for in the first section of the bill even if you should disagree with me as to the second proposition and desire to retain the national-banking system. I am unalterably opposed to national banks, and I would like to see the Government cut loose from them. I believe that banking is essentially that character of private business with which the National Government should have nothing to do. The States ought, in my judgment, to have the complete control of this as well as all other private business. The tax upon State banks should be repealed, and the whole matter of the organization and control of banks remitted to the States. But it is not my purpose to discuss that question here. The point that I insist upon at this time, and the one that I believe is practicable and sound and ought to be adopted promptly, is that of increasing the Treasury notes to meet the temporary emergency.

Mr. BLACK. I did not quite understand you in this respect. I understand you do not want any paper money if it is not redeemed in gold and silver?

Mr. McRAE. No, sir.

Mr. BLACK. Would the issuing of this additional sum that you call for involve an increase of gold and silver to redeem it?

Mr. McRAE. It would not, in my opinion, require any increase of the gold reserve held at present to redeem the greenbacks, for I contend we can carry a very much larger volume than we now have with the \$100,000,000 of gold reserve.

Mr. BLACK. Your idea is that we should carry a much larger volume of paper money?

Mr. McRAE. That is the idea. We can, I think, carry all I ask you to issue with the same reserve that we now have. As a matter of fact we have redeemed from 1879 to 1892 only about \$50,000,000 of Treasury



notes. In order to aid the panic this year about \$100,000,000 have been presented for redemption. The truth is, that when the people know that the notes are receivable for all import duties and taxes, as they have been since resumption, and that they are not issued beyond the ability of the Treasury to keep the promise of redemption, they do not want them redeemed and will not, as long as the credit of the Government is good. They prefer to use the notes, and they are kept in active circulation, performing all the functions of money. If you limit, as I seek to limit by this bill, the amount issued and to be issued to the actual amount of taxes and revenues of the Government, it is not necessary to provide an additional sinking fund or gold reserve.

Mr. HAUGEN. You do not claim that there is any particular reason why you fixed this particular amount?

Mr. McRAE. None, except I think there should be some limit, and I have fixed this because I am satisfied it is within the lines of safety. There are a great many people who insist that we should go further than this, and I am myself inclined to think that we might go further, but I prefer to have the committee and Congress proceed in this matter very cautiously. It seems to me to be conclusive that when the Government for legitimate expenses lays its taxing powers upon the people—taxes that can be paid in notes—that we can carry an equal amount of notes with no larger per cent of reserve than is required of National banks for their circulation. The revenues will, in a large measure, support them. If they are receivable for taxes, and must be taken from the Government for salaries, there can certainly be no serious danger as long as we keep the volume within the limit of our revenues.

Mr. BLACK. How much would this increase it?

Mr. McRAE. It would be about \$150,000,000.

Mr. JOHNSON, of Indiana. It is now about how much?

Mr. McRAE. I think the revenues are now about \$500,000,000 and the notes are about \$346,000,000. If the revenues should be decreased, as some of us believe they will be, the increase of notes would be less, but the amount for the first year would be determined by the revenues for the preceding fiscal year. If, again, the income for the next year is increased, then to that extent the Secretary of the Treasury would be authorized to increase the notes, and so in that way we would have, instead of a fixed volume of paper money, a flexible currency, based upon the business of the Government.

Mr. JOHNSON, of Indiana. The objection that has been urged to that form of currency has been the lack of elasticity, the inability to let it out, and of having it contracted. That is the objection I have heard urged to the greenback issue. It is claimed that the local banks, whether national or state, if properly bottomed would probably obviate that question?

Mr. McRAE. I believe in a well-regulated system of State banks, but this is not inconsistent with the principle I now contend for, that of the United States issuing such paper money as it can maintain at par without increasing its taxes. I believe also in the use of gold and silver to the full extent, and if I could have my way—

Mr. JOHNSON, of Indiana. You will find in a work of Trenholm, "The People's Money," recently published, a discussion of one phase of the subject which you present, that is the capacity to absorb currency, and you will find it very instructive.

Mr. McRAE. I will be very glad to examine it, and will do so by the time this question is considered in the House.

Mr. BROSIOUS. May I ask one question. Your purpose is to keep the

volume of paper money issued by the Government all the time equal to the amount of revenue needed by the Government?

Mr. MCRAE. Yes, sir.

Mr. BROSIUS. Well, is there any principle of finance or taxation on which you can base the idea that the volume of the peoples' paper money ought at all times be equal to the amount of its revenues?

Mr. MCRAE. No; there is no principle of finance upon which I rest my argument except that all paper money should be redeemable in coin or bottomed on taxes, and when we do not issue more than our annual taxes it would require but a small reserve to accomplish this.

Mr. BROSIUS. I did not know but what there was some principle upon which you predicated this proposition because it is totally a new proposition to me, although it may not be so to the other gentlemen. Now, as taxes increase, and as our Government grows, of course taxes increase, and you are increasing the gold liabilities or coin liabilities of the Government every year much larger?

Mr. MCRAE. Yes, sir; but only in the proportion that the revenues of the Government and the necessities of public business have increased.

Mr. BROSIUS. You do not have in your bill any corresponding mode of increasing the coin assets of the Government so that the proportion between the coin assets and coin liabilities of your Government is constantly growing?

Mr. MCRAE. I think there is no necessity for an increase in our coin assets, as long as our notes do not exceed our revenues. We lay a tax—

Mr. BROSIUS. But taxes have not anything to do with the coin assets of the Government?

Mr. MCRAE. Taxes are the only assets of the Government of the United States. In other words this Government can only get assets by taxes.

Mr. BROSIUS. If you do not increase the coin assets in the Treasury but continue issuing paper money why your money by and by will be largely paper because the ratio of paper to coin is constantly increasing, unless at the same time and concurrently with the increase of the paper money you provide for the corresponding increase of those assets?

Mr. JOHNSON, of Indiana. One part of the bill provides it shall be substituted for national bank notes; does not that affect the point you make. I understand the national bank notes are redeemable in currency and every time you take a national bank note you do not require an increase of the reserve?

Mr. MCRAE. Certainly not, nor would the slight increase of her notes here provided for require any increase of the reserve. We ought to cease to use Treasury notes as money entirely or have the full benefit of the system. If we admit the right to issue them, and the necessity for more money, we can not avoid the further issue, except upon the theory that it is not safe and sound.

Mr. BROSIUS. Are you able to say from your recollection—I am sure I am not—the ratio of increase?

Mr. MCRAE. No, sir; but I would say that it would be from 3 to 5 per cent.

Mr. BROSIUS. Then you will increase the paper in the same ratio?

Mr. MCRAE. Yes, sir.

Mr. WARNER. May I ask the gentleman what is his reason for limiting the amount of notes to the amount of taxes?

Mr. MCRAE. I have already stated that there is no reason that I

know of except to make a safe limit and still keep it flexible. This limitation upon the amount is to some extent an experiment, and I do not want the Government to issue for the present any more paper money than its annual income. It is the old idea that Treasury notes bottomed on taxes will always be at par with the best currency if convertible into it. It is an effort to use the credit of the Government with the people when it can be safely done instead of taxing the people to raise this sum of money.

Mr. WARNER. I appreciate the suggestion, and it was my fault I was absent at the time, but I take it for granted of course any paper money that is issued will to a large extent remain outside in circulation as distinguished from being paid in for taxes?

Mr. MCRAE. Certainly; if properly limited.

Mr. WARNER. So there may be some sort of proportion in the minds of people who adopt the idea that taxes or the power of taxation is the proper basis for currency between the amount of taxes which the Government levies for a year or two years or something of that kind and the amount of currency that can be safely based upon it for the purpose of circulation. I confess that I do not see, and in the short time I have been here I have not heard the question asked so as to be answered by yourself, any reason why it should be fixed at precisely the amount of taxes rather than twice the amount or rather than half the amount. I do not understand the gentleman to have said, this is an experiment and that he thinks that this amount can be safely floated, but the question I would put is, if the gentleman thinks it can be safely floated, why does he think so?

Mr. MCRAE. I think so because the taxes will materially aid us in floating it.

Mr. WARNER. On that theory can not we float—for example, there would be kept on the average outstanding \$300,000,000, outside the Treasury, and we will say at this time the convenience of the country requires a certain amount of paper money which is approximately \$300,000,000. Now, if that is the case, the question is what amount can be properly used for taxes actually going into the Treasury as distinguished from what is kept outside; why would it not be well to make the whole issue \$800,000,000?

Mr. MCRAE. As I said, I do not want to issue a dollar of paper money that we could not keep at par, and I am not satisfied that we can float \$800,000,000 without a larger gold reserve. It does not follow, however, that we can float \$800,000,000 as easily as \$500,000,000. Your question implies that an individual or government can pay twice as much as easily as one-half of his or its income. This I do not believe. Treasury notes are promises to pay, and their whole value lies in the credit of the Government and the taxes levied to secure their payment.

Mr. WARNER. What I was getting at was this, and I wish to see if it is your idea. In England, for example, they started out on that plan, not based upon taxes exactly, but with the idea that, no matter what would be the character of the currency as long as it was limited to that amount, the people would have to take a certain amount of the circulating notes; and, so long as the credit of the Government was good for anything, they would practically be kept outside of the Treasury by the necessities of business. That amount was fixed, I believe, at £14,000,000—I believe now it is £16,000,000—and then they issued a certain additional amount, not, however, based upon taxes, but if they had chosen to base it upon taxes there was no reason why they could not have done it. Now our experience shows that some three hundred

and odd millions is bound to be kept out of the Treasury for the business of people, then if you are going to base the currency upon the taxes, why should not the amount of additional currency be, at least, we will say, one year's taxes, or why do you limit it to one year's taxes instead of two years' taxes, or why should it not be limited to six months' taxes? What I am trying to get at is the principle on which you were working and upon which you are predicating your reasons.

Mr. McRAE. So large a part of our Treasury notes will not be kept out of the Treasury if we issue them beyond our ability to protect them. I am in favor of the Government issuing all the paper money it can keep at par, but not another dollar. I am not willing at present to go beyond the limit fixed in my bill. I do not expect under it any greater per cent to go into the Treasury than does now, because redemption will be substantially as certain as it is now. I maintain that the people will not become alarmed at the overissue of paper money as long as it does not exceed the annual necessary revenues of the Government. I prefer this to a fixed volume as now.

Mr. WARNER. The necessities of the Government we understand rise and fall to some extent; of course salaries are fixed, but not the other things which have to be paid for by the Government; so if there should be a depreciation of the currency, the result would be taxes would have to be higher, then if the taxes were higher and the result of your plan of issuing more currency was to bring about further depreciation, then taxes would have to be raised again, and does not that plan involve the danger of a vicious circle following the result of the increase of the amount of taxes required by reason of depreciation from any cause; then an increase of the amount of currency to meet the new increased taxation, then a further depreciation as the result of the increase of circulation to the end of a bottomless depreciation, unless you can say not merely that the first amount can be used, but its results can not be to depreciate the currency?

Mr. McRAE. Your question assumes that the increase I ask will depreciate the currency, and if it would have that effect it ought not to be made. I assume that it will not depreciate Treasury notes.

Mr. WARNER. You are proceeding on that assumption?

Mr. JOHNSON, of Indiana. He has said two or three times that he did not know of any relation on which he bases the amount.

Mr. WARNER. I did not understand that.

### STATEMENT OF HON. S. B. COOPER.

Hon. S. B. Cooper, a Representative from the State of Texas, next appeared before the committee in behalf of the following bill:

[H. R. 246, Fifty-third Congress, first session.]

A BILL to authorize the issue of United States notes and for the redemption of the same.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Secretary of the Treasury is hereby authorized and directed to issue three hundred million dollars of United States notes, not bearing interest, payable to bearer at the Treasury of the United States, and of such denominations as he may deem expedient, not less than one dollar and not more than one hundred dollars each, and said notes herein authorized to be issued shall be receivable in payment of all taxes, internal dues, excises, debts, and demands of every kind due to the United States, and shall be a legal tender in payment of all debts, public and private, within the United States.

SEC. 2. That the United States notes authorized to be issued by this act shall be of the same form and design, and shall be printed, engraved, and signed in the

same manner as was by law provided for United States notes under the act of Congress entitled "An act to authorize the issue of United States notes and for the redemption or funding thereof and for funding the floating debt of the United States," approved February twenty-fifth, eighteen hundred and sixty-two.

SEC. 3. That whenever there shall not be sufficient money in the general fund of the United States Treasury to pay the current expenses and indebtedness of the United States the Secretary of the Treasury shall pay off and discharge said expenses and said indebtedness with United States notes authorized to be issued by this act.

SEC. 4. That for every three dollars of the United States notes, authorized by this act, that shall be paid out and put into circulation by the Secretary of the Treasury, there shall, by said Secretary of the Treasury, be placed and deposited in the Treasury of the United States one dollar in coin money of the United States, and said coin money so deposited shall be kept and held as a special reserve fund with which to pay off and discharge said notes when the same, or any of them, shall be presented for payment or offered for redemption; and to carry into effect the provisions of this section of the act the Secretary of the Treasury is authorized and directed to reserve and retain out of the general revenues received by the United States, from whatever source, sufficient coin money of the United States to make the deposit, and provide and preserve the special reserve fund provided for in this act; and in the event the Secretary of the Treasury is unable to obtain from the general revenues received by the United States sufficient coin money of the United States to keep and maintain the special reserve fund herein provided for, then, and in that event, the Secretary of the Treasury is authorized and directed to issue, on the credit of the United States, registered bonds to an amount not exceeding one hundred million dollars, redeemable at the pleasure of the United States after five years, and payable twenty years from the date of said bonds, and bearing interest at the rate of per centum, payable semiannually, and the bonds herein authorized shall be of such denominations, not less than fifty dollars, as may be determined on by the Secretary of the Treasury; and the Secretary of the Treasury may sell such bonds, or such number thereof, as may be necessary, at the par value thereof for the coin money of the United States, and the coin money of the United States so received for said bonds shall be kept as provided in this act as a special reserve fund with which to pay off and redeem the United States notes authorized by this act.

SEC. 5. That whenever any of the United States notes authorized by this act shall be mutilated or otherwise injured so as to be unfit for use, the same may be returned to the Secretary of the Treasury, and said Secretary of the Treasury shall deliver to the holder of such mutilated or injured notes new notes for the same, and said mutilated and injured notes shall be destroyed under such regulations as the Secretary of the Treasury may prescribe.

SEC. 6. That whenever any of the United States notes authorized by this act shall be paid to and received by the United States, the same shall be paid out again whenever it is possible so to do, so that the circulation of said notes shall at no time be decreased or diminished.

SEC. 7. That the faith and credit of the United States of America is hereby pledged for the prompt payment of the notes authorized to be issued by this act, when presented for redemption, and for the prompt payment at maturity of the bonds, principal and interest, authorized to be issued by this act.

Mr. Cooper addressed the committee as follows:

Mr. Chairman and gentlemen of the committee: I will occupy only a brief time with my statement—in fact, I think the bill argues its own cause. By way of apology, Mr. Chairman, I will state that I received your courteous note on yesterday afternoon, but my interest in the extraordinary proceedings going on in the Senate kept me up pretty late and I am not prepared with the accurate data I would like to have in presenting my views upon this bill.

To begin with, I can adopt much of the argument that has been used by Mr. McRae in presenting his views upon the bill which he has introduced. Now, this bill provides for the issuing of \$300,000,000 of greenbacks, Treasury notes, bottomed upon \$100,000,000 coin money, following in the line of the greenback issue of 1862, but this bill provides for a reserve fund of \$100,000,000 of coin money of the Government with which to redeem these notes. This \$100,000,000 is to be obtained by taxation, by a revenue derived by the Government from taxes, if possi-

ble, and if there is not sufficient revenue derived in that way, then the bill authorizes the issuance of bonds to be put upon the market for the purpose of procuring a reserve fund.

The bill has three purposes. First, to secure a larger volume of money. It would give us immediately an increase in circulation, and if all the notes authorized by the bill were put in circulation it would be something over \$3 per capita.

I believe the volume of money in circulation is inadequate and we ought to increase it, and, besides, there is a very strong demand by the people for increasing the circulation. Next, it will, I think, tend to destroy national banks, and the party to which I belong does not approve of the power now placed in the hands of national banks to issue, emit, or put into circulation money. They want this power retained in the Government and the Government only to exercise it.

Next, it is probable, at least possible, that we are going to have a deficit, and I understand already there are not sufficient taxes collected to pay the current expenses of the Government, and it is probable that this deficit may continue, because we are going to proceed with a character of legislation that is going to give alarm, which may be imaginary, but nevertheless hurtful, and I think is imaginary, but at the same time it is going to temporarily curtail our revenues. Now, this bill provides for supplying that deficit, and the manner in which the money is to be put into circulation is by paying it out in discharge of the current expenses of the Government and by supplying the deficit in the current revenues of the Government, and whenever \$3 of money is paid out it becomes the duty of the Secretary of the Treasury to place in the Treasury a reserve fund of \$1 of the current coin of the country to redeem the notes so put in circulation. The credit of the Government is also guaranteed for the payment of these notes.

The bill provides for continuing that money (the notes) in circulation. When it is once paid out and then paid in, it is required to be again paid out by the Secretary of the Treasury, if it is possible so to do. Now, with reference to the volume of money: While it may appear that we have a larger volume of money than we have had before at any time (now something like \$25 per capita), I do not think it is true. You may ask why I do not think it is true. I can not speak accurately as to what volume of money was in circulation per capita in 1860, but I know the expenses of the Government to each individual was about \$2. Now, while we have an increase in population, and the expense of maintaining the Government ought to relatively decrease as population increases, the reverse has been the rule, and it costs now \$8 a head taxation to run this Government. Therefore, there is more money continuously in the Treasury of the United States, and it is required to be kept there, and more money constantly in the treasuries of the State governments, county governments and municipal governments, and following it down through the labyrinth of corporate and individual treasuries you will find there is a great amount of money kept out of circulation and in deposit in these special places for the purpose of carrying on the business of the governments, municipalities, and corporations. Besides, no harm can result, I take it, from increasing the currency, if it is increased upon a solid and stable basis. We are now carrying \$346,000,000 of this character of currency, and we are carrying it upon \$100,000,000 reserve fund. If we can carry that, we can carry the amount provided in this bill, upon the reservation therein provided.

Mr. HALL. You have no authority for that statement that we have \$346,000,000 in circulation?

Mr. COOPER. I have only the published statements of the Secretary of the Treasury. I do not think now there is \$346,000,000 in circulation or \$346,000,000 in existence, and my reason for stating that is this—

Mr. HALL. I just thought possibly you had some data on that.

Mr. COOPER. We had a circulation of fractional currency of something over \$75,000,000, and we undertook to retire and redeem that and we found over \$26,000,000 that could not be found. It had been destroyed, mutilated, or otherwise disposed of, and if there was that much fractional currency lost or destroyed, between its issuance and redemption, I think it more than probable that of the \$346,000,000, possibly one-third of it is not actually in circulation and has been lost or destroyed.

Now, Mr. Chairman, I do not want to trespass upon the time of the committee, and I have stated the outline of the material points contained in this bill and the first and main object I seek is to increase the circulation upon a solid basis. The second reason is, I believe it will tend to destroy the national banks. Now, the national banks, while they are safe institutions and while they supply good money, they are dangerous and undemocratic institutions and are intrusted with dangerous powers. They virtually control the currency of this country and can do great harm and injury if they see proper to exercise that power.

Between 1882 and 1892 they contracted the currency of this country \$192,000,000. Notwithstanding in 1882 we did not have near the quantity of national banks we now have, they then had in circulation \$364,000,000; to-day, or rather in 1892, they had in circulation \$172,000,000. They have contracted our currency \$192,000,000, or more than one-half of their entire issue. Now, I do not like to put such power in the hands of any corporation or person. Power is dangerous wherever you let it rest, and it is rarely exercised for unselfish purposes, but too frequently it is used and manipulated for selfish ends. I do not think that any corporation or individual ought to have power over the finances of this Government. By the power they now have they can contract the currency of this country at will, and they have contracted it on an average of nearly \$20,000,000 a year for the past ten years. They can not conveniently contract the currency provided in this bill when it is once put in circulation.

Gentlemen, I believe I have nothing further to say, and I am very much obliged to you.

Mr. WARNER. May I ask the gentleman whether he has any data as to the amount now held or probably held in State and municipal funds except over what was so held in former years?

Mr. COOPER. I have not that with me, but if I had had an opportunity I think I could have gathered that data. I have a portion of it, not with me, but at my room, but that line I have traveled over to some extent and have gathered some information and I know it is largely in excess now of what it was.

Mr. WARNER. Will it be too much to ask the gentleman to furnish us with that compilation as early as he may? It was a very interesting point of his argument.

Mr. COOPER. I will undertake to do so.

Mr. WARNER. And unquestionably it is a strong point so far as it

extends. Now, as to the proposal. To sum it up, would it be proper to say that what you propose is a great national bank of issue controlled by and practically constituted of the Government as distinguished from the so-called national banks as they now exist?

Mr. COOPER. Let the Government do what the national banks are now doing.

Mr. WARNER. Now, the result of that would be to leave the amount of currency to be fixed from time to time by the wisdom of Congress?

Mr. COOPER. Yes, sir.

Mr. WARNER. On the other hand—

Mr. COOPER. I would leave it to the wisdom of Congress relative to the increase of paper currency. The metal currency will be controlled by natural laws, circumstances and conditions, and the laws of Congress.

Mr. WARNER. In other words, you propose to leave the question of coin currency to be settled automatically by the effect of free coinage of either or both gold or silver, and you believe that is the best way to do it; but as regards the paper currency you believe it should be arbitrarily, I do not necessarily mean wrongfully, fixed?

Mr. COOPER. I believe it should arbitrarily be left to the judgment of Congress.

Mr. WARNER. Now, may I ask why you believe that such absolute freedom should be left, on the one hand, for coin currency to adjust itself to the demands of business, and, on the other hand, why you propose, so far as any automatic effect of business is concerned, to put so perfect a straight jacket upon the paper currency?

Mr. COOPER. I believe in the wisdom of the people, and that they will direct Congress whenever they think there is not a sufficient supply of money to furnish the money and place it upon a solid basis, and whenever there is a surplus, whenever there is a plethora of paper money, it ought to be contracted, but it should not be in the hands of any individual to do so.

Mr. WARNER. What I was about to refer to was this: Of course the Government would presumably—that is, a Democratic Congress would presumably—act in accordance with the will of the people, and I have great faith in Providence, but would it not be one objection to your scheme that there may be sometime a Republican Congress? And what would you do in case a Congress should unfortunately be controlled by the parties who are interested in national banks or interested in the hoarding up of gold or silver, and who might cut down to half the capacity of our currency and leave us that way for years, perhaps, until we could get a Democratic Congress?

Mr. COOPER. It would be evidence to me that people wanted it if Congress did that.

Mr. WARNER. You think business might occasionally wait a year or two for its currency rather than to have it left elastic.

Mr. COOPER. I think this is elastic enough.

Mr. HALL. You come from the State of Texas, where you have had to deal with these wild-cat ideas of currency, etc., and let me ask you this: Do not you believe as long as the National Government has control of fixing the volume of currency that it will tend to increase the desire to see these wild-cat theories put on the National Government; but if you put the power of issuing money closer still to the people, not through the national-bank system, but get right down close to the people so they themselves will control it with their State legislation that it will tend to bring about conservatism on the part of the people,



or, in other words, keep them from indulging in these wild-cat views, and consequently make them more cautious?

Mr. COOPER. For some reasons I would like to, as far as possible, localize the currency, but I do not want individual control.

Mr. HALL. I have seen men who were county judges who were the most cautious and careful men in the transaction of all county business, and yet they would advocate the subtreasury in the National Government; and I have seen the same in my State and other Southern and Western States.

Mr. HAUGEN. You would give the county board the authority to issue money so as to get it nearer the people?

Mr. COOPER (in reply to Mr. Hall). That is an infirmity of human nature.

Mr. WARNER. There is an objection to your plan from my standpoint. I can not conceive of a more effective plan for congesting the currency at the seaboard, especially at New York, than the one you propose. Now, have you considered this from that standpoint.

Mr. COOPER. Well, I can not say that I have. I do not understand in what line it would do it.

Mr. WARNER. The national banks as they now exist through different parts of the country, if I may use the illustration, while a very imperfect medium of securing currency for the different sections of the country, are practically obliged as a condition of their existence to put out some currency in that part of the country, and as it is redeemed, etc., to put it out again. As a matter of fact, while they do not supply as much as is wanted, they from time to time do supply currency, and as years go on they keep putting out currency in the different parts of the country. Now, I understand your plan would be to issue greenbacks from a central source, and while the difference between that and the present national-bank plan might not be very great in its operations, it would take away your only incentive or pressure to issue a currency at points far remote from the center of government or center finance, and would leave the gravitation, which now keeps currency congested in New York and Boston and Philadelphia, to act with still greater freedom, and that would leave the rest of the country still more drained.

Mr. COOPER. I think the currency would go wherever there is a surplus of products, either manufactured or agricultural products. If we in Texas have something to sell, we will get the benefit of the currency that is in New York, and this bill authorizes it to be paid out where there is a deficiency, and so we can get it generally diffused if there is a deficit. This does not authorize the putting out of \$300,000,000 in one lump, but it says it is to supply a deficiency in the current revenues of the Government and in that way we will get it.

Mr. WARNER. I do not wish for a moment to argue upon the truism which you suggest, but is it not a fact that during nine months of the year under the present operation of the law which you mention, the currency is congested in the money centers of the East and North, and during the two or three months of the year, when your crops are being marketed that the necessity now arises, even under the present system, for coming to these money centers and actually getting bales of bills for actual transportation, to move your crops? That was the suggestion to which I referred.

Mr. COOPER. That may be true, but I undertake to answer that by saying I do not think there is any system that human ingenuity could devise by which money would not be controlled by those who have the

means and opportunity to control it. It would be controlled in the city of Galveston, my own State, if New York was at Galveston. I think that money will be controlled by those who have the power and the ability to control it and who can make more money by controlling it.

Mr. WARNER. I understand you propose to have this currency based upon gold?

Mr. COOPER. Based upon coin.

Mr. WARNER. I understand my colleague was rather hinting at currency which would be based to some extent on what you might call local securities. Now, I confess there will be no question that in New York or within a few hundred feet of my office there is held more gold and silver in private hands than in all the rest of the country put together. Now, if you take a system which is based upon gold, which can not be expanded without the Government buying more gold, do not you tend to put the control of the circulating medium of the country more and more in the power of those who control or own the gold and silver than under a system based, even to a small extent, upon local securities?

Mr. COOPER. Yes, sir; but the taxing power of the Government can get that gold without purchasing it.

Mr. WARNER. Does the taxing power of the Government operate to drain a part of the country or deplete a part of the country where—

Mr. COOPER. In my opinion, there is no danger of a depletion so long as the balance of trade is in our favor.

#### STATEMENT OF HON. W. J. BRYAN.

Hon. W. J. Bryan, a Representative from the State of Nebraska, next appeared before the committee in behalf of the following bill:

[H. R. 3378, Fifty-third Congress, first session.]

A BILL to secure the depositors in national banks against loss, and so forth.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That every national bank organized under the laws of the United States shall, on or before the first day of January of each year after the passage of this act, deposit with the Treasurer of the United States a sum equal to one-fourth of one per centum on its average deposits for the three months preceding said first day of January. Special notice shall be given immediately in case of default, and any bank failing for sixty days after receiving special notice to deposit such tax shall forfeit its charter: *Provided,* That whenever the Treasurer shall have on hand in the special fund raised by such tax the sum of ten million dollars the Comptroller of the Currency shall by order suspend the tax until the amount in the special fund falls below the said sum of ten million dollars.

SEC. 2. That whenever the Comptroller of the Currency shall be advised of the failure of any national bank he shall at once ascertain the amount due depositors and creditors of the bank (not including stockholders, officers, or directors), and from the special fund provided for in section one of this act shall, as soon as convenient, cause to be paid to such depositors and creditors (not including stockholders, officers, or directors) the amounts due them.

SEC. 3. That the assets of such failing banks shall be turned into cash as now provided and the amount realized shall be used, first, to satisfy all claims not provided for in section two, and, second, the amount remaining shall be paid into the special fund provided for in section one of this act: *Provided,* That nothing herein shall be construed to exempt the stockholders from the liability of one hundred per centum of their stock in addition to their stock, and no stockholder shall receive any payments on his stock from the assets of such failing bank until all debts due from the bank have been paid and the special fund provided for in section one reimbursed to the extent that it was drawn upon, as provided for in section two.

SEC. 4. That the United States hereby assumes no liability to depositors of national banks except as a trustee to distribute the special fund in this act provided for, and

the Comptroller of the Currency shall pay out of the money in the order in which he receives notice of failure, paying all proper liabilities of one bank as aforesaid before any on liabilities of a bank whose failure is subsequently announced, and in case the special fund is insufficient to pay all proper liabilities the Comptroller of the Currency shall cause such money to be expended in paying such proper liabilities pro rata, and the amount remaining unpaid shall be made good as the special fund is replenished, and in case the special fund is entirely exhausted banks shall be cared for in order of failure as fund is renewed.

SEC. 5. That to provide against a contraction of the currency by the holding of this special fund in trust, the Secretary of the Treasury is hereby empowered and directed to issue and pay out, for the general expenses of the Government, United States Treasury notes, commonly known as greenbacks, like those authorized by the law approved February twenty-fifth, eighteen hundred and sixty-two, equal to the amount held in said special fund, and such Treasury notes shall have all the legal-tender qualities possessed by the Treasury notes issued under said act of February twenty-fifth, eighteen hundred and sixty-two.

Mr. Bryan addressed the committee as follows:

Mr. Chairman and gentlemen of the committee: I am very glad to have a chance to present the merits, as I understand them, of the bill which has been referred to your committee. That bill is number 3378. I do not know that there is anything in the bill which will give special advantage to the people of New York, and I am rather glad it does not, because my observation has been that wherever a bill is accused of giving any special advantage to the people of New York it is unanimously opposed by the people of New York; and as this bill does not give them any special advantage, but simply distributes the advantage over the country generally, I think I can count upon the support of the New York members with much more assurance that if I had anything which specially favored them. I will read the bill, and I will speak of the various points as I read them. The bill provides:

That every national bank organized under the laws of the United States shall, on or before the first day of January of each year after the passage of this act, deposit with the Treasurer of the United States a sum equal to one-fourth of one per centum on its average deposits for the three months preceding said first day of January. Special notice shall be given immediately in case of default, and any bank failing for sixty days after receiving special notice to deposit such tax shall forfeit its charter.

Of course, that is simply a provision by which we can enforce the law when it is a law; and it gives them sixty days' notice, special notice, and takes away any possible injustice that might come from any negligence on their part.

*Provided*, That whenever the Treasurer shall have on hand in the special fund raised by such tax the sum of ten million dollars the Comptroller of the Currency shall, by order, suspend the tax until the amount in the special fund shall fall below the said sum of ten million dollars.

The tax of one-quarter of 1 per cent would therefore be operative only until the amount of \$10,000,000 is raised, and it is easy to take the amount which the banks have on deposit and calculate how long it would take to raise the fund of \$10,000,000. Do you know, Mr. Chairman, the amount deposited?

The CHAIRMAN. In May it was \$1,900,000,000.

Mr. BRYAN. Say about \$2,000,000,000, and one-fourth of 1 per cent on that would be \$5,000,000; so at that rate it would take two years of taxation only to raise the \$10,000,000, and I think I am safe in saying that during the existence of the national banks the amount of loss to depositors has not exceeded \$10,000,000; that is, after taking the assets of the bank and liabilities of the stockholders (100 per cent in addition to their stock), that the depositors of the national banks have

not lost \$10,000,000. I say that without any figures and without making it as an accurate statement, but I think I am safe in assuming that.

Mr. HAUGEN. I think it is about some \$6,000,000.

Mr. WARNER. You say the depositors of the national banks have not lost \$10,000,000?

Mr. HAUGEN. They have not lost over \$6,000,000.

Mr. HALL. There is a very interesting article of Mr. Horace White on that very subject, and my recollection is he makes that very statement.

Mr. WARNER. We have had more failures of national banks within the past few months than we had, I was about to say, from the beginning of the system.

Mr. HALL. We are talking about the depositors' losses.

Mr. BRYAN. I am talking about depositors, and you will notice that not all the banks that fail cause a loss to their depositors; you understand that many of those banks have reopened. I simply mention that to show when that fund is once raised by a tax which lasts two years on the basis I have suggested, that fund would be sufficient to pay all the losses which have occurred in the last thirty years for national banks, and I have mentioned it here to show how trifling would be the weight upon those banks; that when you have once raised this fund, it is only when it falls below that sum that the tax is renewed, and the chances are that the fund which you have raised would make unnecessary any other fund or any other tax for a great many years, or possibly one other assessment of \$5,000,000, which would be raised by the one-quarter of 1 per cent, would save all losses for ten or fifteen years to come, and you can see that the burden upon the banks is very insignificant.

Now, the next section provides:

That whenever the Comptroller of the Currency shall be advised of the failure of any national bank he shall at once ascertain the amount due depositors and creditors of the bank—

By that I mean the men who are depositors—not stockholders, directors, or officers—and those who have sent money or bills to the bank for collection, so that every person who is not responsible for the management of the bank may at once receive the amount due him. It then goes on to provide:

And from the special fund, provided for in section one of this act, shall, as soon as soon as convenient, cause to be paid to such depositors and creditors (not including stockholders, officers, or directors) the amounts due them.

Now, under the present system, if a bank fails the Comptroller sends his agent to take charge of it, and the assets are realized upon, and during all that time the people of that community have their money tied up in that bank, and the bank has to collect the money before it can pay it out to any of the depositors, and the fact it does not pay out the money to the depositors makes it difficult to collect its assets, for persons who owe the bank have people owing them, and when you have one man's money tied up other men suffer from it. The fact of the Government at once paying these depositors from a special fund the amount that is due to them will make it easier for the bank to collect its assets, its debts from people who owe the bank, and thus the bank is reimbursed, so it can reimburse the fund from which the Comptroller has drawn to pay these depositors and avoid that embarrassment of the business of a community which often comes from a failure of a bank.

## Section 3 provides:

SEC. 3. That the assets of such failing banks shall be turned into cash as now provided and the amount realized shall be used, first, to satisfy all claims not provided for in section two, and, second, the amount remaining shall be paid into the special fund provided for in section one of this act: *Provided*, That nothing herein shall be construed to exempt the stockholders from the liability of one hundred per centum of their stock in addition to their stock, and no stockholder shall receive any payments on his stock from the assets of such failing bank until all debts due from the bank have been paid and the special fund provided for in section one reimbursed to the extent that it was drawn upon, as provided for in section two.

This simply means that those persons who are interested in a bank, for instance, a stockholder, might have a deposit in the bank and he also owes on his stock an additional liability. That is not to be paid, nor is he to be relieved from this additional liability until the special fund has been reimbursed. It does not relieve a stockholder of the additional liability, and does not relieve an officer of any of the duties which are imposed upon him by the present law, but it simply says that after the disinterested persons have been paid by the Government then the assets shall be used first to settle the equities between those people who are interested persons, and the fund shall be reimbursed to the extent it has been drawn upon, and then whatever other assets there are go to the stockholders as under the present law. It specifically provides that there shall be no interference with the liabilities now imposed by law upon the stockholders of a bank.

Mr. COX. Let me call attention to the proposition you are on there. The present Comptroller of the Currency reaches the point you discuss this way: Suppose a bank fails and an examination is made, and he makes an assessment. That is collected at once. If he takes that assessment and pays it out to those who are entitled to it, the creditors of the bank, then when he gets through with that, then as the assets of the bank are realized upon and that comes in, the creditors being satisfied, that goes to this fund. Is that your idea which is suggested in that part of your bill?

Mr. BRYAN. No; my idea is that the disinterested persons, the depositors, who are not stockholders, officers, or directors, but outside creditors of the bank, shall have their money paid at once, and then the Comptroller shall go to work and collect any assets just as he does now. And let me suggest that, while the law says that the Comptroller shall collect these assessments, he is not always able to do so. In Lincoln, where a president of a bank, not having learned that "honesty is the best policy," took about a half million dollars, and is now suffering a heavy penalty of five years in the penitentiary for the act (he has not reached the penitentiary yet, but he is expecting to go there as soon as he gets tired of the hotel), the Comptroller has assessed the stockholders, and has commenced suit against them to collect the money (but remember that this liability of the stockholders is no more than the liability of any other debtor and must be collected just in the same way), and during that time, while the Comptroller is trying to make these stockholders pay up—and by the way, the gentleman who absconded was one of the largest stockholders, and the gentleman who was with him as assistant of the bank is the next largest stockholder—all the depositors have their money tied up so that it has now been something like three months, and only 10 per cent has been paid to the depositors out of the bank, and it will perhaps be three months again before any more will be paid, while my plan gives immediate relief, and then the Comptroller goes ahead just as he does now with the collection of assets.

Mr. BLACK. If you will permit me I will state that we had a bank failure where the depositors had some \$400,000 or \$500,000 tied up in that same way.

Mr. BRYAN. In the case where a bank is solvent and fails, as they failed during this present financial stringency, the depositor may get his money and they may resume after awhile and fix it up, so he will not suffer much; it is only in the case of an embezzlement or something like that where there is a real loss, but the embarrassment comes just the same.

Mr. BLACK. Your plan is to provide a fund to pay it at once?

Mr. BRYAN. Yes; and I will explain later the reasons why I think it ought to be provided.

I will now read section 4:

SEC. 4. That the United States hereby assumes no liability to depositors of national banks except as a trustee to distribute the special fund in this act provided for, and the Comptroller of the Currency shall pay out the money in the order in which he receives notice of failure, paying all proper liabilities of one bank as aforesaid before any on liabilities of a bank whose failure is subsequently announced, and in case the special fund is insufficient to pay all proper liabilities the Comptroller of the Currency shall cause such money to be expended in paying such proper liabilities pro rata, and the amount remaining unpaid shall be made good as the special fund is replenished, and in case the special fund is entirely exhausted banks shall be cared for in order of failure as fund is renewed.

The Government will administer this trust fund, and further than that it does not guarantee the deposits, so there is no debt or liability upon the taxpayers of the country to make good anything to depositors of a national bank. This is a fund which that special assessment creates, and no other person can be injured by it because it is no burden to anyone else.

Mr. HALL. Will you pardon me for interrupting you there just a moment? Under this system of yours that would make the depositors of a national bank perfectly safe, would it not?

Mr. BRYAN. Yes, sir.

Mr. HALL. I want to know if that would not tend to cause men to leave all the State banks and deposit in the national banks?

Mr. BRYAN. I will reach that in a moment; I intended to speak on that.

Section 5 provides:

SEC. 5. That to provide against a contraction of the currency by the holding of this special fund in trust, the Secretary of the Treasury is hereby empowered and directed to issue and pay out, for the general expenses of the Government, United States Treasury notes, commonly known as greenbacks, like those authorized by the law approved February twenty-fifth, eighteen hundred and sixty-two, equal to the amount held in said special fund, and such Treasury notes shall have all the legal-tender qualities possessed by the Treasury notes issued under said act of February twenty-fifth, eighteen hundred and sixty-two.

This provides for the issue of greenbacks just equal to that which is collected as trust money and held in a special fund. It does not increase the circulation, but simply provides against the contraction of the circulation.

Now, having given the bill in brief, I would like to state to the committee why I think the bill ought to be passed. In the first place, the burden upon the banks is comparatively light, and it will bring to the banks more advantage in the way of securing deposits than the burden will be on the other side, and I have had several national bankers write me commending the plan as a plan which ought to be adopted, and I believe it is the only instance in which you can help both the men who deposit with the banks and the bankers. It will, as the gen-

tleman from Missouri states, have the tendency to draw money from the State banks to the national banks, because a man who has money on deposit will deposit it where it is safest. Now, that fact does not alarm me for this reason, that the moment the State banks find that the national banks have an advantage because of the security, then the State banks will be interested in having a similar fund provided in every State for their security, and the result of it will be that this security given to national-bank depositors will tend to make more safe all kinds of banking, and when you have secured all the depositors of a national bank and State banks, a panic such as we have gone through, for I hope we have about passed through it—a panic will not have the effect it has had this year. We will not discuss the financial stringency further than to say this, in which I think you will all agree with me, that the way the people have felt this stringency has been that people drawing their money from the banks and hoarding it have compelled the banks to draw in their loans, and the banks drawing in their loans, as a matter of self-preservation, have crippled the communities and made stagnaut business enterprises. Now, if every depositor was sure of his money he would not go to the bank and draw it out and hide it in a stocking, or under the carpet, or in a stove, or between the ticks of a bed; he only does that because he fears he will lose his money. If he knows there is a fund raised and deposited with the Treasury out of which every depositor will be paid, the depositors will not feel as they have done, and that in itself, that protection against a panic is in itself more than compensatory to the banks for all they pay to raise this fund.

Mr. JOHNSON, of Indiana. What relation do the deposits sustain to the fund—what numerical proportion; they would be vastly in excess of the fund?

Mr. BRYAN. Yes; the amount of the deposits is vastly in excess of the fund.

Mr. JOHNSON, of Indiana. Do you think if that law had been in existence at this time it would have prevented runs on the banks?

Mr. BRYAN. I have no doubt of it.

Mr. JOHNSON, of Indiana. Say the total amount of the deposits is one hundred times the amount of the fund; do you think the depositor would have understood that, and that would have been sufficient protection?

Mr. BRYAN. I have not any doubt, although the amount is in the discretion of the committee. This amount is an arbitrary sum which I have fixed.

Mr. JOHNSON, of Indiana. But when you go too far with your fund you impose quite a hardship upon the banks?

Mr. HAUGEN. You think it would stop the first run, and in that way it would stop fifty others?

Mr. BRYAN. There is no question about that.

Mr. HAUGEN. If you prevent the first you can prevent fifty more?

Mr. BRYAN. Yes.

Mr. WARNER. If I understand correctly the amount made payable in the case of a bank breaking is all out of proportion to the amount finally lost, in fact so great that there is no relation between them. It may well be that the amount you propose, \$10,000,000, may be sufficient as a guarantee against final loss; but what earthly good would \$10,000,000, available to pay the depositors, be in case of a failure of a large number of banks within a comparative short time? Let me explain further the reason why I ask this. We had precisely that sys-

tem in New York State, and the very first time there came a crash a few of the banks whose depositors were supposed to be secured used up all the funds that protected the depositors of all, and those banks of our State had to be carried by the banks who were not carrying any such fund and who had not relied upon it, but who had by conservative management protected themselves. My point, in other words, is this, that while the ultimate loss might be less than \$10,000,000, the amount that might be required to make good the depositors even in a mild crash might be a great deal in excess of \$10,000,000; and that the moment that a bank having a gross deposit of anything near \$10,000,000 had been known to go under, the public would then be apprised that the deposit funds were about exhausted, and that would create a danger point which would bring panic on of itself, just as we came very near having a very sharp panic when the gold reserve got below \$100,000,000, although there was no earthly reason why it should not have been reduced to \$95,000,000 or even lower so far as ultimate security was concerned.

Mr. BRYAN. I think the fact that the panic which was prophesied did not come is an answer to that, but the gentleman from Wisconsin suggested, I think, and very aptly, that these banks have been ruined by runs upon them. Now, if there is a fund that is back of the banks to guarantee the depositor, it may not be absolutely proof against failures, or against a run, but it certainly makes less probability of a run in so far as it prevents those banks which are solvent from having to suspend, and while I do not think we can find a panacea, I do not think we can find a remedy which is absolutely security—because when our Government was back of the greenbacks they went below par when the credit of the Government went below par—but I think this goes far towards preventing a panic and lessening a fear of one, and if it does that it is a step in the right direction.

Mr. WARNER. Suppose, for example, a single national bank with a deposit of \$5,000,000, which is much less than many banks have, should have the president abscond and have a bad run upon it—that is not an uncommon result. It does not happen every day or every year, but it happens not infrequently—the first thing to be done is to close that bank until its affairs can be straightened out. It will take one-half of your total amount of \$10,000,000. Now, if you had a single other bank with that much deposits fail before the affairs of this bank had been so far liquidated as to return that fund, would not the result be to bring on a rush of depositors to get their money before the great United States trust fund could be replenished?

Mr. JOHNSON, of Indiana. In other words, does protection protect?

Mr. WARNER. I say our experience is all against your theory.

Mr. BRYAN. You think that any effort to make more secure the depositors has the contrary result of making them less secure?

Mr. WARNER. Yes; I believe that every time you provide a security which is inadequate for the purpose, 9 people out of 10, not knowing that fact, absolutely rely upon it until some morning they wake up and find how little security there is; and then would come this rush.

Mr. BRYAN. If I believed with the gentleman I certainly would not have introduced this bill.

Mr. WARNER. That has been the result in our State.

Mr. BRYAN. But my idea in introducing the bill was that anything that we could propose which would make more secure and render less danger of loss would be a benefit. If I believed as the gentleman from New York that every attempt to improve the conditions which fell short



of absolute protection would aggravate it I would not have introduced the bill, but believing as I did that it is impossible to reach absolute perfection, but that it is wise to come as near as possible to it, I introduced the bill.

Mr. WARNER. My suggestion to the gentleman is that the \$10,000,000 which he proposes, as estimated from our experience in the State of New York—and I will be glad to get the precise figures in regard to it—was thoroughly inadequate, and this I think would be so, unless there is some radical distinction which I do see now between the two conditions.

Mr. BRYAN. The bill provides if there are not sufficient funds that the amount collected in afterwards shall be used for this purpose, so that if there was not enough in the fund at the time, there is a subsequent collection made, and I can not help believing that this additional security to the depositor will prevent a run in the first place, and make the run less dangerous in the second place.

Mr. WARNER. We had losses which used up all our fund.

Mr. BRYAN. The general understanding is that a case decided in court is decided upon the circumstances of the case and without knowing all the circumstances we can not make a comparison.

Mr. COX. I would like to call your attention to the proposition back of that and see if I get it clear. Take all the banks which are in existence and your bill provides that these banks shall pay this money into the Treasury by a certain date. Now, as I catch your idea there that money goes into the Treasury and it becomes responsible to the depositors for that money?

Mr. BRYAN. Yes.

Mr. COX. Now, to start with that proposition. Now, say it is known to the people that a large bank with \$5,000,000 deposits defaults and goes into the hands of a receiver. Now, you take out of that fund \$5,000,000 and pay the depositors of that broken bank. Now, say the other banks go on and preserve themselves, do not you work out this proposition that you make all the banks security for all the others?

Mr. BRYAN. To that extent there is no question about it.

Mr. COX. Does not the man who acts a rascal in the end get the benefit of the whole thing?

Mr. BRYAN. Not at all.

Mr. HAUGEN. You do not relieve the banks?

Mr. BRYAN. Not at all.

Mr. COX. Now, then, say the broken bank has its \$5,000,000 paid back; the good banks have furnished the money. How are you going to reimburse this amount and furnish that \$5,000,000; are you going to go on with your tax again and collect another tax, and then when another bank breaks assess another tax on those who keep up their business, and continue and collect in that way to pay those who break; what do you do with the assets of the broken bank?

Mr. BRYAN. Why it states in the bill the Comptroller of the Currency goes ahead and collects as he does under the present law, but instead of paying the depositors, they being already satisfied, it is paid in to reimburse this fund.

Mr. COX. To the banks who furnish it?

Mr. BRYAN. I did not say to the banks, but it is paid to the fund, and as the fund is increased the necessity of course for taxation is taken away and the banks you speak of, those banks which are solvent, they get their pay for the amount which they have contributed to this fund by the increased security given to their depositors and the increased

advantage which the bank has whose depositors are secured. The banks will be more than paid for this tax in the advantage brought to them by security. Now, there is a great deal of money at all times which is hoarded by people who are nervous about banks. Now, you bring that money out of the stocking. Let them feel safe, and they will bring it to the banks and that increased deposit will more than compensate the banks, so it is really no hardship to the bank which does not fail.

Mr. COX. The increased benefit of the deposit is more than the loss in the way of tax?

Mr. BRYAN. Yes, sir; that is what I believe. That is the opinion of a number of bankers who have written to me. Let me add this, although I do not want to trespass too far upon the time of the committee. In regard to the rotten bank or scoundrel getting the benefit of it, I think the gentleman is wrong in assuming that any person who violates the law gets any benefit—

Mr. COX. I did not assume, but I said there was danger of it.

Mr. BRYAN. The law provides punishment for embezzlement and for wrongful acts connected with banking. Now, the man who commits that act is dealt with according to the law.

Mr. JOHNSON, of Ohio. But you say the man of whom you spoke is living in a hotel?

Mr. BRYAN. I think he has not gone to the penitentiary, but there are nearly five years' time in which he can go.

I have introduced a bill, which is before another committee, to increase the penalty for embezzlement, and it is not necessary to argue that question before this committee. It is not any desire to make less heavy the punishment for these things; it does not bring any aid to any person who is guilty of any violation of law; but when a man embezzles and he is punished by incarceration in a penitentiary, it does not give relief to the man from whom he has taken the money, and this bill is to protect the innocent depositor from the wrongful act of that man; and my law takes care not to interfere with any of the penal statutes. It is the innocent depositor who suffers now on account of this man's wrongful act. One paper—in St. Paul, I believe—suggested that in the same way I might ask that every business man should be taxed to raise a fund to protect people who dealt with him; but I think the members of this committee will recognize that there is a wide distinction between money and other kind of property; that when we deal with a man and buy anything of him we generally understand what that property is worth and make our trade with him upon that knowledge which he and we have. When we loan money to a man we inquire whether that man is good or not, whether his security is ample; but when we deposit in a bank we take it for granted that that bank is good, and the depositor can not go there and watch and see whether the directors watch carefully the loans made by the banks; they can not go there and see whether the president is putting upon the books of the bank what is deposited, and can not see the certificate which is issued.

In the case of our bank at Lincoln the State treasurer deposited \$150,000, which I believe was in one certificate, and the cashier put the money in his pocket and put on the books \$50 deposit. Well, now, the depositor can not go and see whether those books are correct. He can not tell how that bank is being managed. He simply puts his money in there for security, and it is the business of the Government to make that bank as secure as possible, and it has acknowledged that

responsibility in various ways. We have laws that you shall not loan more than a certain amount to one individual. We have laws that you shall not do certain things in connection with banking. We have laws to inspect these banks. Now, what are these laws for, except to make more secure the men who deposit their money in banks? The Government, therefore, has recognized the difference between dealing with money and dealing with other property, and what I ask in my bill is that the Government shall go a step further and by a simple instrumentality, by an easy process, raise a guarantee fund. In the first place this protects the depositors, protects them far more than the law which requires an examination of banks, far more than a law which prevents the loaning to a man more than 10 per cent; far more than a law which is proposed here—and I believe the law is a good one, but which I do not think gives as much protection as my law does—the law which provides that a bank shall not loan to its officers or directors, except under certain conditions. Now, the purpose of all these restrictions is the same, and I believe my bill, which raises this sum and which puts a burden upon the banks which is absolutely insignificant, and which guarantees the innocent depositor who puts his money in the bank, will do more for the depositor than all these laws which you have provided, and it will do more for the community, because when you keep a bank from suspending you have conferred a benefit upon that community, and if the result is to compel the State banks, as I believe it will, to go to their legislatures and ask the same thing to protect their depositors, the result will be that added to your national fund of \$10,000,000 you will have your fund in every State for the same purpose, and whenever depositors in both the State and national banks feel secure there will be no money drawn out of the banks in panics, and we would not suffer from such a stringency as we have lately passed through.

Mr. HALL. You not only think there will be amendments to laws already existing, but you think they will require a compliance in all their terms, such as throwing further safeguards around the State banks, such as State-bank inspectors, etc?

Mr. BRYAN. Most of the States have followed in the national bank footsteps, I think.

Mr. WARNER. I was about to ask whether the analogy afforded by the conduct of State banks since the passage of the national-bank act afforded any support to the gentleman's expectation, and indeed whether it did not rather show it was ill founded. For example, there are these provisos in the national-bank act which are intended to secure depositors, and I take it that they are to some extent effectual; but is not it a fact that, so far as the gentleman knows or believes, our State-bank laws have not to any great extent been either assimilated to the national-bank act in these particulars or have greatly improved themselves in the last twenty-five years? Are not our State banks running upon very much the same basis, with practically the same laws that they were twenty-five years ago? In other words, have not these precautions adopted by the Government to secure the depositors in national banks been utterly ineffectual so far as setting a good example and bringing about a change in the State banks?

Mr. BRYAN. If the gentleman will allow me to reply, I would say I can not answer from an investigation whether that is true or not, but I know in my own State we have adopted a method of bank inspection, and I think I am correct in saying that has also been adopted in other States, and I feel sure of this, that if there has been a tardiness among

the States following the rules laid down for national banks, when you come to a matter like this of guaranteed deposits, that the interests of the depositors would see to it that the State bank is compelled to provide the same security; so if the examples thus far have not been followed it is no argument against their following the example in this case.

Mr. WARNER. I appreciate the force of the gentleman's argument, but to a great extent where the system of inspection exists I understand they are simply exercising the system which was in existence without reference to the national-bank system.

Mr. BRYAN. If the State banks did not need to follow the example set by the Government in that respect, because they had inspection, of course the gentleman will not complain because they have not changed.

Mr. HAUGEN. I would like to ask another question.

Mr. BRYAN. I will be glad to answer any question that I can.

Mr. HAUGEN. You have provided in your bill for an amount to be available upon the suspension of a bank?

Mr. BRYAN. Yes, sir.

Mr. HAUGEN. And that would be a great draft upon the fund in the case of a failure of two or three large banks. Now, suppose you change the availability of the fund to such a time as the resources of the bank have been exhausted, that would secure the depositor as well as your plan would it, and it would be a safeguard to the fund?

Mr. BRYAN. You are correct, but it would delay the matter somewhat and to that extent it would meet with objection.

Mr. WARNER. It would not provide the degree of absolute promptness provided in this bill.

Mr. BRYAN. The great thing I desire is security.

Mr. WARNER. And promptness?

Mr. BRYAN. Security is the first thing and promptness is the next.

Mr. HAUGEN. There is less danger to the fund.

Mr. BRYAN. Yes, you are right.

Mr. WARNER. At the same time may I ask the gentleman from Nebraska whether there would not be one decided disadvantage in the plan proposed by the gentleman from Wisconsin, not merely that the advantage of promptness would be lost, but, to the extent to which losses were not obviated by promptness, an actual loss in the assets of the bank in realizing upon bad debts and everything of that kind would so increase the possibility of an ultimate liability as would probably destroy that advantage too?

Mr. BRYAN. My opinion is the bill is better with this provision than without it from the fact that you pay them promptly and you avoid the embarrassment in the community. That would enable the bank to collect its assets more easily and would be a greater advantage than you would acquire by striking out that provision and making the depositor wait.

Mr. HAUGEN. And you also remove the legal pressure put upon the banks to take care of itself?

Mr. BRYAN. I think there would be no force in that argument because the stockholders, directors, and officers are just as liable under my law as they are now.

Mr. HAUGEN. But he would be allowed to take his time under your law?

Mr. BRYAN. That is true, but he will not desire to take his time. I can say that the director or stockholder or officer can have no reason,

then, for being less careful, less considerate than under the present law.

Mr. HAUGEN. Then there is the great danger to the fund.

Mr. BRYAN. I believe a fund of \$10,000,000 would be ample. If a bank fails the people understand that the money is paid out at once, the assets will be collected and the fund reimbursed; and they will also understand that upon next January there shall be an assessment which will raise that fund if it falls short, so if they do not get their money now they are bound to get it and there can be no loss. The fact that the fund has no proportion to the aggregate liabilities of the bank is not a weighty argument in this case, because every depositor knows in time that the fund will be raised and he will be paid, and that I think will absolutely prevent runs which have been made upon banks in times of panic, and it will prevent these banks failing, and therefore prevent the drawing upon this fund.

Mr. COX. Your \$10,000,000 fund becomes exhausted if it is paid out?

Mr. BRYAN. Yes, sir.

Mr. COX. Because a great many of these bank assets do not amount to anything?

Mr. BRYAN. Let me answer that. In all the thirty years of national banks, the fact is, as some one has suggested, the total loss to depositors has not been much over \$6,000,000, and that shows that your assumption that the assets are worthless is not well founded.

Mr. COX. I say some of them.

Mr. BRYAN. To no great extent.

Mr. COX. That was not the point to which I was asking your attention. It is this: Say the \$10,000,000 is exhausted from whatever reason and the only way to supply in order to reimburse the fund is through the assets of the broken bank?

Mr. BRYAN. Yes, sir.

Mr. COX. That is the only way you reach it?

Mr. BRYAN. Yes, sir.

Mr. COX. Now, the fund becomes exhausted and you have to assess another tax to make it good, and then after that is exhausted you have to assess another?

Mr. BRYAN. Yes.

Mr. COX. Then how can you arrive at any certainty about it? Take this panic on hand now, and six, eight, or ten banks have broken in a technical sense and the depositors closed out, and they want their money, now does it not strike you that you would have to be continually assessing the solvent banks to supply those which have broken?

Mr. BRYAN. A greater than I has said that you can only judge the future by the past, and judging by the past, I do not think the danger of which you speak is a proximate one at all.

Mr. COX. If it does not go to that extent, does it not result in the end that the good banks, that the well-managed banks, stand as a guard for the badly managed banks?

Mr. BRYAN. Well, you may say it, but it is theoretical. I say the advantage which they receive is greater than the disadvantage imposed upon them; and judging the future by the past, supposing that the failures in the future will not be greater than those in the past, it will not be a very heavy burden on the bank even if there was no offset in the way of advantage, and you can not assume or speculate that the next thirty years will be entirely different from the past thirty years.

Mr. COX. But a man who goes into a bank whose liability is fixed by

law, he is going to speculate all along the line how much it costs him to stand security for the bank?

Mr. BRYAN. He knows how much it will be and knows what the past record has been, and he will also be able to see what an advantage it will be to him to be able to say to depositors, "come and deposit your money and here is the fund to protect you."

Mr. COX. I do not see how a man—

Mr. BRYAN. I do not expect all of you to agree with me.

Mr. COX. I do not see how a man who goes into a bank would go into it if the tax is to be assessed to keep up a fund for other banks. If you exhaust that fund you have to assess another tax. Now, I take it that a man will think over this thing, and if he does not know exactly what it will cost him, and I think perhaps if that bank was in Tennessee he would not want to go into the business.

Mr. BRYAN. He knows that it will not be more than one fourth of 1 per cent on his deposits. He does not know how many years that will run, but he knows it is a very trifling tax, and he knows that unless the future is different from the past it will not last long.

Mr. COX. You recognize the fact that a large per cent has to be kept in the vaults of a bank for the protection of the depositors?

Mr. BRYAN. Fifteen per cent outside of reserve cities.

Mr. COX. One more question. With your proposition do not you think it would be nothing but right you should repeal the 1 per cent tax on the national banks?

Mr. BRYAN. That brings up an entirely different question. But I would say this, the 1 per cent which the Government has levied upon our banks' circulation, not upon our deposits, was intended, as I understand it, to cover the expenses to which the Government was put in the issue of bank currency.

Mr. COX. It does more than that.

Mr. BRYAN. I know it does more than that. For my part, I am not willing to take it off because I believe the banks, under the present law, are able to make a larger per cent upon the money actually invested in the currency that they issue than an ordinary business man upon his money invested. I am not willing, that being the case, to take off the tax which realizes something to the Government, and I can not see any justice in that proposition.

Mr. HALL. If that is the case, why do not the national banks take out more currency?

Mr. BRYAN. They have taken out something like \$37,000,000 in two months.

Mr. HALL. And there is a bank with \$3,000,000 capital which has never taken out a dollar?

Mr. BRYAN. And the reason was that the demand for bonds for that purpose raised a premium on the bonds until it became a source of little profit. When bonds came down to 110 then it became more profitable, and if we had bonds at—

Mr. HALL. As I understand your statement to be, it is a fact that national banks are able to make out of its circulating notes which it takes out a greater per cent than any ordinary business man upon his investment?

Mr. BRYAN. No, sir; I said upon money which they actually invested in the issue of currency. Now, for instance, with a bank which has \$100,000 capital, it can buy \$110,000 worth of bonds, and upon that it receives \$90,000. Now, the \$90,000 it receives is just as good as the \$90,000 which it paid for the bonds and its actual investment to secure

that currency is only about \$20,000 or \$21,000. From the interest they receive upon the bonds, 4 per cent, \$4,000, you deduct the amount they pay, 1 per cent, which is \$900, and cost of issuing money, etc., you will find that they receive an interest upon the \$20,000 which they have actually invested, a larger dividend than an ordinary business man receives in his business. If you should spread that profit over the \$100,000 it shows less, but I can not understand if they receive \$90,000 why that \$90,000 does not replace \$90,000 of the amount they spent for the bonds, and for the use of the additional sum they receive something like 12 per cent profit to-day. I went to the Comptroller after making that statement. I thought I might be in error in not giving credit for the 5 per cent that the Government keeps as a redemption fund for the notes, and I found that the 5 per cent is counted in their reserve, and is therefore just as available as if it was in their vaults and the figures were absolutely correct. There is no way of contradicting the fact that the national bank of to-day does make upon the money actually invested in the bonds about 12 per cent profit.

Mr. HALL. Do you call the \$90,000 national bank notes actual money instead of notes for which the bank is liable?

Mr. BRYAN. A bank organized with \$100,000 capital pays that money in gold, silver, or paper. It then takes that money and buys bonds, and it has to add enough money to make up the \$10,000 or \$11,000 premium. It issues its notes. That \$90,000 is put in the vaults just as if it was money, just as if it was capital in the first place, and it can lend or do what it likes with it. All it has invested is the difference between what the Government allows it to issue and the price of the bonds, the difference between the face of the bonds and the issue plus the premium on the bonds. Now, take the 2 per cent bonds. There is as much profit on the 2 per cent bonds to the bank to-day as on the 4 per cent bonds. The 2 per cent bond is selling at 98. The bank issues \$90,000, so that the actual money invested is \$8,000, and upon that \$8,000 it draws \$2,000 interest less \$900, say about \$1,100 less expenses; then when these bonds are paid, and they are payable at the option of the Government, there is \$2,000 it will make on the bonds, so it is as profitable to-day to issue currency on 2 per cent bonds as upon the 4 per cent bonds, and I think there is no escape from the argument and from the statement that upon the money actually invested the national bank to-day is making more than the average business man, and for this reason the Government can not reduce the burdens upon these banks.

Mr. WARNER. Would not there be a larger circulation as the result of a greater inducement, provided that tax was taken off?

Mr. BRYAN. I think so.

Mr. WARNER. Now, there is a question, looking at it from another standpoint, whether it would not be well, in recognition of the fact that a great many believe that there is a lack of currency, simply to take off that 1 per cent tax and let the country have the additional currency?

Mr. BRYAN. I appreciate the force of that argument, and I also appreciate the fact that the argument is made by those who in the first place deny that we are needing any more money. But, admitting that we do need it, let us see who gets the benefit of it. Now, if your proposition is correct, let me suggest this, instead of saying any national bank can issue this money say that any man who holds a Government bond can go and deposit his bond with the Treasury and receive back 90 per cent of the face of the bond and at the same time receive interest on the face of the bond. I do not favor this, but simply suggest it.

Mr. WARNER. That would be extremely——

Mr. BRYAN. Does the gentleman deny that that would increase the circulation?

Mr. WARNER. I admit it.

Mr. BRYAN. Do you not think it would increase it as much as your plan?

Mr. WARNER. It would make every bond owner his own banker.

Mr. BRYAN. That may be.

The CHAIRMAN. The chair desires to call the attention of gentlemen who may wish to pursue this question further to the report of the Comptroller of the Currency for 1892, Vol. 1, pp. 214–225, and on those pages you will find statistics showing losses and all matters relating to collections of the liabilities of national banks from the foundation up to the present time.

Thereupon, the committee rose, to meet at 10 o'clock a. m., Friday, October 13, 1893.

COMMITTEE ON BANKING AND CURRENCY,  
*Friday, October 13, 1893.*

The Committee on Banking and Currency met at 10 a. m., this day, Hon. William M. Springer in the chair.

STATEMENT OF HON. W. J. TALBERT.

LOAN TO STATES, ON STATE-BOND SECURITY.

Hon. W. J. Talbert, a Representative from the State of South Carolina, appeared before the committee in behalf of the following bill:

[H. R. 384, Fifty-third Congress, first session.]

A BILL for the enlargement of the volume of currency and the distribution of the same.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That upon the demand of any State of the United States, expressed through any legally authorized officer of said State, the Secretary of the Treasury be, and is hereby, authorized and directed to issue notes of the Government of like denominations as the Treasury notes at present issued and in circulation, which notes shall be a legal tender at their face value for all debts, public and private, and noninterest-bearing, and an amount of said notes, not to exceed thirty dollars per capita upon the population of such State according to the last census preceding the application, shall, upon application to the Secretary, of the Treasury by said officer, be issued to such State upon the conditions hereinafter prescribed.

SEC. 2. The State making a demand in accord with the first section of this act shall deliver to the Secretary of the Treasury the lawful bonds of said State to the full amount of Government notes demanded, and such bonds shall be taxable at the rate of one per centum per annum, said tax to be covered into the United States Treasury on or before the first day of April of each year by the proper State authorities, said bonds to fall due at the expiration of twenty years from their date: *Provided*, That such State shall have the right at any time before the said bonds fall due to turn over to the Secretary of the Treasury the full amount, or any part thereof, of Government notes issued to such State; or in lieu thereof said States may redeem and recover such bonds, or any part of the amount thereof, with lawful money of the United States. When such bonds are recovered by the return of said notes, the Secretary of the Treasury shall destroy said notes.

SEC. 3. That each State to which said notes may be issued shall make provision for the distribution of the same as it may deem best for the welfare of the inhabitants thereof.



Mr. Talbert addressed the committee as follows:

Mr. Chairman and gentlemen of the committee: In appearing before your Committee on Banking and Currency, composed as it is of able lawyers, bankers, and others, it is needless for me to say that a feeling of embarrassment should take possession of me, only a plain farmer, and I thank you for the privilege of saying only a few words in reference to the bill in question. I have introduced this bill for the enlargement of the volume of the currency and the distribution of the same, and had it referred to this committee for consideration, hoping that some merit might be found in it by your body, and I do not propose to occupy but very little of your time, as I lay no claim to being a financier, though having some common-sense idea of business, having made a success at my own calling. This bill, as you see by its reading, authorizes the Secretary of the Treasury to issue notes of the Government of like denominations as the Treasury notes at present issued and in circulation, which notes shall be a legal tender at their face value for all debts, public and private, etc., and shall, upon application to the Secretary of the Treasury by said officer, be issued to such State upon the conditions hereinafter prescribed. Sections 2 and 3 are as follows:

Sec. 2. The State making a demand in accord with the first section of this act shall deliver to the Secretary of the Treasury the lawful bonds of said State to the full amount of Government notes demanded, and such bonds shall be taxable at the rate of one per centum per annum, said tax to be covered into the United States Treasury on or before the first day of April of each year by the proper State authorities, said bonds to fall due at the expiration of twenty years from their date: *Provided*, That such State shall have the right at any time before the said bonds fall due to turn over to the Secretary of the Treasury the full amount, or any part thereof, of Government notes issued to such State; or in lieu thereof said States may redeem and recover such bonds, or any part of the amount thereof, with lawful money of the United States. When such bonds are recovered by the return of said notes, the Secretary of the Treasury shall destroy said notes.

Sec. 3. That each State to which said notes may be issued shall make provision for the distribution of the same as it may deem best for the welfare of the inhabitants thereof.

#### DEPRESSION IN AGRICULTURAL INDUSTRIES.

There is, in the rural sections of our country, the agricultural element, (an element I claim to represent, composed of the most conservative class of our citizens), a widespread feeling of distrust, dissatisfaction, and discontent, resulting from an agitation and discussion of the financial condition of our country, which has taken the shape of earnest and serious protest against the course of Federal legislation in that direction for the last twenty-five years, culminating in a system of finance which is so adjusted as to be utilized by a few, a system so directed as to transfer the fruits of their labor from their own into the pockets of others. In 1850, in the good old times, the assessed wealth of the United States was \$8,000,000,000; and of this the farmers owned \$5,000,000,000, or over two-thirds of the wealth of the nation. In 1860, when you know the clouds of war had begun to gather over this nation, when gold and silver begun to seek their hiding places—and, as I have said in other discussions, the war was not fought over the negro or anything of the sort, but it was fought to enslave the white man under a moneyed aristocracy,—in 1860, the assessed wealth of the United States was \$16,000,000,000; and of this the farmers owned \$7,000,000,000, not quite one-half. Then closed the most prosperous period of this country. In 1870, the nation's wealth was \$30,000,000,000; and of this the farmers owned only \$11,000,000,000, not quite one-third.

Mr. HALL. Did you deduct the indebtedness of the farming class?

Mr. TALBERT. I will come to that after a while in the winding up of this table. This was less than one-third, five years after the close of the war. In 1880, the assessed wealth of the United States was \$45,000,000,000; and of this the farmer owned \$12,000,000,000—less than one-fourth. Now, I am running hurriedly over this and I do not propose to detain the committee long; and, as a matter of course, being no financier, I only am submitting these things for your consideration, and I do not know that I could sustain any severe cross-examination on finance, being, as I have said, nothing but a plain farmer. Some bill of the sort was introduced at the last session of Congress by Col. Livingston, of Georgia, and this is something similar to it, and adopting that idea I have been endeavoring in a manner to reproduce it and to have it introduced here with a desire that some merit might be found in the bill. In 1890, the nation's wealth was assessed at \$62,000,000,000; and of this the farmers owned \$15,000,000,000. Then, their lands were mortgaged for over 50 per cent of their value, say \$9,000,000,000, and that left them only \$6,000,000,000—less than one-sixth. I have not the exact figures since that time, but it has gone on in that ratio. Now, just here, in 1850 our farmers owned over 70 per cent of the wealth of the country; in 1860 about 50 per cent; in 1880 about 33 per cent, and to-day they own less than 20 per cent, and yet they pay over 80 per cent on every dollar collected in taxes. This is alarming, and enough to put this class of people to investigating the cause of this line of poverty.

Again we see, from 1850 to 1860, farm values increased 101 per cent. From 1860 to 1870, farm values increased 43 per cent. From 1870 to 1880, farm values increased only 9 per cent. Now, then, notwithstanding this alarming decline in farm values, the aggregate wealth of the country increased 45 per cent from 1870 to 1880, while those who produce this wealth are not the recipients by any means; and the agricultural population increased over 29 per cent. From 1850 to 1860, agriculture led manufacturing 10 per cent in the increased value of products; from 1870 to 1880, manufacture led agriculture 27 per cent; showing a difference in favor of manufacturing of 37 per cent. The value of the ten leading staple crops of the country in 1866 was \$2,007,462,231. The value of the same crops in 1884, eighteen years later, was \$2,043,500,481. During this time, the cultivated acreage had nearly doubled and agricultural implements and machinery had vastly improved, and yet the crop of 1884 sold for only 2 per cent more than the crop of 1866. There must be a cause for this, and surely it is plain to behold.

The average value per acre in yield of all our crops in 1867 was \$19<sup>4</sup> and in 1887, twenty years later, the average was but \$9, showing a depreciation; as follows:—Wheat from 1860 to 1870, average price per bushel \$1.99; from 1880 to 1887 the average per bushel was \$1.07. Corn, from 1860 to 1870, average price per bushel 96 cents; from 1880 to 1887 average price per bushel 46 cents. Cotton, from 1860 to 1870 average price per pound 48½ cents; from 1880 to 1887 average price per pound 9 cents; so that to-day a dollar costs the wheat farmer two and one-third times as much; the corn over two and one-third times as much, and the cotton over four times as much as it did from 1860 to 1870.

Mr. HAUGEN. You do not have the increase shown by the last census in farm values?

Mr. TALBERT. No, sir.

Mr. HAUGEN. Do you know what it was?

Mr. TALBERT. I don't know exactly, but it tends in the same direc-

tion, and would be proportionately the same. The same decline would follow.

The CHAIRMAN. Those are currency prices to which you refer?

Mr. TALBERT. Yes, sir.

Mr. BROSIUS. You do not have in connection with that statement of the fall in prices of agricultural products, a table as to how much less it costs to produce agricultural products in the United States?

Mr. TALBERT. I have not the statistics, but it is in the same proportion. But that does not at all change the trend of my argument.

Mr. BROSIUS. I was simply directing your attention to the fact that you have no statement on that point.

Mr. TALBERT. It is in the same proportion, I should presume, but that makes no difference. Now, I contend, gentlemen of the committee, that the great question of the day is the money question; financial reform is what we need, and the great question of the day is, whether the dollar or the citizen, whether manhood or money, shall rule this country; and I contend that this condition of things is the result of a monetary system fastened upon the people since and during the war by the enactment of what might be termed seven financial conspiracies; that is, the enactment of seven laws. Now, I have not the time to go into any discussion of those laws, but will only just mention them and the dates of their passage. The exception clause, passed February 25, 1862, which you, gentlemen, know was an exception put upon the greenbacks which debased them and prevented them being legal tender for the payment of all debts. They were restricted to the nonpayment of imports and interest on the debt. The national-bank act was passed March 25, 1863, which I think has a pernicious tendency, as all will admit without debate. The contraction act was passed March 6, 1866, by which the currency was lessened and contracted. The credit-strengthening act was passed March 18, 1869. Nearly all of the 5-20 bonds which were payable in the kind of currency in which they were bought were made payable in coin, thus robbing the people of millions. The funding act was passed July 14, 1870, which perpetuated the national debt. Then came the demonetization act of March 12, 1873, which Carlisle said was more destructive than wars and pestilence; and the resumption act of June 14, 1874, to be consummated January 1, 1879, thus making it possible to so manipulate the money of the country by the national bankers and Wall street gamblers as to virtually control the price of produce and every species of property and to put a regulation upon every branch of labor. But we are told that a dollar will buy more to day than ever before. That is too true, and none know it better than the laborer. Is labor benefited when a dollar will purchase more of its products than ever before? It is not so much in the purchasing power of the dollar that the farmer is interested, but he is profoundly interested in the debt-paying power of the dollar. Will this dollar, which cost him two to four times as much as when money was plentiful—will it pay more of his debts? Will it pay more interest? Will it pay more on his mortgage? Will it pay more taxes? These are the questions which deeply concern our depressed, oppressed, and debt-ridden people. The dollar controls the price of labor and produce. As a matter of course, as this contraction of the currency occurred it naturally caused a corresponding shrinking in the value of products and in the value of labor and in the value of all kinds of property. That was the natural consequence.

Mr. HALL. Would not you be nearer correct if you said in the price of all products?

Mr. TALBERT. That is virtually the same thing.

Mr. HALL. I can not agree with you there.

Mr. TALBERT. Well, the difference is a minor one.

Mr. TALBERT. About the close of the war Mr. Lincoln said:

I see in the near future a crisis arising which unnerves me and causes me to tremble for the safety of the nation. As the result of the war corporations have been enthroned and an era of corruption in high places will follow and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until wealth is aggregated in the hands of a few.

Gentlemen, you know how well that prophecy has been fulfilled in considering the condition which confronts us to-day. Alexander Stephens said:

That the first steps of the shylocks, after they had legislated all the money into their pockets, would be to absorb the railroads; second, to get command of all commercial exchanges and the great arteries of trade, and in the third place to possess themselves of all the real estate; then serfdom and slavery under a moneyed aristocracy would as surely follow. That prophecy has certainly been fulfilled in a measure.

Can you doubt to-day, looking around, and does it not impress upon any thinking man the conviction that despotism and corporate rule to-day has fastened its clutches upon our free institutions, so to speak; and that to-day, living in the land of the free and home of the brave we are not a free people: that we are living to-day under the domination of a money power and are ruled by a moneyed aristocracy, so to speak.

James A. Garfield declared in 1880 that—

Whoever controls the volume of currency is absolute master of the industry and commerce of the country.

I think that is true. Thus stands to-day the money power, owning the railroads, telegraph wires, steamship lines, and commercial exchanges. They have gobbled up all the vacant lands, and through the agencies of banks, commission merchants, and land loans associations have shingled our homes with mortgages, owning nearly everything in existence, and in their arrogance stand ready to offer opposition to every measure that may be proposed for the relief of the people. In addition to all this we see United States bonds (4 per cent bonds, which would be utterly worthless but for the sturdy blows of the strong arms of labor), due in 1907, which were bought at 54 cents on the dollar, selling at \$1.25 on the dollar, when we know that a mortgage on not one farm in a thousand for the same time, one-third its value, at the rate of 7 per cent interest, could be sold at its face value. We are alarmed when we see under our financial policy the major part of the wealth of 67,000,000 people pass into the hands of 30,000 men. We see centralized capital allied to corporate powers invading our temples of justice, subsidizing the press, controlling conventions, corrupting the ballot box, dictating the platforms of parties, overriding individual rights, intermeddling with fiscal authority, and directing legislation, State and national.

#### PROPOSED MEASURES OF RELIEF.

We see to-day, figuratively speaking, the will of one man, at least, attempting to rule the Congress of the United States. The President of the United States stands, as I said in a speech the other day, scepter in hand, daring Congress to give the people what they asked for. We see the rich growing richer and the poor growing poorer, and yet with each recurring year we continue to sow in faith, toil in hope, and reap

in despair. Surrounded by the most wonderful progress and development the world has ever witnessed, yet standing appalled with impending bankruptcy and ruin. Now, Mr. Chairman, these being facts which I do not think can be successfully controverted, such a system ought to be changed; and, believing this and knowing this to be the sentiment of the people I represent, I have brought forward this bill as a substitute for the present banking and funding system, which bill I do not claim to be original entirely, but, as I have said, something like it was introduced last session by Col. Livingston, of Georgia. I have also brought it forward as a substitute at the same time for the State-banking system. I conceive this to be a substitute for the famous subtreasury system which has been so much abused and so little understood. It is nothing more nor less to-day than a plan to change the present financial system of the National Government. I also conceive this to be a substitute for the State-banking system. This plan, I think, covers the financial plank in the Ocala platform, one of the Alliance demands. And just here let me say, that while I am an Alliance man I am a Democrat. I want to disabuse the minds of the members of this honorable committee of this one idea, that an Alliance man is a Populist. It is no such thing; and there is a wide gulf between them. I claim to be an Alliance man, advocating certain measures; and yet I have done, and expect to do it, within the Democratic party as long as the Democratic party stands by its principles and platform; and that I submit to be the financial plank of the platform of the Farmers' Alliance, strictly speaking.

The General Government has reserved to itself the right to coin money and emit bills of credit. You can find that in Article I, section 8, of the Constitution, and section 10 of Article I is plain that the State shall make nothing but silver and gold a legal tender. This Government has, however, neglected to supply the necessary kind and quantity of money to effect exchanges essential to the interests and welfare of every section alike. It is the duty of every national government to institute and regulate a medium of exchange; but that this duty has been imperfectly performed appears from the fact that when specie is made the only tender in payment of debts neither the Government nor the mass of the people have or can have any adequate control over it. The capitalists control the money and through the money control the Government. The defects of the present monetary laws further appear in the great power given to national banks, so well described a few mornings ago by Col. Oates, of Alabama, to your committee; also from the variations in the rates of interest of Government stocks constantly fluctuating in value. If the Government does not secure a uniform value to money for its own use it can not regulate as it ought the currency of the country. It is impossible to secure to labor its earnings under systems by which the Government and the public depend upon a few capitalists to furnish the medium and standard for the distribution of the productions of labor.

The bill in question will give to us a uniform currency, a currency to be issued by the nation and the States respectively, each State receiving only so much as it requires under the act when demanded by any regularly legalized officer, and such funds to be disposed of as each State may direct by law; and that is what I conceive to be a substitute to the State-banking system, for each State, by its legislature, can direct how this money shall be loaned. It can be loaned upon any security which is good. The State, of course, places bonds in the National Treasury to secure the National Government, and then loans

its money to citizens in South Carolina or Pennsylvania under State laws as they may direct. They might in South Carolina lend money on one thing and in Pennsylvania they might lend on another, hence you could not adopt any uniform system, and hence I leave it to the States themselves to arrange that matter. It is clear that Congress has the constitutional right to coin money, etc. This makes it the duty of the General Government to provide the money of the nation, and it is accordingly bound to make money in quantities adequate to the wants of business and to institute it in a way which will secure the effectual regulation of its value. The present deplorable condition of the country is a sufficient argument against the national-banking system, and, as I have said, it is a pernicious system. All of the old authorities are against national banks, Jefferson, Madison, and Benton. I just here will read some sketches from Jefferson—I have here some miscellaneous authorities, but I will only read from Jefferson. Jefferson stated:

Bank paper must be suppressed and the circulation restored to the nation to whom it belongs.

The power to issue money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe banking establishments are more dangerous than standing armies.

I am not among those who fear the people. They, and not the rich, are our dependence for continued freedom; and to preserve their independence we must not let our rulers load us with perpetual debt.

Put down the banks; and, if this country could not be carried through the longest war with the most powerful enemy without ever knowing the want of a dollar, without dependence on the traitorous class of our citizens, without bearing hard upon the resources of the people or loading the public with an infinite burden of debt, I know nothing of my countrymen.

Mr. HAUGEN. What is that pamphlet?

Mr. TALBERT. It is a pamphlet called A history of the United States dollar, from which I have culled other information. It refers to Thomas Jefferson and many other writers.

Mr. BROSIUS. By whom was it published?

Mr. TALBERT. By N. A. Dunning.

Mr. WARNER. Does it give the date of Mr. Jefferson's suggestion?

Mr. TALBERT. No, sir; it does not give particular dates here, though it is accurate, being taken from best authorities.

Mr. JOHNSON, of Ohio. Can you give us the place where we can find that in Mr. Jefferson's writings?

Mr. TALBERT. It is found in Jefferson's speeches and writings. I refer to this, but I could go and give numerous other authorities.

#### STATE BANK CIRCULATION.

To continue my argument, the history of the state-banks system is sufficient argument against them under the old plan. This bill, as I understand it, provides a general substitute for the State and national banks. At the beginning of the war, reliable reports from eighteen different States show that in 1860 out of 1,230 State banks 140 were broken, 234 were closed, and 131 were worthless. Besides there were in circulation 3,000 kinds of altered notes, 1,700 varieties of spurious notes, 460 varieties of spurious imitation, and 700 other kinds more or less fraudulent, and one might expect out of every eleven notes that five had been tampered with.

Mr. HAUGEN. Do you get that from official reports?

Mr. TALBERT. Yes, sir.

Mr. WARNER. How long a time does that exhibit cover?

Mr. TALBERT. That was at the close of the war, going back over the history of the State banking system.

Mr. WARNER. You mean from the beginning?

Mr. TALBERT. That was the condition in 1860. I do not know how far back it goes. It only shows the fallibility of the State bank system.

Mr. HALL. You got that from Mr. Hepburn's report?

Mr. TALBERT. Yes, sir, and other better authorities. Now, gentlemen, I thank you for your kind attention and I feel that it is an honor that I have been invited to appear before you. As I have said, I am no financier, simply a plain farmer with certain ideas about business, and I have introduced this bill and referred it to your committee for consideration, and would be glad if you would consider and look it over and see if you can find any merit in it. I hope that some of the suggestions in it may find favor with you in connection with other bills which you have before you.

#### CURRENCY PER CAPITA.

Mr. WARNER. Does your bill provide for \$30 per capita new currency in addition to that now afloat?

Mr. TALBERT. Yes, sir.

Mr. WARNER. Why is it fixed at \$30 per capita?

Mr. TALBERT. My idea is that I find we need a per capita circulation of about \$50 to do the business of the country; and, I suppose, with the gold and silver in circulation, in addition to the currency already outstanding, that \$30 per capita in the States would run it up to that amount. That would be left, of course, to the States; each State could demand or ask for just the amount it thought proper, and give security in bonds which would secure the National Government. Then each State could provide as it thought best through its legislative power for the distribution of this money. The circumstances in each State being different, it is fair to assume that Ohio could have what it liked and South Carolina and Georgia, where our circumstances are different, could do as they thought best and loan it upon such security as they thought best, some on cotton or other produce, others on bonds or just such good security as the people were best able to give.

Mr. WARNER. Then your idea would be to leave outstanding the greenbacks now outstanding and also the national-bank currency, silver certificates, etc.?

Mr. TALBERT. That is a matter for the national banks, as I understand, the Government would withdraw special privileges.

Mr. WARNER. So far as your system is concerned it is not intended to withdraw them?

Mr. TALBERT. I do not propose to make war upon any banking institution at all, but the present national bonds draw interest, and under this plan no interest accrues. This is, as I understand it, a change which is desired by my people in the present monetary system of the National Government; and of course all banking institutions would have to stand upon their own merits.

Mr. WARNER. What interest would you place upon the State bonds?

Mr. TALBERT. I do not know; that could be arranged hereafter either by the States or the National Government.

Mr. HAUGEN. Say 1 per cent?

Mr. TALBERT. The 1 per centum is for the issuing of this money only to pay expense of issuing these Treasury notes.

Mr. WARNER. My question in regard to the interest is based upon this:

If the Government did not want to issue a large amount of currency, then by putting the interest high upon those bonds it might probably nullify your bill.

Mr. TALBERT. It could not go over \$30—that is, the per capita circulation, and the interest to be arranged by law, either State or national.

Mr. WARNER. By putting the interest high, it might nullify your bill so as practically to discourage the States taking out any?

Mr. TALBERT. I suppose if the Government was disposed to issue money it would not enact any such laws, or have such laws as would protect itself.

Mr. WARNER. Your idea is to leave the question of the interest on the bonds to the discretion of the Secretary of the Treasury?

Mr. TALBERT. Yes, sir; or Congress, or State legislation.

Mr. WARNER. Now, in regard to this tax; who is to pay this tax?

Mr. TALBERT. That is to be paid by the State which deposits the bonds.

Mr. WARNER. It is not a tax upon the bonds, but it is a tax upon the State in proportion to bonds issued?

Mr. TALBERT. Yes, sir.

Mr. WARNER. Now, should not there be some requirement providing for the loan of this money by the State, such as not to exceed a certain per cent of interest?

Mr. TALBERT. That, possibly, might be advisable.

Mr. WARNER. By the State simply borrowing the money at low interest and lending it out at high interest, you can see where the trouble would come in?

Mr. TALBERT. That is a matter entirely with the State; and, of course, each State would be disposed to protect her people; so that would not be probable.

Mr. WARNER. Would you pass legislation here that would allow each State to make its State expenses out of your currency plan?

Mr. TALBERT. I do not understand that it will do that, and as I said this is a matter for future legislation. You gentlemen can take the bill, and if it is not properly arranged it can be properly arranged.

Mr. WARNER. It will not interfere with your plan?

Mr. TALBERT. No, sir.

Mr. WARNER. Why do you contract the currency at the end of twenty years?

Mr. TALBERT. That is simply a matter of term; it required to have some term, and each State can redeem those bonds at any time that she sees fit.

Mr. WARNER. You do not believe in the State banking system?

Mr. TALBERT. I contend that State money can not be made stable and uniform. I contend, the National Government ought to issue money sufficient to have a uniform national currency, and I submit in that particular this is a substitute for the State bank system. Now, it is possible there might be such restriction thrown around State banking systems as to make these State bills safe and sound, but I do not see how it can be done. But you gentlemen have under advisement bills, I think, of that sort.

Mr. WARNER. You prefer a currency issued by the General Government?

Mr. TALBERT. A currency that would be decentralized and localized, a national currency, and there would be no trouble about different kinds of bills, where every man would be satisfied if it was good and uniform,



and if he lives on one side of the river and crosses on the other he would not have to discount his money, as I understand it.

## POPULIST OR ALLIANCE.

**Mr. WARNER.** Not to go into politics, but to make a distinction between the plan proposed by the gentleman from Kansas and yours, the argument for which is similar in a good many respects:—Now, what distinction, as you understand it, is there between the Populist idea of a financial system and the Alliance idea of a financial system? What I want to get at is the difference between the plan of the gentleman from Kansas, and the plan of the gentleman from South Carolina; or perhaps we can get at it in a broader sense.

**Mr. TALBERT.** The Populists or Third party people have left the Democratic party and are outside of the Democratic party. The Farmers Alliance in my State are members of the Democratic party. The Farmers Alliance are Democrats in South Carolina, and there is a difference between the Peoples' party platform and the Farmers Alliance, there is a decided difference, and the Farmers' Alliance in South Carolina are making their fight in the Democratic party as Democrats.

**Mr. BLACK.** What is the difference between your financial scheme and their financial scheme—they call themselves Populists and you call yourself a Democrat, and Mr. Warner's question is: What is the difference between your financial scheme and the Populists' financial scheme?

**Mr. TALBERT.** I do not know that I can answer, as to that. This is my scheme as I understand it. I have offered it as a substitute for the Farmers' Alliance subtreasury idea, as something which I think is better and covers the ground, from the simple fact that it gives back to the States the right to loan this money to our people upon such security as they can furnish and such security as the State authorizes will be satisfactory. Now, I do not understand the substance of the measure introduced by the gentleman from Kansas, as I have never seen his bill, and I do not believe it is anything like that.

**Mr. JOHNSON,** of Ohio. The Ocala platform has in it a provision in regard to the subtreasury.

**Mr. TALBERT.** Yes, sir. The subtreasury plan, as I have explained, is a desire for a change in the present financial system of the National Government. Now, the Third-party platform, or the Populist platform, as I understand it, demands the ownership of the railroads, and the Alliance platform demands the control of the railroads and not the ownership, and the Farmers' Alliance proper are members of the Democratic party, and they are good Democrats, and stand upon the Democratic platform, and are making their fight for their measures within the Democratic party; and, as far as politics are concerned, as I understand it in my State, the members of the Farmers' Alliance would advocate the nomination for office of men in the Democratic primaries who stand upon their platform or the nearest to their platform, and the measures which they support. We are making our fight as Democrats, and in the Democratic primaries and in the Democratic conventions, and we will support the nominee of the Democratic primary.

**Mr. HAUGEN.** And whether he stands upon your principles or not, you will support him?

**Mr. TALBERT.** Yes, sir; if we go into a primary or convention, we will abide result. Of course, we will expect the nominee to stand squarely on the platform he was elected on; we are Democrats, that is

my position, but I did not come in here and expect to go into a discussion of this kind.

The CHAIRMAN. I would say this discussion is drifting from the bill under consideration.

Mr. TALBERT. I hope the committee will excuse my digression; as I said, I am no financier, but I introduced this bill with the hope that possibly it might become a law, or it might help you gentlemen to formulate some other bill which you have before you. I am not dictatorial or anything of the sort, but I feel it is a measure worthy of your consideration.

Mr. WARNER. I understand the gentleman misunderstands my question—

Mr. TALBERT. I will be glad if you leave out this political digression.

Mr. WARNER. I did not intend to go into it. My question was confined to the financial plan entirely.

Mr. JOHNSON, of Ohio. Mr. Chairman, I rise to the point of order that this discussion is not upon the bill which is before us.

Mr. WARNER. I insist upon my right to ask a question, and when I ask it it will be time for the gentleman from Ohio to object if it should be out of order.

The CHAIRMAN. The gentleman will submit his question.

Mr. WARNER. Certainly; my question is this: The gentleman from Kansas proposed the other day a plan, not in detail like yours, but it involved the issue by the Government of currency, and in some respects it was supported by arguments similar to yours. He said, as you have, that in the matter of detail there were numerous details which he had not thought of, and which would have to be worked out. He presented it, as I understood him, as the People's party bill—the People's party plan.

Mr. TALBERT. I present this as a member of Congress; I do not present it as a Farmers' Alliance measure or anything else, but as a financial measure which all parties can and ought to agree to.

Mr. WARNER. You have presented a plan, and at the same time have explained that you did not present it as a People's-party plan?

Mr. TALBERT. No, sir; it is not.

Mr. WARNER. My question was not intended to go into the political matter, but to ask you what, if anything, was the difference between the financial theories of the Populists and the Alliance-Democrats.

Mr. JOHNSON, of Ohio. I raise the point of order that the question asked by the gentleman from New York has no reference to the bill under discussion, as to the difference between the platform of these two parties, and I submit that that question is not in order.

The CHAIRMAN. The chair understands the gentleman from New York to ask him to explain the difference between the financial planks of the Populist party and the Alliance party?

Mr. WARNER. Not at all—

Mr. TALBERT. I submit that I did not come here to explain the People's party platform, but I came here to speak upon this bill which I have introduced, and I have done it as I understand it.

The CHAIRMAN. The chair thinks that the gentleman from New York is wandering a little from the line of discussion. In other words, it does not make any difference so far as this bill is concerned whether it is in accordance with the political platforms of the two parties, but it is a question as to whether what this bill contains is meritorious or not.

Mr. WARNER. My question is, whether there is a distinction in his mind between the two, not political but financial.

The CHAIRMAN. Does that relate to this question?

Mr. WARNER. It most certainly does. There has been produced here a plan which is like this plan in some respects and differs from it in others; and the gentleman has produced a plan which resembles the plan produced as a Populist plan. I am not asking about the Populist plan, but I am asking him if he makes a distinction between the two; and if so, what is that distinction, not political but financial. If he makes a statement that there is a distinction, that answers it; or, if he makes a statement that there is no distinction, he answers it.

Mr. TALBERT. I certainly said I made no distinction, and I submit, Mr. Chairman, that this is a constitutional bill and it comes within the provisions of the Constitution. Congress has a right to coin money and emit bills of credit. I have examined the Constitution and I think this bill comes within its provisions. It is a plan that is advocated by the people in my country and by all classes without regard to party. The people want a change in the financial system and intend to have it or know the reason why.

Mr. WARNER. The people of your country were inside the Democratic party and that all—

Mr. TALBERT. In my State we have very few but Democratic people, Mr. Chairman.

Mr. HAUGEN. What is the difference between your plan and the Democratic platform?

Mr. JOHNSON, of Ohio. I raise the question of order. That has nothing to do with this bill.

Mr. TALBERT. Now, I contend that this is a Democratic plan, because it is the people's plan; and I say that this is a Democratic bill, that it is full of Democracy, and it is based upon the bed-rock principles of Jacksonian Democracy.

Mr. BROSIUS. In your examination of the Constitution, did you find in it any warrant by the Government of the United States to loan money to the several States?

Mr. TALBERT. Well, as I construed it, I did; but that is a matter of construction.

Mr. BROSIUS. Will you name the section and article.

Mr. TALBERT. I have named it in my remarks, and will say that under the general welfare clause it is constitutional always to give the people relief from burdensome laws.

Mr. BROSIUS. I beg your pardon.

Mr. TALBERT. It was under discussion here.

Mr. HAUGEN. You think it could emit bills of credit in the States?

Mr. TALBERT. That is my construction, but I am not a constitutional lawyer and I did not come in here to make a constitutional argument or an argument of any political party, because all can agree on a financial policy. I came in here as the representative of my people to make a simple, plain statement upon this bill which I have introduced. You gentlemen can make just such disposal of it as you think best, for you gentlemen can inquire into these matters. Are there any other questions, Mr. Chairman?

The CHAIRMAN. I believe not.

Mr. TALBERT. I thank you, gentlemen, for your courtesy.

Mr. HALL. I will just say, Mr. Chairman, that I do not want it to be understood on account of my remaining silent that I concur in his statement relative to the relation between the Alliance and the Democratic

party, or relating to the relations between the Alliance and the Populist party. My silence does not indorse any of that.

Mr. HAUGEN. I would ask that my colleague, Mr. Babcock, be heard on his bill.

Mr. TALBERT. I would like to ask my friend, Mr. Hall, if he means to say I came in here advocating the Third Party or the Alliance, or anything of the sort? I just simply introduced the bill and I do not want to be understood as interjecting anything in a discussion—

Mr. HALL. I do not mean anything of that kind at all.

Mr. TALBERT. I thank you, gentlemen, for your courtesy.

### STATEMENT OF HON. J. H. OUTHWAITE.

Hon. J. H. Outhwaite, a Representative from the State of Ohio, next appeared before the committee in behalf of the following bill:

[H. R. 10012, Fifty-second Congress, second session (Report No. 2315); H. R. 253, Fifty-third Congress, first session.]

A BILL to provide for the speedy and frequent redemption of United States paper currency and national-bank notes which have become soiled, impure, unclean, or otherwise unfit for use.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Secretary of the Treasury is authorized and directed to make the necessary and proper regulations to secure the speedy and frequent redemption of all United States paper currency, including all United States notes, gold certificates, silver certificates and Treasury notes of eighteen hundred and ninety, and all national-bank notes which have become soiled, impure, unclean, or otherwise unfit for use, when presented in sums of not less than one hundred dollars, and for the preparation and issue of new United States paper currency in place of such as shall have been redeemed on account of having become soiled, impure, unclean, or otherwise unfit for use, and for the transportation of such United States paper currency and of such national-bank notes to the Treasury of the United States or any of the subtreasuries thereof, and for the transportation of the new United States currency or new national-bank notes in return for the United States currency or national-bank notes which have become so unfit for circulation: *Provided,* That all national-bank notes which are redeemed because they have become unfit for use shall be disposed of and replaced as now provided by law, except that the expenses of all transportation shall be paid out of the Treasury of the United States.

SEC. 2. That the sum of fifty thousand dollars be, and the same is hereby, appropriated out of any money in the Treasury of the United States not otherwise appropriated, the same to become immediately available, to enable the Secretary of the Treasury to carry into effect the provisions of this act.

Mr. Outhwaite addressed the committee.

Mr. Chairman and gentlemen of the committee: The bill which I desire to bring to your attention is entitled "A bill to provide for the speedy and frequent redemption of United States paper currency and national-bank notes which have become soiled, impure, unclean, or otherwise unfit for use."

Mr. COX. Is that the same bill we reported for you last Congress?

Mr. OUTHWAITE. Yes, sir. Those of us who live at any distance from the city of Washington have observed that the circulating medium becomes very much soiled, unclean, bad smelling, and unfit for use. Of course, nobody ever rejects a bill on account of this feature of the bill itself, but it is sometimes disagreeable.

Mr. HAUGEN. It is "filthy lucre."

Mr. OUTHWAITE. It is in the true sense of the word "filthy lucre," and my attention was called to it by a physician in the city of Columbus who had been making some experiments to investigate whether such bill could carry the seeds of contagious diseases, and I will call your attention to a report which was made by a bacteriologist of the Stirling

Medical College, the most prominent medical college at the capital of my State:

COLUMBUS, OHIO, *December 12, 1892.*

DEAR DOCTOR: In reply to your request that I furnish a statement on my investigations concerning the bacteria found on worn and dirty paper money, I must say that a report at this time will of necessity be very brief and imperfect, as my work is only partly completed. I have examined eight bills. The abridged details are as follows:

One-dollar bill, series of 1878, culture showed three kinds of bacteria. One dollar, series 1886, culture showed two kinds of bacteria. Two-dollar bill, series 1886, one bacterium. One dollar, series 1886, two kinds of bacteria.

The above bills were obtained in the city here from several sources, and examined as soon as received. They were much worn and very dirty.

Further, a one-dollar bill was placed in an envelope and carried in my pocket one month. In that time it had no opportunity to become infected. A culture from it showed two kinds of bacteria.

Finally, I made two cultures from one-dollar bills, series 1886, sent from New Orleans. These cultures were made three days from the date of the mailing of the letter containing the bills at New Orleans. Growths of three kinds of bacteria have developed.

The purpose in doing this was to show that the diseases might be communicated from one part of the country to another by this soiled currency. First, they might be sent from a region infected by yellow fever from a patient who had had that disease, and this disease might be transmitted into another region susceptible of that kind of disease, and so cholera might be transmitted from New York to some point inland, and so smallpox might be transmitted from one region to another. I received a letter from a gentleman in Pennsylvania stating that his son had received a soiled note at the counter of their little store one day, and being in haste to do something else thoughtlessly put it between his teeth for a few minutes and carried the bill in that way only for a short time. His father called his attention at the time to the imprudence of such a thing, and said to him that the family who had just paid that bill in had smallpox at their house. Within nine days of the time he was taken with smallpox, and he had no other exposure as far as he could tell.

He goes on to say:

It must not be understood when I speak of one, two, or three kinds of bacteria these were the whole number of microorganisms on any one bill. The money was in each instance washed in 50 cubic centimeters of sterilized water. Of this water, after the money had been placed in it, one-tenth of a cubic centimeter was added to nutrient gelatine.

Although only one kind of bacterium may have developed from this culture there were nearly always a large number of colonies. For instance, one of the bills sent from New Orleans showed at the end of five days thirteen colonies of two kinds of bacteria. As I used one five-hundredths of the whole amount of water in which the bill was washed, there would be thirteen times five hundred bacteria—approximately  $13 \times 500 = 6,500$  microorganisms on the piece of money.

It remains yet to determine the nature of these various microbes obtained by culture; that is, to ascertain if they be pathogenic germs capable of producing disease. This work will consume considerable time, and a full report will be made at some future date. The results already obtained are sufficient to warrant one in calling attention to the danger there is in disease being transmitted by our circulating medium. The more paper money is worn the greater will this danger be, as the roughened surface of an old bill affords an excellent lodging place for germs. The results of the examination of the bills sent from New Orleans also show the mails may be a means of transporting disease microbes. The practice of sending money by mail would be very largely discontinued were the rates for money orders reduced.

Respectfully,

Dr. C. F. CLARK.

J. C. GRAHAM, M. D.,  
*Bacteriologist to Starling Medical College.*

Then I had another statement from the London *Lancet* on the same subject, which I will read:

PAPER MONEY AS A CARRIER OF INFECTION.

The possibility of infection being conveyed to a large number of persons by means of paper money has often been suggested, and an examination of the notes of the Bank of Spain current in Cuba, which has recently been published by Drs. Acosta and Rossi in the *Cronica Medico-Quirurgica de la Habana*, shows that this form of currency is indeed liable to contain septic germs. The notes chosen for their experiments were some that had been in use for a good while, and were such as represented values of a few pence only. It was estimated that two notes, weighing altogether about 15 grains, contained more than 19,000 germs of various kinds. Cultures were made in broth, gelatin, and agar, and these were injected into the peritoneal cavity of rats and guinea pigs, most of which died within twenty-four hours, the post-mortem examination showing signs of peritonitis and congestion of the liver and kidneys. The blood of the heart and the peritoneum was made use of to inoculate solid media, in which colonies developed so rapidly that it was impossible to determine their precise nature, many different forms being intermingled. (*London Lancet*.)

Now, I know that there are a great many people who do not believe in this bacteria theory of the transmission of disease, but it will do no harm so far as the protection of the people from the use of this filthy money is concerned. Why should not they have clean money all over the country as well as here at the center? Why should not our money be exchanged frequently? It would cost very little, and the Bank of England never reissues a note, no matter how clean the note is when it is brought in, but a new note is issued. The expense would not be very great. The law provides that the national banks shall bear the entire expense of the transmission of the issue and expense resulting at the Treasury in the purchase of the paper and work done, and all of that, the labor of producing the money, and the expense of transmitting it back again. Now, this bill only relieves them of the expense of transmission; it does not relieve them from the expense at the Treasury, and let me say in this connection that the tax upon the national banks leaves something of a surplus always in the Treasury, which is something more than is required to perform those things which are required to be performed by the national banks, so that while the provision does not distinctly take it out of that fund; that fund comes from the national banks in a sufficient amount to cover the expenses so far as national-bank notes are concerned; and as to other bank notes, I say if it is the duty of the Government to furnish money to the people, it is the duty of the Government to furnish clean, wholesome, decent money, not money that is bad smelling and repulsive, and suggestive of disease to those who believe in that theory. I am thoroughly well satisfied it has been transmitted in this way, but in regard to those who differ from me I have no desire to criticise at all.

Mr. COX. I want to ask you in regard to your bill. Your bill was before the committee, and after we went through an examination there was a bill reported; now is this an exact copy of that?

Mr. OUTHWAITE. No; it is not the exact bill. That bill made an appropriation to be immediately available of \$50,000 because the Secretary of the Treasury at the time recommended that amount, but that appropriation was intended to be immediately available. This bill which I have introduced is a bill which provides for general legislation requiring it to be done. There were certain regulations made by the Treasury some years ago, and I believe it was discontinued in 1882, and that there has been no appropriation made since 1882 because there was no imperative legislation compelling this thing to be done.

Mr. HAUGEN. Do you think the Treasury would have authority now to issue an order to put this into operation without an act?

Mr. OUTHWAITE. I believe the Treasury would have the authority, that is, not altogether, not so far as paying the expenses back and forth.

Mr. HAUGEN. Do you make these expenses payable out of the collection of taxes from the national banks?

Mr. OUTHWAITE. No; I make it payable out of the general Treasury. The regulation that was adopted heretofore required the banks to pay all expenses. Well, now, the banks acting in that capacity are acting directly as the agents of the people, and direct agents of the particular community in which they reside, and therefore I think the Government should pay that expense.

Mr. HALL. Do not the leading medical men in Germany, France, England, and United States agree in the existence of bacteria microbes and in the transmission of disease, say by old clothes, etc.?

Mr. OUTHWAITE. Yes, sir; and even by a lock of hair. A lock of hair has been known to transmit disease, a lock of hair that has been locked up for years in a trunk, and also it has been transmitted by toys. I know of an instance of a book which had been the plaything of a child who had died of scarlet fever. It was taken out by a grandmother and given to another little grandchild, and the result was two deaths by scarlet fever.

Mr. BROSIUS. I think I remember your bill in the last Congress, before the committee, but I think there is already a provision in the law for the redemption and destruction of mutilated currency. Will not it cover the purpose of this bill to extend that provision of existing law to impure and unclean currency?

Mr. OUTHWAITE. There is no provision in any law providing for the pay of expenses of transmission of money from some place out in the interior to the Treasury and back again. Now, we have a low rate of transmission by express wherever the United States Express Company goes, but even that is something of a tax if the bank has to pay it.

Mr. BROSIUS. Who pays the expense of transmitting mutilated currency?

Mr. OUTHWAITE. The banks that send it in.

Mr. HAUGEN. The banks constantly keep sending mutilated currency to the Treasury?

Mr. OUTHWAITE. Yes.

Mr. HAUGEN. So if they included a few dollars more of soiled currency it would not be any more additional expense, or rather not any material expense?

Mr. OUTHWAITE. It would be some material expense.

Mr. HAUGEN. Have you made an estimate?

Mr. OUTHWAITE. If we maintain the present system of currency with small notes, \$1, \$2, and \$5, the expense would range—it would be something more than \$50,000 the first year, but it would be something on an average of \$50,000.

Mr. COBB, of Alabama. The United States Government transmits money from post-offices by mail; why could it not be done here?

Mr. OUTHWAITE. That is a very good suggestion, but perhaps some legislation relating to the postal service might be necessary in that case.

Mr. COBB, of Alabama. The money certainly comes safely by mail.

Mr. OUTHWAITE. It might be necessary to authorize the Treasury or banks to use the mail in shipping in this way.

Mr. JOHNSON, of Ohio. The obstacle in the way of having clean money to-day is the expense of transmitting and the losing of interest on the part of the bank?

Mr. OUTHWAITE. That is it.

Mr. JOHNSON, of Ohio. And you want to remove that obstacle?

Mr. OUTHWAITE. Yes, sir; the expense. There is another expense connected with the transmission of United States paper money; all United States paper money, greenbacks, silver certificates and the coin certificates, all of those have to be reprinted at the expense of the Government or reproduced at the expense of the Government. Now, the Government officials always desire to make a good showing of economy and discourage that as much as possible and are slow about doing it. I do not mean to make any criticisms, but there seems to be some reluctance, and unless legislation compelling them is put upon the statute book they do not at all times feel obliged to do it.

Mr. HAUGEN. They fear they may be criticised by an economic Congress?

Mr. OUTHWAITE. Possibly.

Mr. COBB, of Alabama. Would it not be well to make it that this money should be transmitted through the mails under such regulations as the Postmaster-General might prescribe?

Mr. OUTHWAITE. That is a very good suggestion, and I leave it with the committee.

Mr. COX. Free of exchange?

Mr. OUTHWAITE. That is a very good suggestion, and it might be well to put it in this bill.

Mr. HAUGEN. In case of loss, who stands the loss?

Mr. COBB, of Alabama. The Government.

Mr. WARNER. In the case of the Government forwarding currency to any person, of course it has a full check of its own, and the registered-letter part of that is perfectly good; but would it not require some pretty careful legislation to provide a proper kind of voucher which would show the amount sent?

Mr. JOHNSON, of Ohio. They might pay the money to the postmaster who might transmit it.

Mr. COBB, of Alabama. The Postmaster-General would prescribe such regulations as would procure the check of which my colleague speaks.

Mr. OUTHWAITE. Yes; it might be counted in the presence of a clerk, say.

Mr. COBB, of Alabama. The amount of loss would be at the minimum. The fact that it is Government money secures it against loss in transmission through the mails. That is the experience of the Government in reference to its post-office money.

#### STATEMENT OF HON. J. W. BABCOCK.

Hon. J. W. Babcock, a Representative from the State of Wisconsin, then appeared before the committee in behalf of the following bill:

[H. R. 1591, Fifty-third Congress, first session.]

A BILL to amend the national-bank act.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury shall cause the affairs of every banking association organized under the laws of the United States*



to be examined, during each period of two calendar months, by a suitable person or persons, who shall immediately make a full and detailed report of the condition of the association to the Comptroller of the Currency, but no banking association shall be examined twice by the same person during any period of twelve calendar months, nor shall any person be appointed to examine the affairs of any banking association who is a director or other officer in any banking association organized under the laws of the United States.

SEC. 2. That the President of the United States, by and with the advice and consent of the Senate, shall appoint suitable persons, not over three-fifths of whom shall be adherents of the same political party and not exceeding one hundred in number, to make such examinations of said banking associations as may be directed by law, and for that purpose the persons so appointed shall have power to make a thorough examination into the affairs of any banking association, and in so doing to examine any of the officers or agents thereof under oath.

SEC. 3. That all persons appointed under the provisions of this act to be examiners of banking associations shall hold office during good behavior, and shall receive a compensation of three thousand dollars per annum, together with transportation, and three dollars per day for subsistence.

SEC. 4. That at the close of each fiscal year all moneys paid into the Treasury, under existing laws relating to national-banking associations, and not appropriated to pay the expenses of the bureau of currency and the expenses of salaries in this act provided for, shall be covered into a special fund, to be known as the "bank fund," which the Secretary of the Treasury shall establish in the Treasury of the United States.

SEC. 5. That all moneys covered into said bank fund are hereby pledged and appropriated to pay the loss caused to any person by depositing money with any national-banking association whose affairs may be placed in the hands of a receiver as provided by law; but no depositor shall receive, under the provisions of this section, a greater amount of money than the amount of such deposits due him after the affairs of such banking association has been finally wound up.

SEC. 6. That upon a deposit of bonds as provided by sections fifty-one hundred and fifty-nine and fifty-one hundred and sixty of the Revised Statutes, the association making the same shall be entitled to receive from the Comptroller of the Currency circulating notes of different denominations in blank, registered and countersigned, as provided by law, equal in amount to the current market value of the bonds so transferred and delivered, but not exceeding the par value of said bonds.

SEC. 7. That any banking association organized under the laws of the United States may, at any time within one year after the passage of this act, comply with the provisions hereof; but no banking association shall be entitled to receive circulating notes exceeding ninety per centum of the par value of the bonds deposited by it with the Treasurer of the United States unless such bonds exceed in amount one-half the par value of the subscribed capital stock of such banking association.

SEC. 8. That an act entitled "An act to amend section fifty-two hundred and forty of the Revised Statutes, of the United States, in relation to the compensation of national bank examiners," approved the nineteenth day of February, eighteen hundred and seventy-five, and said section fifty-two hundred and forty of the Revised Statutes and all other laws and parts of laws in conflict with this act are hereby repealed.

Mr. Babcock addressed the committee as follows:

Mr. Chairman and gentlemen of the committee: It is not my intention to make an argument on this bill this morning, and I will relieve your minds of that at once. I wish to have you consider for a few moments House bill 1951, which is entitled "A bill to amend the national-bank act." This bill was prepared after consultation with numerous bankers and business men, and finally submitted to the Populists in the West. The object of the bill is, first, to increase the security of depositors in national banks and the confidence in those institutions during times of panic. The second object of the bill is to increase the present circulation. Under the law governing national banks we had, on the 4th day of August, 1893, a capitalization of \$698,000,000, and upon that the banks had only emitted \$184,000,000 of national-bank notes. This amount has been increased since that date, but application has been made to retire a part of it, which, of course, the gentlemen of the committee are all familiar with.

Mr. Cox. There is not that much in actual circulation; that is the

amount issued; \$184,000,000, but the amount in actual circulation is nothing like that amount.

Mr. BABCOCK. I know of no means to get at what the actual circulation is. This is the amount issued by the Comptroller to the banks.

Mr. COX. I merely call your attention to it.

Mr. BROSIUS. He held in his hand, which he has just handed to me, a statement of the Comptroller of the Currency—

Mr. COX. Excuse me one moment, I understand that. This amount of money—\$184,000,000 of national-bank bills—has been sent out by the Government. That amount is not the amount in actual circulation; that is a different thing. There is the 5-per-cent redemption fund, and in addition to that there is another amount. I was just calling his attention that he used the words "amount in circulation," and this is not the actual circulation, as it is not \$184,000,000.

The CHAIRMAN. The authorized circulation is what he referred to and not the amount that may be lost or destroyed or reserved or anything of the kind.

Mr. BABCOCK. I will read the statement from the Comptroller.

In accordance with your request I have the honor to hand you the following statement: Total number of national banks authorized, 4,925; number of national banks in operation, 3,737; paid-up capital stock, \$698,000,000; circulation at close of business August 2, 1893, \$184,000,000.

I do not understand that the redemption fund is included in this amount of circulation of \$184,000,000. That is a special deposit with the Comptroller of the Currency. The banks receive 85½ per cent of circulating notes on the par value of their bonds at the present time.

The national banks, under our present law, of course, to a certain extent have been controlled by the Government; and I believe it to be the sentiment of the West, or with the business men with whom I have come in contact, that they are not doing their duty as far as circulation is concerned; that they should emit a greater proportion of their capital. Under the present law a bank with a capital of \$150,000 or less must emit 25 per cent of its capital, and a larger bank \$50,000. The Union National Bank of Chicago has a circulation of only \$45,000 with a capital of \$2,000,000. The question arises, why are they national banks? Simply to go before the people and obtain a credit as a national bank over and above any other banking organization? Now, gentlemen, if this is the case, why should not we ask these banks to emit at least 50 per cent of their capital in bank bills? It would increase the circulation about \$200,000,000 and give us a class of currency upon which there can be no question as to its ultimate payment or the value of it.

Mr. HAUGEN. Do you provide for that in your bill?

Mr. BABCOCK. Yes, sir; the bill provides for that.

Mr. HAUGEN. In what section of it?

Mr. BABCOCK. It is in section 7. Now, if you please, I will take up the bill by sections and explain it as near as I can. Section 1 provides for a different system of examination of banks. While the loss under the national-bank acts has been the smallest ever known under any banking system, less than one-fifth of 1 per cent on the deposits, I believe that can be still further reduced by a change in the system of examination, and this bill proposes that the examiners of banks shall be appointed for life by the President in the same manner as judges upon the bench are appointed to-day. It provides further for an examination of the banks every sixty days, and the idea of that is to prevent rotten institutions from continuing in business after they have met with losses and should be wound up, examples of which we have had

in many places in the West during the last three months. It further provides that no examiner shall examine a bank oftener than once a year, so that under the provision of this bill any national bank would be examined by six different examiners during the calendar year. Now, I have had a large amount of correspondence with bankers in the West (among the number are Mr. Gage, the president of the First National Bank of Chicago, Mr. Odell, of the Union National Bank), and banks west of the Mississippi River and as far as California, in regard to the provisions of the bill, and it seems to be the sentiment that a quarterly examination would answer the purpose as well as once every sixty days, and should the bill be favorably reported by the committee I should offer an amendment that it be made quarterly instead of once every sixty days; in that case the bank would be examined by four different men, putting it out of the question for collusion between the officers and the examiners. Now, the case of the Maverick National Bank which failed at Boston shows that the examiner of the bank was one of the largest debtors of the bank, and had he done his duty the bank would have been closed long before it was.

Mr. HALL. While you are on that branch, will it interrupt you to stop for a moment and allow me to interject a question which might be of interest to you and perhaps to the committee? Is it not a custom out West that the national-bank examiners frequently either send notice ahead or let somebody know they are coming and the president and officers of the national bank give them a good champagne supper when they do come?

Mr. BABCOCK. I do not know about the champagne supper.

Mr. HALL. I mean they are always received very well, and I have known of the champagne suppers to be fixed up before.

Mr. BABCOCK. I happened to be in company with three bank cashiers, this was in Illinois, and one was an old acquaintance of mine, and this bill was referred to by them and it seems that they had been in a chain of banks where an examiner struck one bank who would telegraph to the other banks: "The examiner here to-day; lookout, he is coming." So they were notified that the examiner was coming, or in other words, they had due notice.

Mr. COBB, of Missouri. Do you think it would be well that the banks should not be examined at stated terms? You say quarterly, and in that case the bank would know exactly when the examiner was coming around?

Mr. BABCOCK. The bill provides that they shall be examined once during sixty days.

Mr. COBB, of Missouri. And you would make it quarterly?

Mr. BABCOCK. Yes, sir. I would leave the date of examination entirely to the Comptroller of the Currency so that the banks would have no knowledge of the time when the examiner was coming, and I would only say that they must be examined once during that quarter.

Mr. COBB, of Missouri. So that they would be examined either the first, middle, or last of the quarter?

Mr. BABCOCK. Yes, sir. I would put it entirely at the convenience of the examiner and the Comptroller.

Mr. HAUGEN. The Comptroller would telegraph the examiner where to go from day to day and no one would know where he is going?

Mr. BABCOCK. The idea in regard to changing examiners is this, for instance. I believe the examiner in Chicago is a resident of the city and he has personal acquaintance with the different banks and therefore is sensitive about making a report against a bank when possibly

they should be reported as insolvent or requiring Government attention. That is very embarrassing and the system is wrong. He should be entirely independent, and the examination should be conducted by a nonresident which would be a necessity of the case under the provisions of this bill. Now, let me take a moment's time of the committee to say this. In our State there is what is called the Warehouse Syndicate, a logging and manufacturing concern that extends the entire length of the Mississippi River and its branches; they handle 700,000,000 logs a year. For many years it was a constant contention to separate and divide these logs between them and they formed a pool. Every man when he put the logs on the stream puts a mark on the log and they are scaled and graded according to the grade—first, second, third, and culls, and then the man is given credit for what logs go into the river. When these logs come down to the different mills which take them out, say there is a thousand different marks, and—

Mr. BROSIUS. It is just like oil out of a pipe!

Mr. BABCOCK. Yes. The pool provides a scaler to scale the logs, and when that was started there was a great pulling and hauling between the mills to get little better logs, and as to who should scale for them. Then they provided a system of changing the scaler at a mill every day. Say a man walks into my mill in the morning. I do not even know who he is; he comes there and scales the logs and makes a report, and then he goes to another mill. Three days is the longest time a scaler can remain at one mill; consequently all the mills get the average work done by the scalers, and it is impossible, of course, to put up any job with any particular man for one day's work. It has worked very satisfactory. This is where I got the idea of changing the system of examination, or of routine examination, to prevent any possible collusion between the banks and the examiners.

Now, this bill further provides for the issue of 100 cents on the dollar on Government bonds, instead of 90 cents. I have had many curious comments in regard to that. I had a letter which represented the sentiment of the Milwaukee bankers the other day. The point was that it did not seem just to issue as large a circulation on the 2 per cent bonds as on the 4 per cent bonds. But I can not see the force of their argument. If the Government was behind it, and good for 100 cents on a dollar, there was the security. There is no more security on the 4 per cent bonds, ultimately, than on the 2 per cents, if the Government fulfills its obligations. The question as to changing the law from 90 to 100 per cent, it seems to me, hardly admits of any argument. In fact, I have never heard presented an argument against it of any force.

Now, another provision of this bill to which I want to call the attention of the committee, and then I am through, is this: As far as bank examiners are concerned, I think without any doubt, without any question in my own mind that the proposed change is a good one. I believe that nine out of every ten business men, bankers, or farmers, will approve of the idea of a careful supervision of banks that the public may have confidence in them in the case of a panic, and that the channels of trade can not be disturbed as they have been in the past six months. Now, this provides further—and to me it is very important, but still it is open to a great many arguments for and against it—that the tax on the circulation of 1 per cent on which the Government has or had up to the last fiscal year collected \$78,000,000 from the national banks, that this tax of 1 per cent made on the circulation be set aside in a special fund in the Treasury, and out of that fund that the expenses

of the Comptroller's Office be paid, which were \$118,000 last year, and also the expenses of examiners for which this bill provides, and that any residue left shall be held for the benefit of depositors; or, in other words, this practically makes the national banks insure each other's deposits, the Government acting as agent in charge of the fund. Now, I ask you if, during the past six months, we had had a condition of examination of the banks where you knew, or were reasonably certain, that they had been carefully examined, and the assets were known to be in good shape, and that behind that there was a fund in the hands of the Government sufficient to ultimately pay every depositor, then in that case the bank, instead of congesting and aiding—and there is nothing in the world that aids or precipitates a panic worse than a bank, from the very fact that when there is a scare in the country they have to stop loaning and increase their reserve and protect themselves—now, if there had been this condition of affairs, it would be practically impossible to precipitate a run upon a bank, and instead of having the bank congest money they could loan down to their reserve instead of holding 40 to 60 per cent reserve—and I know of one bank that held 90 per cent of reserve—but under this bill they could loan down to 25 per cent and be independent, and could help those who needed help. By loaning a \$5,000 that money would perhaps pay half a dozen debts of like amount.

Mr. HALL. You still believe in requiring the national banks to hold that 25 per cent reserve?

Mr. BABCOCK. I would not change that at all under the present laws.

Mr. WARNER. You spoke of \$200,000,000 as being the increase of the currency provided the national banks would take it out to the extent of 50 per cent of their capital?

Mr. BABCOCK. Yes, sir.

Mr. WARNER. Do I understand you believe under your bill that such would be the result?

Mr. BABCOCK. Yes, sir.

Mr. WARNER. Now, you have, I take it, considered the question as to the possible rise in the price of Government bonds, provided they had to be bought up by banks for that purpose?

Mr. BABCOCK. Yes, sir.

Mr. WARNER. You still think the result would be, even if the Government bonds should rise in price, to induce them to take out that amount of extra currency?

Mr. BABCOCK. The Government bonds would have to advance 10 per cent to reach the price they were nominally in the past ten years.

Mr. WARNER. And you do not think they would rise over that?

Mr. BABCOCK. No, sir. There is now outstanding \$650,000,000 of bonds, \$585,000,000 of Government bonds and \$60,000,000 of Pacific bonds. My idea further is that the Government will of necessity emit more bonds.

Mr. WARNER. The emission of more bonds is necessary for the success of your system?

Mr. BABCOCK. No, sir.

Mr. HAUGEN. You do not make it absolutely mandatory upon the part of the banks to take out 50 per cent, but a bank which does not do that can not get more than the 90 per cent?

Mr. WARNER. I was asking if he thought it was possible that the issue of more Government bonds would probably be necessary.

Mr. BABCOCK. But not as a result of this. I did not express that

idea. I think the result of the present financial condition which exists is that the Government itself will, in the end, be forced to issue bonds.

Mr. WARNER. I do not mean to put words in the gentleman's mouth. I understood what he said was this: He thinks there might be an issue of \$200,000,000 extra under this bill, and that in any case the result of other matters, not necessarily the result of this bill, is that we would get the full benefit which he suggests?

Mr. BABCOCK. Yes, sir.

Mr. BROSIUS. Do I understand this bill, providing for taking out 50 per cent of the capital of the banks is mandatory?

Mr. BABCOCK. No, sir; but a bank to receive 100 cents on the dollar must emit 50 per cent of its capital, and if they do not do it they only get 90 per cent, the same as under the present law.

Mr. COX. Your proposition is, that if the banks put in the bonds it can get 90 per cent anyhow?

Mr. BABCOCK. Yes, sir; that is the present law.

Mr. COX. Your bill still retains that. Now, in order to induce the banks to get the par value of the bonds you make a condition upon the bank that it shall take out 50 per cent of its capital stock?

Mr. BABCOCK. Yes, sir.

Mr. COX. Does it not strike your mind at once if the bonds advance in value, even if they are very little over what they are now, that the interest of the bank would be not to take it out, not to take out the par value of the bond at all, but to take out 90 per cent, and thus save the investment on the new bonds and on the increased capital stock?

Mr. BABCOCK. You overlooked one thing.

Mr. COX. Perhaps I do.

Mr. BABCOCK. Which is a vital point of the whole idea, and that is that the credit of a bank organized under this bill will be so much stronger than any other organization of banks that it will be to their interest to organize under the proposed law. It will be to the bank's interest to secure depositors and correspondents.

Mr. COX. I see that. Suppose practically to-day we go to organize a bank under your bill. Now you can get the par value of the bonds in circulation if you do a certain thing; that is, you must take out 50 per cent of your capital stock. If you decide not to do that, then you can deposit one-fourth under the present law as it exists and take out 90 per cent. Suppose the bonds go to 112 or 113, and your bill will absorb about half of the bonds there are in the United States, and then the moment these bonds begin to go up your interest is not to take out these bonds, and that is what has caused the retirement in the circulation?

Mr. BABCOCK. May not that be the factor to put the price of the bonds down again. It provides its own check.

Mr. HAUGEN. It is left to the judgment of the bank whether it will take out this or not.

Mr. BABCOCK. If the market price of the bonds is forced up to 150 the bank is not obliged to take it out?

Mr. COX. Then, is not the very object of the bill defeated in regard to securing this increase of circulation?

Mr. BABCOCK. The object would be by forcing the bonds up to 150; but that is something almost preposterous.

Mr. COX. I said that even if they went to 115.

Mr. HAUGEN. They would simply suspend purchasing until bonds came down where the banks could afford to buy them.

Mr. COX. And that would retire the circulation; that is the idea that I wanted to draw out.

Mr. HALL. The effect would be that where you make every national bank of the United States a guarantor of the depositors of every other national bank it would virtually close up all the State banks unless they by State laws come to the same condition.

Mr. BABCOCK. That would be the practical working of it in the end. You or I would deposit our money where the percentage of assurance was greatest.

Gentlemen, I thank you for your courtesy.

Mr. COBB, of Alabama. I want to ask you one question. You said that under your system that there would be inducements to the national banks to operate under it?

Mr. BABCOCK. Yes, sir.

Mr. COBB, of Alabama. The reason for that is on account of the increased security to the depositors, and therefore their increased business?

Mr. BABCOCK. Yes, sir; that is the idea exactly.

### STATEMENT OF HON. G. D. MEIKLEJOHN.

Hon. G. D. Meiklejohn, a Representative from the State of Nebraska, then appeared before the committee in behalf of the following bill:

[H. R. 1993, Fifty-third Congress, first session.]

A BILL to amend section five thousand two hundred and nine of the Revised Statutes of the United States relating to national banks.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section five thousand two hundred and nine be amended to read as follows:

"SECTION 5209. Every president, director, cashier, teller, clerk, or agent of any association who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of the association, or who, without authority from the directors, issues or puts in circulation any of the notes of the association, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who shall willfully falsify any book, report, statement, or account of the association, either by making a false entry, omitting a proper entry, or alteration of any entry in any book, report, statement, or account, or by mutilation of any book, report, statement, or account, with intent to injure or defraud the association or any other company, body politic or corporate, or any individual person, or to deceive any officer or director of the association, any officer of the United States, or any agent appointed to examine the affairs of any such association, and every person who with like intent aids or abets any officer, director, clerk, or agent of the association in any violation of this section, shall be deemed guilty of a misdemeanor, and shall be imprisoned not less than five years nor more than ten years."

Mr. Meiklejohn addressed the committee as follows:

Mr. Chairman and gentlemen of the committee, I would like to call your attention for one moment to bill number 1993. This bill is to amend section 5209 of the Revised Statutes. This provision is found in this section:

Or who makes any false entry in any book, report, or statement of an association shall be deemed guilty of embezzlement.

The amendment which I suggest is to change this provision of that section so it will read thus:

Or who shall willfully falsify any book, report, statement, or account of the association, either by making a false entry, omitting a proper entry, or alteration of any entry in any book, report, statement, or account, or by mutilation of any book, report, statement, or account—

Mr. COBB, of Alabama. You say, "make an alteration in an entry." Is that not sometimes legitimate? Would you not make it a corrupt alteration?

Mr. MEIKLEJOHN. I would state to the gentleman that I have only read that portion of my bill which is the amendment, and the following language is:

With intent to injure or defraud the association.

Now, Mr. Chairman and gentlemen of the committee, the object is to define what falsification is under the present law. The falsification under national-bank laws consists in making a false entry. This bill, if adopted, will make falsification to consist in not only making a false entry but omitting to make a proper entry, or alteration of any entry or mutilation of any book, report, statement, or account.

Mr. COBB, of Alabama. With intent to defraud?

Mr. MEIKLEJOHN. Certainly. In one of the greatest financial crashes in my State, involving some \$300,000 or \$400,000, in order to prosecute under this criminal act it could only be done on the ground of falsification, where the falsifying of a record, book, report, or statement was done by making a false entry. The fact is, where this embezzlement takes place, and the members of this committee will bear me out, is not only covered by a false entry but they are covered by omitting to make a proper entry.

Mr. COX. Did the court hold that the only way a false entry could be made was by making a false entry in the first place?

Mr. MEIKLEJOHN. No, sir; that indictment was only brought under the present act, and the question was not passed upon by the court.

Mr. COX. Will you allow me to call attention to a decision which has been made. Do you remember a large bank which broke at Boston and the president was indicted under that section and the judge so held in the commencement of the trial with your view, but after mature deliberation and consideration construed that part of the statute to cover any falsifying of any character inside the statute?

Mr. MEIKLEJOHN. Was this decision made on this section 5209?

Mr. COX. Yes.

Mr. MEIKLEJOHN. Where is that decision reported?

Mr. COX. We had the case before us in the last Congress and examined the bank and went clear through the matters pertaining to that bank.

Mr. MEIKLEJOHN. I am not familiar with the decision.

Mr. COX. I have interrupted you; now pardon me for one suggestion. I see my friend and colleague, Judge Cobb, was first impressed with the idea that the language ought to be "with intent to defraud." Let me call your attention to that as where the escape comes. We had under consideration here very fully and examined the Comptroller upon that proposition. His view of it was that it ought to be made *prima facie* there was an intent to defraud and to put the labor upon the man who is indicted to show that it was accidental. There is where the escape comes.

Mr. MEIKLEJOHN. I am of the opinion that an amendment in that direction would meet with great opposition under the criminal law.

Mr. COBB, of Alabama. You do not understand my point. Making a false entry itself is fraud, but when you go to make an alteration in the entry that is a legitimate business sometimes; but to make an alteration in the entry with a fraudulent intent is to be gathered from the facts of the case.



Mr. COX. I see your point very clearly.

Mr. MEIKLEJOHN. I desire to say further, Mr. Chairman, that if the decision to which the gentleman from Tennessee refers has been made that this would only corroborate the findings of that decision by the court.

The CHAIRMAN. I do not think in the decision to which you refer that there was any entry made at all.

Mr. COX. The decision is based upon this: The language of that act was construed that it was not in the kind or manner in which you made the false entry or how you produced the falsehood, but the question was, did you do with the intent as is suggested by Judge Cobb.

Mr. MEIKLEJOHN. May I inquire if the decision goes so far as to hold the omission to make an entry would be a falsification with intent to defraud the association?

Mr. COX. I would not be prepared to say in regard to that.

Mr. MEIKLEJOHN. Now, I will not take up more of your time, but I will only say this is the change I make by this bill in this section. I would like to say further that on bill 265, introduced by myself, to increase the issue of national banks to the par value of the bonds I do not care at this time to be heard, as I believe other gentlemen desire to appear before the committee on the same measure and I will appear at that time.

#### STATEMENT OF HON. H. C. SNODGRASS.

Hon. H. C. Snodgrass, a Representative from the State of Tennessee, then appeared before the committee in behalf of the following bill:

[H. R. 292, Fifty-third Congress, first session.]

A BILL making it a misdemeanor for any association doing business under the national banking laws of the United States to charge or take an illegal rate of interest, and to confer upon the States and Territories concurrent jurisdiction with the United States.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That any association formed and doing business under the national banking laws of the United States which shall take, receive, reserve, or charge on any loan or discount made, or upon any note, bill of exchange, or other evidence of debt, interest at a greater rate than is allowed by the laws of the State, Territory, or district where the bank or association is located (except that they may be allowed the same rate allowed to banks of issue organized under State laws, or when no rate is fixed by the laws of the State or Territory or district, any such association shall take, receive, or charge on any loan or discount made, or upon note, bill of exchange, or other evidence of debt a rate of interest exceeding seven per centum per annum) shall be guilty of a misdemeanor, and shall be punished upon conviction by a fine of not less than three hundred dollars and not more than one thousand dollars for each offense.

Sec. 2. That concurrent jurisdiction with the United States for the violation of section one of this act is hereby conferred upon and given to the several States and Territories, and they are empowered to pass such laws as will make its violation a misdemeanor against the laws of said States or Territories and as will enable them to effectively enforce the observance of this act against exorbitant, usurious, and illegal rates of interest, discounts, reserves, or charges by said associations doing business under the national banking laws of the United States. All laws or parts of laws in conflict with this act are hereby repealed.

Mr. Snodgrass addressed the committee as follows:

Mr. Chairman and gentlemen of the committee, I will not detain you in suggesting the reasons why I think this bill should be favorably reported but for a moment. It is a bill making it a misdemeanor for any associa-

tion doing business under the national banking laws of the United States to charge or to take an illegal rate of interest, and to confer upon the States and Territories concurrent jurisdiction with the United States. Under this bill it will be noticed that the banking law is changed in only two respects. It does not restrict or extend their rights under the law except in two ways. Under the present law the national banks can not take a higher rate of interest than that fixed by the States or Territories. For the violation of this law the only way to recover any penalty is to bring suit in a Federal court. In our State, as in a good many other States where there is a violation of this law, and the party sees proper to pursue the remedy in the Federal courts, he has to come 100 miles sometimes to prosecute that suit, and besides, usually, the men are poor and in great need of financial aid who are imposed upon and who find themselves in this condition, and they are afraid to come and make complaint because the bank would shut down on them and crush them out.

Now, in our State and in the county in which I live I have known some men of moderate means who have been absolutely bankrupt by usury on the part of the banks charging all the way from 10 to 25 per cent for loans. If men come in and have to renew they increase the discount, and it has gone on until in many instances it has amounted to absolute robbery. This bill, in order to relieve a man from having to prefer the charge, provides if a national bank takes a higher rate of interest than that fixed by a State or Territory, except in certain instances where there is no rate fixed, and then they will have to take 7 per cent, instead of being sued for penalty it is a misdemeanor, and upon conviction they shall pay a fine of not less than \$300 or more than \$1,000. It also extends to the States and Territories concurrent jurisdiction with the United States and allows the States, if they see proper, to enact such laws as will give the State authorities power to send for witnesses and power to make indictments without calling in men who would be slaughtered and ruined by the persecution of these banks. If the banks desire to do an honest business and do not desire to commit perjury and extort money wrongfully and illegally from the people, they can have no objection to this law, because it gives them the full benefit of all the law gives them now, and such banks that practice this method ought to be restricted in some way, and this would prevent these usuries on the part of the banks. Of course, it is not so in the cities, where there is a competition in banks and plenty of money; but in States like ours, where there is a bank only here and there, 25, 30, or 50 miles apart, there is very little money in circulation. I believe our State has a circulation per capita of only \$6. No State need give that power to a grand jury unless exigencies existed in that State, and where those reasons do exist the people ought to have the right to be relieved, and I believe the bill ought to be favorably reported.

That is all I care to say about it.

Thereupon the committee rose, to meet on Monday, October 16, at 10 o'clock a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., Monday, October 16, 1893.*

Hon. Newton O. Blanchard, a Representative in Congress from the State of Louisiana, addressed the committee on House bill 1814, introduced by him and referred to the committee, relating to the repeal of the tax on circulation of State banks.

**STATEMENT OF HON. N. C. BLANCHARD.**

Mr. Chairman and gentlemen of the committee: I introduced at the beginning of this session of Congress a bill for the repeal of the tax upon the note issue of State banks. A number of bills of the same character have been introduced by other members, and all referred to this committee. Many other members of the House believe, like myself, that we should return to the old system of State bank circulation which existed prior to the late civil war. I believe we should adopt that system as a supplement to the currency issued by the National Government. As matters now stand in the South, and equally so in the States of the West, so far as our money affairs are concerned, we have been going from bad to worse. Things have been getting a little worse from year to year. Money has been getting scarcer each year among the people. The values of our property have been depreciating year by year, and continue to do so.

Mr. HALL. You mean in that connection that the price of all property has depreciated?

Mr. BLANCHARD. Yes, sir. When I said "values" I meant the market value of property. That is true of all classes of property, and that condition of falling prices has been going on for twenty years, or since 1873. The gentlemen from New York (Mr. Cockran) in his speech in the House pending the consideration of the repeal of the purchasing clause of the so-called Sherman act made a statement which to my mind was a very remarkable one when he said that when Congress adjourned on the 4th of March last the country was enjoying a period of great and unexampled prosperity. Mr. Cockran in making such a statement did not know what he was talking about, so far as the South and West are concerned. It occurs to me that his vision must have been bounded by the rows of brick houses in New York. I know from personal contact with the people of the Southwest that for years they have not been enjoying a period of prosperity. The lines of life have become harder and harder each year, and there are now a larger number of people out of employment than has existed in this country for half a century. I believe that is true of every Southern State, and of a great many, if not all, of the Western States.

If you believe that this scarcity of money, this depreciation in the price of property, this condition of hard times, as I have briefly described the same, is in part due to something being wrong in our monetary system, you should make an effort to relieve the situation.

Take the condition of the South to-day and compare it with what it was in 1860 and prior to that time. The war has been closed now approximating thirty years. A sufficient time has elapsed for us to have gotten upon our feet again in a business way. Signs of returning prosperity ought to be evident everywhere throughout the South; but are they? I am sorry to say they are not. Before the war the very best securities we had in the South were our rich agricultural lands, and that was especially true of the alluvial lands in my own State, which rank with the finest agricultural lands upon the face of the

globe. In Louisiana we grow successfully four great staple products in equal luxuriance, corn, cotton, rice, and sugar. Prior to the war the condition of the agricultural classes was constantly improving in my State. The condition of the people grew a little better and higher and more prosperous each year. The war came on, and, of course, destroyed all this. After a lapse of twenty-five or thirty years what is the condition of the agricultural people in my State? It is not one of prosperity. The people appear to be getting poorer and poorer each year. Their lands are becoming "a drag" upon the market. They can not find sale for them, and can not dispose of them except, oftentimes, at a sacrifice. When it comes to borrowing money upon lands, they are considered the very lowest class of security that money-lenders want, whereas before the war our rich agricultural lands were held to be the best and safest security that could be offered for money.

What has brought about this condition? We think it is due in large part to the monetary system of this country. As things now stand, the West and South are absolutely dependent upon New York for their source of money supply. This may be good news to my friend on the committee from New York (Mr. Warner), but the existence of this condition of affairs has been and is disastrous in the extreme to us. When our merchants want to make money arrangements they must go to New York. When your note, or mine, or anybody else's is discounted in the local banks it goes to New York for rediscount. That condition did not exist before the war. That condition of affairs does not redound to our benefit. Our people ought to be emancipated from financial dependence on any section or city of this Union. There is no way to do it except to return to the old system of State banks of issue. In my humble judgment this would do more good than the passage of a free-silver law.

Before the war we had in our State, under wise and conservative State banking laws, perhaps the very best system of State banking that existed anywhere.

Mr. HALL. It was as good as any other; there were others equally as good.

Mr. BLANCHARD. I say "better," because the national-banking act of June 3, 1864, which is before me, is copied in large part from the State-banking law adopted in Louisiana in 1853.

Mr. HALL. You adopted the old Suffolk banking system?

Mr. BLANCHARD. I think we had a good banking system perhaps as early as any State in the Union; certainly prior to 1853.

Mr. HAUGEN. The law of 1864 is a good law, which, you say, was copied from yours.

Mr. BLANCHARD. In answer to that, I will say that the national-banking law served a good purpose at the time it was enacted. It was enacted, as we all know, at a period when our country was in a crisis, and it was needed to assist the Government in its financial operations. For one, I do not believe—and I state my opinion candidly—that the national-banking system is best for our country in these times. But I am not here to oppose the national banks. I believe that the national-banking system could continue on, and that the State-banking system which I advocate would be a valuable supplement to it. I believe that laws could be framed by which State banks could safely make use of bonds deposited in the State treasuries as security for their notes. There is no reason why the two systems should not be combined. If the 10 per cent tax were repealed State banks of issue would come into existence; and to the expressed fear that they might drive national

banks out of existence, I would say that for every national bank which went out of existence two or three State-banking institutions would take its place, and that certainly would be better for the people of the West and South.

Mr. WARNER. It would be a question of the survival of the fittest?

Mr. BLANCHARD. Yes, sir. I do not see why these two systems can not exist together. Under the State banking laws of Louisiana (a copy of which I have here) the money issued by the Louisiana banks of issue was good all over the United States. At no time was a single bill of those banks at a depreciation, nor was any cry heard in any quarter of "wildcat" currency, so far as the banks of Louisiana were concerned. Bear in mind that this was at a period prior to the railroad and telegraph and long-distance telephone. Now, the long-distance telephone is rapidly coming into use between the large cities of the country, the telegraph reaches almost every village in the United States, and the railroad penetrates every neighborhood. The railroads annihilate space and the telephone and the telegraph annihilate time.

I think the conditions existing to-day are fivefold better for the general and beneficial use of money issued by State-banking institutions than were the conditions which existed at the time this system of currency was in operation.

To give a practical illustration: I am in the city of New York, and apply to the Chemical National Bank for a letter of credit upon their Berlin correspondent. I tender in payment \$1,000 of Louisiana State-bank money, supposing we had such a system. Of course, the Chemical Bank would make it its business to be posted, but if its officials were not, the long-distance telephone would then be in operation between New Orleans and New York, as it is now between Chicago and New York, and if there were any doubt about the money offered the bank officials could telephone to their correspondent in New Orleans and inquire about this particular issue of money. If word came back that it was good in New Orleans, it would be good anywhere in the United States. That facility of communication did not exist prior to the civil war, yet without it our Louisiana State-banking money was good everywhere, dollar for dollar.

The CHAIRMAN. Is not that law still in existence because it has never been repealed?

Mr. BLANCHARD. Yes, sir; but it is inoperative because of the 10 per cent tax.

The CHAIRMAN. Those banks can operate as banks of discount?

Mr. BLANCHARD. Certainly. The old law of 1853 has never been repealed, and if the 10 per cent tax be done away with we would at once put it in operation again, or enact another law modeled after it.

The CHAIRMAN. State to the committee briefly what would be the *modus operandi* of a State-bank system under that law.

Mr. BLANCHARD. It would be about as the national-banking system now is, except that the bonds would be deposited with the State treasurer or auditor instead of the Comptroller of the Currency.

Mr. HAUGEN. Upon what your circulation be based?

Mr. BLANCHARD. Upon State and municipal bonds. We have in the State of Louisiana about \$12,000,000 of State bonded indebtedness. We have in the city of New Orleans about \$15,000,000 to \$16,000,000 of municipal bonded indebtedness, the two aggregating \$27,000,000 to \$28,000,000. The interest upon these bonds is paid just as regularly as is the interest upon the National bonds. These bonds are now a little below par; but it is only a question of a very short time when they will

go to par or above par, as is the case, I am told, in Alabama, where their 4 per cent bonds are now above par.

If this 10 per cent tax upon the note issue of State banks were repealed it would at once appreciate the value of these bonds. That fact alone would carry them above par, for it would create another demand for these bonds. They could be used as a basis of security for the issuance of money by State-banking institutions. It would not only have the effect of appreciating the market value of the bonds, but it would have another good effect. The \$27,000,000 or \$28,000,000 of city and State bonds referred to are now an unmixed evil. The people are taxed to pay the interest upon them and taxed to provide a sinking fund to meet the principal. The people of the State derive no benefit from this bonded indebtedness as matters now stand. But if this tax were repealed we could get some benefit out of it. We could use the bonds as security for the issuance of money by State banks. Any banker or banking corporation operating under a State banking law could deposit in the State treasury State bonds, or the city bonds of New Orleans, and receive notes up to the value of say 90 per cent of the market value of the bonds when below par and 90 per cent of the face value when at or above par. In this way we could supplement the existing money supply in the State by the issue of from \$5,000,000 to \$20,000,000 of State bank currency, which would go into the channels of circulation and give a new impetus to business and enterprise.

The property, the wealth, the credit of the State of Louisiana and of the city of New Orleans, is just as good for this \$27,000,000 or \$28,000,000 bonded indebtedness as is the credit of the United States for the four hundred or five hundred millions of National bonded indebtedness. There would be no trouble about the bank currency secured by a deposit of these bonds in the State treasury. It would be good everywhere in the United States.

We have advanced greatly in progress and civilization since the period of the wildcat currency in some of the Southern and Western States. I have already mentioned the telephone and telegraph and railroads as aids to intercommunication. I have no fear that any State of the Union would remain long under the stigma of disgrace that would attach to it if money issued by its banks should go below par or become depreciated. If any State of the Union were to adopt a banking law so unwise that under its operation State-bank currency would become depreciated, the very next meeting of the legislature of such State would amend the law and perfect it so as to bring back its credit and make it equal to the currency of other States.

Mr. HAUGEN. Some States are prohibited by their constitutions from issuing money.

Mr. BLANCHARD. That is true; but if this 10 per cent tax be repealed the beneficial effect would be speedily felt, and I have no doubt that the States having this inhibition in their organic law would soon amend the same so as to permit of the use of the system of State-bank circulation.

Mr. HAUGEN. My State does not prohibit it, but provides that a banking act shall be submitted to a vote of the people.

Mr. HALL. My State prohibits it absolutely.

Mr. BLANCHARD. It could be changed so as enable your people to derive the benefit which would surely result from a return to this system.

I hold in my hand an article clipped from a reputable newspaper in the city of New Orleans, the Louisiana Review, touching this very mat-

ter, which I will ask the indulgence of the committee to read. I know the editor of this paper to be a first-class man and responsible and reliable in every way. The article makes a comparison between the condition of the banks in the city of New Orleans in 1890, when we had no State banks of issue, and the banks in the city of New Orleans in 1860, when we did have State banks of issue.

The article is as follows:

STATE BANKS—NATIONAL BANKS OF 1890 AND STATE BANKS OF 1860.

[Louisiana Review, December, 1890.]

The baneful effects of allowing the Federal Government to exercise exclusive control of the financial system of the country and to limit the amount of the circulating medium, has been demonstrated by the difficulties that the agricultural, industrial, and commercial classes have experienced, owing to the patent insufficiency of money and the high rates of interest that the agriculturalists particularly have been compelled all along to pay. To these evils must be added the depreciation of the value of real estate occasioned by the provision in the national-banking law which prohibits national banks from lending money on real estate security.

Naturally, in view of this unwise and unjust discrimination, capital has been turned away from real estate and has sought stocks, bonds, and other interest-bearing paper values, the most of which escape taxation, can be readily converted into cash or used as collaterals on loans.

Real estate being excluded from these advantages, while it is made to bear the burden of taxation, is virtually unmarketable and can not be said to have anything like a fixed value.

To us the remedy seems very plain. It consists in the repeal of the Federal statute preventing the issue of bank notes by State banks, and in reëstablishing the old State banking system with modifications that would enable the national banks to act under State charters conjointly with their national charters.

We can see no good reason why State and municipal interest-bearing bonds, specie, mortgages on real estate, etc., could not be made the basis of a safe State bank-note currency which could be expanded, according to circumstances, to meet all the legitimate needs of the people. This is no wild theory, for it was successfully operated for many years before the centralization of the finances under the Federal Government was effected.

In support of our views upon this subject, we append the following statements of the resources and liabilities of the New Orleans banks, on November 28, 1890, and of the New Orleans banks under the State banking system, in January, 1860, as given at that time by Governor Moore in his message to the legislature:

1890.

Report of the average daily condition after the morning exchanges of the associated banks for the week ending Friday morning, November 28, 1890, after the exchanges:

Resources.	This week.	This week last year.	Liabilities.	This week.	This week last year.
United States legal tenders and national-bank notes.....	\$4,950,800	\$4,204,200	Circulation.....	\$762,200	\$941,700
Other cash items.....	134,900	171,100	Deposits (net after exchanges).....	18,885,700	19,006,000
Sight exchange on New York.....	2,048,700	1,986,800	Due distant banks and bankers subject to check.....	1,585,600	1,544,300
Foreign exchange.....	126,900	184,900	Other liabilities to banks and bankers.....	2,691,500	1,634,000
Due from distant banks and bankers.....	498,600	477,304	Other cash liabilities.....	97,900	30,000
Loans and discounts.....	20,419,200	19,094,300			
Other cash assets.....	4,083,800	4,452,400			
	32,262,900	30,571,000		23,982,900	23,156,000

1860.

[Governor Moore's Message.]

The latest bank statement shows the aggregate liabilities of the banks of New Orleans, exclusive of capital, to be \$25,893,251; to meet this they have in specie \$15,721,271, equal to sixty and three-fourths of one [hundred] per cent. of their total liabilities. They have exchange amounting to \$7,356,581, which is nearly equivalent to coin. The two items represent 89 per cent of their entire indebtedness. Adding to this the amount of bonds deposited with the auditor as security for circulation, for free banks, the immediate availability is \$26,688,852, against \$25,893,251 of liabilities; or 103 cents of means to 100 of debt. This is irrespective of portfolios of the banks, which amount in round figures to \$19,000,000.

From the above it will be perceived that the total resources of the New Orleans banks in 1890, amount to \$32,262,900, against a total of \$45,689,852 in 1860.

These figures speak for themselves. They show that in 1860, when Louisiana had a population of some 650,000, one-half of whom were slaves, who were not borrowers of money, our State banks had a working capital of \$13,500,000 more than our banks have now, when the population of the State was put down at more than eleven hundred thousand.

If these figures can be accepted as a proper basis of calculation, and we can not see why they should not, our banking capital should approximate eighty millions instead of thirty-two.

In view of this discrepancy, it is easy to account for the depreciation of real estate, the difficulties under which our agricultural, industrial, and commercial interests are laboring and the frequent complaints of stagnation in many branches of business and fields of enterprise.

The national debt which is the basis of our exclusive national banking system, is steadily diminishing, while our increasing population naturally requires additional capital. It is obvious, therefore, that the national banking system, which is already inadequate to meet the public needs, should no longer be looked to as the only source of banking accommodations.

The finance question is of the gravest importance, and our public men, our financiers, the press, and the people generally, cannot too soon give it their earnest consideration.

Mr. JOHNSON, of Indiana. Do you not think the better condition of the banks in 1860, is due to the fact that railroads have been built since that time and there has been a change of business from the river, by which Memphis, St. Louis, and other points get business that used to go to New Orleans?

Mr. BLANCHARD. Perhaps, to a limited extent, that may figure in this difference in the banking business as shown from 1860 to 1890, but I would suppose that it would not account for more than 10 per cent of it. In 1860 we had a little over 600,000 people. Now we have nearly 1,200,000. In 1860 more than half of the population were slaves who were not borrowers, and they must be eliminated from consideration. Now they are free, and many of them property holders and own farms, houses, and lands, and must be taken into consideration.

Mr. COBB, of Missouri. They are borrowers?

Mr. BLANCHARD. Yes, sir; in spite of these facts, we see that in 1860 Louisiana, which was, and had been for many years under a State banking system, was highly prosperous and the people contented and happy. Business transactions was enlarging all the time. Business concerns were multiplying. There was more money—almost double the amount of money, in the aggregate—in the banks of New Orleans then than there was in 1890.

Mr. HALL, of Missouri. One argument used by the opponents of the repeal of the 10 per cent tax on State banks is that the currency runs the risk of becoming a depreciated currency. I want to ask you if, in your opinion, any currency based on State bonds, which are themselves at par, or above par, would not be as good as the State bonds?

Mr. BLANCHARD. Undoubtedly.

Mr. HALL, of Missouri. My State of Missouri could float in the New



York market a 3 per cent bond at par. If we based our currency on that 3 per cent bond, or if the bonds of any of our municipalities were quoted at par, would not the currency itself be as safe as the bonds, and be recognized as such in the market?

Mr. BLANCHARD. Yes, sir; it would be as good as the bonds, the basis of security for its redemption. It would be so recognized in the markets of the country. With Missouri bonds at 3 percent, and being worth par in the market, it is impossible for the bonds to be maintained at or above par, and the currency which is issued on the bonds to fall below par. If the bonds deposited in the State treasury, and registered to prevent a thieving treasurer from getting away with them, are good in the markets of the United States, there can be no question but that the currency issued upon those bonds would be equally as good as the bonds themselves.

Mr. COX. May I divert you there a moment? Of course the proposition must be understood that this circulation is based upon State bonds. Is it your purpose to repeal this tax with restrictions or limitations upon State banks, or just simply a repeal?

Mr. BLANCHARD. My own position is this: I do not think Congress ought to do anything more than repeal this tax. I think that the States can be trusted to handle this matter for themselves, just as they did prior to 1860.

Mr. COX. While the bonds of your State and my State, are much like each other and would make a safe currency, some other States—South Carolina or Kansas, for instance—might undertake to bank upon a different security or a worthless security; ought there not to be some restriction there?

Mr. BLANCHARD. Perhaps you were not in the room when I referred to that matter briefly in my remarks. I said that the conditions now are vastly different from what they were when "wild-cat" currency existed in some States prior to the civil war. At that time we did not have railroads, telephones, and telegraphs. The long-distance telephone will shortly be in existence in all the large cities. The telegraph now absolutely reaches every village. Railroads penetrate every neighborhood. These are advantages which we did not enjoy in the days of the "wild-cat" currency. We have advanced in civilization and enlightenment since that time. It could be done better now than it was then. I have no fear that unwise banking laws would be passed by any State which would permit of a depreciation of its currency. An unsound currency would be a stigma of disgrace upon a State, and the legislature, at the very first meeting thereafter, would so amend the law as to bring the currency of such a State up to par with that of her sister States.

This return to the State banking system would give us a flexible currency. It would emancipate us from dependence on any section, and would give us a source of money supply of our own. This source of supply would be at home.

This further remark may be made on that line, that when a Louisiana State-bank note left the State, it might make the circuit—would go to Philadelphia, New York, or other city, but is certain to come back to Louisiana for redemption for its domicile is there. The green-back, or the national-bank note, or the gold dollar will not do that. It goes off and stays. But the State money would surely return to the bank which issued it for redemption. Thus the supply of money in the State would be constant.

The State-bank currency would emerge from the banks late in the

spring and through the summer when much money is needed to make the crops, to gather them and prepare them for market, and move them to market. Later, when the cotton of the South and the wheat of the West are sold for the gold of the world, the State-bank currency would naturally and logically find its way back to the banks of issue, and there it would remain in the vaults of the banks until the necessities of the next year's cropping operations and business operations drew it out again. It would lower the rate of interest, and we in the South and West need cheaper money with which to raise 7 cent cotton and half-dollar-a-bushel wheat.

Mr. HALL. You spoke of the Louisiana State banking law which was recognized as one of the best of five State banking systems. There were five that were equally good.

Mr. BLANCHARD. I think ours was the best.

Mr. HALL. Did you ever have in the State of Louisiana a depreciated wild-cat currency?

Mr. BLANCHARD. Not a single dollar at any time in our State. On the contrary, the money issued by the Citizens' Bank of Louisiana, which was the principal bank of issue, was considered by many of the people of Louisiana to have been even better than other money of the time issued by the National Government, and was the class of money more generally hoarded. Some of it turned up after the war.

The CHAIRMAN. Where are your bonds of the city of New Orleans and of the State of Louisiana held at this time? Are they held in your State or in the East?

Mr. BLANCHARD. About the details of those matters I am not posted. I think that a large part of the bonded indebtedness of our State and the city of New Orleans, aggregating about \$28,000,000, is held in the city of New Orleans. Some are held in New York, and perhaps elsewhere. We have no fear that if we get back the State banking system, which would enable us to use those bonds and deposit them to secure our currency notes, the bonds, wherever they may be, will not be used for that purpose.

The CHAIRMAN. They would be appreciated in value?

Mr. BLANCHARD. Yes, sir; they would at once go to par and above par. But I do not speak for the holders of these bonds. I do not know a man who holds one.

Mr. HALL (to the chairman): Did not Col. Oates, of Alabama, in his address in speaking of the bonded indebtedness of Alabama say that there were \$24,000,000 of State bonds, and that \$20,000,000 were held in the State of Alabama?

The CHAIRMAN. I think so. (To Mr. Blanchard.) Your object in the rehabilitation of the State banks is to secure a larger amount of paper money?

Mr. BLANCHARD. Yes, sir; to have our source of money supply at home instead of elsewhere.

The CHAIRMAN. It does not make any difference where it is if it is available in your State.

Mr. BLANCHARD: If it is domiciled in our State, when it goes away it will return.

The CHAIRMAN. If you undertake to establish a State banking system, you would first have to secure bonds of the State of Louisiana or of the city of New Orleans as a basis for your circulation?

Mr. BLANCHARD. Yes, sir.

The CHAIRMAN. If you buy the bonds with which to start in the banking business, you must put up your own currency, and then issue

90 per cent of the market value of the bonds (which are above par) in notes?

Mr. BLANCHARD. Yes, sir.

The CHAIRMAN. Under the laws of Louisiana, how much do you think you would have as a fund for redemption?

Mr. BLANCHARD. The national-bank law requires about one-third, according to my recollection.

Mr. WARNER. It requires about 25 per cent for redemption.

Mr. BLANCHARD. You may be right.

The CHAIRMAN. If you were to start a bank, and were to go and buy bonds, when you got ready to loan money you would have 25 per cent less money than before?

Mr. BLANCHARD. Well?

The CHAIRMAN. Supposing you as an individual must buy these bonds, and, if so, must you not put up 25 per cent of the market price for the bonds, and then hold 15 per cent as reserve, which would leave you 25 per cent less money with which to do banking than you had at first? You have tied up 25 per cent of your money in organizing.

Mr. BLANCHARD. That which is tied up is, I take it, merely the reserve such as every bank maintains. Anyone going into the banking business must maintain this reserve.

The CHAIRMAN. If you do not want to buy bonds or start a bank, and owned bonds of the city of New Orleans, or the State of Louisiana, can you not take those bonds to any money center of the United States, for instance New York, and get United States currency within 5 per cent of the market value, and could you not take that currency home and use it among your own people?

Mr. BLANCHARD. We have been trying that very system for many years but the result is that with our population in Louisiana almost twice what it was in 1860 the showing of our banks in 1890 as compared with 1860 is a bad one. Furthermore—

Mr. WARNER. Would it not be fairer to say, as compared with the national-bank system, that under the operation suggested by the chairman, to start with, if you bought Louisiana bonds, and got them in Louisiana, you would be putting in circulation 100 per cent, and then getting 75 per cent of circulation, and you would have, instead of 75 per cent, 175 per cent.

Mr. BLANCHARD. That was the answer I was going on to make to the chairman's question. I had not quite finished when you took it up.

Mr. HALL. As to that question of the chairman's, he said he could take the State of Louisiana bonds and get currency, and I want to know if in the last sixty or ninety days you could take United States bonds into New York and get currency?

Mr. BLANCHARD. From the newspaper reports which I have read I should think not.

Mr. COX. How would you go about organizing State banks? You do it by taking the money and buying State bonds. Do you not do the same thing when you establish a national bank?

Mr. BLANCHARD. Certainly.

Mr. COX. What proportion of United States bonds are owned in the South; it is not generally thought to be less than 10 per cent?

Mr. BLANCHARD. There is a very small proportion.

The CHAIRMAN. You drew a comparison for the purpose of laying the business troubles of the people of the South to the monetary system at this time.

Mr. BLANCHARD. In large part.

The CHAIRMAN. Can you not account for the condition in your State by other causes than that of an insufficient volume of currency; for instance, along the Mississippi River, from Cairo to New Orleans, which is the cotton belt, are running railroads which discharge their freight at steamship landings; and is it not a fact that this cotton, which formerly went down the river to New Orleans, now is loaded and goes directly over the railroads and over steamship lines and never goes to your city?

Mr. BLANCHARD. As I heretofore said, to this fact is to be attributed some portion of the trouble; but, as I said further, I do not believe it would amount to 10 per cent of it. Perhaps the chairman is not aware that with regard to cotton receipts New Orleans receives annually many more bales at this time than she did in 1860 or any time prior to 1860.

Mr. COX. The business of your city is more?

Mr. BLANCHARD. Yes, sir; the aggregate business in New Orleans is larger, but the bank showing was \$13,500,000 less in 1890 than it was in 1860. Since 1860 we have had the present system of currency. Prior to 1860, for years, we had the other system—State banks of issue. A further answer to the question in reference to railroads taking away the cotton business of the city is, while it is true that almost every town of importance has its compress, and the cotton is compressed and shipped from such points by through bills of lading to the New England spinners or to Liverpool, you must remember that prior to 1860, or at that time, we were not receiving at New Orleans any wheat for shipment abroad; whereas, since the completion of the Eads jetties, deepening the South Pass of the Mississippi River and admitting vessels of the deepest draft, New Orleans has a very considerable wheat shipping trade, and when this is taken into consideration, it makes up in part if not in whole this diversion of a portion of the trade in cotton.

Mr. JOHNSON, of Ohio. Do you not think it is true that a part of this can be accounted for by the fact that before 1860 you had in your State probably the best banking system in the United States, certainly the best in the South, and that your banking business represented every Southern State; I know that as a family tradition your money was the best money in Kentucky that came from any part of the South?

Mr. BLANCHARD. It went all over the United States.

Mr. JOHNSON, of Ohio. Does not that account for it; the national banking system being distributed all over the country you have no longer a monopoly of the best banking system?

Mr. BLANCHARD. But, prior to the war, there was in Mobile, Ala., a good banking system, in close proximity to New Orleans. It did its share of the banking business of the Southwest. Again, at that time, what is now the great empire State of Texas was almost a frontier, and did not need much banking.

Mr. WARNER. As a matter of fact, did not that State have a constitutional inhibition against the State banks?

Mr. BLANCHARD. I believe so.

Mr. HALL. A constitutional provision that nothing but gold and silver should be used.

Mr. BLANCHARD. We know that under the operation of the present system New York is the financial Rome to which all roads lead. That is not a good condition of affairs for us in the far Southwest. We have found this out to our cost. I do not believe that the good people of any section of this country want to see the people of any other section driven to the wall in a business way. That is what is being done for

us in the South. It has been going on for twenty years, and is going from bad to worse. Just as long as the National Government has a monopoly of the issuance of the currency of the country, just so long will New York be the money center in the sense that every considerable moneyed arrangement that bankers, merchants, and capitalists make will be made there. This is not a healthy condition for us. We want our source of money supply at home, and there is no way on earth of having it, except to give us a chance to utilize our State and municipal bonded indebtedness as basis for the issuance of money by State banking institutions. If you give us that, our country will again become prosperous. There will be more money at low rates of interest; there will be enterprises established; and there will be a market for our lands. Until we attain to a condition of rising prices in the South and West, the lines of life with us are going to become harder and harder each year.

Mr. HAUGEN. What amount of wheat goes to New Orleans now?

Mr. BLANCHARD. I have not the figures.

Mr. COBB, of Missouri. That is our natural route. We always ship that way if we can get transportation, but frequently we can not.

Mr. BLANCHARD. I will say to my friend from Missouri that when the Mississippi River is at good boating stage the rates of transportation to the sea by way of New Orleans, and to Europe, or any point abroad, are very much less per bushel on wheat, and the same thing is true of corn, than it is to the Atlantic seaboard and to points abroad from Atlantic ports.

Mr. COBB, of Missouri. It is 5 or 6 cents cheaper. I have been in the business myself.

Mr. BLANCHARD. That is a fact which points with certainty to an increase of the business of shipment of wheat to foreign countries by way of New Orleans.

Mr. COX. Have you any figures to show the trade of New Orleans in lumber between 1860 and 1890?

Mr. BLANCHARD. I have not the figures; but the increase in the line of business is enormous. Indeed, the lumber business of the city has all developed since 1860. We have in Louisiana and adjoining States the finest body of pine-timber land to be found in the United States east of the Sierra Nevada Mountains. We have in Louisiana the finest body of long-leaf pine timber to be found in any State of the Union. It is a wonderful field for development. The end of the lumber industry of the Northwest—Wisconsin, Michigan, and Minnesota—is in sight. I was in that region in 1891 and they told me, upon inquiry, that their timber would all be gone in ten years. I was told that the best timber land, even then, was worth as much as \$50 per acre for the timber alone. The mill owners of that section are hedging against the disappearance of timber in the Northwest and have made large investments in timber lands in the South. They have acquired large tracts in my own State and Congressional district. One member of Congress from Michigan, with his associates, owns several hundred thousand acres of pine-timber land in the district in Louisiana represented by me. The lumber industry with us is yet in its infancy. Before the war our timber business was scarcely anything.

Mr. WARNER. May I ask you what is the date of the newspaper clipping which you have read?

Mr. BLANCHARD. It is taken from the Louisiana Review of December, 1890.

Mr. WARNER. Is that a regular New Orleans paper?

Mr. BLANCHARD. Yes, sir; a weekly paper published there for years.

*DO WE WANT MONEY OR EXCHANGE?***STATEMENT OF MR. THOMAS G. SHEARMAN, OF NEW YORK.**

The chairman stated that Mr. Thomas G. Shearman, of New York, being present, the chair of his own motion would ask the unanimous consent of the committee to receive the oral statement of Mr. Shearman on the subject of some proposed amendments to the banking laws, concerning which Mr. Shearman had expressed an opinion to some of the committee privately. Unanimous consent being given, Mr. Shearman said:

Mr. Chairman and gentlemen of the Committee, as the chairman has already stated to you, it was not by any suggestion of my own that I address you upon this occasion, although I am very grateful to the chairman for his kindness in making the proposition, and to you for your courtesy in acceding to it.

It is the right of the people to complain. It is the business of the statesman to devise remedies. It is no more reasonable to demand of the people that they shall define the correct remedies for their troubles than it would be for a physician to demand of his patients that they shall dictate his prescriptions. Every real statesman is a physician; and a professed statesman who waits for his constituents to tell him precisely what remedies he shall apply to social ills is no better than a quack.

Somewhat of the same criticism applies to all who undertake to lead and form public opinion or who sit in judgment upon a popular demand. Nothing is more absurdly unjust or inappropriate than the haughty demand, frequently made by critics of a popular movement, that those who complain of anything alleged to be wrong in society or government should themselves frame a bill for its correction. This is not the duty of the injured classes, nor is it possible for them to do it, or safe for society that they should attempt it. On the contrary, few things are more dangerous to the whole community than to commit the work of legislative reform to the hands of those who most urgently need it. It should always be placed in the charge of calm and, as nearly as possible, disinterested though sympathetic experts.

Before this stage is reached, however, it being one more of detail than of principle, men who have been trained to the study of principles should study the case, and determine the real nature of the evil complained of, and ascertain, in general terms, the remedy which ought to be applied. They should not, at first, embarrass themselves by attempting to follow this remedy into all its minute details. It is quite enough to look into the details sufficiently to be sure that the remedy will be effective, leaving the rest to be done by experts in such details.

Let us apply these plain principles to the immensely important questions of currency and banking, which have at last forced themselves upon the attention of the American people, and which can no longer be evaded or postponed.

**THE DEMAND FOR MONEY.**

For more than a quarter of a century there has been a constantly recurring demand from vast numbers of the people for "more money." Sometimes it has been for the issue of greenbacks, sometimes for fiat money, sometimes for unlimited silver. In substance, it is always the

same; and no sooner is it defeated in one form than it revives in another. It has been resisted by denunciation, by sarcasm, and by solid argument; yet it has survived them all, and has extorted from timid politicians three separate compromises, each tending to bring about the disaster which has finally befallen the country from a debased and doubted currency.

A popular demand, so widespread and persistent, is not the mere insanity or fraud which many advocates of a sound currency imagine it to be. Neither fraud nor insanity can maintain itself so long. There must be, there is, some real and legitimate want lying underneath anything showing so much vitality. What is it?

#### WHAT DO THE PEOPLE NEED?

We may rest assured that what the people really need is not precisely that which they think they need. It is as improbable that they should see, at the first glance, the true remedy for the troubles which they feel, as it is that a sick child should call for quinine or aconite, just when it ought to be administered. We should pay the closest attention to the people's complaints, but very little to the people's prescriptions.

It is perfectly easy to understand these complaints and to see what is the real defect in our financial system, which gives rise to these complaints. Leaving out of account a few eccentric theorists in the cities, the complaints come exclusively from rural districts, and mainly from the South and Southwest. Do the farmers and planters really want money for its own sake? Not at all. They want it solely as a means of exchange, and as the only means of exchange with which they are acquainted. They have no conception of any other method of selling their crops than in one of two ways: First, by selling for "cash," by which they understand nothing but coin or bills; second, by trading their produce on credit at some country store. The vast majority are compelled to use the latter method, and to be content with a credit entered upon the store books, and settled by the gradual delivery of store goods, at prices nominally agreed upon, but practically dictated by a combination of petty storekeepers. Of course, all such traffic is conducted at a great disadvantage to the farmer, who inevitably asks for credit at the store, and is thus obliged to accept goods at the merchant's prices, and to make payment in his own produce, at the merchant's estimate. There may be some chaffering; but in the end the farmer is forced to accept the best terms which he can get from one man for that year. His only remedy, if he thinks himself unfairly treated, is to trade with another store the next year. A forehanded farmer, who can do without credit, sells his produce for cash—real cash. He goes home with a thick wad of bank notes or greenbacks in his coat pocket. But even he finds that the universal demand for such money occurring at the same time produces a stringency, which depresses the price of his produce. He, therefore, would like to see "more money." It is needless to say that the other class of producers, who form a vast majority of the whole, are fully convinced that they would obtain far better prices for what they sell, and would pay much lower prices for what they buy, if they could be supplied with money, as a medium of exchange, instead of depending upon store trading. The cry for relief, from the entire agricultural class, is thus practically unanimous; and, in substance, though not in form, it is well founded. Yet what is it that they actually want? Not money, but the best medium of exchange.

Contrast the situation of these classes with that of business men in cities and large towns. "Cash" in the town, means something entirely different from "cash" in the country. No wholesale dealer thinks of either paying or receiving any large amount in coin or paper money. "Cash," to his mind means a bank check. So thoroughly accustomed is he to this method that it hardly occurs to him that there is any difference between the two methods; and yet the difference is really tremendous. He gets every conceivable advantage attending cash transactions, without inconveniencing anybody or putting any strain upon the finances of the country. The wish of the farmer and planter can not be literally complied with, except at the cost of a general financial convulsion. Indeed, it can not be complied with at all. If we could draw every ounce of gold and silver from every country under heaven, and distribute it only among the farmers and planters of this country at harvest time it would not suffice to carry through their transactions upon a strictly "cash" basis.

Shall we, then, issue fiat money for the same purpose? It is only just to the Farmers' Alliances to say that their brightest men have fully recognized the fact that a permanent issue of so much nominal money would utterly destroy its value, and therefore that the remedy would be worse than the disease. It is precisely for this reason that they advocate the "subtreasury" system, under which about 7,000,000,000 in paper are to be issued in September and rapidly called in after October. But we need spend no time in demonstrating that this plan would lead to precisely the same ruin which it is designed to avoid.

Once more we ask: "What does the farmer really want?" And once more we answer: "Not money, but the best means of exchange." And what are the best means of exchange? Clearly, sound, safe banks of deposit brought as close to his door as the country store or warehouse, which now furnishes to him an insufficient and expensive medium of exchange.

#### WHAT IS A BANK?

What is a bank? The conception which prevailed almost universally throughout the United States until a very recent period was that a bank meant neither more nor less than a note-manufacturing machine. Its great office was to turn out as many bank notes as possible for use as money passing from hand to hand, and all other services which it might render were considered as mere incidents of this. The widespread ruin which was wrought by these note-manufacturing banks in the West and South gave rise to a well-founded dislike of such banks and to an ill-founded prejudice against banks generally. This prejudice was intensified in many sections of our country by the practical working of the national-banking law, which was used for several years chiefly as a note-issuing machine. Although these notes were all punctually redeemed, yet their issue gave to the banks a very large and unjustifiable profit, and the number of such banks being for years strictly limited, they possessed a monopoly. The monopoly has entirely passed away, and the profits on note circulation have been reduced to an extremely small figure, but the prejudice remains nevertheless.

A genuine bank, however, is not a note-issuing machine at all. Its business can be connected with issues of bank notes; but a true banking business consists in receiving deposits, paying checks, and making discounts. Of such banks, provided they are well conducted, there



can not be too many. The true nature of such banks was, so far as the writer is aware, first fully explained by Prof. Bonamy Price, in his lectures on currency and banking, published in 1869. The next correct statement of the nature of a bank, and the first which was given by an American author, is contained in an essay written by Mr. Edward Atkinson, and published in 1880. The proper office of a bank is to furnish, without the use of money, facilities by which goods of all kinds may be exchanged between the most distant parts of the country. Not merely is it not true that a bank is a mere institution for dealing in money; it is, on the contrary, true that a bank conducted upon sound principles has for its object the reduction of the use of money to the lowest possible point. It is no more the proper business of a real bank to supply money or to extend the use of money than it is the business of a steam engine to run its governor, or of a watch to run its balance wheel. The coin held by a genuine bank is kept as a balance wheel; or, to adopt another figure, it is the ballast in a ship, indispensable to steady the ship, but the last thing in the world for the sake of which a ship is built or sailed.

#### TO WHAT EXTENT IS MONEY NECESSARY?

By the use of bank checks, money can be dispensed with to an enormous extent. All wholesale dealers understand this, and carry on their business almost exclusively by means of checks. It is universally admitted that much more than 90 per cent of all wholesale transactions are conducted in this manner. From this fact, the inference has been drawn that 90 per cent of the entire business of the country is thus conducted without the use of actual money. But this is vehemently denied, not only by the representatives of farmers and planters, but also by some scientific men, of whom Prof. F. A. Walker may be taken as a type. In a paper, recently read by him before the American Economic Association, he asserts that substantially all retail transactions are conducted by the use of literal money, and that these constitute a more important share of real traffick than wholesale transactions do.

It is said that the conduct of business, without the actual use of money, is confined to the cities and larger towns, while in the smaller towns and in all villages and rural districts all purchases are and must always be paid for in literal money. In confirmation of this view, it is correctly pointed out that few villages or small towns have banks of any kind whatever, and that a vast majority of the people have no dealings with banks, other than savings banks.

#### FARMERS' BANKING METHODS.

What are the facts? Speaking with great deference to the judgment of others, and subject to all correction, but, as the result of much inquiry and impartial investigation, it seems to the writer an almost indisputable fact that the bulk of transactions in the rural districts, especially in the South and Southwest, are carried on with even less use of money than is usual in the great cities of the North and East.

In the cities and large towns it is quite true that most retail transactions are settled by the use of actual money, but in strictly agricultural districts and mining regions, which together cover nine-tenths of the area of the United States, it seems to be universally conceded that very few transactions of any kind, whether wholesale or retail, are settled by immediate cash payments. Everybody keeps an account at

the country store, and everything is done upon credit. Generally speaking, a farmer or planter opens a credit at the nearest store, upon the faith of which he draws, not money, but plows, tools, seed, provisions, clothing, and everything else which he needs. Against this he deposits no money, but when his crop is gathered he delivers the crop itself to the storekeeper, or sells it to some traveling agent who pays its price to the storekeeper. In this manner, it is believed, nine-tenths of the small farmers conduct their business; and their retail transactions, quite as much as their wholesale ones, are conducted upon book accounts without the use of money. Even farm laborers, it is said, receive by far the greater part of their wages in the same way. The farmer advances to them the things which they want, which he in turn obtains from the storekeeper; or else he guarantees an account which the laborer keeps at the store. In one way or another the entire business of the agricultural districts, we are assured, centers in the country stores, and is conducted with less literal money than the business of cities and towns.

That this must be so would seem to follow inevitably from the well-known fact that the great bulk of money is always to be found in the cities and towns, and from the never-ending complaints of the lack of money in all agricultural districts. Farmers would not complain so bitterly of the absence of money if there was in circulation among them an amount at all corresponding with that which is in circulation in the cities. The proof seems conclusive that in reality a smaller proportion of business is done upon a cash basis in the country than in the cities.

If the facts are as here stated, does it not follow that nine-tenths of all our commercial transactions, whether in city or country, are conducted through banking operations? Are not the small farmers of the South and West actually more dependent upon bankers than are even the merchants of the East? True, the storekeepers of the rural districts are not called bankers, but names do not change the nature of things. Their business is as truly a banking business as is that of any national bank on Wall street. But their methods are clumsy and inconvenient, and their charges are enormous. They maintain a permanent suspension of specie payment, and properly enough, because they never receive actual money on deposit, and therefore never ought to be asked for it. They unite the business of banking with the business of merchandising, and they do not perform either function well or cheaply.

#### THE COST OF FARMERS' BANKING.

Inquiry among gentlemen familiar with such matters in the South leads to the conclusion that the charge of the country storekeeper for the banking accommodation which he thus furnishes is never less than 15 per cent, in addition to the ordinary rate of profit upon his goods. Indeed, every resident of southern agricultural districts puts the figure much higher. Let us, however, leave it at this low rate. Does it not follow that the Southern and Western farmers lose at the very least 15 per cent of their whole earnings, simply for want of good, sound banks in their midst, doing a strict banking business, and thus enabling the farmers to buy and sell for cash, wherever they can do so to the best advantage?

Incidentally it may be noted that these facts explain the general clamor against middlemen, which is so common in the West. The

middlemen, with whom farmers directly deal, make an enormous nominal profit on each transaction, and the farmers naturally suppose that the much more wealthy middlemen of the Eastern cities do likewise. As a matter of fact we know that this is not at all the case, and that Eastern merchants make far larger aggregate profits out of a commission of from 2 to 5 per cent than any country storekeeper can ever make out of commissions of 15, 25, or 30 per cent. The small Western middleman has to take such large risks and to conduct business on such an unsafe basis that he is naturally not so well off in the end as he would be under a system of small profits, quick returns, and absolute security. The whole system is vicious, expensive, and disastrous alike to the farmers and to the storekeepers.

#### THE TRUE REMEDY.

Do not these facts at once account for the farmers' complaints and indicate the true remedy? Is not the only real relief to be found in the extension to every town and village in the land of safe and sound banking agencies, with which farmers can do business on precisely the same terms as New York merchants? Every farmer should learn to use bank checks instead of bank notes, precisely as the city merchant or the village manufacturer does. These checks should pass through central clearing houses precisely as they do in New York, Boston, and Philadelphia. The use of actual money, whether in coin or paper, should be reduced to as narrow limits in the country as in the cities. The Western and Southern farmers and planters should be made to understand that their prejudices against banks are founded upon an entire misconception of the office and purpose of banks, and that, so far from seeking to reduce the number of banks, they should insist upon an enormous extension of genuine banking facilities as more valuable to them than all the "money" of all the world.

Nor is it only farmers who need to learn this lesson. Even city dwellers have not made one-fourth of the use of banks which ought to be made and speedily must be made. All payments of \$5 and over ought to be made in checks. Every man able to keep \$50 ahead of the world ought to keep a bank account. If he is married he ought to open an account in his wife's name and let her pay for her purchases in her own checks. The banks do not enjoy such business; many of the best banks refuse it; but they must accept and encourage it as a duty to their country and the best ultimate protection for themselves.

These opinions, although now first published, were privately expressed, long ago to some of our leading statesmen. Since that time the irresistible forces of natural law have not only illustrated and confirmed them, but have driven many banks and business men into acting upon them. The payment of wages and other debts in small certified checks is precisely what the writer urged upon both statesmen and bankers before the panic of 1893, not as a mere temporary expedient under panic, but as a permanent relief to our overstrained currency. It should not merely be adopted during a period of pressure and stringency; it should be made as nearly universal and perpetual as possible.

#### COIN GOING OUT—BANKS COMING IN.

Nature is driving us forward to this policy, not merely by the brief stringency of 1893, but by the whole recent course of money. The failure of bimetallism is not produced by artificial causes or combina-

tions. The substitution of gold for a mixed currency is a mighty advance of that oceanic tide which is compelling us, whether we will or no, to adopt the modern methods of advanced civilization, of which the use of banks, instead of coin or notes, is one of the most important and beneficial. If bimetallism were possible, and if we could keep in circulation, side by side, all the gold and silver which America can produce, allowing none of it to flow abroad, we should be just as far from giving relief to our farmers and planters as we are now. We are putting upon precious metals two inconsistent tasks—the maintenance of a standard and the furnishing of an adequate medium of exchange. Whether we want to do so or not we shall be absolutely driven to give up this hopeless struggle against an evolutionary force as resistless as the flow of the Amazon. Gold will, in a very short time, be kept in bank vaults as a standard and security only. Indeed, that has practically come to pass already. But the only coin or notes in circulation should be of small denominations, subsidiary to checks, and never used for any payment exceeding, at the utmost, \$10. Certified checks must and will be made as familiar to all the people as bank notes. They must be accepted for railroad and steamboat fares, for store purchases, and for all purposes, except where the most trifling sums are involved. Then, with this system brought home to the door of every farmer, at least as near as a telegraph station, the currency problem will be solved forever. The demand for gold will be reduced to a level with the supply, and whatever effect that demand may have upon prices of merchandise will be counteracted.

#### NO INFLATION IN BANK CHECKS.

Here we turn aside to meet an anticipated objection which may proceed from one holding the soundest general views upon currency. It will be said, "What is the difference between the issue of bank checks and bank notes, if checks are to be used on such a large scale and for small payments? Will not such a use of checks drive gold out of the country and lead eventually to a suspension of specie payments as effectually as would a similar issue of bank notes?"

No, it would not. The vice of the note system is that notes are intended to remain in circulation for a long time, and would not be issued if it were believed that they would have to be redeemed the next day, and therefore they are either issued in such small quantities as to be insufficient for all the needs of exchange, or else in such large quantities as to lead to a practical suspension of specie payments, to inflate prices, drive out gold, and bring about all the ruin which sooner or later invariably follows an irredeemable currency. Bank checks, on the contrary, are not only theoretically redeemable promptly, but must be, in point of law, and are, in point of fact, presented and redeemed without more than twenty-four hours' unnecessary delay. The holder of a bank check is bound to put it in course of collection forthwith, under penalty of losing all claim against the person who gave it to him in case the bank should fail, and of losing all claim against the bank in case the signer of the check should draw his funds out of the bank or should countermand the check itself. Ninety-nine per cent of all checks, therefore, are presented to the bank for redemption within two days after they are received by the payee. So long as this continues to be the law and practice any inflation of the currency by means of checks is impossible. Of course this wholesome law must not be relaxed. Certified checks would remain good against the bank, but, if not presented

for actual payment, the drawer would be released if the bank failed. Such checks would, therefore, keep in circulation just long enough to suit the convenience of people living in solitary hamlets or isolated farms; but experience proves that they would not remain out many days. They could never be used to such an extent or kept floating for so long a time as to produce, like bank notes, any dangerous inflation of the currency.

The danger of forgery has been suggested, but the banks would simply have to prepare their own engraved checks, numbered upon a system of their own, instead of leaving each customer to prepare and number his own checks. The British banks do this already, and the advantages of the system are obvious. Certification would be made by a finely engraved stamp, forgery of which would be as expensive as the forgery of a bank note. Our banks ought to do all this now, without waiting to be driven to it by further pressure.

#### WHY REMEDY NOT ADOPTED.

If, then, this universal use of banks is the proper solution of the currency question, why is it not at once adopted? Partly for want of affirmative good legislation, but still more because of bad legislation maintained by ignorance of economic laws. As the success of the whole plan depends upon making banks of deposit perfectly secure, provision should be made for more thorough inspection and greater publicity of bank management. Is it impossible to devise some method by which bank deposits shall be made as safe as national-bank notes? When this is done the people will accept certified checks all over the country with as much confidence as they now accept bank notes. We need not, however, wait for this, because the credit given to a check is at most a matter of a few days.

#### TAXATION DESTROYS BANKS.

Far more serious is the question of taxation. So long as the mania for taxing all personal property is allowed to control it will be impossible to maintain a sufficient number of sound and safe banks in the rural districts. With money worth only 4 per cent on perfectly safe securities small country banks can not pay taxes of any kind without investing in securities which pay a higher rate of interest, and which, therefore, are not perfectly safe. Is not the very climax of absurdity reached when farmers' alliances demand, in one breath, the loan of money to them at 2 per cent and the taxation of the same money at 2½ per cent? But it is only a little less absurd to tax any necessary medium of exchange, whether money or banks. The profit upon a simple deposit and discount business is so small, and the expenses of a little country bank so heavy in proportion to such profits, that such a bank, if prudently conducted, can not live under taxation. It is true that multitudes of small "banking concerns" do exist in places where they are taxed upon capital and even on cash on hand; but few of them are prudently conducted and all of them are ingenious in evading taxation.

Unfortunately the constitutions of so many States insist upon the taxation of all kinds of property that it would be hopeless to attempt a solution of the problem through the action of separate States. Congress can be convinced of the necessities of the situation with one-tenth of the effort required to convince the legislatures of forty-four different

States. If Congress can not be persuaded no legislature can be, and the country must be left to flounder in hopeless embarrassment and perpetual conflict. The only possible solution of the great currency question must be found in the wide extension of small national banks or branches of such banks authorized by Congress and exempted by it from all taxation.

#### BRANCH BANKS MORE DESIRABLE.

While many of the advantages here contemplated might be secured by a great multiplication of small national banks, the whole system would be vastly more sound and safe by permitting large banks to establish branches within their respective States. Little, isolated banks are relatively too expensive in administration to be quite safe; and they have none of the advantages which flow from knowledge of the intended movements of the larger institutions, the policy of which must necessarily have an immense influence upon them. Each little branch would have all the benefit of the wide knowledge of affairs possessed by the central bank; its credit would always be as good as that of the parent institution; its management would be subject to supervision and wise control; its affairs would be constantly inspected by someone outside of its direct management yet entirely friendly and anxious for its success; and its capital, usually small, could be increased to almost any extent, at an hour's notice, by calling upon the head office. Such branch banks, therefore, would command that local confidence which is essential to success in far greater measure than could a purely local bank, since they would have all the merits of such local banks with the added credit attaching to the central bank. In short, the farmers and small dealers of every village, under such a system, could have all the facilities and all the security now given to the richest merchants in the largest cities.

#### THE REMEDY ADEQUATE.

The practicability and sufficiency of the remedy here proposed has been amply demonstrated by experience. Scotland has only 12 banks, with over 2,000 branches, extending to every village and receiving deposits from the poor as well as from all other classes, just as our savings banks do. The results give universal satisfaction. There is no currency question in Scotland. There have been only three or four bank failures in a century, and all the creditors in each case were paid in full. Every Scotchman is proud of his country's banks, and attributes to them much of his country's prosperity. The amount of bank notes in circulation is small, and is not allowed to increase, but the smallest producer sells his produce for cash, at the highest market price, payable in bank checks, and buys what he needs at the lowest market price payable in the same way.

The same thing is done in many parts of the United States, and wherever this is the case nobody outside of the silver-mining States ever took much interest in the controversy over bimetalism until it was forced upon their attention by impending disaster. The wide extension of a similar banking system is the one thing indispensable for those sections of our country in which the want of currency is a subject of complaint. Is not this a sufficient remedy? Has any other practicable remedy ever been proposed? Can any other adequate remedy be proposed?

The following conversation took place between members of the committee and Mr. Shearman:

Mr. HALL. Do you believe that the system of taxing out of existence any institutions by the Government is a wise provision of law?

Mr. SHEARMAN. I do not.

Mr. HALL. Do you think that to destroy a banking system by taxation is a wise provision of law?

Mr. SHEARMAN. No, sir; I do not.

Mr. HALL. Do you not believe that, if the tax upon State bank circulating notes were repealed there would be an increased number of banks in the States?

Mr. SHEARMAN. It would tend to increase the number of note-manufacturing institutions. Mere banks of deposit are not taxed by the Federal Government.

Mr. HALL. We have never had any trouble about what you are pleased to term "note-manufacturing institutions;" but we have had trouble with banks of discount.

Mr. SHEARMAN. I have seen great trouble caused by note-issuing banks. I was in business before the war, and I know that the State of Illinois, for example, was filled with such banks. For instance, the Bank of Hamilton, Ill., so far from being a bank of deposit and discount was nothing more than a blacksmith shop. We used to get such bank notes and send them to the places from which they were issued; and after a long hunt we would find a place where they issued and redeemed notes, but where there was absolutely no bank, in the proper sense. The people of Iowa were robbed, wholesale, by the circulation of notes of the Bank of Florence, in Nebraska, and similar "wild-cat" notes. I think that note-manufacturing institutions are not legitimate banks. They may be legitimate enough in their way, but that is not real banking business. What I plead for is banks of deposit and discount. The more banks of issue you have the worse off you are, because the tendency of banks of issue is to increase the dependence on mere money, which will never answer the purpose of exchange for our enormous modern business.

Mr. HALL. Have you in the State of New York the same system which we have in the West, with regard to returning the amount of money on hand for taxation?

Mr. SHEARMAN. Some people are trying to establish it, but they have always been defeated and always will be.

Mr. HALL. Is not a man in the State of New York required to pay taxes at present on the money he owns or has on deposit in a bank?

Mr. SHEARMAN. Theoretically, yes; practically, no.

Mr. HALL. When he avoids it he does it by giving an incorrect return?

Mr. SHEARMAN. He is not called upon to make any return. The assessor guesses at it, if he thinks at all about it.

Mr. WARNER. He swears it off.

Mr. SHEARMAN. It is seldom necessary to tell a lie in order to avoid taxation on money in New York, and men generally do not tell a lie about it. In New England and the West it is necessary to lie in order to escape taxation, and most men do it.

Mr. WARNER. What has been the experience under the national-bank act, which provides in the case of State banks having branches that those branches may be allowed to continue? I ask for information, as I am interested in the matter. Were there State banks with systems of branches incorporated in the national-bank system?

Mr. SHEARMAN. If there were any they did not keep the system up. The only State that I know to have had such a system was Indiana, and it seems to have been abandoned there.

Mr. WARNER. I was about to ask if the gentleman had any data as to the reason why it had been done before and why it has gone out of use?

Mr. SHEARMAN. I have no information as to that. I might mention the case of a large bank in the city of New York, the president of which told me that during the recent panic the large banks were carrying all the others. One of the worst things about the system was that the small uptown banks had to be carried by the larger banks downtown. These larger ones desired to establish branches uptown, which would have given safety to depositors, whereas the smaller ones did not give safety. But they found that it was absolutely impossible to do it.

Mr. WARNER. My question is as to what had been the experience in this country, and whether you could suggest anything which would be helpful to us.

Mr. SHEARMAN. I am quite sure that they have died out. The late Hugh McCulloch was president of one.

Mr. COBB, of Alabama. In your opinion, is it possible to get the benefits of your system under State laws; or do you confine it to the national-banking system?

Mr. SHEARMAN. I should be glad to have the States establish good banking systems if they will; and there is no reason why they should not, except that nearly all of them, by their absurd tax laws, make it impossible for honest men to conduct State banks with that degree of publicity which is indispensable to safe banking; and the task of persuading the people of thirty or forty States would be so difficult that it would be almost a hopeless undertaking. Therefore Congress must settle the whole question. The States should not be prohibited from doing it also if they will. You can hardly have too many genuine banks. I think that instead of there being 4,000 national banks, or 7,000 or 8,000 banks of all kinds, there ought to be, including branches, 40,000 or 50,000 banks in this country.

Mr. COBB, of Alabama. Would they all be banks of issue?

Mr. SHEARMAN. I would not have one bank of issue.

Mr. COBB, of Alabama. Where would you get currency?

Mr. SHEARMAN. You would never be short of currency.

Mr. COBB, of Alabama. I am asking for information: What would be your currency.

Mr. SHEARMAN. Gold and silver; chiefly silver. My opinion is that there can not be any reason why any farmer in this country should need more than \$5 or \$10 in actual currency at any one time. When not traveling I do not. I can not see why \$5 per capita outside of the banks is not enough money for all purposes. Certainly it would if people were once educated to the use of checks. Indeed, I think that \$10 to each family would suffice. There being about 13,000,000 families, that would be \$130,000,000. If we can establish the universal use of bank checks there will be no necessity for more, at the outside, than \$200,000,000 of currency in actual circulation.

Mr. COBB, of Alabama. Where would that come from?

Mr. SHEARMAN. It would be gold and silver. There are oceans of gold and silver for that purpose. I think it would be practically all silver. The banks would hold \$250,000,000 of gold in their vaults as security.



Mr. COBB, of Alabama. You would have a system of checks that could be used to take the place of paper currency?

Mr. SHEARMAN. Certainly, and when you travel you would travel with certified checks. The American Express Company already issues certified checks, which are accepted by hotels and by railroads; and with this system universally adopted every man would travel with checks instead of notes. They would not be kept out as floating currency as bank notes are. A check must be presented within a short time, and every check would settle itself and pass out of existence promptly. A check can not remain out as notes do. Checks rarely stay out for more than ten days.

Mr. COBB, of Alabama. Say I have 50 bales of cotton and want to sell them.

Mr. SHEARMAN. How do you sell them now?

Mr. COBB, of Alabama. I am from Alabama, and I want to sell them in Alabama. I want to sell them precisely as if I took them to New Orleans. Under your system, in what do I get paid for that cotton?

Mr. SHEARMAN. You would get a check on your home bank.

Mr. COBB, of Alabama. Suppose I wanted to sell the cotton in Tuskegee?

Mr. SHEARMAN. Exactly; you would receive a check on your own bank at Tuskegee.

Mr. COBB, of Alabama. What would I get from that bank?

Mr. SHEARMAN. You would get credit as a deposit, or the bank would credit you on its books for the amount, which you could draw out at any moment by check.

Mr. COBB, of Alabama. Suppose I wanted to come to Washington, would the bank give me a certified check for so many dollars?

Mr. SHEARMAN. Yes; you could get a check for \$5, \$10, \$50, or any other amount, and the railway office would take that in payment for your fare.

Mr. COBB, of Alabama. There is a class of persons, as you know, who would not be willing to receive anything except money, and would not accept credit in a bank. They want something which they can handle or put away.

Mr. SHEARMAN. I heard of a farmer who had put away \$18,000 in gold the other day. You do not want to legislate so as to encourage such lunacy. The people must be educated into sensible habits. I would like to ask you, do not the farmers now have to be content with credit at country stores?

Mr. COBB, of Alabama. Evidently.

Mr. SHEARMAN. And how much better it would be for them to have a credit at the agency of a good bank, with \$500,000 or \$1,000,000 of capital, under the supervision of the Comptroller of the Currency. That is what we have in the cities, and we do not want anything else. We will not be bothered with money in our pockets.

Mr. COBB, of Alabama. The misfortune with farmers generally is that they have too much credit. They begin the year by getting advances from merchants. In the fall a farmer pays the mortgage or obligation upon his advances, and the merchant gets 15 per cent commission or more in many cases. It is more than you have stated it.

Mr. SHEARMAN. I was trying to keep within the limit. Would it not be better for them to keep an account in bank?

Mr. COBB, of Alabama. Considering the selfishness of the banks, would not they want to make a profit off the farmer?

Mr. SHEARMAN. The competition is so tremendous that they would be glad to get a quarter of 1 per cent on such transactions.

Mr. COX. I am interested in what you say, and I would like you to explain this to me. A farmer goes to a country merchant and wants to sell his cotton. We understand the process in the South by which that is done, and the only objectionable thing about it is that they really charge more than you mention. They do so in a great many places. If you establish branches of banks you would undertake to do business with checks. Suppose Judge Cobb wants to come to Washington, you would give him a certified check, and he would use that as money. That check takes the place of the circulating medium. It circulates as money?

Mr. SHEARMAN. Yes, sir; but to a very limited extent. But the difference between a check and a note is very great. When a note gets out it floats and floats, and often it never gets back to the bank for months or years. Such notes inflate the currency. If a check were given out it would return to the bank within a very few days, and it could not inflate anything. If a check is not certified it is not binding on the bank, and unless it is promptly presented to the bank upon which it is drawn the maker is released, and, moreover, he may countermand the check. So prompt settlement is sure to be made in every case.

Mr. COBB, of Alabama. The value of that check depends upon the solvency of that bank?

Mr. SHEARMAN. So does the value of the note.

Mr. COBB, of Alabama. The only difference between the check and the bill is that the check only floats for a short length of time, while the bill floats a long time or any length of time?

Mr. SHEARMAN. Yes, sir; but that is a tremendous difference.

Mr. COBB, of Alabama. As to the money which is absolutely needed for smaller transactions, such things as are necessary for the household; would they be supplied by gold and silver in the form of change?

Mr. SHEARMAN. Yes, sir; so far as very small transactions go; but there would practically be no difficulty in supplying that demand. I think silver would fully suffice for that purpose. Gold would be kept in the banks. That is the case now east of the Rocky Mountains. There is practically no gold in actual circulation there. With regard to household affairs, the women are learning to make payment in checks. My wife has kept a bank account for all domestic transactions for many years, and many other women do so.

Mr. BLACK. What does a man do who has no money?

Mr. SHEARMAN. If a man has no wealth he has no credit, except what his reputation for honesty gives him. In Scotland they have a way of providing for such cases. If a man with no property can get several of his neighbors who own property to indorse for him he can get a credit in any bank. They will be men who are worth, say, \$5,000 each. If these men care to carry him, he gets his cash credit in the bank.

The CHAIRMAN. Do you propose any legislation by which this system can be carried into force, or is it a suggestion growing out of custom which could be resorted to?

Mr. SHEARMAN. I would suggest two points of legislation which are indispensable. First, permission to national banks to establish agencies, within their own States only, to a number not exceeding one branch for every \$10,000 in capital in excess of the first \$100,000. Thus, a bank which has a capital of \$500,000 might establish forty branches in

the same State—one for each \$10,000. Second, the capital of all banks used in establishing these smaller branches should be exempted from local taxation to that extent, if not altogether.

Mr. HALL. Would not that perpetuate the existence of national banks; they are going out now.

Mr. SHEARMAN. The banks as banks of issue are going out, but not the banks themselves. As banks of deposit they should be perpetuated and multiplied indefinitely.

Mr. HALL. The matter of issue is the only thing that goes out. As a bank of deposit and discount it goes ahead.

Mr. SHEARMAN. Precisely so. Banks in New York care little about issuing notes. Of those which do issue notes none keep out large amounts.

Mr. COBB, of Alabama. When the Government bonds become due we will have to find another basis for our national-bank system?

Mr. SHEARMAN. I am not talking about banks of issue. I care nothing about them. I see no occasion for any paper money of any kind.

Mr. COBB, of Alabama. Under the law now we can not establish national banks as mere banks of deposit and discount. They are compelled to deposit so many bonds in order to get currency, and when these bonds become due which they have deposited as a condition precedent to their existence what will be done?

Mr. SHEARMAN. I should think that State bonds would be just as good, if they are above par.

Mr. COBB, of Alabama. Would you want additional legislation?

Mr. SHEARMAN. We have not yet come to that point. It would not be needed now. It may be in a few years.

Mr. BLACK. If this sort of security made national banks good, would it not make State banks good?

Mr. SHEARMAN. I think so. But your States would tax good State banks to death. I am not at all interested in the question of issuing notes, whether by national banks or State banks. I am quite indifferent to that matter. I think in increasing the amount of money we are seeking relief in the wrong direction. I think the better plan is to lead all men into the use of deposits and discounts instead of depending upon what we call money.

Mr. COBB, of Alabama. Would you be willing to prepare a bill embodying your ideas?

Mr. SHEARMAN. I should be very glad to if I thought it would receive fair consideration. I never care, however, to use my time on something which is to go into the waste-paper basket. I should like the committee to consider it, but, of course, would not expect any positive assurance of my plan being adopted.

Mr. COBB, of Alabama. I am sure it would be considered by us, and if it were introduced into the House it would come to this committee.

Mr. SHEARMAN. If you will consider it I certainly will prepare such a measure.

Mr. COBB, of Alabama. It would certainly be considered.

Thereupon the committee rose, to meet to-morrow, Tuesday, October 17, 1893, at 10 a. m.

COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C., Tuesday, October 17, 1893.

The committee met at 10 a. m., Hon. William A. Springer in the chair. Hon. Thomas D. English, of New Jersey, addressed the committee in behalf of House bill 3759. He spoke as follows:

*REPEAL OF TAX ON STATE BANK CIRCULATION.*

**STATEMENT OF HON. THOMAS D. ENGLISH, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF NEW JERSEY.**

Mr. Chairman and Gentlemen of the Committee: In my judgment the great trouble that we have at the present time in the lack of confidence comes outside of the mere overspeculating and overtrading from the contraction of the currency by the national banks. From 1882 to 1892 we lost \$185,000,000 of circulation, and though that was partly supplied by the issuance of silver certificates under the Sherman law, still there was a deficit. It was an actual deficit by contraction and shrinkage year by year, which led finally to inquiry and then to alarm. The platform of one party (I forget now what the platform of the other was) advocated the repeal of the tax on State banks. An absolute unconditional repeal of that tax would, in my judgment, be unwise for several reasons. The national banks pay a tax of 1½ per cent on their circulation. There is no reason why State banks should not pay the same tax, as it is a matter of revenue, and for that reason in this bill (H. R. 3759) I have a rebate of 85 per cent. I do not think it is wise to allow a large amount of wild cat currency. I think you ought to prohibit it by taxing it in some other mode, charging the banks which might issue money without any basis whatever. Though I am not a national-bank man, I will say that a good feature of that law was drawn from my State in New Jersey. New York and other States followed the example of New Jersey. We had a State banking system by which bonds approved by the financial officers of the State were deposited as a basis for our notes.

When I was in the legislature I got a measure through. We generally adhered to the banking system of the State, and occasionally we passed a special charter for a bank. Occasionally a specially chartered bank failed and its notes were not worth the price of the paper on which they were printed; but there never was an instance in which a note was lost on account of the failure of our State banks under the general law. State banks sometimes failed but the circulation was always safe. This bill, which was hastily drawn (because I was sick and had to dictate it), holds a rod over the national banks and keeps them from shrinking the currency. I treat the national banks fairly. The State banks should pay the same tax, and should also secure the public against worthless currency. I do not know how it may strike the committee, but I think some such bill as that should be passed. The main underlying principles of it are sound, and I commend it to the committee. You can report it in that shape, or substitute other provisions embodying the principles, and let it go before the House.

**THE CHAIRMAN.** Why do you fix 85 per cent of the present tax?

**MR. ENGLISH.** Simply because 85 per cent leaves 1½ per cent tax, as it is now on the national banks. The national banks pay 1 per cent and one-half of 1 per cent. Deposits have nothing to do with that matter.

Mr. WAENER. May I ask whether the 10 per cent tax is not payable every time a note is paid out, and whether it might not be necessary?

Mr. ENGLISH. There is a 10 per cent tax on notes to prevent their being paid out. This bill entirely abolishes the tax on notes in circulation. I dictated it after drawing another bill and the phraseology, perhaps, could be improved, but the principle remains. There is another provision in the bill making the Comptroller of the Currency the absolute judge. That power has to be put somewhere, just as in the case of the rebate on whisky. There must be some officer to have jurisdiction of it. It would not be well to leave it to the State.

Thereupon the committee rose, to meet Friday, October 20, 1893, at 10 a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., Friday, October 20, 1893.*

The committee met at 10 a. m., Hon. William M. Springer in the chair. Hon. Henry G. Turner, of Georgia, addressed the committee as follows:

*REPEAL OF TAX ON STATE BANK CIRCULATION.*

**STATEMENT OF HON. HENRY G. TURNER, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF GEORGIA.**

Mr. CHAIRMAN: I have also an engagement this morning with the Committee on Ways and Means, which will consider a matter of some local interest in my State, and I shall therefore be brief in what I have to say here. I shall assume that the members of this committee are entirely familiar with this question. I take it for granted that the gentlemen before me have looked into this matter from the time of the first decision in the case of Bristoe and the Commonwealth of Kentucky, in which the Supreme Court affirmed the power of the State to authorize State banks to issue bills or notes, down to the Veazie case (which came up from the State of Maine) in which it was decided that Congress could tax indefinitely the circulation of such banks. Of course these cases are antipodal in their policy. They mark eras of opinion in this country. In one case the court concedes the power of the States to authorize State corporations to issue bills, and in the other it in effect declares that Congress can destroy the power by taxation.

Now, with the question of public policy which enters into that conflict of opinion, and the consequences to the country, I will not deal. I will come to the question as to whether the removal of the 10 per cent tax will flood the country with worthless currency. On that question there is a difference of opinion. I have been for many years in favor of the removal of this tax and of allowing the banks of the States to resume their old functions. It is said that "wildcat" currency grew up under that system of things, and undoubtedly there were banks of inferior character engaged in the business. But the people of the States have learned something by the experience of recent years; and I see no reason to think that we here in Congress have a monopoly of all the wisdom on the subject.

The experiments made under the present national banking system, which is an approximation, as I understand it, to the system of the Bank of England, has given so much satisfaction that I think the old

basis of banking is determined and obsolete. I do not believe that any State in the Union would undertake to issue bills on the basis of three to one of gold, as was the case in the old days. I do not think the public would sanction an arrangement of that sort; and I may state, as a matter of fact, that in the State of Georgia, where we had a healthful banking system on that basis, a recent effort to form a system in prospect of this repeal shows that the members of the general assembly of that State having charge of the movement are seeking to authorize the issue of bills by State banks upon State securities, deposited for the protection of their circulation. I think municipal bonds, if approved, could also be used as a foundation for bank issues. There can be no question about the security of the currency issued on such a basis.

I am glad to say that since this matter has been undergoing discussion in the East, we have found perhaps more encouragement from that section than from any other quarter. The men who manage business concerns where monetary congestion occurs, favor a concession to the country districts under which the latter can avail themselves of such means of credit as they have in their own midst, and enable them to have a circulation of their own.

I was, a few years ago, as my friend Mr. Warner remembers (and I believe the chairman of this committee was also there), at a meeting of a famous club in the city of New York where there was a good deal of discussion on the silver question, and being called out unexpectedly to myself I took occasion to say that where I lived it was not so much a question of silver or gold, as it was a question of anything we could get in the shape of money. I suggested to those gentlemen who control the monetary transactions of the country, that they could help us by aiding in the repeal of this prohibitory tax. There was a generous response by the gentlemen present. That sentiment has grown in the East. It has extended in the West, I hear. I want to state my firm conviction that, if you will take off this prohibition from the banking systems in the States, the resulting currency would be entirely acceptable and satisfactory. One reason for this opinion is, that we have the benefit of experience and of the lessons we have learned from the national banking system, and of the experiments and experience of the world in this field; and another reason is that in order to enable this local currency to circulate, we would have to compete with the very excellent currency now in circulation. In order to float these State-bank bills in business channels, it will be necessary that they shall be as acceptable as the existing currency.

Mr. HALL. I would ask you whether there would not be a healthy competition between the States to keep up their currency to par with any other State currency?

Mr. TURNER. Undoubtedly; and, as the question of the gentleman from Missouri leads in that direction, I will state further why this competition would operate to bring it down to the actual test of experience. When merchants and others undertake to make exchanges they would be compelled to have a currency which will not be at a discount when they go to remit to New York. In other words, they will be compelled to have a currency on which the cost of exchange will not be too great.

It was said by Senator Vance, in a report made to the Senate, that it would be no objection even if the State currency was a shade off, or a little below the other currency, as such discount would tend to keep these bills at home; but with great respect for him I venture to dis-

sent from that view. I think money ought to be good everywhere in the country.

I believe the system ought to have the confidence of the entire American people. I believe the States can devise a banking system as good as that of the United States. The basis of national banking now is narrowing to such an extent as to cause serious fear of contraction. It is doomed by the near approach of the maturity of their bonds. I have nothing further to say unless the committee desire to ask me some questions.

Mr. HALL. There is an apprehension on the question you last touched, that is, too great a volume of currency. I want to know if there can be too great a volume of perfectly sound currency which will injure business or trade in any way?

Mr. TURNER. I think not.

Mr. HALL. Not that I believe in \$50, \$75, or \$100 per capita circulation; but if the currency is good and there is more in circulation than is necessary for business purposes, would not the excess be retired and only that part be kept which is necessary to transact the business of the country?

Mr. TURNER. I think so.

Mr. WARNER. What would be the effect of the operations of the plan you propose for State bank currency upon the pressure upon Congress all the time from different parts of the country for more money, more currency, or more fiat money?

Mr. TURNER. I am firmly persuaded that it is of the highest importance for the country that Congress should take its hands off the monetary systems of the people. By restoring to the States their old functions in this field we can take currency questions out of politics, and when relieved of the pressure of this burden we can devote ourselves more fully to matters rightfully within our jurisdiction. Fiatism would no more affright the people when Congress assembles.

A good deal of complaint is made against what is called congestion of money in the East, and much of that complaint is aimed against the national banking system. But other causes have contributed to this result. The wealth of the East has accumulated from generation to generation; and it is not only the effect of inheritances, but it has grown because that section has prospered more than other sections. If you could revive prosperity throughout the country, that money would find its way out to the rural regions in some manner; but at the present time these rural districts are greatly depressed. They do not afford profitable employment for money, and it piles up idly where it belongs. This state of things is largely due to other causes than the national-bank system.

The CHAIRMAN. There are several bills pending here upon this subject, some of which provide for the naked repeal of the 10 per cent tax, leaving everything thereafter to the States, while others provide that the tax shall be taken off circulation of such State banks as will comply with the provisions of the act of Congress. One of those provisions is that States shall, in order to secure this exemption, have their banks adopt substantially the national banking system of the United States, and others that bonds shall be deposited for security, while still others limit that issue by the States to \$5 per capita. Is it your opinion that Congress, if it takes any action on the subject, should provide a naked repeal or a repeal with certain conditions, and, if with certain conditions, what conditions would you suggest?

Mr. TURNER. I had not quite finished what I had intended to say on

the point I was considering, but I will answer that in a moment. If the State banks could be reinstated with their ancient prerogative, I think this trouble about the accumulation of money at certain centers would in a measure be remedied, because after the active business seasons the bills would return to the banks which issued them, and would not be stored up in the banks of New York and Boston. They would try to find some use for the money. Their efforts to secure an income during the idle period would tend to fructify and fertilize the regions which are now so poor. It would have a tendency to correct present evils and to disseminate the currency of the country.

In answer to the question which the chairman has just propounded, I am myself of the opinion that there ought to be a clean, unconditional repeal. I think we can trust this to the States. The Supreme Court having affirmed the right of the States in that respect, I think Congress might afford to do the same thing. We might safely leave it to our constituents, who send us here to devise a safe and sound system under safeguards which would enable them to float their notes; but I want to say frankly that, rather than lose the bill, if there was no other alternative, I would submit to such supervision as would be consistent with the rights of the States. In other words, I prefer unconditional repeal; but if that can not be obtained, then I would be glad to have any sort of currency which would not imply too much distrust of the States. I am a believer in the entire safety of State institutions.

Mr. COX. I can not call to mind a single State which has any bonds out which are not now at par.

Mr. TURNER. Some States have bonds out which are a little less than par; but it is in cases where the rate of interest is so low that they do not pay in competition with bonds at higher rates. I can illustrate that by mentioning the bonds of my own State. We have bonds bearing  $3\frac{1}{2}$  per cent and others bearing 4 per cent. Those which bear 4 per cent interest are higher than those which bear the lower rate, and the market price is fixed according to their income. We have some  $3\frac{1}{2}$  per cent Georgia bonds which are quoted at 95, and the 4 per cents are quoted at 108 or 109.

Mr. COX. The State of Tennessee has 4 per cent bonds which are at a premium, and the 3 per cent bonds are not quite at par. If we put on a limitation, would it be wise to go farther and provide that these banks shall be founded and the circulation based upon State bonds? I know there is some difficulty in it. Some States have no bonds. Mississippi has none, and some other States have a small proportion. If it is alone confined to the bonds of the States, would not the circulation be just as good as the bonds of those States?

Mr. TURNER. I have no doubt of it.

Mr. COX. Do you think it would be wise for us to undertake to put any restriction, or to go any further than establishing a basis upon the circulation?

Mr. TURNER. I do not think I would be disposed to limit the basis to State bonds alone. I think that in the States there are municipal bonds of undoubted integrity. Most States have prohibitions against the excessive issuance of bonds by municipal corporations. It is so in Georgia, as is suggested by my colleague, Mr. Black. Our municipal bonds range up with the bonds of the State.

Mr. COX. Take State bonds as a basis of circulation, and municipal bonds which are equally good; but you will see those bonds are subject to legislation in each particular State. Now, if Congress undertook to establish a rule in regard to that, do you not think it would bring national authority in conflict at once with the authorities of the States?



Mr. TURNER. It depends entirely in what form we put those provisions. I do not favor any government supervision. I want to add one word in regard to the safety and value of bonds of municipal institutions, and that is that brokers and those who deal in them not only estimate the public faith which is pledged for their payment, but they consider also the judicial remedy by mandamus in case of default. If default is made they can go to the courts and enforce payment by taxation.

The CHAIRMAN. I see from the latest quotations of State bonds that Alabama, for instance, has a bonded debt of \$9,200,000, and the bonds bearing 4 per cent were worth par. Louisiana bonds at 4 per cent are worth 95½ at this time, The Georgia bonds running twenty-five years bearing 4 per cent are worth 107 to 109.

Mr. TURNER. I know that these bonds were quoted the other day at 110.

Mr. COX. You can not buy them at 107.

Mr. TURNER. Not now. They could have been bought at that rate a month ago.

The CHAIRMAN. The date of this article is the 14th of this month.

Mr. TURNER. These quotations have been made, no doubt, but they are only an approximation. I know brokers quoted some the other day in Savannah at 110.

The CHAIRMAN. What is the selling price in New York?

Mr. TURNER. It is 109 and a fraction.

Mr. WARNER. Would it not be a great advantage to local municipalities engaged in the most conservative public improvements which are now being made through the South and West if there could be such a home market afforded for their bonds, as the possibility of their use as a basis for currency would promote, and would it not reduce the amount of the interest charge of the people?

Mr. TURNER. It would undoubtedly, as was the experience with United States bonds, add to the value of these municipal securities, if they could be made a basis for banking. I confess that I want to avoid the possibility of municipal overissues; and wherever necessary undoubtedly those securities would have a better market, especially if they should have to refund.

Mr. WARNER. Would not there be an advantage in another way? Having bonds held at home as a basis of currency, their interest would be paid at home, and would remain there instead of being sent outside.

Mr. TURNER. Such would be the case also in the payment of the bonds. The money would be paid at home.

Mr. WARNER. It would keep both the bonds and the currency at home.

Mr. TURNER. Yes; and operate to disseminate money.

Mr. WARNER. We, in New York, can make more money by dealing with Southerners when they are doing well.

Mr. TURNER. I think that is an enlightened view of the situation.

The CHAIRMAN. What is your observation and knowledge in regard to whether the bonds of the State of Georgia are held inside of the State or outside?

Mr. TURNER. They are distributed. Of course I have no information as to the proportion. Some are held in the State and some outside. A New York gentleman, I think, recently bargained for an entire issue of Atlanta bonds.

Thereupon the committee rose, to meet Tuesday, October 24, 1893, at 10 a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Tuesday, October 21, 1893.*

The Committee on Banking and Currency met this day at 10 a. m.,  
 Hon. William M. Springer in the chair.

**STATEMENT OF HON. J. L. McLAURIN.**

Hon. J. L. McLaurin, a Representative from the State of South Carolina, again addressed the committee.\*

Mr. Chairman and gentlemen of the committee: When I was before you last you requested of me information about clearing-house certificates issued by the association in Columbia, S. C. I have a letter from the president of the Carolina National Bank, and also a dispatch, which are as follows:

THE CAROLINA NATIONAL BANK,  
 Columbia, S. C., October 7, 1893.

DEAR SIR: Your letter of the 4th instant, addressed to Mr. John A. Crawford of this city, in reference to the clearing-house certificates issued by the Columbia Clearing House Association, has been referred to this association.

In reply thereto I would answer: First. That the Columbia Clearing House Association has issued to the six banks of the city of Columbia, members of the association, clearing-house certificates amounting to \$82,000. From the daily reports, however, of the banks to the association, it appears that there is in actual daily circulation about \$20,000 of these certificates. Second. That these certificates have been issued by the trustees elected by the association to the several banks upon assets placed in the hands of the trustees by these banks, which assets consist of bills receivable held by the said banks, or bonds or stocks which have been approved by the association, and the certificates issued upon them never exceed 66 $\frac{2}{3}$  per cent of the face value of such securities. Third. That these certificates are redeemable by the banks to whom issued on or before the 1st of January next, and so far as the association is advised they circulate only in and about the city of Columbia. We are informed that in a few instances these certificates have been taken into other territory, but whenever sent back they have been promptly redeemed.

I have read with pleasure the arguments referred to by you in the Congressional Record, and trust that I have given you the desired information.

Yours, very truly,

W. A. CLARK,  
 President Columbia Clearing House Association.

Hon. JOHN L. McLAURIN,  
 Member of Congress, Washington, D. C.

COLUMBIA, S. C., October 9, 1893.

Hon. J. L. McLAURIN,  
 House of Representatives, Washington, D. C.:

Certificates issued, eighty-five thousand dollars, payable January 1, 1894. Circulates wherever taken.

J. W. BOWDEN.

Now, I desire to say it was not my attention originally to embark in this matter of certificates, and I merely got hold of it as an object lesson and as an illustration of what I conceived to be the needs of the times, and I would now say if it is the intention of the committee to take any action to relieve these certificates of the 10 per cent tax they ought to do it promptly, because I see by the papers, and I have also letters from the presidents of these banks there, that the Revenue Department has already taken steps to enforce the collection of the tax and the banks are going into court to resist it on the grounds of unconstitutionality and illegality and with every legal objection that they can make, and if the committee is to take action at all it should

\* See proceedings of Sept. 30, 1893, page 29.

be prompt, in order to spare the Government and the banks an extended litigation on the question.

Mr. WARNER. May I ask the gentleman from South Carolina whether he has examined the bill introduced by Mr. Brawley, No. 3825?

Mr. McLAURIN. Yes; I have examined it, and I think it would be ample to meet the emergency. I think if that bill was reported at once and we could get it on the calendar and get it through the House it would relieve the situation entirely. But I would say this, gentlemen, whether the tax is enforced or not, the very threat of enforcement of that tax has rendered the certificates almost inoperative; the banks are afraid to put them out and the people are afraid to take them, and it has thrown a cloud of doubt upon them, which is not desirable. If we have to pay the tax we would like to know it, and if we are not to pay the tax we would like to know that; and I think for that reason it is imperative upon the committee to act as promptly as it can.

Mr. WARNER. May I ask the gentleman from South Carolina whether there has been any arrangement made for hearings upon this matter, that is the matter introduced by Mr. Brawley, and I would say at least a half a dozen other members of the House, either before or after the introduction of the bill, have seen myself and other members of the committee, and appreciating what the gentleman has just called to our attention, that any action to be effective should be prompt, and appreciating, perhaps more than the gentleman does, the real difficulty, not necessarily the final, but the real difficulty of getting a bill of this kind through this committee, and especially through the House, I would like to ask whether any arrangements have been made for hearings, whether members in favor of this are pushing the bill and whether they are to appear before us?

The CHAIRMAN. I have received no request, except from Mr. Brawley, and he assured me he would be here this morning.

Mr. McLAURIN. I hope he will, and I would like to do anything in the world I could to help him along. I wrote to Mr. Livingston, of Georgia, a note because the Atlanta people were in the same condition, I understood, and I called to his attention my argument before the committee and also the bill of Mr. Brawley, and he tells me he wishes to cooperate in any way he can.

Mr. COBB, of Missouri. Would this tax be paid by the holder of the certificates or by the clearing house?

Mr. McLAURIN. The clearing house.

Mr. HALL. My impression of that section is that tax has got to be paid by somebody every time that clearing-house certificate goes over the counter.

Mr. McLAURIN. We are ruined in South Carolina if that is so, because that is all the money we have there, and I beg you to act promptly, because it is all the currency we have had there.

The CHAIRMAN. If it was just one tax it would perhaps be all right, but if it has to be paid every time it goes over the counter that is a different thing.

Mr. HALL. I wish to say this, if the gentleman will pardon me, the activity with which money circulates, of course a smaller amount circulating actively, for circulating purposes is better than a large amount circulating slowly; that is a well settled principle; and these clearing-house certificates were as active as the Irishman's flea was ever charged with being, and they circulated through different hands perhaps about a hundred times. This will affect the very men who were trying to meet the emergency.

Mr. McLAURIN. Now, I called attention to a letter of Governor Tillman, in which he said that that was all the money that they had had for some weeks.

The CHAIRMAN. Section 3412 of the Revised Statutes is as follows:

Every national banking association, State bank, or State banking association shall pay a tax of ten per centum on the amount of notes of any person, or of any State bank or State banking association, used for circulation and paid out by them.

The words "and paid out by them" is the gist of that. The next section, section 3413, is as follows:

Every national banking association, State bank, or banker, or association shall pay a tax of ten per centum on the amount of notes of any town, city, or municipal corporation paid out by them.

Mr. WARNER. Now, on page 59 of the National Banking Laws, you will find the language as follows:\*

That every person, firm, association other than national bank associations, and every corporation, State bank, or State banking association, shall pay a tax of ten per centum on the amount of their own notes used for circulation and paid out by them.

That every such person, firm, association, corporation, State bank, or State banking association, and also every national banking association, shall pay a like tax of ten per centum on the amount of notes of any person, firm, association other than a national banking association, or of any corporation, State bank, or State banking association, or of any town, city, municipal corporation used for circulation and paid out by them.

That is to say by any such person, firm or association, and that is to say anybody on earth.

Mr. McLAURIN. You see, gentlemen, we have got to have relief.

Mr. BROSIUS.—You do not understand that to mean the man who carries that note, unless he is a banker and does a banking business, has to pay that tax?

Mr. WARNER. It says any person other than a national bank shall pay a like tax of ten per cent.

Mr. BROSIUS. That is an unfair construction, I think.

Mr. McLAURIN. Now, the impression we got in South Carolina was that the clearing house association paid the tax.

Mr. BROSIUS. It is every person issuing notes and using them as a banker; not as an individual, but as a banker.

Mr. WARNER. It says every person shall pay a tax of 10 per cent; and in the second section, section 20, it says every person shall pay a tax upon such notes.

Mr. BROSIUS. If he issues them as a banking institution and pays it out.

Mr. McLAURIN. Gentlemen, I would like to say the very fact that there is such ambiguity in regard to its construction among the members of this committee demonstrates the fact that we need some legislation, because we had considered only the association was liable for the tax, and I see there are certainly grounds for the construction which has been given by the gentleman from New York.

Mr. BLACK. Have you any suggestion that anybody was contemplating that this tax should come out of the private parties?

Mr. McLAURIN. No, sir; we thought it was only against the clearing house association; but I know this, if the clearing house association had to pay it, it would have to come out of the people who used the notes. It was bound to do it in some way.

\* Section 19 and 20 of the Act of Feb. 18, 1875; see Supplement to Revised Statutes, chapter 36, page 123.

Mr. JOHNSON, of Indiana. This subject has been touched upon by the Supreme Court decision where it was held—

Mr. McLAURIN. The mere fact of this ambiguity makes it necessary for us to have some legislation on the subject. We have used these certificates to carry over the panic, and it has done it in a very successful way. The banks invented the plan and we do not think they ought to suffer, and we think that this Congress ought to come to the rescue of the people.

### STATEMENT OF HON. L. W. TURPIN.

Hon. L. W. Turpin, a Representative from the State of Alabama, next appeared before the committee in behalf of the following bill:

[H. R. 3438, Fifty-third Congress, first session.]

A BILL to allow national banks to loan money on real estate.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the seventh subdivision of section fifty-one hundred and thirty-six of the Revised Statutes of the United States be amended as follows:*

“Seventh. To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security or upon the security of real estate; and by obtaining, issuing, and circulating notes according to the provisions of this title.”

SEC. 2. That the second subdivision of section fifty-one hundred and thirty-seven of the Revised Statutes of the United States be amended as follows:

“Second. Such as shall be mortgaged to it in good faith by way of security for debts.”

Mr. Turpin addressed the committee as follows:

Mr. Chairman and gentlemen of the committee: I did not expect to make any appearance before this committee, but inasmuch as the chairman has invited me—

Mr. BROSIUS. What is the number of that bill?

Mr. TURPIN. It is House bill No. 3438. This bill simply repeals that clause of the statutes prohibiting the national banks from lending money upon real estate as collateral security. Now, I came to Congress in 1889. I introduced this bill in December of that year, and have constantly introduced it every session since. On the 5th day of June, 1890, I went home by the advice of a majority of the House of Representatives; you will remember that was a Republican Congress. Soon after that, on the 23d day of June, and after I had been unseated, my colleague (Mr. Oates) introduced a similar bill (H. R. No. 135, first session, Fifty-third Congress), and the Montgomery Advertiser, a leading daily published at the capital of our State, has never stopped talking about that bill and the great merits of it. I have consulted with a great many bankers in my State about this bill and I have not found a single one with whom I have talked who makes any objection to it. The people want it, and it is but an act of justice to the farmers of the United States that you give it a favorable report, and see that it is enacted. I live in a very fine agricultural country and it is covered with mortgages of Scottish and British syndicates. This money has, as a rule, been promptly paid, either paid in at different periods on installments, or it is paid when due and demanded at once, and I believe that a certain amount of collateral security, first mortgages upon real estate, is as good as any collateral security a bank can have. It is not

an experiment because, as I have said, England and Scotland have been for many years lending money all over the United States in this way, and are doing it every day.

Mr. BROSIUS. But their banks have not?

Mr. TURPIN. It amounts to about the same thing; mortgages on land are taken by these foreign syndicates, and as a rule the interest and principal has been promptly met by our people.

Mr. BROSIUS. Your citizens lend money on real estate security if they have it to loan, do they not?

Mr. TURPIN. If our national banks were allowed to loan money on real estate I expect we would not pay so much tribute to England as we are now paying constantly, and paying a tremendous amount, too. I did not expect when this bill was first introduced to make any talk before this committee about its merits, but now that our party is in possession of all the branches of the Government I am in hopes this committee will do all in its power to bring relief to the people: but I had a paper in which Mr. Marble, who is president of the National Bank of California—I had it my hand when I was here a few days ago, but in some way I have mislaid it—takes this position and advocates very strongly in this paper prepared by him to be read before one of the congresses at the World's Fair. I suppose all you gentlemen have received it. I do not know whether you have got it or not, but according to my way of thinking, in fact my business sense tells me, it was easily the best of the many circulars sent to me on this subject. Mr. Marble says it will do away in a great measure with the prejudice which has so long existed among the farming classes against the national banks.

Mr. JOHNSON, of Indiana. Have you that circular?

Mr. TURPIN. No; as I said before, I have misplaced it, but I will try to find it, and will get it, if possible, and present it to the committee. Mr. Marble says that a mortgage to a certain per cent upon a good farm or a good home is as easily realized upon any day in the year, whether it is due or not, as any other collateral. Now, that is his position and opinion about this bill; and as I have stated he is president of the National Bank of California, a very prosperous and substantial institution. Many such loans have been made in my section of country; I have borrowed a good deal of money in this way myself. I have borrowed from the English syndicates and Scotch syndicates, but their names are so long that I have forgotten them, and I know that these papers, first mortgages upon real estate, are deposited as collateral and loans are negotiated upon them, short loans—many times before they are due—just like United States bonds, State bonds, or any other kind of bonds, because they are absolutely safe. In my section of country there is little or no woodland; nearly all of the land is cultivated, consequently large loans have been made, large to the area, I mean; and I do not now recall but one single instance where a mortgage was foreclosed and the plantation sold, and the money was realized on that. This bill of Mr. Oates, you will observe, is a very different sort of a bill from mine. I merely repeal and Mr. Oates goes on to say something about the rate of interest.

Not to exceed in any case that allowed by law, and the taking of any greater rate of interest for the loan or use of the money, as aforesaid, shall make the mortgage or other obligations for the repayment of such loans null and void.

I understand that is the law now and a national bank can not charge over and above the amount of interest that is allowed by the States in which the banks are located, hence there was and is no necessity of such a clause in a new bill; the statutes are plain on this point.

Mr. JOHNSON, of Indiana. The existing law does not make the whole contract null and void, but this proposed act of Mr. Oates affects the whole contract. I do not remember the exact terms of it.

Mr. TURPIN. I understand that and am opposed to putting additional penalties in the bill, or doing anything that would at all intimidate the banks; make them hesitate to make loans, as this bill allows. I do not want it intricate or cumbersome. This bill simply allows the national banks to lend money upon real estate. They are not allowed to do it now; in some instances in my country I have known third parties to make a percentage on a man who owned land or city lots by standing between the owner of the property and the bank, by making personal security for it. I have known that to be done frequently.

The CHAIRMAN. Does it occur to you that the banks might be greatly embarrassed if they loaned their deposits on long-time paper, these deposits being always subject to prompt and immediate payment on the demand of the depositors?

Mr. TURPIN. Well, I am inclined to think if there is no prohibition placed upon them some reckless banks might get themselves into some little trouble; and if the committee thinks best the bill can be reported with an amendment prohibiting the banks loaning over a certain per cent of their capital stock. I see no good reason to confine the banks to a certain per cent of the value of the property. I take it that few, very few, banks would loan more than 40 or 50 per cent of the cash value of the property. In further answer to that, Mr. Chairman, I would simply repeat what Mr. Marble says about it—that these papers, called Southern securities in our country, can be realized upon any day in the year, whether they are due or not, as easily as upon any other collateral.

Mr. WAENER. I was about to ask the gentleman whether he thinks the same rule would not apply to these as to State bonds and municipal bonds and other bonds that are now admitted to be good investments to a certain extent for banks and trust companies?

Mr. TURPIN. Yes, sir; I should think so. I do not know but what there might be some additional safety in limiting, but I do not believe the banks would lend any more money on real estate than they could collect, and they would not put themselves in a position where they could not realize on these securities any more than upon State bonds or any other bonds. My position is the same as Mr. Marble's. I believe these securities—first mortgages upon improved real estate—can be as easily realized upon any day in the year, whether due or not, as any other kind, excepting, of course, United States bonds, which are by law made a basis of circulation. I remember asking my colleague, Gen. Forney, when I first came to Congress, why this prohibition was put into the statutes, and he said it was in the interest of the landholders; they had it done. They said they were uneasy about the national banks, and were afraid that if they did not put something of the sort in it would not be long before the banks owned the whole country. I never heard that view expressed before; but, as a farmer and one of the landowners, I may state to my friend that I have no such fears, and I would rather borrow of our own banks than of an English or a Scotch syndicate; and the very fact of our paying so much interest as we have abroad—this constant tribute to foreign countries—has done more, I think, to bring on this panic than anything that has been mentioned, except, perhaps, two causes that I will not now discuss—the two that have been so generally talked about.

Mr. BROSIOUS. Is not a very considerable body of loanable funds owned by citizens in your section which are available for those who desire long-time loans without going to the banks? People in my country go to the banks for temporary accommodations; they never go to the banks for long loans; they get these loanable funds in other places.

Mr. TURPIN. We have a good many individuals who have money to loan, but our people do not go to them if they can possibly help it.

Mr. BROSIOUS. Why not?

Mr. TURPIN. Simply because they do not want to pay the price—the high rate of interest they usually charge.

Mr. COBB, of Alabama. Because they do not want to pay 25 per cent interest?

Mr. BROSIOUS. Does not your State law limit the rate of interest?

Mr. TURPIN. Eight per cent is the legal rate for Alabama, but our people are charged 1 per cent discount, which is equal to about 14 per cent.

Mr. HALL. I do not believe there is a State in the Union, north or south of Mason and Dixon's line, that does not discount above the legal rate of interest.

Mr. TURPIN. Now, I would like to ask the committee a question. What is the objection to allowing a bank to negotiate a loan upon real estate, the best collateral security in the world?

Mr. JOHNSON, of Indiana. It has been claimed that it can not be readily realized upon.

Mr. TURPIN. These securities, Mr. Marble says, can be realized upon.

Mr. JOHNSON, of Indiana. The ordinary commercial paper is for payment to be made within a short time and can be used quicker and better; that is the theory that has been generally advanced.

Mr. TURPIN. If the banks were allowed to make long or short loans upon land they could, say occasionally, when they got in a tight place, deposit these securities, just the same as bonds are deposited, and borrow upon them, and when they were flushed redeem them, and all the while their loans on real estate would be drawing interest, whether hypothecated or in their own vaults, and they can afford to do it, for the legal rate that is allowed by the States is greater than the rate the banks would have to pay.

Mr. WARNER. I agree with my friend from Alabama—and I understand he does not propose or contemplate that the bank shall either actually invest all or nearly all of its assets in mortgages or it shall be permitted so to do, or that these investments shall take the place of any commercial paper which represents short-time loans; but, as I understand the suggestion, it is simply that mortgages upon real estate be put upon the same foundation as other favored securities not commercial paper.

Mr. TURPIN. That is the idea, and I anticipate if you enact this law—that is, repeal it—that there would be hundreds of banks in the large cities who would never loan a cent upon real estate.

Mr. WARNER. Your idea is not to lessen the amount loaned on commercial paper, but simply to allow mortgages to be substituted for other favored securities?

Mr. TURPIN. It is simply to allow them to loan upon real estate; there is nothing compulsory about it.

Mr. JOHNSON, of Indiana. And you think the consequences would be not to lessen the amount of commercial paper; that the funds invested in that could not of necessity be invested in the other?



Mr. WARNER. There are two classes of investments in the bank—investments in commercial paper, discounts, which represent what you might call short-time investments, and other investments on long-time securities. Now, I understand my friend from Alabama states that if the loans on mortgages upon real estate be permitted the result of that would not be to substitute the mortgages for the short-time paper, but it would permit the mortgages to be used instead of a part of their long-time investments which they now have.

Mr. JOHNSON, of Indiana. Now, I want to ask what long-time paper have they now? What other kinds of security do you allude to; national bonds?

Mr. TURPIN. Now, we do not claim that any mortgage in Alabama or anywhere else is as good as a United States bond. I hope and want to see the bonds better than any other securities. But there is an additional and other security which is good enough besides bonds.

Mr. COBB, of Alabama. My colleague might have added this in his argument. The other security he has spoken of is in daily use among our banks in Alabama, and it is for this reason the mortgages are generally taken for a small per cent of the value of the land, and therefore in case of a panic and they are compelled to realize upon the security at once it can be more readily done upon security upon land than upon anything else, because the banker goes out and he finds a man who has got money. Now, there are a mighty few men in our State who have money outside of the banks. We are poor people, but the men who have money are willing to lend it, not so much upon the prospects of the amount gained as upon its absolute security. Now, when one of these mortgages is brought to a man who has money, and he sees that the mortgage is but a small per cent of the value of the land, he knows he is secured almost absolutely, and he is willing to risk his money on that, because he knows that if nobody purchases this land he can purchase it under the mortgage and have a plantation for which he has paid only one-third of its value. So, even in a time of a panic, it is security which is worth as much as any other.

Mr. TURPIN. I have had that experience. Right now I should like to state, and I feel pretty thankful for it, too, I have got on the other side. I have been on the borrowing side a long time, and it is much more comfortable not to have it to do. This summer everything was as tight in Alabama as I have ever seen it, and I invested some money just exactly that way. An English syndicate had a mortgage on some property. The property was good, but the owner, a clever young fellow, was a spendthrift and had nothing to pay with, and I paid this money. He has two years to redeem it in under our State laws, but in the meanwhile he has to pay 10 per cent on the money, besides the legal rate of interest, which is 8 per cent, so that you see it is a good investment to me, whether the land is redeemed or not; good either way, for if he fails to redeem why I have the land.

Mr. JOHNSON, of Indiana. Have you read the section?

Mr. WARNER. What section?

Mr. JOHNSON, of Indiana. It contemplates the direct loan of money on mortgage security as you would on discount paper presented.

Mr. TURPIN. I just simply propose to repeal what is in the statute forbidding national banks to lend money on real estate. I believe the bill is all right although I have not compared it with the first print. The original was introduced in December, 1889.

Mr. BROSIUS. The evil you propose to remedy by this legislation I understand to be that those who have loanable funds to dispose of on

long-time loans charge exorbitant rates of interest, and you want the banks to be authorized by this legislation to loan their money on the same time and at their rates for the benefit of the borrowers?

Mr. TURPIN. And for the benefit of the banks, too.

Mr. BROSIUS. So that the idea is the banks shall loan their money on mortgages just as individuals do in your State?

Mr. TURPIN. That is all. Give them the right to accept mortgages on real estate as collateral security, they will make no such loans unless they think it will pay them to do so. Give them the authority, and the banks will never make any such loans as long as they can use all their funds to better advantage.

Mr. BROSIUS. Now, if the bank loans \$25,000 of its deposits on mortgages in one year, it has \$25,000 less money to put out on commercial paper?

Mr. TURPIN. Certainly, it would have; no doubt of that. But at the same time that is only temporary. Whenever you loan \$25,000 out of the bank you leave \$25,000 less, but I claim, as Mr. Marble says, this \$25,000 can be replaced at any time. In other words, it will draw the interest, for three years, say, and if the bank should need this \$25,000 back within three months, or two months, or one month, then they can take these papers and borrow money. If there are any valuable buildings on the lands they are always required to be insured by these English syndicates and our banks would no doubt be equally as cautious.

Mr. WARNER. I think the gentleman from Indiana has misunderstood a suggestion made by myself. Every bank, so far as I know, has a certain number of long-time investments, sometimes in the shape of United States bonds, sometimes investments in the shape of long-time discounts as distinguished from short-time discounts, and sometimes they are in one shape and sometimes in another. Now, as I understand my friend from Alabama, he simply asks that they be given the right to include among these investments real-estate mortgages. As a matter of course favored investments distinguished from live commercial paper is so much less deducted from commercial paper; but I think my friend from Pennsylvania is mistaken when he assumes that when a bank invests in a mortgage it will take funds for that purpose necessarily from the part of the funds which otherwise it would keep alive in commercial paper. On the contrary, it would buy fewer of United States bonds, which pay less interest, and it would invest in long-time paper, and the only result would be not to make bankers change their modes of doing business so as to tie up the capital, but allow them to use, and on more advantageous terms to themselves, a part of the capital which in any case they would use.

Mr. BROSIUS. If my friend will allow me. My object in putting to Mr. Turpin the plain question was to show clearly that my friend from New York misunderstood the position of my friend from Alabama. In the first place banks do not use their deposits to buy permanent loans; they do not use their deposits to buy United States bonds or any other permanent investments. They may use their capital stock to a limited extent for such purposes, but they only buy bonds now to the extent they are required to either by the act of Congress or for the purpose of enabling them to issue a circulation. The deposits in a bank are available funds for the accommodation of the community; they are commercial funds and they are used in a commercial way, secured by commercial paper, and they are not used in any other way, and the only

legitimate manner for any bank, in my judgment, to invest in real-estate securities is the way that the national-bank law already permits them to do, and that is to take it as additional security for previously contracted debts, and the point I was going to say, though my friend puts it so smoothly and so nicely "by using these real-estate mortgages on the same foundation as other loans," the fact is there are no other loans which represent the deposits of a community, there are no other. I do not mean to state for one moment that the banks universally through the country are able to use the total amount of the deposits upon discounts at full rates. That is not the case in our State. The money goes to the bank and then it goes out to various agencies. Sometimes our money goes to New York upon temporary interest, upon call, and all that sort of thing, but the point I make is, I do not think my friend, conversant as he is with banks, will dispute it that the current deposits of a community which go into a national bank are not used for the purpose of investing in any kind of long-time loans.

Mr. WARNER. The gentlemen is mistaken, and directly and indirectly, largely, with the exception of a very few months in the year, and to some extent the year around, they are invested in long-time securities.

Mr. BROSIUS. Name them.

Mr. WARNER. I mean personal notes for long time, secured by pledge, say, for example, Central Railroad stock, the loan running at 2 per cent and 3 per cent. There are any number of firms in New York who have held accounts in banks for the last fifteen years without ever having them taken up.

Mr. BROSIUS. In the New York banks?

Mr. WARNER. I mean the only change being as to the rate of interest. Now, it is simply a matter of fact that quite a large proportion of the deposits in the banks in New York and everywhere else, so far as I know, during eight or nine months of the year must be so invested or else they can not get any interest upon them at all, and they are so invested. I know in some cases they are whipping the devil around the stump. I know they take paper where the name is worth nothing, but they do it on good collateral, and they do it also in a legal way.

Mr. BROSIUS. I do not dispute that is done to a limited extent.

Mr. TURPIN. I would like to say just one word more. In my country I know that New York banks lend tremendous sums of money on ten and twelve months' time; that money is loaned to our banks upon chattel mortgages—that is, mortgages upon growing crops—on crops to be planted, and a few old mules and brood mares, which are owned, frequently, by tenants. This is the kind of collateral that is taken in New York, and they lend money upon it for twelve months to our banks. You take the strongest banks in Alabama, and they lend money for a year upon cotton receipts, warehouse receipts. You put your cotton in a warehouse and get a receipt, and you can go to any of the banks and borrow all the money you want, and on as long time as you want it, say twelve or eighteen months.

Mr. COBB, of Missouri. Cotton and grain receipts are considered the very best collateral you can get.

Mr. TURPIN. I know they are so considered. That is because you don't allow your banks to lend upon real estate; if you did, mortgages on improved lands would be considered the best, particularly if the loan was a long time loan. I would like to say there is not a statement of a banking institution published anywhere but what a part of the assets

are real estate, that is, the office and buildings, sometimes amounting to many thousands of dollars.

Mr. JOHNSON, of Indiana. A casual examination of this bill shows that it is contemplated that the ordinary loanable funds are to be allowed to be loaned on real estate security. That being the case, it would of necessity come from money which would probably be otherwise used by ordinary securities running a short time, generally issued by merchants, and which can be readily realized upon in case of trouble. All parties hold that State banks, under the old system, contained a positive prohibition for investment in real estate, and it all proceeded upon the idea that these funds were not desirable for the reason that in case of a run upon the bank the mortgage could not be readily realized upon.

Mr. WARNER. I do not want to take up the time of the committee, but I do not think the gentleman from Alabama insists there shall be any special amount loaned on mortgage. I agree entirely with the gentleman from Indiana, so far as the funds are necessary for current redemption of circulation or for supply of ready money, that commercial paper—

Mr. JOHNSON, of Indiana. There is no limitation in this bill.

Mr. WARNER. But the gentleman himself volunteers the suggestion that a limitation will be entirely proper, and it is upon that assumption we are speaking.

Mr. BLACK, of Georgia. If the gentleman will indulge me, I have a bill on this subject. It is the only bill I have introduced in the House this year, not because I thought it was the most important thing, however, and I will be glad to submit a few remarks in regard to it.

The CHAIRMAN. Mr. Black desires to submit a few remarks on his bill, and as I have engagement for a few minutes Mr. Sperry will act as chairman during my absence. I will return very shortly.

#### STATEMENT OF HON. J. C. C. BLACK.

Hon J. C. C. Black, a Representative from the State of Georgia, next addressed the committee in behalf of House bill No. 256.

Mr. Chairman and gentlemen of the committee, I have introduced House bill No. 256, which is very short, and reads as follows:

**A BILL to authorize national banking associations to lend money on real estate.**

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That from and after the passage of this act any national-bank association be, and is hereby, authorized to lend money on real-estate security.*

**SEC. 2.** That all laws and parts of laws in conflict with this act be, and the same are hereby, repealed.

It seems to me that some suggestions which have been made against this general idea are not well founded, for the reason that they seem to contemplate if the national bank has this authority it will take all the money it has on deposit and lend it out for a long time on real-estate security, which could not be easily realized upon. Well, I submit we may leave that as we leave a great many other things to the management of those banks. There is nothing compulsory about this. It does not say they shall lend money on real estate, and I do not think there is anything in the history of these banks, or of the gentlemen generally over the country who have charge of them, which would justify the apprehension that they would take all the money they had and loan it

on real estate. Now, what is the condition under the law as it now exists? Here we have this system of banking, upon which we are so much dependent all over the country everywhere, and all the real estate of the United States is outlawed so far as borrowing money on it is concerned from those banks. A man can not go to one of these banks and borrow money on \$500,000 worth of real estate; he can not get \$1,000 on it for ten days or five days or two days or one hour. Now, is there any justice in that? Is there any reason for it? Our agricultural people have to make loans. They go to the cities and towns and to the factors to borrow money, and those factors will take their real estate as security and then, using it as collateral with their own paper, they will go to the bank and borrow money themselves, and so the money is dealt out to the people in the country through these middlemen, who, of course, charge for the trouble a rate of interest sometimes more and sometimes less. Now, I would not for a moment favor the idea that a bank should take all of its funds and lend it on real estate for a long time or a short time. I recognize the fact that perhaps under some circumstances real estate is not so easily realized upon as bonds or stocks or what are generally known as commercial securities, but the point I make is that this law is totally prohibitory upon real estate; it does not allow the bank to loan any proportion of their money on real estate of any kind. Well, now, I repeat the question asked by the gentleman from Alabama, what objection is there to that? You say, it is liable to abuse. Well, I submit that is no answer. You say, suppose a bank would take all the money of its depositors and lend it out on real estate on long time. Well, that is a presumption you are not authorized to make. These banks are managed by men of intelligence, men who are, perhaps, just as well acquainted with commercial, financial, and business rules as we are. I repeat the point I make against this law is it is an iron bound prohibition against lending any money at all upon real estate without regard to margin, without regard to value, without regard to time, and without regard to anything, and it puts the real estate of this country under our present bank system, as far as these national banks are concerned, under a ban and outlaws it. For instance, we have in the city where I live in round numbers \$15,000,000 worth of real estate, and a man can not take that and go to a national bank and borrow a thousand dollars on it. Well, now, I submit that is going too far.

Mr. JOHNSON, of Indiana. Would such a man have trouble borrowing that on personal security, a man with that much real estate?

Mr. BLACK, of Georgia. I said the whole city.

Mr. JOHNSON, of Indiana. Well, take a man with ample real estate; nobody has any trouble in my State in borrowing money on personal security who is known to be worth a great deal of real estate; he might get a friend to indorse for him, and in that way the real estate is indirectly used.

Mr. BLACK, of Georgia. Perhaps, sometimes that might be the case, but oftentimes it would not be the case, and a man does not always care to go to a friend to get him to indorse his notes, and it does not apply at all in the country. Here are millions of dollars' worth of agricultural lands in this country, and under our present national-bank system we are not allowed to lend a dollar's worth of money upon it.

Mr. JOHNSON, of Indiana. According to the statement of Tom Watson, you have not got any land down there that is not mortgaged. What have you to say to that? He says there is nothing left to borrow on.

Mr. BLACK, of Georgia. I would not like to be bound by all he said. A good many of our lands are mortgaged, I have no doubt, but there are many not mortgaged, and if a man who has an unencumbered piece of real estate, offers it, it is not to be presumed that these banks are going to lend the full value of it, and are not presumed to take all the money they have got and lend on real estate so as to leave them in a position where they could not respond to the reasonable demands of their depositors. I think, honestly and sincerely, that this law goes entirely too far.

Mr. SPERRY. Allow me to ask this question: Whether or not all the available loanable funds are not loaned upon business paper?

Mr. BLACK, of Georgia. I did not hear you.

Mr. SPERRY. I asked whether or not all the available loanable funds in the national banks in your State are not all loaned on commercial paper within the terms of the act?

Mr. BLACK. I do not know. There is quite a demand down there for money, and they are lending every dollar, and renewing it and lending it out again. I do not know that there are any long periods when they have any large amount of money which is not out; perhaps, some time during the summer season, the money accumulates in bank when they would like to make good loans.

Mr. SPERRY. Then they would be liable to loan for a long time on real estate?

Mr. BLACK. No, sir; I do not think they would loan it all for a long time on real estate. I have got more confidence in their management.

Mr. BROSIUS. You think they would only loan their surplus?

Mr. BLACK. The point I make is that this law is totally prohibitory; that you can not loan anything on real estate.

Mr. HALL. Can not you see a case where a business man would have real estate security and nothing else and want to borrow money on it?

Mr. BLACK. Why, certainly.

Mr. HALL. And yet he could not get a dollar, unless he could get a courtesy extended by having individuals going on his paper.

Mr. BLACK. I take it that it is not always easy for a man who is perfectly solvent and a man of high financial standing, it is not always an easy thing, and if it is a practical thing it is not always pleasant for a man to go and ask a person to indorse, and I do not think the law ought to force him to do it.

Mr. COBB, of Alabama. Would not it have this effect? There is a complaint throughout the country that the national banks have failed to issue the amount of circulation they ought to issue—

Mr. BLACK. I was just coming to that phase of the subject. Now, I do not believe in our legislation we ought to allow ourselves to be carried too far by the complaints of people, the unreasonable complaints of people, but when we can meet the complaints without doing any harm to anybody I think it is wise legislation to do so. We all know there is a very deep-seated and widespread, not only discontent, but opposition in the public mind, particularly in some sections of the country, against national banks. Some of it may be unreasonable; but now look what a picture is presented to our rural population by this system. Before you go into this system you have got to have United States bonds, and when you have established a bank you can take bonds, stock; but the very and only thing these people have is a thing you say shall not be accepted as security, no matter what the value.

Mr. COBB, of Alabama. You do not get my idea. The complaint is, they will not issue circulation enough, and the banks say they do not issue the circulation because it does not pay. Now, would not the tendency be to encourage the national banks to put out more circulation upon the security, and they could afford to do it on long-time loans?

Mr. BLACK. I do not understand they refuse to take out circulation because they could not use the money, but I understand they refuse to do it because they would have to have the bonds to do that, and the bonds have been at such a price they could not purchase the bonds and use the money at anything like a profit. I do not suppose the banks will lend too large an amount of their money on real estate, but I think they can be safely trusted to lend some of their money at some time and to some extent on it; and then what I was going to suggest is this, that there is a very widespread and deep-seated opposition to these national banks, partly, it may be, from prejudice and unreasonableness. I am perfectly frank to admit that; but when you can remedy a difficulty of that kind without doing anybody any harm, without doing the banks any harm and certainly rendering some service to the people, there appears to be no reasonable objection to removing this iron-bound restriction and leaving the question as to when and how and what amount, and upon what value, and for what time they are to lend the money on real estate to the management of the national banks, which I think have shown themselves in the past altogether capable of taking care of this question.

Mr. HALL. I want to ask one question, and that is this: I am struck with the force of one point you make, and that is the point of the outlawry of real estate as security. Is there any provision in the national-bank law which you know of which limits the time for making loans on commercial paper or ordinary security?

Mr. BLACK. None of which I know.

Mr. HALL. Then it was not necessary in the creation of the national-bank law that national bankers should be told that they should not lend on personal security over and above a certain time, but that was left wide open?

Mr. BLACK. Yes.

Mr. HALL. Why should not the same rule apply to this?

Mr. BLACK. I do not see any reason.

Mr. JOHNSON, of Indiana. Why should not the same rule apply to any restriction which is now placed upon the national banks? Why not leave it to their judgment and discretion—

Mr. HALL. The gentleman tries to answer a specific charge by a general sweeping allegation, and that is not the way to meet the point. The point is, that there are millions and billions of dollars' worth of real estate in the country which are virtually outlawed, as he makes the point.

Mr. BLACK. I would suggest, too, which might meet another objection—I understand the time it takes to realize on real estate, and I am not prepared to speak about the law in other States, but they may be like ours—this is the law in our State: You can take real estate as security for indebtedness, and a deed is a very common form of transferring the title, and you can provide in that deed for the sale of the property without the slow process of foreclosure, and you can put it up and sell it at once.

Mr. BROSIUS. But you have to get judgment?

Mr. BLACK. No, sir; you do not have to get judgment.

Mr. SPERRY. It is like a trustee's sale?

Mr. BLACK. Yes, sir.

Mr. BROSIUS. Suppose the mortgagee alleges the money has been paid; how do you determine the question?

Mr. BLACK. If he alleges the money is paid? Suppose you have got United States bonds as collateral and he alleges the money is paid?

Mr. BROSIUS. There must be some means of determining the question.

Mr. BLACK. Then the same objection would apply to the bond as well as to the real estate.

#### COMMITTEE ON BANKING AND CURRENCY,

*Tuesday, October 24, 1893.*

The committee met at 10 a. m., Hon. William M. Springer in the chair.

The CHAIRMAN. Gen. Meyer will address us upon the monetary system which prevails among the cotton and sugar planters of the South.

#### *PLANTING AND MOVING CROPS IN THE SOUTH.*

#### STATEMENT OF HON. ADOLPH MEYER.

Hon. ADOLPH MEYER, a Representative from the State of Louisiana, addressed the committee.

The CHAIRMAN. What is your business in Louisiana?

Mr. MEYER. I am a planter, engaged in the cultivation of sugar and cotton.

The CHAIRMAN. You have had considerable experience in commercial transactions in regard to those two products, I presume?

Mr. MEYER. Yes, sir.

The CHAIRMAN. Will you please explain to the committee the process by which the planting and marketing of the sugar crop in the South is carried on at this time, and has been for years past?

Mr. MEYER. The process is changing and has changed in the past two or three years materially. Ten, fifteen, and twenty years ago it was almost the universal practice of the planters to make their loans in the great ports of the South—New Orleans, Norfolk, Savannah, and Charleston. As Mr. Cobb, of Alabama, has just stated, after the war the country was prostrated and agriculturists had to start from the foundation; they had nothing but land, and consequently they were dependent for capital to cultivate the crops and move them upon the money centers of the country. The capital of the South, as we know, was almost destroyed, and our merchants at the centers were dependent in a very large degree for money accommodations upon New York and the commercial centers of the North and East. In those days it was the practice of the planter to go to the capitalists of New Orleans or Charleston or Savannah and make loans from the commission merchants, and the men who were cotton planters, especially the large ones, would borrow money for the purpose of making a crop.

The small planters of the South who were not known in the commercial centers made their arrangements in a somewhat similar way, but in lesser degree, with the merchants who did business in the country places, who in turn made their arrangements with the banks and cotton factors and commission merchants of the large cities. That system of



business continued quite a number of years. In recent years, however, owing to the accumulations of money in the country districts, there were a great many banks established in the little towns, which began the practice of loaning out their money to planters in the neighborhood and to local merchants, and now this system prevails in a much greater degree than before, and it seems to me to be progressing very well and very largely to the advantage of the producer and planter.

Mr. JOHNSON, of Indiana. What kind of banks, State or national?

Mr. MEYER. Mainly national banks; sometimes State banks. Nearly all the banks in my State established have been national banks. I think it seems, even in the country, where a certain idea prevails that the national banks are inimical to the interest of the small planter, there is a greater degree of confidence in the national banks than in State banks, or banks not under the national system, mostly because the impression seems to be that the National Government affords greater protection than the State banks or a corporation under the laws of the State. There seems to be a greater sense of security. I think, however, under a system of banks such as we had in my State in *ante bellum* days (and the same is true of other States, I presume) the feeling that national banks are safer than others in which to deposit their money would disappear.

Mr. JOHNSON, of Indiana. You had an unusually good system of banks in Louisiana?

Mr. MEYER. We had an admirable system. The national-bank system has been based, I believe, to a large degree upon the system we had in Louisiana. I remember the notes of the Louisiana banks commanded a premium over gold in 1860, because they were so secure and much more convenient to carry than gold.

Now, the system of marketing the crops is changing, especially the cotton crops. In former years the planter was obliged to borrow his money from a commission merchant, which was subject, of course, to onerous charges. The merchant who would advance the money to the planter took considerable risk, and to compensate him for that risk, he had to make high charges. For instance, at the very time the merchant advanced the money to the planter the first charge was  $2\frac{1}{2}$  per cent for advancing that money. He might advance him, say \$10,000, for six months, and would then be charging  $2\frac{1}{2}$  per cent commission for advancing. That would be \$250 for six months, which is practically 5 per cent per annum. Then he charged the regular rate of interest in addition, which in the State of Louisiana is 8 per cent per annum. The legal rate by contract is 8 per cent.

Of course he would charge him other commissions and make the condition that all his supplies should be bought from him, upon which an additional commission could be charged, and in the end it would amount to a very heavy percentage. The merchant justified himself, and correctly so, in my opinion, for these heavy charges by the fact he took a very heavy risk every year. He incurred a very considerable loss, because while the planter paid a very high rate of interest he at same time took great risk with his labor. He had to furnish his laborers with everything they consumed, with their clothing, and their food, and their mules and supplies of every kind, and until very recently the planter had to purchase all of the grain, oats, corn, flour, etc., from the West; the rates of insurance were high and the transportation was costly, and in the end almost all the surplus and very often a great portion of the principal was consumed, and the merchant found himself in a condition that the planter could not pay him. I think that

accounts to a very great extent for the high rates of interest that have been paid to banks in the South, and we might naturally suppose the money lender would have grown rich by receiving such high rates of interest, and that that which would impoverish the planter would enrich the man who loaned the money, but such has not been the fact.

The country merchants of the South who advanced to the small planter and the cotton factors of the ports, who in turn advanced to the merchants who advanced to the small planter, with rare exceptions have not been prosperous because of the risk of the business and the uncertainty of the crops. Another reason is in recent years the gradual decline in the price of the cotton crop. It seems likely, however, that it will be safer in the future for this reason, and the reason I am about to state will furnish one argument in favor of what has been so much condemned in what is called "the future system," the dealing in futures. Now, of course, there are a great many objections to certain features of the practice of dealing in futures, not to the principle, but to the practice. It is utilized by a great many people for the purpose of gambling, simply to speculate in cotton and other products, just as many will bet on the horse race or stocks, but recently the future system has been of great benefit to the Southern cotton-planter. And it has been for this reason:

Formerly planters were obliged to send all their products to the great ports for sale, involving heavy charges of commission and brokerage; under the future system there has been inaugurated what is called "free on board sales." For instance, a cotton buyer can go to the little towns and can make contracts for the purchase of 100 or 500 bales of cotton, as the case may be, and can arrange to have it shipped through. He knows at what price he can buy it, and by selling in Liverpool or in New York or New Orleans, against that purchase he can absolutely assure himself of a commission if not of a profit. Now, there are many men who have no capital. Of course, in the case of a man with capital they might do that kind of business and take some chances, but men without capital can now do that and can afford to do it cheaper and pay better prices for the staple. The less the cost to the man who transports or deals in cotton the higher price can he afford to pay to the producer, and in view of the great competition which exists, there are a great many new men entering the field every purchaser will naturally buy as much as he can. The greater the volume of his purchase the better he can afford to take a lesser profit.

Mr. BROSIUS. That is to say, if he only has the purchase on hand and the market goes one way he may lose, but if he has the purchase on hand and sells, and the market goes that way, he makes?

Mr. MEYER. He deals on what is claimed to be an absolute certainty. He will pay, for instance, 8 cents a pound for cotton in a country town. He will see what the markets are in New York, Liverpool, New Orleans, and in Bremen, Havre, etc. He makes his calculation and can conclude with almost mathematical certainty by selling in New York, for a certain delivery in New York, how he can make his commission.

Mr. JOHNSON, of Indiana. That is a system involving the actual receiving and delivering the goods?

Mr. MEYER. Certainly. He never delivers that particular cotton; he does not calculate to do that.

Mr. BROSIUS. That second contract which saves him on the first is pure gambling?

Mr. MEYER. No.

Mr. BROSIUS. But he never expects to deliver anything.

Mr. MEYER. He expects to deliver the 500 bales which he has purchased in some form.

Mr. BROSIUS. Then he makes his commission?

Mr. MEYER. Yes, sir; and the moment he delivers the 500 bales of cotton which he has purchased, if he is a legitimate operator, he closes out the contract he may have sold. Now, that contract is purchased by somebody else who wants it, but the man who purchases that does not expect to get the identical cotton which this man gets.

Mr. WARNER. It is the general warehouse theory?

Mr. MEYER. A man may not be able to use the grade of cotton which is absolutely furnished by the one who sells it, but he uses some other grade that is delivered to him by the vendor; therefore he makes a transaction which is legitimate and is based upon the actual need of the article.

Mr. WARNER. Is not there such a permanent relation between the price of the different grades of cotton that practically the purchase of one grade and the sale of another is capable of being calculated just as closely as though he waited and took the identical cotton in order to fill the contract made?

Mr. MEYER. Yes, sir. There is such a constant demand for the different grades of cotton—for middling, low middling, and good ordinary, some mills using one grade and some wanting others—and the prices of the various grades are well established and so well fixed by the demand and supply from day to day, that one who buys cotton, although he may not buy the grade he wants to deliver the mill, can make his calculations with almost certainty how he will come out on his transaction.

Mr. BROSIUS. But if he sells one grade of cotton and can not fill that contract it is no contract?

Mr. MEYER. But he sells different grades.

Mr. BROSIUS. Take the first step, he has to purchase the actual cotton. In order to cover that he sells not that cotton, but cotton of a certain grade, at a certain price. Now you say the purchaser of that cotton may not get that particular cotton, but he may get some other cotton, the kind he wants. Now, having such cotton of a certain grade at a certain price, to get a commission on the basis of such a price, could you fulfill it by the delivery of cotton of another grade?

Mr. MEYER. Not if he stipulated specifically another grade, but usually cotton buyers have numerous constituents who would be best supplied by an average line. He would have some who would want middling, and some who would want low middling, and others who would desire other grades.

The CHAIRMAN. Permit the chair to suggest that this discussion is wandering a little from its line.

Mr. MEYER. I was about to say that I did not intend to go into this question of futures.

The CHAIRMAN. The chair desires to ask you of another matter in regard to a statement you were making before following the discussion upon these other points—that is to say, about what would the amount of interest or commissions aggregate which the cotton and sugar planters are now compelled to pay under the system which is now in operation in the South on their products before they are marketed, including interest on actual advances and percentage on supplies furnished?

Mr. MEYER. By reason of the increase in the number of banks in the South, especially in my State (I am not so well versed as to other States, but I think it has operated in other States as well), the rate of

interest has been materially diminished and the planters and producers who in former years were obliged to pay an onerous rate of interest and commission charges, to which I referred in my opening remarks, now find no difficulty in getting all the money they require from the local banks at about 8 per cent, and in some instances at less. Of course I refer to a class of planters who are known to be reliable and trustworthy.

The CHAIRMAN. Can they secure these loans by deposit of a chattel mortgage on the growing crop?

Mr. MEYER. Yes, sir; in most cases they can. Where they are known to be reliable planters by depositing a lien on crop; in my State the man who advances either money or supplies to the farmers has by virtue of law a lien upon that crop.

The CHAIRMAN. Over the landlord—does it take priority over the rent?

Mr. MEYER. No; it does not give priority over rent. The landlord has the first lien, and the man who advances the money or supplies has the next lien. In many cases where the landlord is anxious to promote the cultivation of his land he will yield his privilege to the furnisher of the supplies or money, because land is very plentiful and money until recently very scarce. It is generally to the interest of the landowners that the tenant should secure what was necessary to cultivate the land.

The CHAIRMAN. What do you mean by recently?

Mr. MEYER. In the past three or four years.

The CHAIRMAN. Do you mean to say during the past three or four years, not including the times of the recent depression, but through the past three or four years generally, your local bankers have been able to obtain and furnish advances when good collateral was offered in any amount to handle and mature their crops?

Mr. MEYER. To any amount consistent with prudent business and prudent banking.

The CHAIRMAN. There has been no scarcity, then, so far as getting loans is concerned?

Mr. MEYER. I think not. The establishing of banks in the smaller towns of the country has drawn also into its vaults and into circulation a considerable amount of money which formerly was hidden, and while it is a fact that capital has not accumulated rapidly in the South, still a great many people have saved. Formerly there was some distrust, at all events there was not much confidence in banking institutions, but these banks having been established in the smaller towns, the small planters coming to the towns and knowing the president, cashier, and directors and seeing for themselves and being able to judge for themselves somewhat of the character of the men who have their funds in hand have been inspired with a degree of confidence and a more favorable feeling in regard to banks than existed before.

The CHAIRMAN. Do not a considerable number of the colored men use the facilities of banks and make deposits in them of their earnings?

Mr. MEYER. I do not believe the colored people care much for banks. They generally keep what money they have at home, and most of them are not very thrifty. They do not save anything and do not put anything in bank. They generally leave their surplus at some country store and draw it out as they desire. Yet there are some who deposit in bank, and I think the tendency to do that is increasing. The colored people have not been very saving, and I regard that as a great disadvantage. I think the colored labor in the Southern States, and for

their peculiar regions, is probably the best labor we can find. I have tried all kinds, Chinese, white labor, and Italian labor, but I think the colored labor is certainly the best we can find, and if they were only thrifty and took an interest in establishing communities such as the white laborers do, I should regard them as almost perfect for that section.

The CHAIRMAN. Do you employ any considerable number of laborers on your plantation?

Mr. MEYER. Yes, sir.

The CHAIRMAN. How do you pay them—in orders on a store, or cash, or how do you settle with them?

Mr. MEYER. On a sugar plantation the practice is to pay them every two weeks in money. In order to facilitate matters most planters have stores on their plantation, and if they have not any on their plantation there are neighboring stores to which the laborers can go and buy goods and by paying his ticket purchase whatever he wishes. For instance, at the end of each day the laborer receives a ticket for whatever his day's work demands, that is, the amount agreed to be paid him, and if he holds that ticket two weeks he can go to the planter or the store and get his money. If in the meantime he desires he can go to the planter's store or the neighboring store and purchase what he wants in the same way as though his ticket were money, but in order to get the actual amount stipulated in cash he has to wait until the regular pay day and receive his money.

The CHAIRMAN. He gets a ticket every night?

Mr. MEYER. Yes, sir; that is, on well-regulated plantations.

The CHAIRMAN. In what kind of shape is that ticket?

Mr. MEYER. It is a little card of pasteboard with the amount due printed upon it and the signature of the manager or planter.

Mr. HALL. You do not think they are liable to the 10 per cent tax?

Mr. MEYER. No; it does not usually circulate very far, but it generally goes at the nearest place.

The CHAIRMAN. Are these tickets generally in common use in the South, or only in Louisiana?

Mr. MEYER. I think they are generally in use. They afford such facility that I think they would be used on all well-regulated plantations. On a cotton plantation the system of labor is somewhat different. In my State a great many planters work with their laborers on shares, and under that system, of course, these tickets are not required. For instance, a planter will contract with his laborers at the beginning of the season. He will furnish them with mules and stock of all kinds for half of what the laborer produces, and under that system at the end of the year when the crop is sold they make a settlement, charging what has been furnished, and if there is a residue the laborer gets it.

Mr. BROSIUS. In that case, who sells the crop and gets the money?

Mr. MEYER. In some instances the planter sells the crop and in other instances the crop is divided at the ginhouse bale for bale, and the laborer takes his share, takes it to the nearest point and sells it or ships it, and the planter does as he chooses,

Mr. BROSIUS. Are there any cases where the planters trust to the tenant to sell the product and get the money?

Mr. MEYER. Not to my knowledge, but there may be some cases. There is no valid reason why he should, because it is easy to divide the crop at the ginhouse. I think the general practice is to give the laborer the cotton and divide it bale for bale. The negro laborers

being rather suspicious, they may think, no matter how fairly they are treated, some advantage may be taken, and it produces more satisfaction to divide it bale for bale.

The CHAIRMAN. How does the planter make advances to the laborer for that portion of the supplies necessary to produce the crop?

Mr. MEYER. The general preference on the part of a laborer is to get his supplies in bulk. For instance, he wants a barrel of pork at a stipulated period, say once a month, depending upon the size of his family, and the planter charges him with the price of those supplies. If it is a plantation of any magnitude it is usually from the store, and if it is a small plantation it is usually from a storehouse where they keep those things, but in most cases the laborers prefer and do make arrangement with the storekeepers at the nearest country town. That relieves the planters of the risk generally and they prefer that system. The planter would prefer his laborers should go and make their contracts with the country merchants to get their supplies, and if there was any deficit, instead of the loss falling upon the planter, as it often does, it falls on the country merchant.

The CHAIRMAN. How much does the planter agree to furnish per bale or per acre to the laborer in the way of supplies in addition to the use of the land?

Mr. MEYER. That is controlled by many conditions. It depends upon the circumstances altogether. As a general rule the merchant in the cities who advances thinks he would be safe to advance on the basis of about \$10 per bale; that is to say, if a planter who expected to make 100 bales would apply for \$1,000, of advances, usually the merchant would regard that as rather a safe undertaking. That is up to the time the crop is shipped. After the crop is ready for shipment of course the planter requires additional advances for picking the crop, moving it to market, and incidental expenses, which always occur on a plantation; but what the country merchants advance I am unable to say, although they generally measure their advances by what they conceive to be the prospects of a crop. Heretofore they have been very liberal, and that accounts for the fact that they have not been very prosperous. They charge high rates of interest and they no doubt charge high profits on the goods they sell, but they meet with a good many losses by reason of failure of crops.

The CHAIRMAN. Do we understand you to say the planters will furnish the land and the stock—that is, the machinery and animals necessary to produce the crop, and board of the hands—for one-half of the crop?

Mr. MEYER. He furnishes the board, but—

The CHAIRMAN. He charges them with that?

Mr. MEYER. He charges them with the board. In the neighborhood where I have been planting it has been the general custom that the planter would furnish the land and the team and feed the stock at his own cost, and pay all taxes, all general improvements on the plantation, and he would charge the laborer only with those supplies which he furnished for his use.

Mr. BROSIUS. And the laborer boards himself?

Mr. MEYER. Yes, sir; it is really at the risk of the planter.

Mr. BROSIUS. But the planter supplies the laborer with the food?

Mr. MEYER. Yes, and he charges it back to the laborer and takes it out of the proceeds of the crop.

The CHAIRMAN. The planter furnishes feed for his own animals?

Mr. MEYER. Yes, sir.

Mr. COBB, of Alabama. The planter furnishes the land, the mules, and feeds the mules, and the laborer furnishes the labor and feeds the laborer?

Mr. MEYER. In most cases, on all well-regulated cotton plantations they raise corn and stipulate usually, although I have known many exceptions, the corn produced should go to the planter for the purpose of feeding his stock the succeeding year. In many cases the laborers claim they should have half of the corn, and it is sometimes conceded. In localities where labor is very scarce and is badly wanted the planter may concede that, but as a general rule they require the corn to remain on the plantation.

Mr. BROSIUS. What does the laborer get then?

Mr. MEYER. He gets feed for this stock which he uses.

Thereupon the committee rose, to meet at 10 a. m. Wednesday, October 25, 1893.

COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., Wednesday, October 25, 1893.*

The committee met to-day at 10 a. m., Hon. William M. Springer in the chair. Hon. William H. Brawley, of South Carolina, addressed the committee.

**STATEMENTS OF HON. WILLIAM H. BRAWLEY AND HON. JOHN L. McLAURIN, REPRESENTATIVES IN CONGRESS FROM THE STATE OF SOUTH CAROLINA.**

Mr. BRAWLEY. Mr. Chairman and gentlemen of the committee, I am here simply to ask you to make a favorable report upon the bill which I introduced, and which is before your committee, to remit the 10 per cent tax upon those clearing-house certificates, notes, etc., issued during the late temporary financial stringency.

The CHAIRMAN. I will state that the number of Mr. Brawley's bill is H. R. 3825, and is as follows:

**A BILL** to suspend the operation of the laws imposing a tax of 10 per centum upon notes issued during the period therein mentioned.

Whereas certain banking associations, individuals and corporations, for the purpose of relieving the financial stringency which has prevailed in all parts of the country during the last few months, have issued what have been denominated clearing-house certificates and other notes and forms of indebtedness which were designed and intended to provide temporary relief for evils caused by a dearth of currency and which in many cases have been effectual to prevent greater calamities; and

Whereas it has been claimed that such certificates and notes are subject to the tax imposed by law upon all notes other than national-bank notes: Therefore,

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the operation of sections thirty-four hundred and twelve and thirty-four hundred and thirteen of the Revised Statutes of the United States, and sections nineteen, twenty, and twenty-one of the act approved February eighth, eighteen hundred and seventy-five, and of all other sections of said Revised Statutes, and all acts and parts of acts imposing a penalty of ten per centum on the amount of notes of any person or of any bank or banking association used for circulation be, and the same hereby is, suspended, and nothing therein contained shall be so construed as to impose any tax upon any certificates or notes which may have been issued during the period between August first, eighteen hundred and ninety-three, and October fifteenth, eighteen hundred and nine-three, and no such tax shall be collected.

Mr. BRAWLEY (continuing). My colleague, Mr. McLaurin, has already presented to the committee on previous occasions certain facts connected with the issue of those notes in our section of the country; and it seems that there arose there a condition which made it necessary for the banks to do something to relieve the stringency. I imagine that those certificates will be retired probably at an early day—at least that is the information which I have. I think that the Government of the United States ought either to provide laws of its own for such elasticity in our currency system as would meet exigencies like these, or else it ought to take its hands off and let the people take care of themselves. The people in several towns in my State did devise some means for relieving the stress to which they were subjected by the locking up of the currency in all parts of the country, and their attempt did give great relief to our people. So far as I know and believe, nobody has suffered from the issue of those notes which are called clearing-house certificates. Those certificates, so far as I have seen them, were really in the shape of bank notes.

Mr. HALL. Have you examined sections 19 and 20 of the national-bank law, found on page 59—

The CHAIRMAN. (interposing). It is mentioned in his bill.

Mr. HALL. (continuing). With regard to the amount of tax that would be levied by the Government? As to these two sections, some members hold one position, that these clearing-house certificates would have to be used; while other members maintain that the law has reference to the banks which issued them originally. Have you examined that?

Mr. BRAWLEY. I have not. Mr. McLaurin asked me to do so, but I was engaged in other matters and did not have an opportunity. I have not read the law so as to come to any conclusion on that subject.

Mr. JOHNSON, of Indiana. Who drew this bill?

Mr. BRAWLEY. I did, but rather hurriedly.

Mr. JOHNSON, of Indiana. It is intended to have operation only as to such certificates issued between certain dates?

Mr. BRAWLEY. Yes, sir; that was the intent. I understood that there were several bills which related to the general subject of repealing the act imposing that tax. I did not know what would be the fate of this bill, and it seems to me that a bill remitting the tax on those certificates which were issued during the last three months would be unobjectionable, even if you should not conclude that it would be wise to repeal the law altogether.

Mr. BROSIOUS. Have you any information at hand which will enable you to advise the committee as to the approximate amount of certificates of that character issued during the interval mentioned, and about how many banks issued them?

Mr. MCLAURIN. There were about \$82,500 of those certificates in South Carolina, which were to be remitted on or before the 1st of January next.

Mr. BROSIOUS. How many banks issued them?

Mr. MCLAURIN. I think there were five.

Mr. BROSIOUS. Were they State banks?

Mr. MCLAURIN. The banks formed an association called the Columbia Clearing-House.

Mr. HALL. Were those State or national banks?

Mr. MCLAURIN. They were national banks and State banks. All the



Columbia banks were in it. They formed a clearing-house association and appointed trustees with whom deposits were made.

Mr. BROSIUS. You are not asking relief for national banks?

Mr. MCLAURIN. They were all in the association.

Mr. BROSIUS. Is there any objection to a national bank issuing certificates of that kind?

Mr. MCLAURIN. They were issued by the Columbia Clearing-House Association under a charter from the State of South Carolina.

The CHAIRMAN. A national bank would be responsible if it paid out any of those certificates?

Mr. BRAWLEY. There are two national banks in Columbia and I think three State banks which are interested. They united to form this clearing-house association and issued these notes to relieve the people there.

Mr. BLACK. Were such certificates issued in Charleston or anywhere else in South Carolina, except Columbia?

Mr. MCLAURIN. Only in Columbia. They were circulated to a certain extent over most of the State. I know there were some used in my own section, and I am over 100 miles from Columbia.

Mr. HALL. Is there anything to prevent the provisions of your bill being put into a bill to repeal the tax on State banks?

Mr. BRAWLEY. I think not. I think any general bill that might be passed could with propriety include the section remitting the tax which has already been incurred.

Mr. JOHNSON of Indiana. Would it not be better to prescribe that the tax should be remitted upon such issue?

Mr. BROSIUS. Has any effort been made to enforce the provisions of the national banking act against the issuers of those certificates?

Mr. BRAWLEY. I understand that the collector of internal revenue, under directions from the Department here, has requested these banks to report the amount of these issues.

Mr. BROSIUS. But no assessment has been made upon these banks?

Mr. BRAWLEY. Not yet, so far as I know.

Mr. BROSIUS. There has been no judicial construction on the act relating to this particular matter?

Mr. BRAWLEY. Not yet. I apprehend, though, that it is something that will hang over them.

Mr. JOHNSON of Indiana. It will be resisted, of course, if the act is not passed?

Mr. BRAWLEY. Yes, sir; unless something is done to relieve them of the penalty.

The CHAIRMAN. Repeat what you said as to whether the Treasury Department had taken measures to collect this tax.

Mr. BRAWLEY. I understand that the collector of internal revenue has been instructed to obtain information which would be necessary in order to enforce the collection of the tax. I have not heard that there is any desire on the part of the Treasury Department to enforce the tax; but I know that the collector of internal revenue has made inquiries as to the amount of these certificates which have been issued, and the impression prevails that the tax, or penalty, will be enforced.

The CHAIRMAN. What is your information as to whether any certificates of this kind have been issued by clearing-house associations in other States, or in other parts of South Carolina?

Mr. BRAWLEY. I have no information on that subject. My impression is that clearing-house certificates were issued by the New York

Clearing House Association, but they were somewhat different in form.

The CHAIRMAN. Did those New York clearing-house certificates pass outside of the members of the association in payment of debts?

Mr. BRAWLEY. I have heard that they did not; but I do not know. My only knowledge on the subject arises from this: That one of the banks in Charleston, which is a United States depository, was called upon to pay at the end of each month to the Assistant Treasurer in New York, as was the habit, the balances which were found against the bank, and the bank sent to the Assistant Treasurer in New York, in payment of that balance, a check upon the National Park Bank. The Assistant Treasurer refused to receive that check on the ground that the National Park Bank would pay that check in clearing-house certificates, while the Assistant Treasurer had withdrawn from the clearing-house in New York; thereby subjecting our local bank in Charleston to some inconvenience and delay, and necessitating currency in order to liquidate its balances. That is the only personal knowledge I have.

Mr. BROSIUS. Did those certificates pass as currency among the people?

Mr. BRAWLEY. I understood they passed in Columbia. None of them have passed in my part of the State.

Mr. BROSIUS. You never have seen any in circulation?

Mr. BRAWLEY. I never have.

Mr. McLAURIN. I have.

Mr. BROSIUS (to Mr. McLaurin). Can you say, from any information you have, whether their circulation was general or to only a limited extent.

Mr. McLAURIN. The circulation is general. If you get the copy of the remarks I made before this committee, you will see all the information. I have a letter from Governor Tillman which shows it. I have noticed in the Columbia Register that the collector of internal revenue had made inquiries as to the amount of these notes in circulation, and had given the banks notice that they would be required to pay the 10 per cent tax. I also notice in the Post that there is an association of grain-elevator men in the West who had received a similar notice, and that they were making efforts to test the legality of the claim exactly as our association is doing in South Carolina.

Mr. HAUGEN. On what grounds?

Mr. McLAURIN. That it was not in the purview of sections 19 and 20 of the national-bank act.\* The Columbia banks intend making that claim also.

Mr. BROSIUS. You have no knowledge of any assessments having been made?

Mr. McLAURIN. No sir; except that you can understand that the revenue department of the Government making a claim of that kind will paralyze the life of those certificates. It will put them under a cloud. Persons will be afraid to take them, and banks will be afraid of them also.

Mr. BLACK. Are they being issued now?

Mr. McLAURIN. No sir; the issuance of them was stopped after that notification.

Mr. BLACK. Are they in circulation now?

Mr. McLAURIN. They were in circulation to some extent in the early

\* Act of Feb. 8, 1875, Supplement to Revised Statutes, chapter 36, page 133.

part of the present month. I think the action of the Treasury Department has caused the banks to withdraw as many as they could. The president of the Carolina National Bank, Mr. Clark, writes to me that they will have them all out of circulation very soon. In Governor Tillman's letter, he said that at that time it was about all the currency they had to use.

The CHAIRMAN (to Mr. Brawley). Have you anything further to say?

Mr. BEAWLEY. I do not know that I have, except to say that, without expressing a legal opinion, it looks to me as if there was imminent danger of those banks being subjected to this penalty. Those certificates were issued really in the public interest to relieve the imminent necessity, and I thought it was a proper case for the Government to remit the penalty, assuming that these notes were obnoxious to the law. I am inclined to believe they are.

The CHAIRMAN. Have you any suggestion to make as to the desirability of prompt action upon the subject?

Mr. BRAWLEY. I think that the necessity has probably passed for issuing these certificates. I imagine that none are now being issued; but it would be a great relief to the banks and the people who may be interested in them to have some action taken so that it can be decided whether or not the penalty is to be attached.

Mr. BROSIUS. No injury can come to the issuers until an assessment is actually made.

Mr. BRAWLEY. Of course not; but this penalty is hanging over them.

Mr. BROSIUS. To remove it would satisfy their curiosity, but I am speaking of any actual injury to these issuers. Until an effort is made on the part of the Government to collect the tax, the issuers are not injured?

Mr. BRAWLEY. An effort is being made now.

Mr. WARNER. Is it not a fact that no bank would be justified in paying a dividend while this liability hangs over them?

Mr. BRAWLEY. I think not.

Mr. WARNER. A stockholder thus affected might enjoin a bank from paying a dividend.

Mr. BRAWLEY. I should think so.

Mr. JOHNSON, of Indiana. Has any member of the committee consulted with the Commissioner of Internal Revenue with respect to this matter—

The CHAIRMAN. I have not. (No response from other members.)

Mr. JOHNSON, of Indiana (continuing). As to what action he will take and as to the feasibility of a bill of this kind?

The CHAIRMAN. I suppose Mr. Brawley has information.

Mr. BRAWLEY. I presume that the collector is acting under instructions from the Department.

Mr. BROSIUS. You say you are not aware of any demand having been made to pay this tax. All you have stated in the way of information is that the collector has requested certain issuers of these certificates to furnish him information as to the amount that is in circulation.

Mr. BEAWLEY. With the view of imposing the tax?

Mr. BROSIUS. Is that your inference?

Mr. BRAWLEY. Yes, sir; otherwise it would be futile.

Mr. BROSIUS. And you have no definite information on that point?

Mr. BRAWLEY. No, sir. It seems to me almost certain that the penalty will be imposed. I do not see that there is any power any where

to relieve the banks. The Commissioner of Internal Revenue could not remit the tax, nor forbear to collect it.

Mr. BROSIUS. He can submit the question to the law department of the Government for a construction of the law. That would be his duty in the premises, and you do not know that he has done so, and you do not know that the Department has given any opinion upon the subject, or put any construction upon the act. You are not aware of anything of the kind?

Mr. BRAWLEY. I am not. Have you any doubt as to what construction would be put upon it?

Mr. BROSIUS. The only thing, therefore, upon which you can proceed is your general impression that such a taxation will be imposed?

Mr. BRAWLEY. Yes, sir; amounting in my own mind to a certainty.

Mr. HAUGEN. In answering Mr. Brosius, you asked whether he had any doubt as to what construction would be put upon it. Is it a fact that these people have taken steps to test it?

Mr. BRAWLEY. Yes, sir; they seem to have some doubts.

Mr. JOHNSON, of Indiana (to Mr. Warner). What was the amount of the clearing-house certificates issued in New York?

Mr. WARNER. \$41,000,000. I may say that while as a member of this committee I shall promptly vote for a favorable report on this bill with whatever amendments may be necessary to make it plain and effective, yet, so far as it concerns the New York clearing-house certificates, I never have had the slightest apprehension that any tax would ever be collected upon them. The conviction at New York, in which I join, is so strong (although some may doubt) that under prosecution we should be able to show that they did not come within such construction of the law as is necessary to subject them to the penalty, and therefore my constituents have no request whatever to make in the premises. I do believe it is simply an outrage that the Government, having refused to supply the people with currency, not merely put penalties upon national banks for supplying it in order to save themselves from utter destruction, but, the people have gone farther and utilized their business credit, the Government should take advantage of the law and impose penalties for their doing it. So far as the other matter is concerned, the question as to whether any officer should impose a penalty, it seems to me that that is aliunde. The ordinary procedure is for the collector to go and collect the tax, and not ask whether or not he shall collect the tax. He *must* collect it.

Mr. JOHNSON, of Indiana. Your answer is quite extensive. I only asked for information, and I did not suppose you would speak at such length.

Mr. BRAWLEY. I should say that my immediate constituency are not interested in this matter, nor is Mr. McLaurin's, but the banks of Columbia issued these certificates under stress of great necessity, and we want to relieve them of such penalty. I am much obliged to the committee for its kind attention.

Thereupon, the committee rose, to meet Friday, October 27, 1893, at 11 a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Friday, November 3, 1893.*

The Committee on Banking and Currency met this day at 10 a. m., Hon. William M. Springer in the chair.

The CHAIRMAN. Mr. Gresham, of Texas, is now present, and will address the committee.

**STATEMENT OF HON. WALTER GRESHAM.**

**A FLEXIBLE CURRENCY FOUNDED ON BULLION.**

Mr. GRESHAM. Mr. Chairman and gentlemen of the committee: I have no bill to analyze nor have I a prepared speech to deliver before you; therefore I will be glad for any gentleman who does not agree with any statement I may make, or the conclusions to which I arrive, to question me in regard thereto.

Mr. BROSIUS. What is your bill?

Mr. GRESHAM. As I have stated, I have no bill. I recognize the fact that in a sparsely settled agricultural section, like the State I have the honor in part to represent, more money is required to transact a given amount of business than is required for a like amount in a smaller and more densely populated country. The reason for this is that where you have a large population, with adequate banking facilities, your people become accustomed to using checks, and 95 per cent of your business passes through the clearing houses, or is transacted by the use of checks upon banks; hence, the actual volume of money required for the purposes of your trade is not a measure by which you should measure our wants. In our State, which is four or five times as large as any other State in the Union, we have but about \$28,000,000 invested in banking institutions, and our banks are, in some instances, from 10 to 100 miles apart. The character of laborers we have are not accustomed to handling checks, and, if they were, the facilities for cashing them are so insufficient that we are compelled to transact a large per cent of our business with cash; hence it is that our people are so clamorous for more money, but they want a dollar that is worth a dollar the world over.

Mr. Chairman, I believe the duty incumbent upon this committee of formulating a system under which an adequate supply of currency can be had to transact, as economically as possible, the business of the whole country is of more importance to our people and will be watched by them with more interest than any measure that will come before this Congress. I am in favor, first, of the repeal of the tax upon the circulation of State bank notes, and, second, of the remodeling of the national-banking system. Our State constitution prohibits the incorporation of any company with banking or discounting privileges, but even if this inhibition should be removed, our State and municipal securities could not be utilized as a basis for State banking, as proposed by some gentlemen who have introduced measures that are now pending before you. Our State has a bonded debt of a little less than \$4,000,000, over \$3,000,000 of which is to-day held in the vaults of our treasury to the credit of our school fund, and the last purchase of State bonds made by our State was at the price of 140. This school fund, which now has in the treasury over \$25,000,000 in interest-bearing securities, and is increasing at the rate of about \$2,000,000 per annum, absorbs all of the best municipal securities in our State as fast as they

are issued. From this you will see that in Texas there is very little probability of our being able to create a banking system based upon the class of securities which are mentioned in the bills now before you.

Mr. HALL. How about the municipal bonds? Have you municipal bonds?

Mr. GRESHAM. We have, but our constitution limits the amount of municipal bonds that can be issued, and nearly all are taken up by the State as trustee, with her common-school, university, and asylum funds.

Mr. HALL. You have the largest school fund of any State in the Union?

Mr. GRESHAM. Yes; yet we tax 20 cents on the \$100 on \$800,000,000 of values to carry on the public schools in addition to the amount that we receive annually in interest on this \$25,000,000.

The CHAIRMAN. This results from the fact that by the terms of the admission of Texas into the Union public lands belonged to the State and not the United States?

Mr. GRESHAM. Yes; Texas in the articles of annexation reserved her public lands. I am in favor of the unconditional repeal of the tax upon State banks. I see it stated, and I have heard it asserted before this committee, that if we repeal that tax the country will be flooded with wildcat institutions, and some gentlemen have stated that they were afraid to trust the State legislatures. I do not think we need have apprehensions upon that score, because whenever we throw the responsibility of supplying, partially even, the currency for the wants of commerce upon any State its legislature will make as conservative laws, and I dare say as intelligent ones, as Congress will make. But there is another reason: The facilities for getting information as to the business standing of corporations are so perfect that if any State was to pass a law under which "wildcat banks" could be incorporated, and such an institution was so incorporated, the business interests of the whole country would know it in twenty-four hours, and its "shinplasters" could not circulate in its own county; so I think there is no basis for that objection. The business interests of the country will regulate and take care of such matters if you will take off the tax.

#### A NATIONAL-BANK SYSTEM.

I am also in favor, Mr. Chairman, of a national-bank system. I recognize the fact that we must inaugurate a policy in this country by which its commerce must extend beyond our own borders. For reasons not necessary to mention here the surplus capital and the energies of the American people have for the last thirty years been turned into two channels. One is the building of manufactories and the other in the construction of railroads. The productive capacity of the manufacturing establishments in this country now far exceeds the home demand for consumption, and the building of about 70,000 miles of railroad west of the Mississippi River over the richest and most productive section of this continent has about exhausted the territory for profitable railroad building except as feeders to the great trunk lines.

This country, which has been opened by railroads within a generation, is inhabited by 15,000,000 of the most energetic, self-reliant, and industrious people the world ever saw, and though not more than 10 per cent of its natural resources are developed, yet it to-day produces all your surplus cereals, your surplus hog products, and your surplus beef products. My own State, which produces to-day one-third of the cotton raised in this country, can easily produce as much cotton as is

now produced in the whole United States. We have a large area of as fine wheat lands as there are on this continent, which are just beginning to be cultivated. Five years ago we imported about 12,000,000 bushels of wheat in manufactured products. To-day we make more than 50 per cent of the wheat we consume.

Now sir, what is to be done with these surplus manufactured and agricultural products. We must find a market abroad; we are compelled to do it. We expect to accomplish this result by reducing the tariff and removing restrictions from American shipping, but then in order to facilitate and control our commerce we should have a national-banking system that will provide a currency that will be recognized the world over, and its exchange accepted wherever offered. Let me give an illustration of how our business is now done. There is a company organized in my city, Galveston, that has invested a large amount of money in Nicaragua in the raising of bananas, coconuts, and other tropical fruits, yet the money used in raising and shipping these fruits is paid in London exchange and the products brought to our port under a foreign flag and in a foreign ship. The coffee we import from Rio is paid for and handled in the same way.

Our national-banking system was created for two purposes: First, to create a market for the bonds of this country when it was in the throes of a revolution, and, second, to establish a currency that was stable and would circulate in all sections of the country at its par value. Both of those purposes were accomplished, and just so long as the price of the Government bonds, bearing a high rate of interest, was such as to enable the banks to make money by issuing currency they issued it, and there was no trouble in this country for the lack of a circulating medium, but when the Government reduced the interest upon its bonds and the premium on them went up so high that the bank, after paying the Government tax upon its currency, would have to lose, to the extent it invested, its capital in Federal bonds as the basis for issuing currency, many of them refused to take out the amount of currency allowed under the law, thus contracting the volume of the money medium of the country.

Mr. HALL. They are not required to take out this money.

Mr. GRESHAM. No; and the result is, that not being able to make a profit on the currency in the great money centers, they are not taking it out. The only reason the banks in the South and West take out a larger proportion of currency is because the high rate of interest they receive enables them to make a profit upon it, notwithstanding the high price they pay therefor.

Mr. HALL. For fear you will not get back to that particular point, I would like to ask you one question. Do you believe if this State currency of which you speak is circulated in the States, and perform the office of interstate commerce, that that currency ought to be gotten up in such a way as would make it perfectly safe and reliable in every other State of the Union?

Mr. GRESHAM. I do not think that can be done. My own view about that matter is that the Constitution of the United States never contemplated that with the internal relations of the States the Federal Government should have anything to do; but, conceding you have the constitutional right, I do not think it is policy for the General Government to in any way attempt to regulate State banks. I believe if you will leave the States independent to act as they may think best that the business sense and the commercial interests of the country will regulate their acts better than Congress can.

Mr. HALL. You did not catch my idea about it. If you want this currency you want a currency that would circulate in all the States of the Union?

Mr. GRESHAM. I would have no objection to its so circulating; but I do not believe in any State system hampered by Federal legislation. Let us have a national-banking system supplemented by State banks. I do not believe that the State currency would circulate much beyond the confines of the State where it was issued, and that whenever it was forced, through the channels of trade, to the great commercial centers of New York, Chicago, St. Louis, Boston, Baltimore, Philadelphia, and other places it would as soon as possible go back to the State from which it came.

Mr. WARNER. You regard that as a good thing and not as a bad thing?

Mr. GRESHAM. Yes, sir.

Mr. COX. Along on that line, if it will not interrupt you, in regard to these State bank bills, when they go out and return to the home banks what will be done with them? Will they be returned for redemption? And if they come back for redemption they have to be redeemed in coin or legal-tender money. Now, how is that going to work as far as the State banks are concerned?

Mr. GRESHAM. I would leave the question as to whether they should be redeemed, and the terms of redemption, entirely with the State legislatures. I do not believe that Congress or a State legislature should put it in the power of a corporation to contract or expand its currency without limits.

Mr. COX. I agree with you entirely; but the difficulty in my mind lies in this point. If these State bank bills are returned back to the home bank, as you suggest, and in all probability they will, and they go back to the home bank, now what is going to become of them when they get back to the home bank; are they to be redeemed?

Mr. GRESHAM. If they are presented for redemption they can be.

Mr. COX. Then necessarily they must be redeemed in coin or legal-tender money.

Mr. GRESHAM. Yes, sir.

Mr. COX. So then, when you redeem, which is part of the process we are suggesting now, it would be to substitute legal tender money in place of these and retire them?

Mr. GRESHAM. My idea is, that the State banks should always be able to redeem its notes in legal-tender money and to reissue its notes whenever its financial status and the conditions of trade require it, and that these banks, under proper State regulations will not flood the country with a redundant currency.

Mr. COX. One more word and then I am through. I understand your idea is that these bank bills must be as good as legal-tender money or any other money in order to float them; you can not get them out unless they are that way. I agree with you entirely that they will be suppressed unless they are as good as other money; then there can be no motive—

Mr. GRESHAM. In what?

Mr. COX. Being returned to the bank for redemption?

Mr. GRESHAM. No sir; but I think the tendency would be for State bank notes to return to the State from which they were issued. They would not be redeemed, or if they were, would be reissued and kept in circulation as long as the bank could make a profit on them and they



were needed in the channels of trade. They would be as national-bank notes are to-day. As long as they are needed by the business of the country and the people know they can and will be redeemed on demand, they continue to circulate and are not presented for redemption.

Mr. WARNER. May I ask the gentleman from Texas whether, if there be comparative freedom to issue money which can be taken out by the banks in localities, the result would not be the banks in each locality in order to keep the land free about them for the circulation of their own notes which they could themselves put out at a profit, would not return the notes of other banks as fast as possible for redemption?

Mr. GRESHAM. Certainly.

Mr. WARNER. And that without reference to the worth of the money but in order to issue for themselves?

Mr. GRESHAM. That is exactly what they do in Canada to-day.

Gentlemen, I now come to my idea of a national-banking system. I did not intend to dwell so long on State banks, but I am glad you have questioned me in relation thereto. As I said I have no bill prepared, but I want Congress to devise some plan that will furnish relief to the people of my section of the country. As I stated a little while ago the national-banking system accomplished two purposes. It made a market for the bonds and it supplied the country with a safe and uniform currency that circulated at par over the entire country.

The national character of this currency has become interwoven into our system of business, and I do not believe that we can or ought to eliminate it. The people of this country to-day would not, in my opinion, be willing to part with it. It has shown its value and utility as a circulating medium worth par the world over that no other currency that we have ever tried in this country has possessed, and I do not believe that the people will part with the idea. Now, I know I am touching upon a point here which has divided the political parties of this country and in the older countries has caused the business men to shrink from it, and that is the right of the Government to interfere with banking in any shape whatever. I believe that the United States and Russia, and possibly one other country, are the only governments in the civilized world that issue the currency direct to the banks.

In Germany, France, Sweden, Austria-Hungary, and England the government creates a banking corporation with prescribed powers for issuing notes to circulate as money under certain restrictions and limitations. Now, if this country is to adopt a similar system, that is, create a Federal bank, with power to issue currency upon securities held by it, under terms to be prescribed by law, then our present law would not even form a basis for such a system. I do not believe such a change can or should be made, or that it would meet the wants of a large and rapidly developing country like ours, however well it may work in England, Germany, and other small but thickly settled countries. Believing it best to amend and perfect our present banking system so as to meet the wants of this country, the question is, How can this be accomplished? I think it can be done by amending the present law in the following particulars:

First. By broadening and extending the class of securities to be deposited with the Government as a basis for it to issue currency to the banks; and, second, by prescribing an elastic provision under which the banks can obtain more currency whenever the wants of trade demand it.

## BROADENING AND EXTENDING THE CLASS OF SECURITIES.

Whenever a corporation is organized with the requisite amount of capital, it should invest, say, one-half of its capital in one or more of the following securities:

- (1) United States bonds at their par value;
- (2) United States legal-tender coin;
- (3) Gold and silver bullion at its market value; and deposit the same in the United States Treasury and receive therefor an equal amount in United States legal-tender Treasury notes, which should not be allowed to be retired except upon the surrender of the bank's charter. As to the exact percentage of the bank's capital that should be required to be thus invested and deposited I am not now prepared to state, but am inclined to think 50 per cent larger than necessary, but for the argument will take that percentage.

A company organized with a cash capital of \$100,000 invests \$50,000 of it in United States bonds, in United States legal-tender coin, and in gold and silver bullion, or either of them, and deposits the same in the United States Treasury and receives therefor Treasury notes in amount equal to the face of the bonds and coin and to the market value of the bullion, the Government to be protected against the fall in value of the bullion in the same way it is now protected against the fall in the market value of bonds. Similar securities to those here mentioned as the basis for a banking system are used for that purpose in Sweden, and bullion is used as security to the Government in Canada for notes issued by it to the banks.

While the issue of Treasury notes upon legal-tender coin would not increase the volume of currency, yet their substitution for coin would save the abrasion and a large per cent of the expense incident to handling and transporting such money from one section of the country to another. They would also be much more convenient for and popular with the people than gold or silver coin.

## AN ELASTIC CURRENCY.

The greatest defect in our national system of banking is its want of elasticity, the effect of which is, at certain seasons of the year when a large amount of currency is required to move the crops, to cause a money stringency in all sections of the country, but particularly in the West and South.

If for any cause the banks in the money centers of the country are unable or unwilling to supply the demand, then the banks in the agricultural sections, in order to get money to move the crops, are compelled to call in their loans, to pay which the debtor classes have to sacrifice their property or pay a much higher rate of interest, and are frequently unable to meet their obligations at any price. In order that the country might at all times have a sufficient amount of currency to meet the demands of commerce each bank should have the right to receive from the Treasury an additional amount of legal-tender Treasury notes, not to exceed the amount issued to it when it was incorporated, the amount of notes received by it in no instance to exceed the amount of its unimpaired cash capital. For the use of this "additional currency" the bank receiving it should pay into the Treasury interest at the rate of from 4 to 10 per cent per annum for the time it is kept in circulation.

The Government, to secure itself against loss that it might sustain by reason of the issue of this "additional currency," should create a redemption fund to consist of the interest collected on the "additional currency" and the money received from an annual tax upon the Treasury notes in circulation—as the banks are now taxed—until such redemption fund shall equal, say 8 per cent of the Treasury notes outstanding; then the tax to cease. The Government should also have a first lien, in case of failure, upon all the assets of the bank.

To illustrate as before: The bank with a cash capital of \$100,000 could, in addition to the \$50,000 issued to it on its securities deposited in the Treasury, receive an additional amount in currency not to exceed \$50,000, for which it must pay interest at the rate of from 4 per cent to 10 per cent per annum for the time it keeps such "additional currency" out. The result would be that as soon as the demand for this "additional currency" ceased and the bank could not make a profit by keeping it in circulation, it would surrender it to the Treasury for cancellation and stop its interest.

These suggestions for an elastic currency are almost identical with the provisions of the Canadian banking system, while the tax upon the "additional currency" was suggested by a similar provision in the German law.

Mr. JOHNSON, of Indiana. How about the interest that the banks would charge their customers? Of course they would have to lend it at rates over the amount you tax them extra. Would not that make the people pay a higher rate of interest?

Mr. GRESHAM. I do not think it would. Assuming the amount of capital invested in national banks to be \$700,000,000, this system would compel the banks to take out \$350,000,000 of currency, which would be over \$150,000,000 more than they now have outstanding. Again, whenever the business of the country required more money than the banks had in circulation, the banks could, by paying interest, take out "additional currency" to the extent of \$350,000,000 more. This would, I think, have a tendency to lower rather than raise the rate of interest.

Mr. COX. Just there, right on that line—

Mr. JOHNSON, of Indiana. I was simply speaking of the interest which the customers pay the banks.

Mr. GRESHAM. I will come to that in a minute.

Mr. COX. I understand your theory there. Suppose the Government issues these notes; your idea is that the Government should issue them?

Mr. GRESHAM. Yes, sir; I think it would be better; you would have to change the whole system if you did not do it.

Mr. COX. I understand that. Do you mean to convey the idea that the Government is to be liable for these extra notes issued, which you call additional currency?

Mr. GRESHAM. I would make the Government absolutely liable. Now, I want to answer Mr. Johnson's objection that the tendency would be to make the interest too high.

Mr. JOHNSON, of Indiana. I did not put it as an objection; it was simply a query.

Mr. GRESHAM. Well, I want to answer that question. In certain seasons of the year the banks in the great commercial centers of this country—even now—become full of money and they find it difficult to lend at a good rate of interest. When such conditions arise under the proposed system, these banks would rediscount the paper held by the banks in the South and West at a less rate than those banks could obtain additional currency from the Treasury. The effect of this would

be to lower the rate of interest our banks would have to pay and thereby enable them to let our people have money at a cheaper rate.

Mr. JOHNSON, of Indiana. That might make the interest low in a section of the country where money was congested, but how would it out in the sparsely settled communities?

Mr. GRESHAM. Those banks could go to the Treasury and obtain "additional currency" to the extent of 50 per cent of their capital upon the terms I have stated. When money becomes cheap in the East and other money centers of the world they will go to our country and, if we have the right kind of security, possibly let us have money a little cheaper than our banks could get it under the provisions of the proposed bill.

Mr. JOHNSON, of Indiana. Is that relying upon foreign money?

Mr. GRESHAM. It is relying upon money from all quarters of the globe.

Mr. WARNER. May I not ask the gentleman from Texas, is it not also a fact, no matter what the condition might be, upon the issue of an additional currency to meet a financial stringency, so long as these conditions are possible to be complied with, that the result will be in any case to make the interest of money less than if that supply, no matter how inadequate, were not there?

Mr. GRESHAM. That is true.

Mr. JOHNSON, of Indiana. Would not the consciousness, on the part of those whom you think would take out this extra amount of money of which you speak, that the congested money centers would do precisely as you say, underbid them in regard to interest, prevent first-class bankers from taking that money out?

Mr. GRESHAM. Even then the country would be benefited by getting a lower rate of interest.

Mr. JOHNSON, of Indiana. It might prevent the application for this additional money?

Mr. GRESHAM. Suppose it did; the additional money is to meet an emergency. If the wants of trade do not demand it, it will not be taken out.

Mr. BROSIUS. You propose to meet an elastic demand by an elastic supply?

Mr. GRESHAM. That is the idea.

Mr. BROSIUS. Well, now, I infer at all times the demand for money has been of that character, elastic; that there is more demand in some seasons than in others.

Mr. GRESHAM. And in some countries more than others.

Mr. BROSIUS. And under our national-banking system there has been some degree of elasticity—that is to say, the banks could take out more or less?

Mr. GRESHAM. They had to buy Government bonds and pay for them, and then receive only 90 per cent of their face value in currency.

Mr. BROSIUS. Well, having the Government bonds, they have not in the past exhausted their right to take out currency. I want to direct your attention to this condition of things which has struck me as being a little singular. Banks will not always meet an elastic demand when they have in their own hand the control of elastic appliances to do so. A short time ago, when we were very much in need of currency, it was supposed that the national banks of this country were short of their legal issue under the bonds already deposited, \$7,000,000, right in the midst of a season when the demand really reached the very summit, yet that elastic appliance already provided for by our national-bank

law was not applied by the national banks. Now, will it be under your system?

Mr. GRESHAM. As a general rule the banks, as long as they could make a profit on the currency, they took it out; particularly was that the case in the West and South, where the rates of interest are higher than in the money centers. If you adopt the plan suggested the banks will have the power to get the "additional currency," whenever it is needed, direct from the Treasury, and to that extent will be independent of the banks in the great money centers. We can pass no law that will make the banks of the South and West absolutely independent, for we have not accumulated capital sufficient to transact the business or supply the wants of our country, and must look to the accumulated wealth of the East for our money supply.

Mr. BROSIOUS. I wish to direct your attention to another point. Is there any measure or any scheme which is proposed—and I recognize a great deal of merit in what you state—to enable the banks to take advantage of their right to increase that circulation in certain seasons of the year, and not to make that increase in seasons when that tends to unduly increase the circulation.

Mr. GRESHAM. I think the best answer I can make to that proposition, in addition to what I have already stated, is that in Canada where a similar provision has existed for some time the banks have never issued a surplus of currency or experienced a money stringency like those we so frequently have in this country. Under the limitations and restrictions proposed I think we can safely leave this matter to the business sagacity and conservatism of the banks.

Mr. BROSIOUS. The Canadian system seems to work very well in some respects. The English system is absolutely restricted, and they have had to suspend the operation of the act three times since 1844 to get currency. Now, some of the money philosophers of this country, have been trying to deduce a scheme by which a system will be flexible and elastic in a way such as you propose, and to have this elasticity available at the time when it is needed without making it available at a time when it is not needed.

Mr. GRESHAM. That is the whole problem and is attempted to be solved in the manner proposed. Now, England recognizes the fact that sometimes—

Mr. BROSIOUS. I beg your pardon.

Mr. GRESHAM. She wants an elastic currency.

Mr. BROSIOUS. Oh, yes; she recognizes she needs it.

Mr. GRESHAM. She recognizes she needs it and on three different occasions she has had to give assistance to her bank, but the conditions in a small country like England, where there is so much capital, are very different from what they are in a new country like ours. In the West where our people have built up the country by their energy and on borrowed capital the English banking system would not meet our wants.

Mr. JOHNSON, of Indiana. Speaking about the matter of which I spoke to you a minute ago, I want to see if I have your idea of it.

Mr. GRESHAM. Certainly.

Mr. JOHNSON, of Indiana. Taking an agricultural country, where they raise cereals in order to market crops at certain seasons, you say there is an unusual demand for money at that time. Now, is it your proposition that the banks may increase their circulation in the way you have stated, and that while this increased circulation is taken out they pay a tax which goes to the Government—

Mr. GRESHAM. To a redemption fund.

Mr. JOHNSON, of Indiana. It does not make any difference; they pay the tax and they do not get it. Now, bankers will not lend money unless they can make a profit. Of course, they have to charge enough to reimburse them for this tax imposed besides charging for loaning that money?

Mr. GRESHAM. Yes, sir.

Mr. JOHNSON, of Indiana. Do I understand you think the congested or surplus capital at that time in the great money centers, which does not seek to enlarge itself by taking out an additional circulation, that such banks would enter in competition with the money taken out and cut down the rate of interest?

Mr. GRESHAM. Yes, sir; I think they would.

Mr. JOHNSON, of Indiana. And not keep it beyond a point at which a profit will be made after paying the tax?

Mr. GRESHAM. Yes, sir.

Mr. JOHNSON, of Indiana. You think that would decrease the interest from what is now paid?

Mr. GRESHAM. I think so.

Mr. WARNER. As the gentleman has referred to the Canadian system, as well as the German system, may I not ask, further, is it not a fact, in the preparation of the question I am about to ask, that the Canadian system permits an issue of from 75 to 100 per cent of the capital, but, as a matter of fact, the issue rarely rises above 50 per cent, and that, as an actual fact, the elastic currency runs about 16 to 20 per cent. Now, what I was about to ask you is this: the Canadian system having demonstrated that far below the margin of safety suggested by the gentleman there is still a field for two or three times the amount of elasticity that is found by experience to be needed. Now, I want to ask, further, whether there would be any objection, instead of imposing this 4 or 5 per cent tax, to simply put on a graduated excess tax, you might so call it, so that there should be no tightening without a supply for any length of time, but a gradual increase of tightness as that supply was increased?

Mr. GRESHAM. I see the point you make, and I would have no objection to it. I failed to state in regard to the redemption fund that while Canada limits this to 5 per cent of the bank's capital, I would limit it here to 8 per cent of the currency issued by the Government to the banks, because the experience of the national banks in the last twenty-five years has demonstrated, I believe, that one-tenth of 1 per cent tax upon all the circulating notes issued by the national banks would pay the notes of the failing banks. Therefore, I think, a redemption fund equal to 8 per cent of the currency would be ample to protect the Government.

Mr. WARNER. You would regard it as a gain and not a detriment to make the tax a graduated one?

Mr. GRESHAM. Yes; I think so. Mr. Chairman, there is one other feature I would suggest, which has worked in Sweden, it seems admirably, and for forty-two years they have had no bank failures there, and that is whenever a bank examiner ascertains that the capital of any bank has been impaired to the extent of 10 per cent it shall be required, within thirty days, to make its capital good or the Government will take charge of it.

Mr. BROSIUS. Have not we something of that kind under our present banking law?

Mr. GRESHAM. I do not think it is 10 per cent.

Mr. BROSIUS. I do not know about the per cent. I do not recollect it specifically, only in a general way.

Mr. JOHNSON, of Indiana. You were speaking of your State as being a sparsely settled community and there being a great deal of demand for money at a certain time, and spoke about the impossibility of using checks, but that everything was done on a cash basis?

Mr. GRESHAM. In some sections of my State a large per cent of the business has to be transacted with cash.

Mr. JOHNSON, of Indiana. How would you remedy that defect and get money out in those sparsely settled sections? Of course there must be something to give for that money so that you can get it there.

Mr. GRESHAM. In our State, as it is generally in the South and West, the people are in debt. We have a new country and have not had time, in the nature of things, however great our natural resources are, to accumulate much capital. The minute you furnish facilities for the transaction of business, capitalists seeing the great possibilities in our country for profit will invest their money with us. In my State in 1889 I think we only had but \$15,000,000 of banking capital and nearly all invested in the national banks. In eighteen months thereafter it had increased 50 per cent. Where did that money come from? Who were the owners of that national-bank stock? Of course the bulk of it is owned by our people, but a large per cent is owned by the people of the East who have confidence in the integrity of the managers of these banks and in the ability and integrity of our people to meet their obligations.

Mr. JOHNSON, of Indiana. They would hardly establish them in a community unless there was some demand, unless there was money to be loaned, unless there were discounts?

Mr. GRESHAM. In my State I know that money has been so tight that frequently the people have had to pay 2 per cent a month for its use. Give us a good banking system and this would never occur.

Mr. JOHNSON, of Indiana. To what do you attribute it?

Mr. GRESHAM. In the first place because the field is so great for speculation they can sometimes afford to pay it for a short time.

Mr. JOHNSON, of Indiana. Was it not because you did not have the things on hand to give for the money?

Mr. GRESHAM. Of course in a new country we have not the kind of collaterals that banks usually take. But with a good banking system money would come into our State and the rates of interest would fall. The legal rate of interest in our State for the last two years has been reduced to 6 per cent.

Mr. JOHNSON, of Indiana. Is it not a fact that there has always been a scarcity of money in a sparsely settled country?

Mr. GRESHAM. Of course.

Mr. JOHNSON, of Indiana. And can any system be devised that will obviate it?

Mr. GRESHAM. I think if you will give us a good banking system, capital will seek through the banks investments in our State. Of course, you can not by legislation give us plenty of money, but if you will give us the facilities for handling our business, we can find capital that will help us until we can accumulate it.

Mr. BROSIUS. Does it not strike you it would be natural for the business people of Texas to provide themselves with the facilities to transact their business? Suppose the Government of the United States would rain down a shower of greenbacks on your soil to-day—

Mr. GRESHAM. We do not want that.

Mr. BROSIUS. What would become of that? Would it stay there?

Mr. GRESHAM. No, sir; it would gravitate back to the money centers of the world.

Mr. BROSIUS. Just the same as the water which falls goes to a river or the ocean?

Mr. GRESHAM. It would go just where we owe it. We do not ask, gentlemen, the people of Texas do not want, anything but a sound dollar, but they want facilities to handle their business so they can save a part of that dollar.

Mr. BROSIUS. Did I understand you to say that your constitution prohibited you from banking?

Mr. GRESHAM. Yes, sir.

Mr. BROSIUS. You said awhile ago, I do not know whether you meant to say it or not, that it prohibited any corporation from doing a discount or banking business?

Mr. GRESHAM. It does. It prohibits the creation of any corporation with banking or discounting privileges.

Mr. BROSIUS. Do you not have banks there?

Mr. GRESHAM. Yes; they are nearly all national banks.

Mr. BROSIUS. Do you not have any State banks?

Mr. GRESHAM. We have a few State banks incorporated between 1869 and 1874. This inhibition was put in our constitution in 1845, and it has been there ever since except during the interval between 1869 and 1874.

Mr. BROSIUS. And you have no State banks?

Mr. GRESHAM. None, except as I have stated.

Mr. BROSIUS. But you had no private banking institutions?

Mr. GRESHAM. No, sir.

Mr. JOHNSON, of Indiana. I want to get at one matter we were talking about. Suppose money was flooded in this country, how would it obviate the difficulty which you now have in these thinly settled agricultural districts?

Mr. GRESHAM. To get banks?

Mr. JOHNSON, of Indiana. No, to get money.

Mr. GRESHAM. I think if you would give us a good banking system moneyed men would establish banks in every section of the country where the wants of commerce required it, and in that way we would get relief.

Mr. JOHNSON, of Indiana. What I am trying to get at is a remedy for this scarcity of money in certain seasons of the year in your agricultural sections.

Mr. GRESHAM. Whenever you make it to the interest of the people in the East who have money to invest it with us they will do it.

Mr. JOHNSON, of Indiana. How will money become more plentiful by that fact?

Mr. GRESHAM. You give the people the facilities to handle what they have, the riches they have already accumulated, and they with the aid of capital from abroad will make money.

Mr. JOHNSON, of Indiana. They put their money, of course, wherever they can get the best returns. If they can get it in my section they will go there and put their money, and if they can get it in your section they will go there and put their money, of course.

Mr. GRESHAM. Of course they will, and in that Western country, where the facilities are so great for money making on account of its natural resources, we pay more for the use of money than they do or can afford to do in older and less productive sections of our country.



If I had the time I would like to discuss the national-bank system with branch banks, not only as it would affect the needs of this country but also its utility in developing and building up our foreign commerce.

The CHAIRMAN. You can add that to your remarks if you desire.

Mr. BEOSIUS. I would be glad if you would say what you have to say now, and let the reporter take it down.

Mr. GRESHAM. It is a question involving too much to be discussed within the time the committee could now give me.

The CHAIRMAN. The gentleman has the privilege of extending his remarks if he wishes.

### STATEMENT OF HON. GEORGE W. COOPER.

Hon. GEORGE W. COOPER, a Representative from the State of Indiana, next addressed the committee in behalf of the following bill:

A BILL to subject to State taxation national-bank notes and United States Treasury notes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all circulating notes of national-banking associations and all United States legal-tender notes and all other notes and certificates of the United States payable on demand and circulating as currency shall not be exempt from taxation under the authority of any State or Territory: Provided, That any such taxation shall be exercised in the same manner and at the same rate that any such State or Territory shall tax other money within its jurisdiction.*

SEC. 2. That the provisions of this act shall not be deemed or held to change existing laws in respect of the taxation of national-banking associations.

Mr. COOPER said: Mr. Chairman and gentlemen of the committee, I beg leave to call your attention to a bill which I have introduced, the provisions of which authorize the States and Territories to tax the circulating notes of national banks, the legal tender Treasury notes, commonly called greenbacks, and all other notes and certificates payable on demand and circulating as money.

The CHAIRMAN. This is House bill 4326.

Mr. COOPER. Yes, sir; Mr. Chairman, we are in this singular situation: The Government of the United States has in circulation very many different kinds of money, in fact our financial system, if it may be called a system, is a piece of patchwork, the result of experiment, necessity, and compromise. We have gold, silver, nickel, and copper, greenbacks, national bank notes, gold certificates, silver certificates, Treasury notes, currency certificates, and perhaps other kinds which I can not now name. In most of the States and Territories efforts are made to tax money as other personal property is taxed, but owing to existing laws great difficulty is experienced in subjecting this class of property to its fair share of the burdens of taxation. All obligations of the Government, including those which circulate as money, are by law exempt from local taxation. There is, therefore, a temptation offered to all such as are in search of methods to avoid taxation to convert other property and money into these forms about the time when property is to be listed for taxation.

And I am sorry to say there is also not only the temptation, but a disposition to report property and money as being held in forms exempt by law, when in fact it is not so held. So much is this done and so widespread is the evil that it has furnished the subject for litigation in the courts of many of the States, and in the Supreme Court here. It has been repeatedly denounced in political platforms and so far as I

know defended no where. In fact this condition seems to be the result more of oversight than of any purpose, and why it has continued so long it is impossible to tell.

Mr. BROSIUS. You advance the argument as one reason for taxing one thing is that you tax another; then why should you not tax the United States bonds?

Mr. COOPER. Well, that is an entirely different proposition. I do not say that I should not favor the taxation of bonds, but there is some reason why that might be inexpedient, while I can see none whatever against taxing the currency. Bonds must be negotiated subject to whatever burdens they may bear; if we subject them to local taxation the Government would be obliged to pay a higher rate of interest and in the end the result would be the same.

The CHAIRMAN. What is the average rate of State, county, and municipal tax in the county in which you live?

Mr. COOPER. Well, that varies somewhat in the counties and townships, but I should say \$1.50 for State and county and \$1 for the city.

The CHAIRMAN. That is \$2.50.

Mr. COOPER. Two and a half per cent.

The CHAIRMAN. You believe that greenbacks circulating as money should be subject to this tax of two and a half per cent; is it your opinion that greenbacks would circulate among your people if they were subject to a tax of two and a half per cent?

Mr. COOPER. Gold and silver circulate. I do not mean to impose any special burden upon this class of currency, but simply put it on an equal footing with all the other.

The CHAIRMAN. Silver certificates are not taxable, are they?

Mr. COOPER. Yes, sir, I presume so. There might be a question in regard to Treasury notes issued for the purchase of bullion under the law of 1890; there might be some question as to that, but silver certificates circulating are as taxable as silver would be. They are nothing but certificates of deposit.

The CHAIRMAN. Is there no danger of the States taxing the Government issues out of existence, if permitted?

Mr. COOPER. The proposition I make is that they be taxed as other money and to no greater extent.

Mr. SPERRY. Would you refer to the statutes in which they are exempt from taxation?

Mr. COOPER. Yes, sir—section 3701 of the Revised Statutes reads as follows:

SECTION 3701. All stocks, bonds, Treasury notes, and other obligations of the United States, shall be exempt from taxation by or under State or municipal or local authority.

The CHAIRMAN. They are Government securities?

Mr. COOPER. Yes, sir; they are obligations of the United States.

The CHAIRMAN. Then they are not taxable by the decision of the Supreme Court of the United States?

Mr. COOPER. No, sir; I think this question was first decided in a case brought by the bank of New York and reported in 7 Wallace United States Supreme Court Reports. If you will look at that case you will find that while the court held that under the law these obligations were exempt, the court was also clearly of the opinion that there was no good reason for the exemption and that it was within the power of Congress to render them subject to local taxation. Gentlemen, if you will look at some of these decisions you will see to what extremes men have gone in their efforts to avoid taxation by means of

this condition of our laws. Take for instance the case of *Mitchell vs. Board of Commissioners of Leavenworth County, Kans.*, reported in 91 United States Supreme Court Reports. The facts in that case were as follows (p. 206):

This case presents the following facts: *Mitchell*, plaintiff, kept his account with a banking firm in Leavenworth. On the 28th of February, 1870, he had a balance to his credit of \$19,350 in current funds, for which he that day gave his check, payable to himself in United States notes. They were paid to him. He immediately inclosed them in a sealed package and placed them for safe-keeping in the vault of the bank. On the 3d of March he withdrew his package and deposited the notes to his credit. This was done for the sole purpose of escaping taxation upon his money on deposit.

It is true that this particular tax dodger did not succeed, but it was because he had mistaken his remedy and gone into a court of equity instead of resorting to his legal remedy. While he failed, thousands every year succeed.

There is a case reported in the 59th Indiana; the case of *Ogden, treasurer, vs. Walker* (page 460), in which the following state of facts is presented:

It appears by the complaint that the plaintiff owned and had in his possession on the 1st day of April, 1873, \$5,681 in greenbacks. When the assessor called upon him he furnished a full and true list of his personal property, which was duly appraised by the assessor at \$943. The assessor then called upon him for the amount of money on hand on April 1, to which he replied that he had no money on that day except greenbacks, which he was not, in his opinion, required to list.

This gentlemen was more fortunate and succeeded in avoiding the tax. I need not multiply these cases because this practice is so common that it has not escaped the observation of any whose attention has been directed to the subject.

Perhaps the most common and uniform use of this advantage is taken by the banks. Their opportunities for doing so are superior to all others, they handle all of the currency and it is very easy to cull out and lay aside that class of money which will enable them to avoid taxation. Let me also call your attention to the fact that the banks are using these notes more and more to make up the sum of their lawful reserves. In the last annual report of the Comptroller of the Currency on pages 164, 165, you will find a statement showing a classification of the reserve held by all the banks of the States and Territories and also of the reserve cities. This statement shows that these banks are carrying in their vaults as a part of the reserve required of them by law about \$100,000,000 in legal tender.

At the date of the last call, which was September 30, 1892, the sum held by all the banks was \$104,267,945. It will also be seen if glancing down the column by years how this kind of money has grown in favor as a reserve fund. For instance in 1886, the first year given here, the sum was \$62,812,322, from which amount it has gradually increased to over one hundred millions. Here then you see is \$100,000,000 exempt from local taxation in the hands of the banks alone, but I have no doubt whatever that this amount, by one and another device, is greatly increased about the time at which property must be listed for taxation. I have been told that this money is shifted from State to State, for the dates at which property is listed for taxation differ in the States. In Ohio the date is the second Monday in April; in Indiana the first day in April; in Illinois the first day of May. Here you can see how it is possible for this money to be used in three States. You may suppose it will not be done; you may think it even incredible that it is done, but I show you that it is possible, and I assure you that I have heard of its being done. It ought not to be possible.

But, gentlemen, it is even worse than this; you will see by the language of the bill that national-bank notes are also included. And right here I ought to say that this bill is not original with me. It was introduced precisely in this form by Senator George, of Mississippi, both in the Fifty-first and Fifty-second Congresses. However, ex-Senator McDonald, of Indiana, I believe, was the first to introduce the bill; this was in the Forty-sixth Congress. But I was going to say that the supreme court of Mississippi has decided that national-bank notes are also exempt from taxation. This decision is based upon the language of the statutes defining "Obligations of the United States," which reads as follows:

SEC. 5413. The words "obligations or other security of the United States" shall be held to mean all bonds, certificates of indebtedness, national bank, currency, coupons, United States notes, Treasury notes, fractional notes, etc.

The language of this decision on this point will be found on page 454 of the 52d Mississippi Reports, and is as follows:

2. The national bank notes issued by the national banking associations, under the authority of Congress, are also obligations of the National Government, the only difference between them and the legal tender notes being that the Government is primarily liable for the latter, and secondarily liable for the former, upon the failure or default of the national bank issuing the notes. Acts of February 25, 1863, March, 3, 1863, June 3, 1864, and June 30, 1864.

I do not think this case is followed by any of the courts elsewhere, but it serves to show how uncertain and ill-defined the law is upon this important subject. Then, too, as has been suggested, here now come the new Treasury notes issued under the Sherman law, and the gold and silver certificates; these all raise the question and offer the temptation. Now, gentlemen, ought we not in justice to all the people either make all of this money subject to taxation or relieve it all.

#### AS TO THE POWER.

I have been asked whether we have the power to render this property taxable. I have already said that the Supreme Court, 7th Wallace, clearly indicated that we had the power; in fact, I think the court strongly intimates that we ought to do so. I quote from that decision on page 30:

But it was insisted that they [speaking of the greenbacks] were issued as money; that their controlling quality was that of money, and that, therefore, they were subject to taxation in the same manner, and to the same extent, as coin issued under like authority. And there is certainly much force in the argument. It is clear that these notes were intended to circulate as money, and, with the national bank notes, to constitute the credit currency of the country. Nor is it easy to see that the taxation of these notes, used as money, and held by individual owners, can control or embarrass the power of the Government in issuing them for circulation, more than like taxation embarrasses its power in coining and issuing gold and silver money for circulation.

And we think it clearly within the discretion of Congress to determine whether, in view of all the circumstances attending the issue of the notes, their usefulness, as a means of carrying on the Government, would be enhanced by exemption from taxation.

In discussing this question, in his work on taxation, Judge Cooley, on page 84, says:

But the sovereignty, in whose interest the exemption exists, is fully protected if it controls in respect to taxation; and it may, in its discretion, permit its own agencies or its own property to be taxed by the other, under limitations prescribed by itself, as the Federal Government has permitted the States to tax the national banks as they tax other moneyed corporations within their jurisdiction.

## WILL IT CONTRACT THE CURRENCY ?

Your chairman asks me whether subjecting these notes to taxation will not drive them out of circulation? I think, on the contrary, it will drive them into circulation. There are \$346,000,000 in greenbacks. Where are they? Who sees one? It can hardly be said that they are in circulation at all; instead of being the money of the people, as it once was, it is hoarded by the banks and hidden by the miser, and clearly, it seems to me, because of its exemption from taxation. You can not get silver to circulate; the banks won't take it; they prefer greenbacks and other Government obligations, plainly because they are exempt from taxation while silver is not. Do we not all know that, when any special value attaches to one kind of money, it immediately disappears? It is so in this case. If we pass this bill, we will drive this money from its hiding and put it in motion.

Now, gentlemen, in conclusion let me say that in each of our State constitutions we have some provision which requires taxation to be uniform and equal. Why, in Indiana our legislature at one time passed a law exempting to widows a certain sum from taxation, and the supreme court decided it unconstitutional. If she were a banker and had it in greenbacks she might be exempt; if she were poor and her property only a home to shelter the orphans, it could not escape taxation. There is no more reason why one kind of money should be exempt from taxation where it all passes at par than there is for exempting any other species of property. You might as well exempt a white horse or a red cow. While you gentlemen are now investigating these subjects with a view to reforming our currency system, I hope you will not overlook this much-needed reform. We ought either to make all the money taxable or relieve it all, for I do not exaggerate when I say that the present condition is a most fruitful source of fraud, injustice, and crime.

This is all I desire to say, gentlemen, and I thank you for your kind attention.

The committee thereupon rose to meet on Tuesday next, if Congress is in session; and if not, to meet on the first Tuesday in December.

**STATEMENT OF HON. JOSEPH H. WALKER, REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS.**

On December 8, 1893, on motion of Mr. Warner, Mr. Walker was given the privilege of submitting to the Committee any remarks upon his currency bill, and of having them printed with the hearings of the Committee.

Mr. Walker submitted the following:

**MR. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE:** The importance of the work which devolves primarily upon us and upon the present Congress, in composing the finances of the country after thirty years of empirical practice, is impossible of realization to anyone who has not made a careful and exhaustive study of present conditions in order to comprehend the chaotic condition of our finances as compared with the symmetry and strength of the financial systems of other first-class powers.

A strong and well-knit financial system, one that can safely stand the shock of war or civil commotion, is of the very first importance.

In fact, it ranks before an army or a navy, in international importance, as it does to domestic prosperity. To-day, as always, the sinews of war is money. Not gold or silver. Their day as munitions of war, has departed, never to return. A financial system that enables a nation to avail itself of its utmost resources in time of war without oppression to a single city or town, or even a single citizen, but distributes its burden with the gentle pressure of the air over every man of its millions of people, even over many years of its generations, makes a nation invincible, not only in creating an army and a navy, but in sustaining and handling them. From military considerations are we bidden to do our work diligently and well.

We have recently entered most brilliantly upon the development of a navy commensurate with our greatness in speed, power, and evolution.

For a republic whose geographical position is almost unassailable and which has an impregnable fortress in the heart of each one of sixty-five millions of people, our army is ideal.

Upon us is devolved the duty of fashioning a financial system that will allow every nerve and sinew of this people to be made effective, without loss or hindrance to industrial progress in time of peace, and also to converge them at one time and place and without loss or shock to the people in their daily avocations, in time of war.

For want of such a financial system, when the late civil war broke out, our debt was piled up to half as much again to double its normal size. Should we enter to-day upon a foreign war of large dimensions, our financial experience would be scarcely less disastrous.

Our experience with a most abundant but not flexible currency has been most bitter in time of peace. A hundredfold more bitter would it be in time of war, even if it did not utterly break down. But I am not alone in this opinion when I say to you if a great war should be entered upon, it would break down utterly and irreparably. It would be a repetition upon a more gigantic scale of our financial experience of 1861.

#### INADEQUACY OF THE PRESENT BANKING SYSTEM.

A banking system that will not run smoothly and successfully under the most adverse circumstances is a banking system not worth talking about. A banking system that does not provide for specie payments and for the suspension of specie payments, a banking system that will not run smoothly during the most gigantic foreign war or intense civil commotion and civil strife, is not worthy of our attention. Our present system not only will break down in the conditions named, but it has not run economically and safely in normal conditions. It never has maintained specie payments, in and of itself, by its own working, for a day, since it was inaugurated. While seeming to do so, its safety has really been secured by the voluntary action of our banks outside the law and at great peril and at unreasonable expense and risk to the people, caused wholly by the position in which the Government is placed with reference to our currency. This was abundantly proved in the financial crisis just ended, as it has been in every preceding monetary disturbance. Our abounding national strength and vigor has made us blind to defects which would have given pause to a less virile people.

I can not fully describe the perils of the situation in the time allotted me; neither can I fully present the advantages of a banking system

such as is developed in the bill H. R. 171, which I had the honor of drafting and in advocacy of which I now address you.

TEXT OF BILL H. E. 171.

A BILL to secure to the people the advantages accruing from the issue of circulating promissory notes by banks, to increase the volume of such notes, and to supervise and control banks by officers of the United States.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That national banking associations organized for the transaction of business under this act shall be subject to existing law excepting as is hereinafter provided.

SEC. 2. That any bank incorporated by special law, or any banking institution organized under a general law of any State, may become a national banking association under this act by the name prescribed in its organization certificate; and in such case the articles of association and the organization certificate may be executed by a majority of the directors of the bank or banking association; and the certificate shall declare that the owners of two-thirds of the capital stock have authorized the directors to make such certificate and to change and convert the bank or banking institution into a national banking association. A majority of the directors, after executing the articles of association and organization certificate, shall have power to execute all other papers, and to do whatever may be required to make the organization perfect and complete under this act. A majority of the board of directors of each association organized under this act, and not less than three in number, shall be of persons who perform no other regular service for the association. Any banking association organized and doing business under existing law of the United States by giving notice to the Comptroller of the Currency of its desire so to do, may organize under this act, with the approval of the Comptroller of the Currency.

SEC. 3. That every association organized under this act, before it shall be authorized to commence a banking business, shall deliver to the Treasury of the United States, United States legal-tender notes, or coin, or coin and bullion certificates, or mixed, as provided in section four, in amounts as follows:

First. Every association having a capital not exceeding two hundred and fifty thousand dollars, an amount equal to not less than one-tenth of the capital stock.

Second. Every association having a capital in excess of two hundred and fifty thousand dollars, an amount not less than twenty-five thousand dollars. The notes issued in blank under section four shall never be less than fifty per centum of all the promissory currency notes issued to the association.

SEC. 4. That, upon a delivery of coin, coin or bullion certificates, or United States legal-tender notes, or mixed, to the Treasurer, the association making the same shall be entitled to receive from the Comptroller of the Currency promissory currency notes of different denominations, in blank, registered and countersigned as provided by existing law, equal in amount to the coin, coin and bullion certificates, and United States legal-tender notes delivered; but at no time shall the total amount of all currency notes supplied to and issued by any association under this section and section five exceed the amount of its capital stock at such time actually paid in. The lawful description of notes issued under this section shall be "greenbacks."

SEC. 5. That the Comptroller of the Currency may issue, in blank, to any association, and the association may issue, promissory currency notes of different denominations, as provided in section nine, in addition to the promissory currency notes described in section four, not to exceed in amount a sum equal to the sum of its reserve held during the first year of its corporate existence. Thereafter he may issue to any association the notes described in this section to the amount of the average reserve held by that association during any six consecutive months of the previous year and recall the same from any association at any time in order to reduce the volume of such notes held by any association to the amount of the reserve averaged to be held during any six consecutive months of the previous year. The amount to be issued to or retained by any association under this section shall be annually or oftener, at his discretion, ascertained and determined by the Comptroller of the Currency. The promissory currency notes provided for by this section shall have printed on them a different affirmation from those described in section four. The lawful name and description of notes issued under this section shall be "reserve notes." *Provided,* That the notes issued in blank in compliance with this section shall never be more than fifty per centum of all the promissory currency notes issued in blank to the association.

SEC. 6. That the Treasurer shall forthwith redeem and destroy existing United States legal-tender notes issued under acts passed before July first, eighteen hundred and ninety, in such manner as he may deem proper, equal in amount to ninety per

centum of the aggregate of the coin, coin certificates, and United States legal-tender notes received for promissory currency notes, in blank, issued under section four, and the Treasurer shall set aside ten per centum of such aggregate paid in for the redemption fund, as described in section fourteen.

SEC. 7. That when there shall be no more in amount of the legal-tender notes described in section six outstanding, then the amount of the reserve fund then held by the Treasurer under existing law for the redemption of such notes, the reserve fund so held shall then be set aside and used only to redeem and cancel such notes, and from that date so much of all acts and parts of acts as authorize, require, or permit the issue or reissue of such legal-tender notes shall have no force or validity, and thereafter such notes shall not be held in the cash reserve fund of any national banking association. Upon the execution of the preceding provisions of this section, the provisions of section six concerning legal-tender notes issued under acts passed before July first, eighteen hundred and ninety, shall apply to Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, so long as such notes are paid into the Treasury or presented for redemption. Thereafter the ninety per centum shall be covered into the Treasury as a miscellaneous receipt.

SEC. 8. That if any banking association organized under this act neglects or refuses to take and issue currency notes, as provided for in section four, to the amount averaged to be taken and issued by three-fifths of all national banking associations organized under this act of like or nearly like capital and deposits, and doing the same or nearly the same class of banking business done by such banking associations when directed so to do by the Comptroller of the Currency upon a notice issued by the Comptroller of the Currency and approved by the Secretary of the Treasury, and fails to take the currency circulating notes directed to be taken by said officers for the period of three months, it shall be liable to and shall pay into the Treasury of the United States a duty equivalent to twelve per centum per annum upon the face value of the notes it is directed to take and fails to take so long as the failure continues. The Comptroller of the Currency may classify and reclassify or group together, in whole or in part, at any time he may deem proper, banks organized under this act, for the purpose of executing the provisions of this section, and the decision of the Comptroller as to what class or group any particular bank belongs in shall be final, when approved in writing by the Secretary of the Treasury, until such time as the bank shall be placed in a different class or group by the Comptroller of the Currency.

The Comptroller may issue to any association organized under this act notes described in section four to any amount approved of in writing by the Secretary of the Treasury, in addition to the amount described in section four, provided the association applying for such additional notes shall deposit with the Secretary of the Treasury, bonds in kind and amount acceptable to the Secretary of the Treasury, as security for such notes, and shall pay such rate of interest per annum on such notes so issued as is required by law to be paid on loans when no rate of interest is fixed in the obligation by the State in which the bank is located. Such interest on such notes to be paid at such time and in such manner as the Secretary of the Treasury may determine.

Any association depositing bonds and receiving currency notes secured thereby as herein provided may withdraw such bonds so deposited after ninety days from the date of such deposit upon paying the accumulated interest on the notes issued upon the deposits of such bonds up to the date of their withdrawal, and in addition to such interest shall deposit with the Comptroller lawful money or circulating promissory notes issued to associations under section four of this act, or mixed, to an amount equal to the circulating notes issued to the association for which the bonds were deposited for security, but no more than ninety per centum on the par value of any bond shall be issued in currency notes of section four and no more than five per centum of the notes issued to any other association under section four of this act shall be accepted as a deposit for the redemption of such bonds and the cancellation of such notes. The circulating notes so deposited shall be immediately put in redemption and the lawful money received for them shall be kept as a special fund with which to redeem and destroy the amount of such notes as are described in section four and issued to the association under this section of this act, and such notes shall be destroyed equal in amount to the notes issued to the association in excess of those issued to it under section four of this act.

SEC. 9. That in order to furnish suitable promissory currency notes for circulation as money, under sections four and five, the Comptroller of the Currency, under the direction of the Secretary of the Treasury, shall furnish such notes, in blank, to banking associations entitled to receive them, and every provision of this act shall apply equally to the promissory currency notes issued under sections four and five: *Provided, however,* That notes issued under section five shall not be counted in any reserve fund; and the notes issued under section five shall be finally redeemed and



paid as provided in section seventeen; and notes issued under section four shall be finally redeemed and paid as provided in section thirteen.

SEC. 10. That the cashier of any association, with the approval of the board of directors in writing properly certified to the Comptroller, and with the approval of the Comptroller, may appoint a deputy to affix the cashier's signature to the circulating notes issued to the association, but such deputy shall not be a regular employee of the bank.

SEC. 11. That any association, upon giving to the Comptroller of the Currency six months' notice of its intention so to do, may, at the expiration of that period, surrender its promissory currency notes, or any part of them, issued under section four, in excess of the amount it is required to take, and receive coin, or coin or bullion certificates, or mixed, therefor. Any association, upon giving to the Comptroller of the Currency one year's notice of its intention so to do, may close up its business, and, dissolving its organization, may surrender such promissory currency notes and receive coin or coin or bullion certificates or mixed therefor from the Treasurer of the United States upon surrendering the same to the Comptroller, and upon like notice in like manner any association which reduces its capital stock may deposit a like proportion of such promissory currency notes in excess of the amount it is required to have in section three of this act, and receive coin or coin or bullion certificates or mixed therefor, and the Treasurer of the United States is hereby authorized and directed to pay the currency promissory notes herein described as they are presented, out of any moneys in the Treasury not otherwise appropriated, and the Treasurer shall forthwith destroy the same in the manner prescribed by law; and any association may reduce its promissory currency notes issued to it under section five of this act by surrendering them for destruction to the Treasurer of the United States, and the Treasurer shall destroy the notes so surrendered in the manner prescribed by law. The liability of any association for notes issued under section five shall neither be canceled nor reduced in any other manner: *Provided, however,* That the doing by an association or others of any one of the things provided for in this section must be with the approval and permission of the Comptroller of the Currency.

SEC. 12. That any association, at any time within two years next previous to the date of the expiration of its original or extended corporate existence under this act, and with the approval of the Comptroller of the Currency, may, by amending its articles of association, extend its period of succession for a term fixed by the Comptroller of not more than thirty years from the expiration of the period of succession named in the articles of association, and shall have succession for such extended period. But such amended articles of association shall not be valid until the Comptroller shall have given to the association a certificate of approval thereof. Every association organized under this act shall have the right to extend its corporate existence for a further period or periods, so that its whole life under this act shall not be less than thirty years, and all certificates of authority shall be so issued by the Comptroller of the Currency as to expire as nearly equal in number and amount of capital as is practicable in each year of a period of thirty years.

SEC. 13. That upon the expiration of the corporate term of any association organized under this act and its corporate existence not extended by the Comptroller of the Currency, or upon the voluntary surrender of its currency notes, or upon the insolvency of an association, or by the order or with the consent of the Comptroller, approved by the Secretary of the Treasury, the Treasurer shall redeem the promissory currency notes issued to the association under the provisions of section four of this act. In redeeming the promissory currency notes issued under section four of this act he shall do so in coin of the same intrinsic value as the nominal value of the money deposited by the association for the issue of the notes in blank upon the date of such deposit.

SEC. 14. That the Treasurer shall at all times keep and have on deposit in the Treasury of the United States in coin, or coin and bullion certificates, for the redemption fund of each association, the ten per centum provided in section six, to be held and used for the current redemption of both kinds of its promissory currency notes; and when the currency notes of any association organized under this act, assorted or unassorted, shall be presented for such redemption to the Treasurer of the United States, in sums of five hundred dollars, or any multiple thereof, the same shall be forthwith redeemed. The right to confer the duties and responsibilities of executing the provisions of this section, and of other sections or parts of sections of this act relating to the redemption fund provided for in section six, upon reserve banks, under such regulations as he may deem safe and proper, and to deposit the redemption fund or funds provided for in section six in such banks, taking ample security therefor, is hereby conferred upon the Treasurer of the United States, with the approval of the Secretary of the Treasury; but any such deposit shall not be counted as a part of the reserve of such bank. The Secretary of the Treasury shall publish in one of the three papers having the largest circulation in business circles in New York City a list of

these securities and the amount of each kind accepted by him to secure any and all deposits made in any bank.

SEC. 15. That to enable the Treasurer of the United States to fund the circulating promissory notes issued under section four, the redemption of which by him is provided for in this act, and to enable him to execute the provisions of section seventeen, the Secretary of the Treasury is hereby authorized to issue on the credit of the United States coupon bonds or registered bonds, redeemable at the pleasure of the United States after two years, and payable ten years from date, and bearing interest at the rate of four per centum per annum, payable semiannually; and the bonds herein authorized shall be of such denominations, not less than one hundred dollars, as may be determined upon by the Secretary of the Treasury, and the Secretary of the Treasury may dispose of such bonds at any time, at the market value thereof, for coin, or coin or bullion certificates or mixed.

SEC. 16. That any association designated by the Secretary of the Treasury as a depository of public money may be required by the Secretary to keep on hand on account of such deposits such reserve fund as he may deem expedient; but such deposits by the Secretary shall not be counted in computing the reserve required under existing law.

SEC. 17. That whenever, in the opinion of the Comptroller of the Currency, the complete redemption and retirement of all promissory currency notes issued to and by any association is then necessary for the protection of the holders of such notes, the Comptroller may take possession of all the assets of such association and proceed to create a fund ample for the redemption of such notes by first setting aside for such fund all the currency notes issued to associations under section four and all the coin or coin and bullion certificates held by the association. The Comptroller shall set aside and cover into such fund all or so much of all the assets of the association as shall be necessary to make up such fund to redeem such notes, and the Comptroller, after completing a fund sufficient for the complete redemption and retirement of such notes, and not before, shall deliver the remaining assets to the association; and the Treasurer of the United States shall use the fund created as above for the final redemption and the retirement of the promissory currency notes issued to the association under section five of this act; and the balance of said fund so created over and above the amount required for the final redemption and destruction of such notes, if there be any, shall be paid to the association from which it was taken. In doing the things provided in this section the Comptroller is hereby authorized to sell any part of the property of the association or to pledge the whole or any part of the property or assets of the association at any time as security for any loan he may elect to make in order to create the fund herein mentioned. If, after complying with the preceding requirements of this section, there is not a sufficient sum to redeem all the currency notes issued to the association under section five of this act, the Secretary of the Treasury is hereby authorized and directed to at any time make up the deficiency in the fund necessary to finally redeem and cancel such notes out of any moneys in the Treasury not otherwise appropriated, and from the proceeds of the sale of bonds in like manner as provided in the case of currency notes issued under section four and surrendered to the Treasurer under section eleven of this act: *Provided, however,* That the accounts kept by the Treasurer of the United States, of the moneys received by him under section nineteen of this act, show at the time of making up such deficiency that the money so received exceeds the money before paid out by him in the redemption of such notes by a sum equal to or larger than the sum necessary to make up the sum needed in the case, and not otherwise.

SEC. 18. That each association shall increase its reserve on account of its issue of circulating notes issued to and by it under section five of this act the same percentage it would be required by law to increase its reserve were its deposits increased by a sum equal to the sum of such notes in circulation, all of which increase of its reserve may be in balances due the association from approved reserve agents. The cash reserve required by law to be kept may be in coin, or in coin certificates, or in promissory currency notes issued under section four of this act, or mixed; but when the daily total reserve of an association averages less for any month than the amount required to be kept by it at all times by existing law it shall pay into the Treasury of the United States a duty for that month equivalent to interest, at the rate fixed by law in the State where the association is located, on the amount of average deficiency in such reserve for that month; and every association organized under this act shall pay into the Treasury of the United States a duty on that part of its average daily cash reserve required by law that is averaged to be kept, in any month, in notes issued to banking associations under section four of this act, at the rate of two per centum per annum; and whenever any association fails to pay in coin or coin certificates on demand the promissory currency notes signed and issued by it such association shall pay an additional duty at the rate of four per centum per annum on the whole amount of the sum of the lawful reserve it is required at

all times to have on hand until such payment is resumed. Not less than fifty per centum of the coin and coin or bullion certificate reserve provided for in this act shall be in gold coin or gold certificates, and fifty per centum may be in silver coin or silver certificates, and any excess of silver coin and silver certificates over gold coin and gold certificates shall be counted as though they were promissory currency notes issued under section four of this act. Nothing in this section and no action taken by any association under this act shall bar any action taken or proposed to be taken by the Comptroller under section seventeen of this act.

SEC. 19. That in addition to all other taxes or duties provided for in this act each association organized under this act shall pay into the Treasury of the United States a tax equivalent to one-tenth of one per centum per annum on the average amount of currency notes issued to and retained by it under section five of this act, for the purpose of anticipating the redemption and destruction in certain cases of the currency promissory notes issued to associations under section five of this act. The Treasurer of the United States shall keep an account of all moneys paid into the Treasury under this section and all moneys paid out of the Treasury on account of the redemption of such notes.

In order to create an obligation to guarantee at certain times certain individual deposits in associations organized under this act and to provide against loss to the United States Treasury in making such guarantee, each association organized under this act shall pay into the Treasury of the United States as a miscellaneous receipt a tax equivalent to one one-hundredth of one per centum per annum on its average individual deposits until such time as the aggregate of such taxes paid into the United States Treasury by such association exceeds in amount the sum of one million of dollars, and such taxes shall cease at such time as the Secretary of the Treasury shall determine and before such aggregate amount of taxes paid reaches the sum of one million five hundred thousand dollars. The taxes imposed in this section shall in any case be paid by each bank organized under this act when directed so to do by the Comptroller of the Currency until such time as the aggregate of all the taxes paid by it approximates its fair proportion of the aggregate of all such taxes paid by all the associations organized under this act. The approximate to be measured and determined by the Comptroller by the average individual deposits of the association as compared to the average aggregate individual deposits of all the associations organized under this act. Whenever the aggregate of all the taxes collected under this section of this act does not exceed the aggregate of all sums paid out by the Treasurer on account of the guarantee of certain individual deposits herein provided for by the sum of one million dollars, the Comptroller of the Currency is hereby authorized and directed to reimpose such taxes upon each association to make good the guarantee fund herein created, and each association shall pay such taxes for such time as the Comptroller shall direct and for such time as will make the aggregate of all the taxes paid by each association under this section, as compared to the aggregate of the taxes paid by all the associations under this section, approximate proportionately to its average individual deposits as compared with the average aggregate individual deposits of all the associations organized under this act: *Provided, however,* That no association shall be liable to pay any tax, and no tax shall be levied upon it under this section when the proportion of the sum of all taxes then in the Treasury that it has paid in equals the sum of one-tenth of one per centum on its average individual deposits for the last preceding five years.

Each association shall be entitled to receive, and the Treasurer of the United States is hereby authorized and directed to pay to each association, out of any moneys in the Treasury not otherwise appropriated, and at such time and in such manner as the Secretary of the Treasury shall determine, interest on the remainder of the aggregate sum of all the moneys it has paid into the Treasury of the United States under this section and then therein at the rate of four per centum per annum: *Provided, however,* That in ascertaining the remainder of the sum paid into the Treasury by any association that is then therein there shall be deducted from the aggregate each association has paid in under this section its equitable and proportionate part of all sums paid out of the Treasury under this section.

When, in the opinion of the Comptroller of the Currency, an exceptional financial condition exists or is impending that threatens the paralysis of business and the stopping of industries to the great injury of the people, by crippling or temporarily destroying the usefulness of all banking associations in the country by threatening the withdrawal of deposits from conservatively-managed and clearly solvent banking associations because of abnormal conditions of unreasonable fear which is manifesting itself, the Comptroller of the Currency is hereby authorized and directed, with the approval of the Secretary of the Treasury, to issue an order of guaranty by the United States, and to guarantee for ninety days certain individual deposits in all or any one of the banking associations organized under this act, which order may be twice extended for the same or a shorter period, but in no case shall such

order be extended to cover more than eight consecutive months: *Provided, however*, That such order of guarantee shall include only individual deposits in associations organized under this act, but in no case shall such order of guarantee be held to include sums due from insolvent institutions to public or private banking associations or banking firms of any kind or the deposits of any officer, director, or employee of any banking institution whatever, or to any stockholder holding stock at the par value of two thousand dollars or more in any corporate or private banking institution whatever, nor to individual deposits made for a definite time. The Treasurer of the United States, upon the order of the Comptroller, approved by the Secretary of the Treasury, is hereby authorized and directed to pay to any depositor in such manner as he shall determine any sums due such depositor because of the making and issuing of any order of guarantee described in this section, in the same manner as is provided in sections thirteen and fifteen in the case of the redemption of notes issued under section four. No order of guarantee herein mentioned shall operate to change or abolish in any manner any liability or obligation imposed by law on any banking association or upon any officer, director, stockholder, or employee of any banking association whatever, or of any other person. The liability of the Treasurer of the United States on account of any order of guaranty that may issue under this section concerning any deposits in any association that may be affected by any act done under this section shall not be increased because of any losses to any individual or any association caused by any fraudulent act committed by any person employed by or connected with any association that fails to promptly pay its depositors because of insolvency during any period covered by any order of guaranty issued under this section.

SEC. 20. That the Comptroller may at all times know the condition of each bank, and what duty is due and collectible from it, each bank shall make such record at the close of each day as the Comptroller shall request, in a book kept for that purpose, which record shall show the total amount of its outstanding promissory currency notes issued to it under section five of this act, and its total deposit account, and its total reserve account, as shown by its books at the close of each business day, and of what the reserve consisted, which daily record of deposits, reserve, and currency notes, and other matter requested by the Comptroller, shall be made up for each month, and a copy or report thereof transmitted to the Comptroller of the Currency on or before the tenth day of the following month; and the duty upon the averages of the kinds of money which made up the reserve during that month, and all taxes and duties imposed by this act, shall be collected semiannually on the first day of April and the first day of October in each year. The records and reports provided for in this section, and any other facts and data he may request, shall be in such form as the Comptroller shall direct.

SEC. 21. That before making the record for the day, as provided in section twenty or required by the Comptroller, every transaction of that day pertaining thereto shall be duly entered in the books of the bank. All moneys hereafter received from the duty or taxes collected from banking associations over and above the cost to the Government of maintaining the bureau of the currency shall be covered into the Treasury as a miscellaneous receipt.

SEC. 22. That there is hereby created the office of national-bank examiner in chief, who shall be appointed by and be under the direction of the Comptroller of the Currency, and shall be paid the sum of three thousand dollars per annum, in addition to the necessary expenses incurred by him in traveling. The examiner in chief shall, under such direction, supervise and direct all other bank examiners, and be paid out of the appropriations for the bureau of the currency. The national-bank examiners shall be held to be employes in the office of the Comptroller of the Currency when examining associations organized under this act, and their fees shall be paid out of the appropriation for the bureau of the currency.

SEC. 23. That dividends to shareholders shall be payable by any association organized under this act semiannually on such day as the Comptroller shall approve.

SEC. 24. That all currency promissory notes received by any association shall be carefully assorted, and of those issued under sections four and five of this act that are paid out by it, those issued under section four shall be first paid out, excepting as provided in section eighteen, and then those issued to other associations under section five, and, lastly, those issued under section five to the association holding them.

SEC. 25. That there is hereby constituted and appointed a board of advisors, of experts, to the Comptroller of the Currency upon changes desirable in and methods of executing existing law concerning banking, over which board the Comptroller of the Currency shall preside. The president of the chief redemption bank in the five chief redemption cities in the country, or such substitute for any one of the officers named as he shall from time to time appoint, shall constitute the board, which board of advisors shall meet once a year, or oftener if the Comptroller of the Currency or a majority of the board so determines, and at such a time and place as

the Comptroller shall appoint. The recommendations of such board, or a synopsis thereof, shall be extended in the records of the board, and the decision of the Secretary of the Treasury from time to time as to what person or persons are entitled to act under this section shall be final.

SEC. 26. That every president, director, cashier, teller, clerk, or agent of any banking association organized under any law of the United States, or any other person who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, or other assets of any such banking association, or who, without authority from the directors, issues or puts in circulation any of the notes of the association, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or, without authority so to do, issues or transfers any paper which, were it authorized by the association, would make the association liable for anything of value, or who willfully omits from any book, record, or account or any other paper any item or entry that is material to the accuracy of them, or any one of them, or customary or required to be entered or made in such book, record, account, or paper, in order to make them or any one of them a reasonably accurate showing of the facts the book, record, account, or paper was made or kept to show, or that it was customary to include in them or any one of them in order to show the facts which the book, record, account, or paper was nominally or really made or kept to exhibit, with or without intent, in either case, to injure, defraud, or deceive the association or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association, or any other person, or who abstracts or willfully destroys any book, paper, record, or statement of original entry of the association, or any book, record, statement, or account, or any part of any one of them, and made up directly or indirectly from any book, paper, or record, or who willfully conceals or fails to immediately report any violations of the provisions of this section that he has knowledge of to the officers of the bank and to the board of directors, and also to the examiner when officially examining the books, accounts, securities, or papers of the association, or when requested by any officer, director, or examiner to do so, or fails to report any omission by any person from or any incorrect entry of any item in any book, record, or account of the association which belonged therein by custom or by direction of the proper officer, or who willfully conceals or fails to call the attention of the person officially examining the bank to any violation of the provisions of this act or order of the Comptroller of the Currency by any director, officer, or employee of the association or other person, when requested to do so by the person officially examining the bank, and every person who willfully aids or abets in any way in any violation of the provisions of this section, shall be deemed guilty of a misdemeanor and shall be imprisoned not more than ten years or pay a fine of not more than ten thousand dollars, or both; the condition of the account with the bank of the maker of a certified check shall be presumed to have been known to the officer at the time he certified the same, in the absence of proof to the contrary, and that it was not the official duty of any officer, director, employee, examiner, or any other person to do or not to do any one of the acts or things herein specified shall not be pleaded in any action commenced or prosecuted against any one of them.

A copy of so much of the provisions of this act as the Comptroller shall deem applicable or pertinent in the case may, at his discretion, be served by the bank examiner who is making, or is about to make, an official examination of the association upon such officers, directors, and employees of the association as the Comptroller shall designate at the time of or just previous to each examination.

And if any bank examiner willfully misrepresents the true condition of any association examined by him, or makes any error resulting from gross negligence on his part, or if the examiner fails to exercise due care in his examination of the condition of a bank, or willfully fails to observe the methods or rules prescribed by the Comptroller of the Currency, and loss does or does not result therefrom, he shall be deemed guilty of willfully misrepresenting the condition of the association for the purposes of this act.

The first business transacted at the first meeting of the board of directors of each association in each month shall be to hear and to enter upon the records of the board of directors a statement from the cashier or other proper officer of the association of the liabilities of each officer and director of the association to the association in the following order, that is to say:

First, as maker of any paper, sole, or as an officer or director of any corporation, or of a corporation of which he is a director or officer.

Second, as indorser of any paper.

Third, as surety for any loan or other obligation to the association.

Fourth, as to the amount and market value of any collateral the association holds to secure any liability to the association by any one of them.

If at any time the board of directors of any association fails to meet for a period of thirty consecutive days the record provided for in this section shall be made by the cashier, or such employee as he may designate in the record book of the board of directors, and a transcript thereof shall be sent to each member of such board of directors and to the Comptroller of the Currency.

SEC. 27. That all existing laws affecting national banking associations and promissory currency notes issued by them shall apply to those organized under this act and to promissory currency notes issued under it which are not inconsistent with the provisions thereof; but this act shall not be held to affect any national banking association not organized under it, excepting as to section twenty-six of this act and as to a national-bank examiner in chief, as provided in section twenty-two of this act.

In addition to the remarks I now submit, I respectfully refer the committee to an address delivered by me before the Boston Association of Bank Presidents, on November 14, 1892, and also to one delivered before the Department of Commerce and Finance of the World's Congress, in Chicago, on June 21, 1893, and which I make a part of this argument for the bill H. R. 171. That bill is drawn to accomplish the following things:

#### SCHEME DEVELOPED IN BILL H. R. 171.

(1) To completely relieve the United States Government from any responsibility for the "current redemption" of any circulating Government or bank currency notes whatever, and thereby relieve it of all expense and risk of maintaining any coin redemption fund or coin measure of value, the risk and expense of both to be devolved upon banks by the operation of the bill. (See sections 4 and 6 of H. B. 171.)

(2) The bill is so drawn as to cause each and every bank to assume proportionately the current redemption of a new greenback and practical destruction of the "flat money" legal-tender note in its present form, the banks to accept a new good money greenback in place of the present one and be responsible only for its "current redemption," the United States Government to be responsible for its final redemption. (Secs. 6, 7.)

(3) It provides that the United States Government shall, in the interest of the safety of banks, in order to protect the people from loss, exercise, as now, and extend its thorough supervision over all banks and make public their condition, etc. (Secs. 20, 21, 22.)

(4) It is so drawn as to cause each and every bank to assume proportionately the "current redemption" and practical destruction of all Treasury notes. (Sec. 7.)

(5) It is so drawn as to cause each and every bank to assume proportionately the "current redemption" and practical destruction of the excess of silver certificates and causes silver dollars to an equal amount to be covered into the Treasury as bullion, but leaves in circulation, as now, every coined silver dollar we now have or that the people can be induced to use. (Sec. 7.)

(6) It provides for the absolute safety of every circulating note. (Secs. 10, 14, 15, 17, 18, 19, 25, 26.)

(7) Circulating notes to be free of cost except for printing, etc. (Sec. 9.)

(8) The volume of circulating notes to be sufficiently elastic to expand to meet the extremest demands of the people and contract automatically so as never to exceed in volume the amount needed. (Secs. 3, 4, 5, 8.)

(9) Circulating currency notes to be so issued as not to increase the

interest paid on loans of capital, as is the case under existing law. (Sec. 5.)

(10) They shall be uniform. (Secs. 4, 5, 6.)

(11) They shall be so issued and reissued as to be forced back to the bank issuing them and where most needed. (Sec. 24.)

(12) The United States Government shall act simply as custodian of coin and issue certificates of deposit thereon, as now.

(13) The bill provides that the United States Government on special occasions may provide temporary safeguards to certain depositors to dispel fear, in order to prevent the paralysis of business by the withdrawal of individual deposits from clearly solvent banks because of unreasonable fear. (Sec. 19.)

(14) All existing banks may reorganize immediately, or at the expiration of their charters, under the act.

Not one of these things essential to a banking system of the highest safety and efficacy and lowest cost of money is as fully secured to banks under the existing law as is accomplished by law in Scotland, France, Germany, or England, or as is provided in bill H. R. 171, and several of them not at all, excepting the final payment of circulating notes.

This bill in no way affects the greenback of the war or the Treasury notes issued under the silver law of July 14, 1890, excepting by saving to the people millions of dollars of taxes by putting upon the banks the expense of current redemption. Under it not a dollar need be kept in the United States Treasury on account of them. Pass this bill and the \$100,000,000 of gold held in the Treasury to redeem them is made "free gold," and the Secretary of the Treasury has no immediate deficiency to provide for. As it affects the people, it only requires a new greenback to be printed and issued in the place of the old and soiled one. In place of \$90 of the old greenback exchanged, as required in the bill, \$200 in new money must be issued.

#### THE GOVERNMENT NOT A BANKER.

The certainty of "instant redemption" in coin—current redemption is what makes any money good money. The "current redemption" provided for in the bill is the redemption in coin of every currency note it issues, ten times or ten thousand times, or the equivalent of doing so, and every time it is paid back to the bank. "Final redemption" is the redeeming in coin and destroying every one of its currency notes when the bank goes out of business. While to make the final payment secure is very desirable, and makes a good security, it really has a small part in making any written obligation "good money." No government of any country can, by any possibility, accomplish the "current redemption" of paper money. A government must, in the nature of the case, issue paper money against a "vacuum." No government has or can have, as a "government," any "funds" or coin for redemption.

If a government adds to its functions that of "banking," then, as a "banker," not as a government, it can do anything any other bank can do of like capital and managed with the same skill, but on more.

A bank never loans a dollar of capital or issues "circulating currency notes" without receiving in exchange and at the same moment a title to consumable wealth, which it may dispose of to recoup itself for capital or currency it parts with. Even when it takes its greatest risk of recoupment, it takes a time note signed by some man, making it a

title to that individual's property having from double to one hundred times the wealth the bank gave obligations for. In addition, the note is indorsed by some other man pledging an additional volume of wealth equal to that pledged in the signature. Each issue of currency by a bank is accompanied by a title to a specific and certainly available sum of wealth necessary to liquidate and destroy that specific issue of currency when it is presented for redemption, and each time paper money is returned to a bank it is thereby "destroyed" in essence. When again it is paid out it is for a new equivalent. That the bank, upon the doctrine of chances, exchanges one of the "matched" equivalents for another equivalent does not go to disputing or even tend to dispute the fact stated. Furthermore, the bank not only does not alienate, but, in the nature of the case, it can not alienate, any fraction of the wealth, equivalent to coin, practically set aside to meet each issue of currency or any other of its many obligations.

On the other hand, when any government issues "paper money" of any sort it must represent wealth consumed, as there is no conceivable way it can get its paper money in circulation, and therefore "current redemption" is impossible to a government excepting so far as it goes into the "banking business." Were every dollar of the motley aggregate of \$1,200,000,000 of paper money in circulation in this country issued by national banks organized under H. R. 171, there would be pledged for its final redemption in the form of obligations held by such banks more than the aggregate of \$12,000,000,000 of wealth pledged to their current redemption, including \$800,000,000 in coin, that is to say, \$335,000,000 of visible gold coin and more than \$465,000,000 of silver coin, if so much was needed.

#### THE GOVERNMENT'S REDEMPTION FUND.

On the other hand, the United States Government has now a redemption fund of only \$100,000,000 in gold and not a dollar more of any kind of assets. The Government could not resist a run on its gold by a malignant syndicate of gold speculators for a day, while it would be impossible for it to break the banks operating under bill H. R. 171. They would have \$335,000,000 of gold coin, \$465,000,000 of silver coin, and titles to property worth \$2,200,000,000 in additional assets (loans and discounts) guaranteed by \$12,000,000,000 of wealth pledged in the obligations of their customers (time notes), with which to fight it. Of course, this wealth is not equally distributed behind every dollar of loan made or currency issued by banks. There is not one dollar, however, that does not have behind it at least two dollars for one, unless the banker has been cheated or is a swindler, and very few that do not have as much as four or five, and so on up to a hundred for one.

The attempt of our government to issue "good" paper money is now costing our people from \$32,000,000 to \$40,000,000 annually, while under the bill H. R. 171 the banks could issue the \$1,200,000,000 of currency as "good" as any paper money in any country in the world, and do it without its costing them or the people one farthing, except for printing. It is absolutely true that no government can issue "good" money. Every principle and practice of government as it touches finance is antagonistic to the money function. Under the bill reported, the banks of this country can protect the coin reserve of the country from being shipped abroad or from being drawn out for speculative purposes precisely as France, Germany, and England protect their coin from being taken from them. It is impossible



now for either the Government or the banks to protect it from shipment, whatever the conditions of trade or normal exchange, because of the government paper money.

#### THE BANK A CONSERVER OF WEALTH.

A bank is a conserver of wealth. A government is a consumer of wealth as opposed to a conserver of wealth. Any part of the wealth of the people that comes into the possession of the United States Government, that is not instantly consumed, is solidified into investments that irrevocably destroy every element of currency or money in every fraction of it.

The exact opposite is true of a bank. A bank is never a consumer. Its sole function is to conserve wealth. Not a dollar of wealth that comes into the custody of a bank can by any device be permanently, or only for more than a very brief time, alienated from its full money function. Every dollar of the deposits of a bank has the full money function for every minute, as much as its currency notes. This is not true of the assets of the Government.

There is now outstanding—

Legal-tender notes (old issue) .....	\$347, 000, 000
New Treasury notes (July 14, 1890).....	130, 000, 000
Gold certificates (paper) .....	143, 000, 000
Silver certificates .....	327, 000, 000
National-bank notes .....	172, 000, 000
Currency certificates .....	11, 000, 000
<b>Total paper outstanding .....</b>	<b>1, 130, 000, 000</b>

Under bill H. R. 171 the amount would be as follows:

One-half issued under section 5, "reserve notes" .....	\$565, 000, 000
One half issued under section 4, "greenbacks" .....	565, 000, 000
<b>Total .....</b>	<b>1, 130, 000, 000</b>

#### BANK RESERVES LIE IDLE, UNDER PRESENT LAW.

Under the present law the banks hold their reserve absolutely idle or drawing scarcely more than nominal interest. Under the equally sound systems of France, Germany, and every other first-class nation, the "bank reserves" are earning as much as any other part of the assets of a bank. It is represented by circulating notes of an equal amount. Do not forget that the plain people ultimately bear all losses and wastes. Under the present law there is idle—

Bank reserves .....	\$571, 000, 000 at 5 per cent. ....	\$28, 550, 000
Gold in United States Treasury....	100, 000, 000 at 5 per cent. ....	5, 000, 000
<b>Total loss to the people.....</b>		<b>33, 550, 000</b>

I have figured the losses under our banking system on many different bases, in this paper and the two addresses published herewith, to make them apparent to all, if possible.

Every advocate of fiat money as well as of sound paper money ought to support bill H. R. 171, for surely he will not object to having provision made by law for making every dollar of his money "good money" by providing for its "current redemption" as is done in this bill, if it is done free of cost. As it stands to-day—

We now have.....	\$347, 000, 000 greenbacks.
Gold in Treasury .....	100, 000, 000 to cover them.

Uncovered..... 247, 000, 000 at 5 per cent equals \$12, 350, 000.

Under H. R. 171 there would now be \$565,000,000, with not a dollar of gold needed in the Treasury, as the banks would be required to "currently redeem" them. This, at 5 per cent, equals \$28,250,000, showing a gain to the people of \$15,900,000, upon the greenbackers' own platform. This result is reached by putting the duty of the "current redemption" of the legal-tender notes upon banks in order to make them "good money," but first exchanging them for new ones, so as to be able to identify those which each bank must currently redeem. Their final redemption is left upon the United States Treasury whenever the bank goes out of business, as now, the banks finding their compensation in being allowed to issue circulating currency notes to an amount equal to the sum of their reserve held by them.

#### LOSS TO THE PEOPLE IN INTEREST ON THE GOLD REDEMPTION FUND.

Under the present law, \$100,000,000 in gold coin is now held in the Treasury for their redemption, costing the people at least \$4,000,000 annually in loss of interest on it. Furthermore, it is liable to cost the people millions, in some monetary crisis, in maintaining them on a specie basis. Under this bill \$90 of the old legal-tender notes are to be redeemed and canceled for each \$200 of currency issued; and \$100 of this currency issued under section 4—issued without cost to the people—which the banks must currently redeem, is put in the place of every \$90 of the greenbacks redeemed and canceled. Thus \$2 of "good money" will be put in circulation in place of every \$1 of fiat money withdrawn. Two dollars of money that it will not cost the people one farthing to use will be put in place of every dollar the existence of which is now increasing the cost of every "loan and discount" made to the people, from 1 per centum to 2 per centum per annum. [See Appendix D.]

It is said the Secretary of the Treasury ought to sell bonds to get more gold into the Treasury to make Government notes more secure, and he has been sharply criticised for not doing so. Will some of this committee explain to us how it is possible to do so, while the legal-tender notes, or the Treasury notes, are in circulation? I confess I do not know enough of finance to see how it is possible to do so. If this bill (H. R. 171) is enacted into law and the Government notes are absorbed into a better and cheaper paper money, the banks will do without compensation what it is now costing the people millions of dollars for the Government to pretend to do, what it does not and can not do of itself, viz, currently redeem \$1,200,000,000 of currency notes. While the legal-tender notes or Treasury notes are in circulation the Government can not accumulate a redemption fund in gold by selling bonds, and when such notes are absorbed into the better currency provided for in this bill, the banks will do this work, and the Government will not need a dollar of gold. When Secretary Sherman accumulated a stock of gold in the United States Treasury to resume specie payments, it was impossible to get \$1 of gold out of the Treasury. At that time neither individuals, banks, nor the Government was paying out specie.

While there are any legal-tender notes or Treasury notes in circulation, there is no human device that can keep a dollar of gold in the United States Treasury that is now there; nor by selling bonds or any other device, can an additional dollar be put there, provided any person in any country desires to have it. Each ten millions or hundred millions of dollars bought on any day, or any number of consecutive days, would

on the following day be taken out of the Treasury with Treasury notes or legal-tender notes to pay for these bonds. Is it conceivable that gold to buy bonds will be sent to this country from any other country when it can be had in this country for the asking? Selling bonds by the Treasurer of the United States for gold, to increase his stock of gold, while the buyers of his bonds have a legal right to get the gold out of his own coffers to pay for every bond he sells for gold, (and there is \$500,000,000 of currency [afloat] any dollar of which will take the gold he now has, or any dollar he buys with bonds), seems to me about as rational as to attempt to fill a sieve with water by catching the water in a bucket under the sieve and returning it to the sieve.

Surely no government can issue good money unless it also is a bank. Any gold whatever has been kept in the United States Treasury the last thirty years only by the active and passive support of banks.

#### GOVERNMENT SUPERVISION.

3. The United States Government, in the interest of the safety of banks, in order to protect the people from loss, to exercise, as now, and extend, its thorough supervision over all banks and make public their condition, etc.

The warrant for the very existence of government is found in the necessity of preventing fraud upon the ignorant by the wise, imposition upon the weak by the strong, and protecting the poor from oppression by the rich. The examination and supervision of banks by the Government is found in the principles upon which rest all laws accomplishing these ends.

4. The banking bill to be so drawn as to cause each and every bank to assume proportionately the current redemption and practical destruction of all Treasury notes.

The same objection rests against the Treasury note as against those known as greenbacks in that it has no "current redemption." The new greenback, with an assured current redemption by banks, will take the place of both.

5. The banking bill to be so drawn as to cause each and every bank to assume proportionately the current redemption and practical destruction of the excess of silver certificates and to cause silver dollars to an equal amount to be covered into the Treasury as bullion but to leave in circulation, as now, every coined silver dollar we now have that the people can be induced to use.

The silver certificate has no standing in finance, any more than the gold certificate. They are coin in the Treasury. Have all the gold dollars and gold certificates the people can use. Have the same of silver dollars and silver certificates the people anywhere in the country can use. If it is found that more of either gold dollars or silver dollars than we now have can be economically used, let the Government make them, but it is evident that one dollar in gold, or in silver, more than there is an economic demand for, or that is used where a paper dollar is equally acceptable to the user, is so much waste to the country and this waste must be made up by taxation, either direct or indirect. A sufficiency is enough. For a man to habitually give a piece of gold or silver (dollar) for a thing he can get by simply giving a printed paper, is a certain loss of interest on its commercial value. In every other country every dollar of "visible" coin is earning as much interest as any other wealth. We have \$800,000,000 visible coin, not a dollar of which is earning a cent. At 5 per cent, this shows \$40,000,000, annual loss to the people. As a son of Irish parents said to me, with the quick wit of his race: "I

like your bill. It gives the people every dollar of good paper money they can use and makes every dollar in coin earn its own living." This bill, H. R. 171, and this provision of it, leaves the coinage question untouched. As civilization advances, new devices for the exchange of products without the use of coin increase in geometrical ratio as compared with the increase of business.

#### PROVISIONS FOR SAFETY OF CURRENCY NOTES.

##### 6. To provide for the absolute safety of every circulating currency note.

The experience of the country during the last thirty years and the condition of existing national banks furnish a reliable basis for estimating the working of the system proposed in H. R. 171 as to the adequacy of the safety fund proposed under section 19. The affairs of the banks failing in the years 1890, 1891, and 1892 have not yet been closed up, and of course the apparent deficiency in their dividends is much greater than the real deficiency. Leaving out those years, the records of the Comptroller show that the dividends paid by all the failed banks in the remaining years, 33 in number, whose total dividends were less than their total circulation on the day of failure, from 1866 to 1889, inclusive, were \$1,851,038, and the aggregate circulation of those banks at the date of failure was \$2,793,370.

This shows that the combined circulating notes of all such banks exceeded their total dividends by \$942,332, or an annual average of \$39,264, for the twenty-four years. In the twenty-two years ending with 1889 the average reserves held by the national banks, as given by the Comptroller's annual report, has been \$301,605,932, while the actual circulation of the national banks has averaged \$308,839,861. So that, had the bill (H. R. 171) been the law during the period mentioned, the average possible circulation for which the safety fund would have been liable, would have averaged for each of the twenty-two years \$7,233,829 less than the sum actually in circulation, and upon which these figures are made to show the probable efficiency of the safety-fund provision in the bill to secure the holders of bank bills from possible loss. That is to say, the safety fund resulting from the one-tenth of 1 per cent tax would have produced \$301,605 annually, or  $7\frac{47}{100}$  times as much money as would have been needed, or an annual surplus of \$262,341 in excess of the demands upon the fund, or a total excess of \$5,771,502 in the twenty-two years.

It is true that the circulation would be much larger than under the present system, more than twice as much, but only one-half of it would be liable to final payment by the bank. Still, that one-half would ultimately be considerably larger under the bill, one-third larger, probably. But there is no probability that even this larger sum would make any draft on the safety fund greater than the annual average for the last thirty-two years, viz, \$39,264, and for two reasons:

First. The supervision of banks and the reports required from banks themselves, provided in the bill, keeping the Comptroller so much better informed as to the doings and the conditions of banks, would tend to reduce the losses by creditors of banks at least one-half.

Secondly. The losses to creditors by the failures of national banks have been constantly decreasing since 1866 because of the increased knowledge and experience of examiners and of the officers in the Comptroller's office in Washington. The provisions of section 26 of the bill are very important in preventing loss, as is the greater skill of bank officers themselves. They are additional elements of safety. In fact,

the absolute certainty of the holders of every dollar in bank notes issued under the bill, should it become a law, being immediately paid in full in coin, is as apparent as the existence of the Government, or of any other thing in human affairs not yet accomplished.

7. Circulating notes shall be free of cost, except for printing, etc.

The bill retains the provisions of the present law as to printing currency notes, and makes the issue of currency as free and as cheap as it is possible to make it, consistent with having it constantly and immediately convertible into coin, which only makes any paper money "good money."

#### ELASTICITY OF CIRCULATION SECURED.

8. The volume of circulating notes to be sufficiently elastic to expand to meet the extremest demands of the people, and contract automatically so as never to exceed in volume the amount needed.

To have a currency variable in quantity to meet the varying demands of trade is impossible under existing laws. Furthermore, it is impossible under any law providing for an issue of currency confined to the value of coin held. The banking system of no country allows its currency a wider range above and below the normal amount needed or has as flexible a currency or one so amply secured as is provided in bill H. R. 171. Under section 5 there would be a range of \$100,000,000 to even \$200,000,000 between the minimum and maximum. Banks always have the highest reserve when the least currency is in circulation among the people and in those seasons of the year when least is needed to move farm products, and least when currency stays out of the banks longest and there is less need of a fund to redeem currency.

Under the working of the system developed in the bill, all banks would keep their reserve highest in the six months when they needed the least currency and run it down to the lowest point in the six months when they needed most currency. Between the two points there would be a range of many, many millions. Again, under section 8 of the bill, a "currency famine" such as developed in the last financial crisis would be impossible. Of course the currency any bank would take out under section 8, which provides that such currency shall be secured by bonds, and that the interest rates of the State in which the bank is located shall be paid on it, would only be out during a time when currency was being "locked up." It would cost the banks so much in interest that it would be returned to the Government as soon as possible, and therefore could not unduly inflate the currency.

#### INTEREST ON LOANS WILL BE LESSENERED.

9. Circulating currency notes to be so issued as not to increase the interest paid on loans of capital, as is the case under existing law.

It is susceptible of absolute proof that the chaotic condition of the finances of the country causes the people to suffer a loss of more than one per centum per annum on all the loans and discounts of banks. The rate of interest paid on bank loans and discounts exerts a very considerable influence upon, if it does not fix, the rates paid on farm mortgages. If all the banking done in this country were done under bill H. R. 171, and all currency now in use was issued by such banks, all loans and discounts could average to be made at more than one per cent less than they are now made, and the banks make a larger per-

centage on their capital than now. This would not be true in cities and money centers to fully one per cent, but it would certainly be true of the country districts, and there it would be more than one per cent. This is because the country districts could float a much larger percentage of currency, to the volume of their business, than city banks. The reason why I state the losses to the people in many ways, in the various papers I herewith present, is in order to make it clear to all classes of minds how vast is the aggregate sum annually lost to the people. Utter waste; no one getting any advantage from these losses.

The following statements and illustrations show only a few aspects of it. The report of the Comptroller of the Currency for 1893 is not yet in print, but it appears from the Comptroller's report for 1892, page 45, that the—

[Expressed in millions.]

Capital stock of national banks is.....	\$686. 6
Surplus fund.....	238. 9
Undivided profits.....	101. 6
Due to depositors.....	1, 779. 3
Total.....	2, 796. 4
Loans.....	2, 171. 0
	625. 4

There is no inducement, under the present banking laws, to add any part of this enormous fund of 2,109.8 millions of dollars to the permanent banking capital of the country. Had we a proper banking system there would be a strong inducement, not only to establish new banks, but to put a very large part of the \$340,000,000 of surplus and undivided profits permanently at the service of the public in the form of additional bank stock, as well as much of the sum due depositors.

It is for the interest of the country that as small a part, as is practicable, of the capital used to handle the products of the farm, mill, factory, and all other consumable wealth, should be subject to immediate call by check. Of this \$2,796,000,000 all but 22.4 per cent, or \$625,000,000, is loaned, and 63.6 per cent, or \$1,779,000,000, is subject to check. A very considerable per centage of this \$1,779,000,000 would surely be permanently invested in bank stock under the inducements offered in the bill, as is shown further on in this report, probably soon carrying the permanent loanable funds represented by bank stock up to \$1,000,000,000 to \$12,000,000,000, instead of \$686,000,000 as now, and reducing the proportion of funds subject to check very materially, which would be a very great relief to the people in all monetary crises.

#### NET EARNINGS TO A BANK ON CURRENCY ISSUED BY IT.

By careful estimates made by the Actuary of the United States and printed by the Comptroller, on page 8 of his report for 1892, reckoning interest at 6 per cent, its average rate, the country over, the net earnings per annum to a bank in the currency it gets on its bonds and issues to-day would be, on a 2 per cent bond at par (see Appendix)—

On \$100,000 in bonds.....	00.032 or.....	\$31. 52
On \$100,000 fours at 1.16½.....	00.330 or.....	330. 16
On \$100,000 sixes at 1.11.....	012.18 or.....	1, 218. 58
On \$100,000 bill 10615 it would be....	04.84 or.....	4, 844. 52

Under the present law no bank is allowed to issue any bills on its coin, even as is allowed in all other sound banking systems, and to the great loss of the people. Banks are now compelled to allow every

dollar of their reserve in coin or other "lawful money" to lie dead, not earning a dollar. Under this bill, banks are allowed to issue currency upon the same principle as paper money is issued by all sound banks the world over, excepting in the United States. Under the bill reported, the coin reserve fund of a bank is, or may be, performing three functions:

First. That of a "measure of value" in every business transaction in the country.

Second. That of a reserve against all the liabilities of the bank.

Third. Every dollar of it is earning as much income as any other capital in the bank, precisely as is the coin in the Bank of Germany, the Bank of France, the Bank of England, etc., lessening the cost to the people of every dollar they borrow by just so much.

The currency issued under section 4 of the bill in exchange for lawful money does not affect the earnings of a bank, as it is simply the exchange of one kind of money for another kind of money equally good to the bank.

The currency to be issued under section 5 is as follows:

\$100,000 currency issued under section 5, at 6 per cent .....	\$6,000.00
Loss on \$15,000 increase of reserve, at 6 per cent .....	\$900.00
No tax on circulation .....	
No charge for examinations .....	
Annual cost of redemption .....	137.48
Express charges .....	3.00
Cost of plates for circulation .....	7.50
Agents' fees .....	7.50
Tax of one-tenth of 1 per cent for safety fund .....	100.00
	1,155.48
Net earnings on \$100,000, at 4.84 per cent .....	4,844.52

In the above figures I have assumed that the present reserves of the bank would have to be increased by the 15 per cent required in section 18 on the notes issued under section 5, but the banks now average to keep in excess of that required by law more than the sum of 15 per cent that is required by the bill on their section 5 notes.

The bill requires an additional reserve of  $2\frac{1}{2}$  per cent, as 15 per cent of 15 per cent is only  $2\frac{1}{2}$  per cent of the whole. Deducting the \$900, shows the profit on this circulation would be \$5,744.52 on \$100,000 circulation under bill H. R. 171. That is to say, the additional profit made on circulating notes would be 5.74 per cent instead of 4.84 per cent on such circulation. This simple example of the practical workings of the present bond method of issuing paper money, as compared with that proposed in the bill, exhibits in a clear light the wastefulness of our present financial system, or rather want of system. The system proposed in the bill, as compared with buying bonds to form a bank receiving \$100,000 in currency under the present law, on June 30, 1892, as shown by the last Comptroller's report (1892) on page 8, is as follows:

To buy 6 per cent bonds at 1.14 is as .....	\$1,218.00	is to .....	\$5,744.52
To buy 4 per cent bonds at 1.16 $\frac{1}{2}$ is as ..	330.00	is to .....	5,744.52
To buy 2 per cent bonds at par is as ..	32.00	is to .....	5,744.52
To buy one-third in each bond is as ....	526.67	is to .....	5,744.52

#### THE SYSTEM PROPOSED COMPARED WITH THE BOND SYSTEM.

That is to say, the banks would make four and seven-tenths times as much on the circulation they would get under section 5 of the bill

as on the same amount of currency gotten under the present law by pledging 6 per cent United States bonds; seventeen and four-tenths times as much as to buy and pledge for currency a 4 per cent United States bond; ten and nine-tenths times as much as to buy one-third in each denomination of bonds and pledge them for currency; one hundred and eighty times as much as to buy and pledge for currency a 2 per cent United States bond. And yet men are found to advocate the policy of continuing the national debt in order to have a 2 per cent bond to pledge for currency to perpetuate our present chaotic and extravagant financial system, or rather want of system. Not only so, but they advise allowing banks to first issue currency on such bonds, and, secondly, to surrender such bonds to the United States at any time they do not wish the currency issued on them, and thirdly, to have the right to buy them again at par and again pledge them for currency; and so on *ad infinitum*. This scheme would make the cost of the currency to the people many times more than even now, and in addition to this it would practically be to tax the people to pay the bank two per cent per annum at all times on such balances as they could not for a time profitably use.

Is it any wonder, in view of the facts I have thus far given, that the people are anxious and sensitive as to their money? Is not their cause just when they demand currency reform? President Cleveland recommended the repeal of the purchasing clause of the silver act of July 14, 1890. Is it any wonder the people demand to know what Congress proposes to put in its place? Better bow to the storm than contend against it.

It is notorious that the monetary and coinage agitation which has vexed this country for the last few years has been intensified, if it did not have its origin, in the cost to the people of the currency which their business made it necessary for them to use, and which they saw was being reduced year by year because of the faulty arrangements for issuing the currency they needed, which were being aggravated day by day, and the national-bank currency fast disappearing. And this notwithstanding the fact that the banks get interest on their Government bonds and also get a second interest on the currency delivered to the banks when they deposited their bonds with the Government. The people did not see that the banking law did not allow the coin reserve in the bank to earn anything for the bank and thus made the people pay more for the use of every dollar they borrowed than its legitimate price.

It is shown by the actuary of the United States Treasury, in Appendix B, that banks can make on circulating currency notes under the present law—

	Per cent.
Where interest is 4 per cent per annum.....	0.942
Where interest is 6 per cent per annum.....	0.526
Where interest is 8 per cent per annum.....	0.3175
At 10 per cent per annum banks will actually lose.....	0.4683

ADVANTAGE OF THE BILL TO NEW COMMUNITIES.

As I have before said and all of us understand, in old communities capital is loaned much cheaper than in new and pushing towns, because loans have greater security there, are made in larger amounts, and on longer time. There is no sentiment about it. This is done in obedience to natural law, but we must regard it in framing laws and so



frame them as to help the newer and less developed locality as much as is consistent with equity.

Under the present law, in New York and Boston, where many loans are made at 4 per cent, the banks can make \$9.42 on each \$1,000 of circulation loaned at 4 per cent, while where the rate of interest is 10 per cent a bank would actually lose \$4.63 on such a loan.

Under existing law the cost attending current redemption, etc., is the same to each bank wherever located, viz, 0.265 per cent, the circulating currency notes got under the bill at different percentages would be worth—

	Per cent.
At 4 per cent, 0.265 equals gain.....	3. 735
At 6 per cent, 0. 265 equals gain.....	5. 735
At 8 per cent, 0.265 equals gain.....	7. 735
At 10 per cent, 0.265 equals gain.....	9. 735

This is an advantage to the Southern and newer Western farming communities of nearly three times as much as to New York, in profit on circulation under the Walker banking bill, over the present law. The present law puts a Western or Southern 10 per cent. community to the disadvantage of New York by more than 1.4 per cent. in the cost of the currency it gets of the comptroller. But New York and Boston would get many fold more advantages out of the added prosperity of the country as a whole than this apparent disadvantage. It is really no disadvantage; it only saves to poorer communities the wastes in banking made under the present law. It is the country that builds up the city. When the country prospers the city prospers; when the country languishes the city stagnates and decays. New York, as other cities, with all its wealth of buildings, boulevards, and parks, would not be worth as much per acre as virgin prairie but for the country. Separated from the rest of the country her area would command no more per square foot than the mountain fastnesses of the Bedonin Arabs.

The exhibits, statements of fact, and legitimate inferences already given show the wastefulness of our present system of banking and the advantages to the people of adopting one that has the sanction of years of successful experience and imitates the economies of safe and cheap banking of other countries, approved by a hundred years of experience. There is no solid reason why paper money should not be issued at as small an expense to the people as it can safely be done. Under the bill banks acceptable to all the people will be established in every considerable town, taking out circulating currency notes and making money as plenty and cheap as is compatible with its being good money. The people are not opposed to banks, but they are bitterly opposed to such banks as they think they now have. They know that the pay for products could not be sent from one part of the country to the other without banks any more than the products themselves could be transported without railroads, or than food could be produced without the farmer, or shoes without the shoemaker, or than farms could be exchanged without deeds.

#### ENCOURAGEMENT TO ESTABLISH NEW BANKS.

One of the great advantages of this bill is that it will encourage this establishing of new banks to compete for business. Again, where \$50,000 is in the possession of fifty different men to loan, those borrowing it will average to pay from 1 to 3 per cent more in interest on it

than where each of the fifty men has his \$1,000 aggregated in the capital of a bank of \$50,000 capital or more.

When a bank is organized in a neighborhood the people are always surprised by seeing thousands of dollars immediately deposited in it by persons in the vicinity who were not supposed to have any ready money, adding by just so much to the loanable capital of the place. Their neighbors are thus enabled to borrow this money, to the very great advantage of all concerned.

Money is loaned at a high or low rate of interest in proportion, first, to safety; second, to length of time; third, to quantity, interest being lowest when the return of the principal is most certain and the loan is for a long time and in large amounts. This rule always holds in loaning capital. A man with \$10,000 to loan can get double the interest on the small amounts he has the time to divide it into, than a man has the time to get on \$20,000. Fortunes of millions earn 2 per cent and 3 per cent, where one of \$10,000 earns 6 per cent or more. Banks always loan money much cheaper than any ten men in their neighborhood loan money, equal in amount to the sum of its capital or than it is loaned by any private person in the town.

The plain people are fully justified in their opposition to the present banking system and in their demands for one of greater economy; one which will utilize the gold and silver coin and the capital of the country so as to give them cheaper rates of interest than they are now paying on the money they borrow.

To illustrate the practical working of banks under the bill as compared with the present law, I have shown in Appendixes C and D the result in the banks located in each of nineteen towns, the homes of twenty-five members of the Fifty-second Congress:

The loans and discounts of these—

19 banks are.....	\$10,457,000.00
19 banks, circulation \$737,450 now outstanding, average profit, .005267 .....	3,384.15
19 banks, circulation \$1,584,000, under section 5, bill, profit .057445.	90,982.88
19 banks, circulation \$1,584,000, under section 4, no profit or loss.	

Of course these banks could not take circulation in excess of the amount of their capital.

In each case, when the total circulation, including the notes issued under section 4 and section 5, exceeds the capital of the banks, the circulation they might receive under section 5 on their "reserve held" would not avail them beyond the limit of their capital. In other words, each bank would be obliged to increase its capital to double its "reserve held" in order to receive the full amount of the circulation to which its "reserve held" entitled it.

If each bank held in the Treasury its United States bonds to secure its circulation, one-third in each of the three kinds of bonds named, the percentage of profit on its circulation would be 0.5267, as figured on page 8 of the report of the Comptroller of the Currency. On the total circulation of \$737,450, at 0.5267 profit, these banks would make a total of \$3,384.15. On the \$1,584,000 circulation they could take (by increasing their capital in the case of some of them), at the profit of 5.7445 per cent, the profit would be \$90,982.88, a difference of \$87,598.73 in favor of the bill reported. This is 0.838 per cent on \$10,457,000, the whole sum loaned by the nineteen banks. These banks, if they were doing business under the bill (H. R. 10615), could, therefore, make all their loans to the people at a rate of interest nearly 1 per cent, or at a rate one-seventh lower than they are now doing under the existing national banking law, and make as much money as now.

It is no answer to say that because this sum would go first to the banks that the people would get no lower rates of interest, for the reason that new banks would be immediately constituted to compete for the business of the locality with banks already established there, thus reducing interest.

The banking business is as open to any man who wishes to go into it as farming, shoemaking, or keeping a country store. Competition in loaning money brings down the price of money loaned precisely as it does the price of goods. It is no more unreasonable to say that consumers will get no advantage from lower wholesale prices than to say loans of money will not be made at a lower interest because of competition, when the money he loans costs the banker less.

#### UNIFORMITY OF THE CURRENCY SECURED.

##### 10. They shall be uniform.

The uniformity of the currency will come as banks organize under the bill and issue all currency. All our present paper money will be replaced by that provided for in the bill, excepting coin certificates.

11. They shall be so issued and reissued as to be forced back to the bank issuing them and where most needed.

No bank can make any money on its circulating notes while they are lying in its vaults. As a bank can not get at its own bank notes to pay out while it has those of other banks on hand, the order of paying out bills, provided for in section 24, will cause the currency of each bank to be sent to the Comptroller for redemption, and from the Comptroller's office back to the bank issuing it, to be again loaned to the people in the neighborhood of the bank. When I was 17 years old my father turned over to me the management of the finances of his business, and it is still mirrored on my mind how easily I could get loans at the bank if I would agree to take the bills of the bank and pay them to our employes for miles around, and not ask for drafts on New York.

12. The United States Government shall act simply as custodian of coin and issue certificates of deposit thereon, as now.

13. The United States Government on special occasions to provide temporary safeguards to deposits to dispel fear in order to prevent the paralysis of business by the withdrawal of individual deposits from clearly solvent banks because of unreasonable fear.

This matter is fully explained in section 19 of the bill. Action under it would not be taken by the Comptroller once in twenty years, and probably never. But its moral value, and that of section 8 in the bill, can hardly be estimated. Under the two sections such a currency famine and such withdrawal of deposits as recently occurred, could never happen.

Covering the twenty-nine years ending in 1892, individual deposits averaged \$877,978,576, and the annual losses from insolvent banks averaged \$313,503, or 0.035 per cent of the total deposits. The first year in which the present form of reporting the totals of losses in insolvent banks was made was 1888. I am therefore compelled to use only the last four years to show present conditions. In these four years the individual deposits averaged \$1,598,513,450, and the losses from insolvent banks averaged \$290,839.25, or 0.018 per cent of the total deposits.

It is safe to assume that the aggregate deposits in national banks will not fall below \$1,500,000,000 for any number of months, and one one hundredth of one per cent will yield \$150,000 per year. This infin-

itesimal tax would amount to more in two years than would be needed in any ten years of our past experience, as it covers only a fraction of deposits.

For the Government to guarantee deposits in national banks would be little short of a calamity. It would work very serious injury to conservatively managed and sound banks, and increase the business and chances of failure in badly managed banks, as it would take away the incentive to examine carefully and discriminate wisely in making deposits in banks. The well-managed bank would not overshadow and drive out the badly managed bank, as is now the tendency, when each depositor takes his own risks in putting his capital into a bank for safe-keeping.

The provisions of the bill do not at all look to the guaranteeing of individual deposits in banks. They only look to the quelling of unreasoning fear, which springs up in exceptional conditions from unrecognizable causes, or without cause. The bill is drawn in this regard with the utmost care, and only the deposits of that class of people who are timid and who have no means of assuring themselves of the safety of banks in which their deposits are, would be protected by any guarantee of deposits issued by the Comptroller. It could cover only a comparatively small percentage of the deposits, but they are just large enough, when simultaneously removed all over the country, to bring the working of our whole financial system to a standstill. By excepting from the guarantee the deposits of all officers, directors, and employes of banks of any kind, public or private, and of all stockholders in banks of any kind, who own stocks of the par value of more than \$2,000, the risk is minimized and the advantage which could be got from restoring confidence in time of panic would be a thousand fold more than any loss that could come to the people because of the guarantee.

#### SPEEDY ACTION DEMANDED.

Every member of the Committee on Banking and Currency owes it to himself, as well as to his colleagues, to accept and act upon the facts presented or to successfully controvert them. The industrial and financial condition of the country, as well as the temper of the people, bids us act. It bids us "do something" more than talk. Not idle talk and speculation is demanded, but results. There is a universal feeling among the people that the time has come for some affirmative action to be taken looking to the adoption of a substitute for the system requiring United States bonds, as used by the existing national banks, which shall furnish a better, more abundant, and cheaper currency than this country ever has had. The bill H. R. 171 will surely do it, and do it more safely and acceptably, in quality, quantity, and cheapness, than it is possible for State banks to do it. It is a physical impossibility for State-bank currency to safely circulate until the millions of legal tenders and Treasury notes are disposed of. The people will no longer submit to the millions upon millions of expense entailed upon them in keeping these notes afloat. Every one of them is now costing in indirect taxation more than legal interest on its face value. Put into the bill a provision to repeal the tax on State-bank circulation when the legal tender and Treasury notes are disposed of, if you will; or that all banks shall be chartered and regulated by the State under the requirements of this bill, if you must; but do not make chaos worse compounded by putting another patch or rather forty-four patches in forty-four additional kinds of money, on our miscalled system of finance,

already patched beyond recognition, and thus adding new burdens to those the people already bear.

It is impossible, under existing conditions, to so supply paper money by State banks as to make it as safe as paper money issued under bill H. R. 171, however secure as to final redemption, or to secure by law national current redemption. Neither is it possible to issue State bank paper money in New York and New England as cheap by one-half of one per cent as by this bill and in the South and Northwest by from one per cent to one and one-half per cent, and needlessly pay as much more in exchange to brokers on this State money. Why live longer under the existing law or continue to burden the people by millions on millions of waste by repealing the 10 per cent tax on State bank notes.

I say to you what I know, when I tell you that before the war at least two brokers got rich, with the officers of the bank dividing profits with them, for every bank in the country. Repeal the tax on State banks before you dispose of the legal tender and Treasury notes, and brokers will again take out of the people, and compel to be added to the price of goods a sum as large as the aggregate which manufacturers now take in profit. The people are in no mood to be trifled with. Results are what they demand. Better money, more abundant, cheaper. They will smite us most grievously if we follow their wishes as to methods and then they do not get it. They will reward us most generously if we thwart their wishes as to means and attain the result they seek. Results are what they demand.

Enact this bill into law and before the end of Mr. Cleveland's administration every legal-tender note of the war will be absorbed into the notes issued under section 4 of the bill, without a cent of cost to the people, and the \$100,000,000 gold kept for their redemption will be "free gold" in the Treasury, to meet the current expenses of the Government. The Treasury notes issued under the silver law of July 14, 1890, will also be absorbed into the same notes and the \$150,000,000 of silver bullion will be "free silver" in the Treasury.

This statement of the condition of the finances in the country is sufficiently startling to attract the attention of every member of this committee and of Congress. If they are not true, it is the duty of this committee to refute them, and I have earned your fiercest condemnation. If they are true, it is your duty to promptly report the Walker banking bill with a favorable recommendation, or devise a better one.

In closing, I desire to submit for your thoughtful consideration seven propositions which each of you can answer for himself.

#### AN EPITOME OF THE SUBJECT.

(1) Is it not true that only "visible" coin and paper money can be regarded in financial estimates? That carried in the pockets of the people being a dead deposit, varying in amount but little from year to year.

The visible coin of commerce in 1891 was as follows and is now about the same:

England:		
Gold coin.....	.....	\$125, 000, 000
Germany:		
Gold coin.....	.....	206, 000, 000
Silver coin.....	.....	56, 000, 000
		<hr/>
		262, 000, 000
		<hr/>

France:	
Gold coin.....	\$264,000,000
Silver coin.....	251,000,000
	<hr/>
	515,000,000
	<hr/>
United States:	
Gold coin.....	337,000,000
Silver coin.....	468,000,000
	<hr/>
	805,000,000

(2) Is it, or is it not, a fact that the law and commercial customs of every one of these countries, excepting the United States, compels a use of this coin by the banks of the countries, to cheapen their paper money?

(3) How is that England maintains a sound banking system and a sound financial system, with more than double the commerce of this country, on less than three-eighths of the visible gold coin we have, and on only 15½ per cent of the total visible coin we have?

The same with Germany and France?

(4) Is it, or is it not, because the banking systems of these countries inexorably demand the use of coin by their banks, putting upon the banks the risk and cost of holding the coin, while in this country the people are taxed millions in the cost of the Government holding it?

(5) The national-bank reserves required are \$408,000,000, their circulating bank notes \$147,241,063. By the estimates of the Comptroller (on p. 8), the average profit on this national-bank circulation is 0.5267, showing the profit to banks on their present circulation to be only \$775,578.68. The circulation allowed these banks under section 5 of the bill is as much as their lawful reserve, and the profit being 5.7445, they would make \$23,426,560 under the bill. The advantage seems to be \$22,651,041 saving to the people in favor of the bill reported. Is not this a positive and useless loss to the people—an utter waste?

Even if this \$408,000,000 was put to its legitimate use, by issuing currency notes, would the people be (or are they not) still losing an additional \$20,000,000 on the other \$400,000,000 of visible coin, none of which is earning an income, as does visible coin in Europe? If not, is any loss whatever suffered in our economic methods in coining money and in its use after being coined, as compared with the European method?

(6) Would it, or would it not, be a hardship on these banks, with \$805,000,000 of visible coin in the country that can be had for the asking, in exchange for paper money, to require by law, as is proposed in bill H. R. 171, that these banks keep \$204,000,000 of this reserve in gold coin and \$204,000,000 in silver coin, every dollar of which would be earning the banks as much as any other part of their assets in the currency notes to that amount the bill would allow the banks to issue on it, while now it earns nothing to anyone?

(7) Does not every economic and moral consideration involved urge the immediate enacting into law of this bill, H. R. 171?

See APPENDIX E. Page 319. Address before Boston Association of Bank Presidents.

See APPENDIX F. Page 334. Address before the World's Congress Auxiliary, Department of Commerce and Finance.

## APPENDICES.

## APPENDIX A.

As no bank would have had issued to it any more circulating "reserve notes" under section 5 than the reserve it "held," it will be seen by the following table that only six of these 33 banks would have been entitled to any of such notes in excess of the sum of their "dividends paid," showing an annual loss of \$8,742:

*List of insolvent national banks, dividends paid, and circulation issued of associations whose dividends were less in amount than the circulation outstanding, and also the reserve "held" by each, as shown by the Comptroller's report issued last previous to insolvency.*

Title.	Date failed.	Dividends paid.	Circulation issued.	Reserve "held."
*Merchants' National Bank, Washington, D. C. ....	1866	\$165,769	\$180,000	\$66,785.08
*First National Bank, Medina, N. Y. ....	1867	32,305	40,000	7,287.65
*Tennessee National Bank, Memphis, Tenn. ....	1867	65,835	90,000	153,746.40
*National Unadilla Bank, Unadilla, N. Y. ....	1867	56,661	100,000	.....
*Croton National Bank, New York, N. Y. ....	1867	143,307	180,000	212,667.18
Total .....		299,606	410,000	373,651.23
*National Bank, Vicksburg, Miss. ....	1868	16,654	25,500	15,873.50
*First National Bank, Rockford, Ill. ....	1869	29,277	45,000	5,573.00
*First National Bank, Fort Smith, Ark. ....	1872	15,142	45,000	5,294.15
*First National Bank, Petersburg, Va. ....	1873	125,667	179,200	28,188.00
*Merchants' National Bank, Petersburg, Va. ....	1873	259,487	380,000	117,816.92
*First National Bank, Topeka, Kans. ....	1873	31,668	90,000	30,102.68
Total .....		416,822	629,200	176,107.60
*First National Bank of Utah, Salt Lake City, Utah. ....	1874	19,002	118,191	38,627.40
*Cook County National Bank, Chicago, Ill. ....	1875	228,412	285,100	240,000.00
*Fourth National Bank, Chicago, Ill. ....	1876	18,258	85,700	8,470.00
*First National Bank, Bedford, Iowa. ....	1876	12,624	127,000	.....
*First National Bank, Osceola, Iowa. ....	1876	34,536	45,000	6,056.00
*Watkins National Bank, Watkins, N. Y. ....	1876	60,647	67,500	7,574.00
*First National Bank, Greenfield, Ohio. ....	1876	9,456	29,662	9,189.00
Total .....		185,521	254,862	34,969.00
*First National Bank, Ashland, Pa. ....	1878	33,105	75,554	7,667.00
*First National Bank, Waynesburg, Pa. ....	1878	21,710	69,345	1,000.00
*First National Bank, Dallas, Tex. ....	1878	29,377	29,900	13,459.00
*Peoples' National Bank, Helena, Mont. ....	1878	66,810	69,800	24,774.18
*Merchants' National Bank, Fort Scott, Kans. ....	1878	16,670	35,328	11,501.78
*Farmers' National Bank, Platte City, Mo. ....	1878	11,803	27,000	2,000.00
Total .....		179,475	326,327	75,431.96
*National Bank, Poultney, Vt. ....	1879	68,176	90,000	7,693.15
*First National Bank, Monticello, Ind. ....	1879	20,998	27,000	2,078.98
Total .....		109,174	117,000	9,772.18
*City National Bank, Lawrenceburg, Ind. ....	1884	26,909	77,000	27,739.00
*First National Bank, St. Albans, Vt. ....	1884	75,967	69,980	39,282.00
*Hot Springs National Bank, Hot Springs, Ark. ....	1884	39,812	40,850	37,795.00
*First National Bank, Jamestown, N. Dak. ....	1884	8,907	18,650	11,212.50
Total .....		148,896	296,480	107,028.50
*First National Bank, Angelica, N. Y. ....	1886	66,394	89,000	6,004.00
*Palatka National Bank, Palatka, Fla. ....	1887	9,492	19,210	1,973.50
*First National Bank, Sheffield, Ala. ....	1889	11,901	22,500	10,015.00
Total for 33 banks .....		1,851,038	2,793,370	.....
† Deducted because no reserve is reported leaves .....			2,566,370	1,178,431.00

\* Finally closed.

*List of insolvent national banks, etc —Continued.*

Title.	Date failed.	Dividends paid.	Circulation issued.
[Besides the 32 banks alluded to are the following:]			
First National Bank, Alma, Kans.....	1890		\$16,875
First National Bank, Mead Center, Kans.....	1890	\$5,553	10,750
Total.....		5,553	27,625
Second National Bank, McPherson, Kans.....	1891	7,328	11,350
*Asbury Park National Bank, Asbury Park, N. J. *	1891	8,753	20,700
Ninth National Bank, Dallas, Tex.....	1891	14,147	45,000
First National Bank, Red Cloud, Nebr.....	1891	5,007	16,225
Central Nebraska National Bank, Broken Bow, Nebr.....	1891		13,500
Florence National Bank, Florence, Ala.....	1891		12,000
First National Bank, Kansas City, Kans.....	1891	25,269	33,750
Rio Grande National Bank, Laredo, Tex.....	1891		22,500
First National Bank, Clearfield, Pa.....	1891	72,518	26,340
Farley National Bank, Montgomery, Ala.....	1891		22,500
First National Bank, Coldwater, Kans.....	1891	8,482	11,300
Total.....		142,114	294,865
Huron National Bank, Huron, S. Dak.....	1892		18,000
First National Bank, Downs, Kans.....	1892	8,745	10,750
First National Bank, Muncy, Pa. *	1892	20,026	94,500
Bell County National Bank, Temple, Tex.....	1892	7,592	11,320
National Bank, Guthrie, Okla.....	1892		21,800
Cherryvale National Bank, Cherryvale, Kans.....	1892		11,350
First National Bank, Rockwall, Tex.....	1892		26,720
Total.....		96,973	194,690
Grand total.....		2,006,678	3,310,369

\* Finally closed.

; Paid in full by resuming.

None in the years 1870, 1871, 1877, 1890, 1891, 1892, 1893, 1895, and 1896.

\* Total number banks failed, 53.

## APPENDIX B.

## FIGURES OF THE ACTUARY OF THE UNITED STATES TREASURY.

## PROFITS ON CIRCULATION AT 4 PER CENT.

*Profits or losses on circulation taken by banking associations in localities where the interest is 4 per cent under existing law.*

JUNE 30, 1892—2 PER CENTS.

\$100,000 twos at par, interest.....		\$2,000.00
Circulation, 90 per cent on par value.....	\$90,000.00	
Deduct 5 per cent redemption fund.....	4,500.00	
Loanable circulation at 4 per cent.....	85,500.00	3,420.00
Gross receipts.....		5,420.00
Deduct—		
1 per cent tax on circulation.....	900.00	
Annual cost of redemption.....	137.48	
Express charges.....	3.00	
Cost of plates for circulation.....	7.50	
Agents' fees.....	7.50	
Examinations.....	43.00	1,098.48
Net receipts.....		4,321.52
\$100,000 loaned at 4 per cent.....		4,000.00
Profit on circulation.....		321.52

Total profit on \$21,837,000 bonds, \$70,210.32.

Percentage on maximum circulation obtainable, 0.322 per cent.



## JUNE 30, 1892—4 PER CENTS.

\$100,000 fours at 116½ premium, interest.....		\$4,000.00
Circulation, 90 per cent on par value.....	\$90,000.00	
Deduct 5 per cent redemption fund.....	4,500.00	
Loanable circulation at 4 per cent.....	85,500.00	3,420.00
Gross receipts.....		7,420.00
Deduct—		
1 per cent tax on circulation.....	900.00	
Annual cost of redemption.....	137.48	
Express charges.....	3.00	
Cost of plates for circulation.....	7.50	
Agents' fees.....	7.50	
Examinations.....	43.00	
Sinking fund reinvested quarterly to liquidate premium.....	820.38	1,918.86
Net receipts.....		5,501.14
\$116,750 loaned at 4 per cent.....		4,670.00
Profit on circulation.....		831.14
Total profit on \$129,759,000 bonds, \$1,078,478.95.		
Percentage on maximum circulation obtainable, 0.831 per cent.		

## JUNE 30, 1892—6 PER CENTS.

\$100,000 sixes at 114 premium, interest.....		\$6,000.00
Circulation, 90 per cent on par value.....	\$90,000.00	
Deduct 5 per cent redemption fund.....	4,500.00	
Loanable circulation at 4 per cent.....	85,500.00	3,420.00
Gross receipts.....		9,420.00
Deduct—		
1 per cent tax on circulation.....	900.00	
Annual cost of redemption.....	137.48	
Express charges.....	3.00	
Cost of plates for circulation.....	7.50	
Agents' fees.....	7.50	
Examinations.....	43.00	
Sinking fund reinvested semiannually to liquidate premium.....	2,087.67	3,186.15
Net receipts.....		6,233.85
\$114,000 loaned at 4 per cent.....		4,560.00
Profit on circulation.....		1,673.85
Total profit on \$11,600,000 bonds, \$194,166.60.		
Percentage on maximum circulation obtainable, 1.674 per cent.		

## RECAPITULATION AT INTEREST AT 4 PER CENT.

Profit on circulation had by deposit of 2 per cent bonds at par.....	0.322
Profit on circulation had by deposit of 4 per cent bonds at 116½.....	0.831
Profit on circulation had by deposit of 6 per cent bonds at 114.....	1.674
Profit on circulation had by deposit of ½ of each kind of bond.....	0.942

## PROFITS ON CIRCULATION AT 6 PER CENT.

*Profits or losses on circulation taken by banking associations in localities where the interest is 6 per cent under existing law.*

[Profits on circulation, Comptroller's Report, 1892, p. 8.]

## JUNE 30, 1892—2 PER CENTS.

\$100,000 twos at par interest .....		\$2,000.00
Circulation, 90 per cent on par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	4,500.00	
	85,500.00	5,130.00
Loanable circulation at 6 per cent .....		
Gross receipts .....		7,130.00
Deduct—		
1 per cent tax on circulation .....	900.00	
Annual cost of redemption .....	137.48	
Express charges .....	3.00	
Cost of plates for circulation .....	7.50	
Agents' fees .....	7.50	
Examinations .....	43.00	
	1,098.48	1,098.48
Net receipts .....		6,031.52
\$100,000 loaned at 6 per cent .....		6,000.00
		31.52
Profit on circulation .....		
Total profit on \$21,837,000 bonds, \$4,194.72.		
Percentage on maximum circulation obtainable, 0.032 per cent.		

## JUNE 30, 1892—4 PER CENTS.

\$100,000 fours at 116 $\frac{1}{2}$ premium, interest .....		\$4,000.00
Circulation, 90 per cent on par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	4,500.00	
	85,500.00	5,130.00
Loanable circulation at 6 per cent .....		
Gross receipts .....		9,130.00
Deduct—		
1 per cent tax on circulation .....	900.00	
Annual cost of redemption .....	137.48	
Express charges .....	3.00	
Cost of plates for circulation .....	7.50	
Agents' fees .....	7.50	
Examinations .....	43.00	
Sinking fund reinvested quarterly to liquidate premium .....	696.36	
	1,794.84	1,794.84
Net receipts .....		7,335.16
\$116,750 loaned at 6 per cent .....		7,005.00
		330.16
Profit on circulation .....		
Total profit on \$129,759,000 bonds, \$385,571.09.		
Percentage on maximum circulation obtainable, 0.330 per cent.		

## JUNE 30, 1892—6 PER CENTS.

\$100,000 sixes at 114 premium, interest .....		\$6,000.00
Circulation, 90 per cent on par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	4,500.00	
	85,500.00	5,130.00
Loanable circulation at 6 per cent .....		
Gross receipts .....		11,130.00

<b>Deduct—</b>	
1 per cent tax on circulation .....	\$900.00
Annual cost of redemption .....	137.48
Express charges .....	3.00
Cost of plates for circulation .....	7.50
Agents' fees .....	7.50
Examinations .....	43.00
Sinking fund reinvested semiannually to liquidate premium .....	1,972.94
	\$3,071.42
Net receipts .....	8,058.58
\$114,000 loaned at 6 per cent. ....	6,840.00
	1,218.58
Profit on circulation .....	
Total profit on \$11,600,000 bonds, \$127,219.75.	
Percentage on maximum circulation obtainable, 1.218 per cent.	

## RECAPITULATION AT INTEREST AT 6 PER CENT.

Profit on circulation had by deposit of 2 per cent bonds at par .....	0.032
Profit on circulation had by deposit of 4 per cent bonds at 116 $\frac{1}{2}$ .....	0.330
Profit on circulation had by deposit of 6 per cent bonds at 114 .....	1.218
	0.526
Profit on circulation had by deposit of $\frac{1}{3}$ of each kind of bond .....	

## PROFITS ON CIRCULATION AT 8 PER CENT.

*Profits or losses on circulation taken by banking associations in localities where the interest is 8 per cent under existing law.*

## ON JUNE 30, 1892—2 PER CENTS (BONDS).

\$100,000 twos at par, interest .....		\$2,000.00
Circulation 90 per cent on par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	4,500.00	
	85,500.00	6,840.00
Loanable circulation at 8 per cent .....		8,840.00
Gross receipts .....		8,840.00
<b>Deduct—</b>		
1 per cent tax on circulation .....	900.00	
Annual cost of redemption .....	137.48	
Express charges .....	3.00	
Cost of plates for circulation .....	7.50	
Agents' fees .....	7.50	
Examinations .....	43.00	
	1,098.48	
Net receipts .....		7,741.52
\$100,000 loaned at 8 per cent. ....		8,000.00
		258.48
Loss on circulation .....		
Total loss on \$21,837,000 bonds, \$50,799.85.		
Percentage loss on maximum circulation obtainable, 0.258 per cent.		

## JUNE 30, 1892—4 PER CENTS (BONDS).

\$100,000 fours, at 116 $\frac{1}{2}$ premium, interest .....		\$4,000.00
Circulation 90 per cent par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	4,500.00	
	85,500.00	6,840.00
Loanable circulation at 8 per cent .....		10,840.00
Gross receipts .....		10,840.00

<b>Deduct—</b>	
1 per cent tax on circulation .....	\$900.00
Annual cost of redemption .....	137.48
Express charges .....	3.00
Cost of plates for circulation .....	7.50
Agents' fees .....	7.50
Examinations .....	43.00
Sinking fund reinvested quarterly to liquidate premium .....	696.36
	\$1,794.84
Net receipts .....	9,045.16
\$116,750 loaned at 8 per cent .....	9,340.00
Loss on circulation .....	294.84
Total loss on \$129,759,000 bonds, \$344,323.30.	
Percentage on maximum circulation obtainable, 0.295 per cent.	

## JUNE 30, 1892—6 PER CENT.

\$100,000 sixes at 114 premium, interest .....		\$6,000.00
Circulation 90 per cent on par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	450.00	
Loanable circulation at 8 per cent .....	85,500.00	6,840.00
Gross receipts .....		12,840.00
<b>Deduct—</b>		
1 per cent tax on circulation .....	900.00	
Annual cost of redemption .....	137.48	
Express charges .....	3.00	
Cost of plates for circulation .....	7.50	
Agents' fees .....	7.50	
Examinations .....	43.00	
Sinking fund reinvested semiannually to liquidate premium .....	1,972.94	
		3,071.42
Net receipts .....		9,768.58
\$114,000 loaned at 8 per cent .....		9,120.00
Profit on circulation .....		648.58
Total profit on \$11,600,000 bonds, \$67,711.75.		
Percentage on maximum circulation obtainable, 0.649 per cent.		

## RECAPITULATION AT INTEREST AT 8 PER CENT.

Loss on circulation had by deposit of 2 per cent bonds at par .....	0.25848
Loss on circulation had by deposit of 4 per cent bonds at 116 $\frac{1}{2}$ .....	0.29484
Profit on circulation had by deposit of 6 per cent bonds at 114 .....	0.64858
Profit on circulation had by deposit of $\frac{1}{2}$ of each kind of bond .....	0.03175

## PROFITS ON CIRCULATION AT 10 PER CENT.

*Profits or losses on circulation taken by banking associations in localities where the interest is 10 per cent under existing law.*

## JUNE 30, 1892—2 PER CENTS.

\$100,000 two's at par, interest .....		\$2,000.00
Circulation, 90 per cent on par value .....	\$90,000.00	
Deduct 5 per cent redemption fund .....	4,500.00	
Loanable circulation at 10 per cent .....	85,500.00	8,550.00
Gross receipts .....		10,550.00

<b>Deduct—</b>	
1 per cent tax on circulation .....	\$900. 00
Annual cost of redemption .....	137. 48
Express charges .....	3. 00
Cost of plates for circulation .....	7. 50
Agents' fees .....	7. 50
Examinations .....	43. 00
	\$1, 098. 48
Net receipts .....	9, 451. 52
\$100,000 loaned at 10 per cent .....	10, 000. 00
	548. 48
Loss on circulation .....	
Total loss on \$21,387,000, \$107,794.42.	
Percentage on maximum circulation obtainable, 0.548 per cent.	

JUNE 30, 1892—4 PER CENTS.

\$100,000 fours at 116½ premium, interest .....	4, 000. 00
Circulation, 90 per cent par value .....	90, 000. 00
Deduct 5 per cent redemption fund .....	4, 500. 00
	85, 500. 00
Loanable circulation at 10 per cent .....	8, 550. 00
Gross receipts .....	12, 550. 00
<b>Deduct—</b>	
1 per cent tax on circulation .....	900. 00
Annual cost of redemption .....	137. 48
Express charges .....	3. 00
Cost of plates for circulation .....	7. 50
Agents' fees .....	7. 50
Examinations .....	43. 00
Sinking fund reinvested quarterly to liquidate premium .....	696. 36
	1, 794. 84
Net receipts .....	10, 755. 16
\$116,750 loaned at 10 per cent .....	11, 675. 00
	919. 84
Loss on circulation .....	
Total loss on \$129,759,000 bonds, \$1,074,217.67.	
Percentage on maximum circulation obtainable, 0.920 per cent.	

JUNE 30, 1892—6 PER CENTS.

\$100,000 sixes at 114 premium, interest .....	\$6, 000. 00
Circulation, 90 per cent on par value .....	\$90, 000. 00
Deduct 5 per cent redemption fund .....	4, 500. 00
	85, 500. 00
Loanable circulation at 10 per cent .....	8, 550. 00
Gross receipts .....	14, 550. 00
<b>Deduct—</b>	
1 per cent tax on circulation .....	900. 00
Annual cost of redemption .....	137. 48
Express charges .....	3. 00
Cost of plates for circulation .....	7. 50
Agents' fees .....	7. 50
Examinations .....	43. 00
Sinking fund reinvested semiannually to liquidate premium .....	1, 972. 94
	3, 071. 42
Net receipts .....	11, 478. 58
\$114,000 loaned at 10 per cent .....	11, 400. 00
	78. 58
Profit on circulation .....	
Total profit on \$11,600,000 bonds, \$8,203.75.	
Percentage on maximum circulation obtainable, 0.079 per cent.	

## RECAPITULATION AT INTEREST AT 10 PER CENT.

Loss on circulation had by deposit of 2 per cent bonds at par .....	0.54848
Loss on circulation had by deposit of 4 per cent bonds at 116 $\frac{1}{2}$ .....	0.91984
Profit on circulation had by deposit of 6 per cent bonds at 114 .....	0.07900
Loss on circulation had by deposit of $\frac{1}{3}$ of each kind of bonds .....	0.46325

## APPENDIX C.

## BILL H. R. 171 IN PRACTICE.

The figures given below show what the effect of adopting bill H. R. 171 would be on each of the banks mentioned. Their possible profits under the present system are compared with their possible profits should bill H. R. 171 become a law.

[Home of Hon. Warren F. Daniell.]

## No. 1.—FRANKLIN NATIONAL BANK, FRANKLIN, N. H.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$43,700:		
If it had 2 per cent U. S. bonds, its possible profit would be .....	0.0315	\$13.76
If it had 4 per cent U. S. bonds, its possible profit would be .....	0.3301	144.25
If it had 6 per cent U. S. bonds, its possible profit would be .....	1.2185	532.48
If it had one-third of each bond, its possible profit would be .....	0.5267	230.09
It would be entitled to \$15,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	861.67
Difference in profit to the bank .....		631.58
On the \$15,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		30,000.00

[Home of Hon. Charles F. Crisp.]

## No. 2.—PEOPLE'S NATIONAL BANK, AMERICUS, GA.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$11,250:		
If it had 2 per cent bonds, its possible profit would be .....	0.0315	\$3.54
If it had 4 per cent bonds, its possible profit would be .....	0.3301	37.14
If it had 6 per cent bonds, its possible profit would be .....	1.2185	137.08
If it had one-third of each bond, its possible profit would be .....	0.5267	59.25
It would be entitled to \$36,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	2,008.02
Difference in profit to the bank .....		2,008.77
On the \$36,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		72,000.00

[Home of Hon. Joseph D. Sayers.]

## No. 3.—FIRST NATIONAL BANK, BASTROP, TEX.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$11,250:		
[Same as No. 2 example.]		
If it had one-third of each bond, its possible profit would be .....	0.5267	\$59.25
It would be entitled to \$52,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	2,927.14
Difference in profit to the bank .....		2,927.89
On the \$52,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		104,000.02

[Home of Hon. John Sherman].

No. 4.—CITIZENS' NATIONAL BANK, MANSFIELD, OHIO.

	Per cent.	Possible profit.
<b>This bank has national-bank notes outstanding, \$22,500:</b>		
If it had 2 per cent bonds, its possible profit would be .....	0.0315	\$7.06
If it had 4 per cent bonds, its possible profit would be .....	0.3301	74.23
If it had 6 per cent bonds, its possible profit would be .....	1.2185	274.16
<b>If it had one-third of each bond, its possible profit would be .....</b>	<b>0.5267</b>	<b>118.50</b>
It would be entitled to \$52,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	2,967.14
<b>Difference in profit to the bank .....</b>		<b>2,868.64</b>
<b>On the \$51,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....</b>		<b>104,000.00</b>

[Home of Hon. David B. Culberson.]

No. 5.—NATIONAL BANK, JEFFERSON, TEX.

	Per cent.	Possible profit.
<b>This bank has national-bank notes outstanding, \$22,500:</b>		
[Same as in No. 4 example.]		
<b>If it had one-third of each bond its possible profit would be .....</b>	<b>0.5267</b>	<b>\$118.50</b>
It would be entitled to \$31,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	1,780.79
<b>Difference in profit to the bank .....</b>		<b>1,662.29</b>
<b>On the \$31,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....</b>		<b>62,000.00</b>

[Home of Hon. William H. Hatch.]

No. 6.—FIRST NATIONAL BANK, HANNIBAL, MO.

	Per cent.	Possible profit.
<b>This bank has national-bank notes outstanding, \$22,500:</b>		
[Same as in No. 4 example.]		
<b>If it had one-third of each bond, its possible profit would be .....</b>	<b>0.5267</b>	<b>\$118.50</b>
It would be entitled to \$47,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	2,699.91
<b>Difference in profit to the bank .....</b>		<b>2,581.41</b>
<b>On the \$47,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....</b>		<b>94,000.00</b>

[Home of Hon. Nicholas N. Cox.]

No. 7.—NATIONAL BANK, FRANKLIN, TENN.

	Per cent.	Possible profit.
<b>This bank has national-bank notes outstanding, \$22,000:</b>		
If it had 2 per cent bonds its possible profit would be .....	0.0315	\$6.93
If it had 4 per cent bonds its possible profit would be .....	0.3301	72.62
If it had 6 per cent bonds its possible profit would be .....	1.2185	268.07
<b>If it had one-third of each bond its possible profit would be .....</b>	<b>0.5267</b>	<b>115.87</b>
It would be entitled to \$17,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	976.56
<b>Difference in profit to bank .....</b>		<b>860.69</b>
<b>On the \$17,000 of section 4, notes which it be compelled to take, there would be no gain or loss. Total circulation .....</b>		<b>34,000.00</b>

[Home of Hon. William B. Allison and Hon. David B. Henderson.]

## No. 8.—FIRST NATIONAL BANK, DUBUQUE, IOWA.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$45,000:		
If it had 2 per cent bonds, its possible profit would be .....	0.0315	\$14.17
If it had 4 per cent bonds, its possible profit would be .....	0.3301	148.54
If it had 6 per cent bonds, its possible profit would be .....	1.2185	548.32
If it had one-third of each bond, its possible profit would be .....	0.5267	237.01
It would be entitled to \$150,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	8,616.75
Difference in profit to the bank .....		8,379.74
On the \$150,000 of section 4 notes, which it would be compelled to take, there would be no gain or loss. Total circulation .....		300,000.00

[Home of Hon. John G. Carlisle.]

## No. 9.—FIRST NATIONAL BANK, COVINGTON, KY.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$90,000.		
If it had 2 per cent bonds, its possible profit would be .....	0.0315	\$28.35
If it had 4 per cent bonds, its possible profit would be .....	0.3301	297.09
If it had 6 per cent bonds, its possible profit would be .....	1.2185	1,096.65
If it had one-third of each bond, its possible profit would be .....	0.5267	474.03
It would be entitled to \$95,000, of section 5, reserve notes, on which its possible profit would be .....	5.7445	5,457.27
Difference in profit to the bank .....		4,983.24
On the \$95,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		190,000.00

[Home of Hon. Isham G. Harris and Hon. Josiah Patterson.]

## No. 10.—FIRST NATIONAL BANK, MEMPHIS, TENN.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$45,000.		
[Same as No. 8 example.]		
If it had one-third of each bond, its possible profit would be .....	0.5267	\$237.01
Would be entitled to \$109,000, section 5, reserve notes, on which its possible profit would be .....	5.7445	6,251.50
Difference in profit to the bank .....		6,024.49
On the \$109,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		218,000.00

[Home of Hon. Daniel W. Voorhees.]

## No. 11.—FIRST NATIONAL BANK, TERRE HAUTE, IND.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$45,000.		
[Same as No. 8 example.]		
If it had one-third of each bond, its possible profit would be .....	0.5267	\$237.01
It would be entitled to \$163,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	9,363.53
Difference in profit to the bank .....		9,126.52
On the \$163,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		326,000.00



[Home of Hon. Zebulon B. Vance and Hon. S. B. Alexander.]

## No. 12.—FIRST NATIONAL BANK, CHARLOTTE, N. C.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$45,000. [Same as No. 6 example.]		
If it had one-third of each bond, its possible profit would be.....	0. 5267	\$237. 01
It would be entitled to \$144,000 of section 5, reserve notes, on which its possible profit would be.....	5. 7445	8, 272. 08
Difference in profit to the bank.....		8, 035. 07
On the \$144,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation.....		288, 000. 00

[Home of Hon. Shelby M. Cullom, Hon. John M. Palmer, and Hon. William M. Springer.]

## No. 13.—FIRST NATIONAL BANK, SPRINGFIELD, ILL.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$45,000: [Same as in No. 8 example.]		
If it had one-third of each bond, its possible profit would be.....	0. 5267	\$237. 01
It would be entitled to \$103,000 of section 5, reserve notes, on which its possible profit would be.....	5. 7445	5, 916. 83
Difference in profit to the bank.....		5, 679. 82
On the \$103,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation.....		206, 000. 00

[Home of Hon. David Turple and Hon. William D. Bynum.]

## . NO. 14.—CAPITAL NATIONAL BANK, INDIANAPOLIS, IND.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$45,000: [Same as in No. 8 example.]		
If it had one-third of each bond, its possible profit would be.....	0. 5267	\$237. 01
It would be entitled to \$167,000 of section 5, reserve notes, on which its possible profit would be.....	5. 7445	9, 592. 31
Difference in profit to the bank.....		9, 355. 30
On the \$167,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation.....		334, 000. 00

[Home of Hon. Thomas J. Geary.]

## No. 15.—SANTA ROSA NATIONAL BANK, SANTA ROSA, CAL.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$33,750:		
If it had 2 per cent bonds, its possible profit would be.....	0. 0815	\$10. 68
If it had 4 per cent bonds, its possible profit would be.....	0. 3801	122. 41
If it had 6 per cent bonds, its possible profit would be.....	1. 2185	411. 64
If it had one-third of each bond, its possible profit would be.....	0. 5267	181. 52
It would be entitled to \$35,000 of section 5, reserve notes, on which its possible profit would be.....	5. 7445	2, 010. 57
Difference in profit to the bank.....		1 829. 05
On the \$35,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation.....		70 000. 00

[Home of Hon. Albert J. Hopkins.]

## No. 16.—FIRST NATIONAL BANK, AURORA, ILL.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$21,600:		
If it had 2 per cent bonds, its possible profit would be .....	0.0315	86.80
If it had 4 per cent bonds, its possible profit would be .....	0.3301	71.30
If it had 6 per cent bonds, its possible profit would be .....	1.2186	203.20
If it had one-third of each bond, its possible profit would be .....	0.5267	113.76
It would be entitled to \$59,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	3,389.25
Difference in profit to the bank .....		3,275.49
On the \$59,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		118,000.00

[Home of Hon. Newton C. Blanchard.]

## No. 17.—FIRST NATIONAL BANK, SHREVEPORT, LA.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$89,000:		
If it had 2-per cent bonds, its possible profit would be .....	0.0315	823.04
If it had 4-per cent bonds, its possible profit would be .....	0.3301	233.79
If it had 6-per cent bonds, its possible profit would be .....	1.2186	1,084.46
If it had one-third of each bond, its possible profit would be .....	0.5267	468.76
It would be entitled to \$121,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	6,950.84
Difference in profit to the bank .....		6,482.08
On the \$121,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		242,000.00

[Home of Hon. Thomas C. Catchings.]

## No. 18.—FIRST NATIONAL BANK, VICKSBURG, MISS.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$33,750:		
[Same as No. 15 example.]		
If it had one-third of each bond its possible profit would be .....	0.5267	\$181.52
It would be entitled to \$50,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	2,872.25
Difference in profit to the bank .....		\$2,690.73
On the \$50,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		\$100,000.00

[Home of Hon. William Mutchler.]

## No. 19.—EASTON NATIONAL BANK, EASTON, PA.

	Per cent.	Possible profit.
This bank has national-bank notes outstanding, \$43,650:		
If it had 2 per cent bonds, its possible profit would be .....	0.0315	\$12.74
If it had 4 per cent bonds, its possible profit would be .....	0.3301	144.69
If it had 6 per cent bonds, its possible profit would be .....	1.2186	531.87
If it had one-third of each bond, its possible profit would be .....	0.5267	230.10
It would be entitled to \$190,000 of section 5, reserve notes, on which its possible profit would be .....	5.7445	10,914.55
Difference in profit to the bank .....		10,684.45
On the \$190,000 of section 4, notes which it would be compelled to take, there would be no gain or loss. Total circulation .....		380,000.00

## APPENDIX D.

In order to still further show the advantages to a bank and therefore to the people in the cheaper money provided in the bill, I give examples of three of these actual banks figured out more fully. One that has every dollar of its paid-in capital invested in bonds to secure circulating notes and two that have no circulating notes at all.

The profit on circulation to a bank now doing business on a 6 per cent basis is shown by the first example. What it would be in normal banking, as ascertained by the actuary of the United States Treasury, and printed on page 8 of the report of the Comptroller of the Currency, is also shown in each of the three examples.

These examples show what each of these banks would gain by doing their business under the Walker banking bill, H. R. 171, were it now a law. Where rates of interest are 6 per cent, the gain on circulation is only 0.5267; at 8 per cent, only 0.03175; and it is an actual loss of 0.46325 per cent for a bank to take out circulating notes under our present national banking laws, where the rate of interest is 10 per cent, as is shown by these examples. The figures are from the Comptroller's report of December 5, 1892, page 8, and from the figures of the actuary of the United States Treasury, herewith published.

## FIRST NATIONAL BANK, LANCASTER, PA.

United States bonds to secure circulation.....		\$210,000.00
Capital stock (all invested in bonds).....		210,000.00
Individual deposits, only.....		251,000.00
National-bank notes outstanding.....		183,800.00
Loans and discounts.....		345,000.00
Profit on 2 per cent bonds at par.....	0.0315	57.89
Profit on 4 per cent bonds at 1.16 $\frac{1}{2}$ premium.....	0.3301	606.72
Profit on 6 per cent bonds at 1.14 premium.....	1.2185	2,239.60
Profit if $\frac{1}{2}$ is now held in each kind of bonds.....	0.5267	968.07
Profit, 6 per cent basis, on \$41,000, section 5 reserve notes..	5.7445	2,355.24
Difference to the bank.....		1,387.17
Profit on \$41,000, section 4, notes none, and no loss.....		
Total circulation had under bill H. R. 171.....		82,000.00
Profit on \$183,800 circulation, under present law, on basis of 8 per cent.....	0.03175	58.36
Profit on \$41,000 circulation, section 5 reserve notes, under bill H. R. 171.....	7.7445	3,175.24
Difference to the bank on \$345,000 loans and discounts under bill H. R. 171.....	0.902	3,116.88
Loss on \$183,800 circulation under present law, on basis of 10 per cent.....	0.46325	851.45
Profit on \$41,000 circulation, section 5 reserve notes, under bill H. R. 171.....	9.7445	3,995.24
"Difference to the bank" on \$345,000 loans and discounts is .014 plus per cent.....		4,846.69

## RECAPITULATION.

"Difference to the bank" is 0.4 per cent on \$345,000 loans and discounts, at 6 per cent rate of interest.

"Difference to the bank" is 0.902 per cent on \$345,000 loans and discounts, at 8 per cent rate of interest.

"Difference to the bank" is 1.4 per cent on \$345,000 loans and discounts, at 10 per cent rate of interest.

That is to say, this bank could make as much money on its \$345,000 loans and discounts at 5.6 per cent under bill H. R. 171 as at 6 per cent under existing banking laws, or at 7.1 per cent under bill H. R. 171 as at 8 per cent under existing banking laws, or at 8.6 per cent under bill H. R. 171 as at 10 per cent under existing banking laws.

## CHESTERTOWN NATIONAL BANK, CHESTERTOWN, MD.

United States bonds to secure circulation .....	\$15,000.00
Capital stock .....	60,000.00
Individual deposits .....	312,000.00
National bank notes outstanding .....	None.
Loans and discounts .....	222,000.00
Profit, 6 per cent basis on \$44,568, section 5 reserve notes 5.7445 .....	2,560.20
Profit on \$44,568, section 4 notes, none, and no loss .....	
Total circulation .....	89,136.00
Profit 8 per cent basis on \$44,568, section 5 reserve notes, 7.7445 .....	3,451.57
Profit 10 per cent basis on \$44,568, section 5 reserve notes, 9.7445 .....	4,342.93

## RECAPITULATION.

"Difference to the bank" is 1.16 per cent on \$222,000 loans and discounts, at 6 per cent.

"Difference to the bank" is 1.56 per cent on \$222,000 loans and discounts, at 8 per cent.

"Difference to the bank" is 1.96 per cent on \$222,000 loans and discounts, at 10 per cent.

That is to say, this bank could make as much money on its \$222,000 loans and discounts at 4.84 per cent under bill H. R. 171 as at 6 per cent under existing banking laws, or at 6.44 per cent under bill H. R. 171 as at 8 per cent under existing banking laws, or at 8.04 per cent under bill H. R. 171 as at 10 per cent under existing banking laws.

## FIRST NATIONAL BANK, HOUSTON, TEX.

United States bonds to secure circulation .....	\$25,000.00
Capital stock .....	100,000.00
Individual deposits .....	1,038,341.00
National bank notes outstanding .....	None.
Loans and discounts .....	906,000.00
Profit on \$210,810, section 5 reserve notes, 5.7445 .....	12,109.98
Profit on \$210,810, section 4 none, and no loss .....	
Total circulating notes .....	421,620.00
Profit, 8 per cent basis on \$210,810, section 5 reserve notes, 7.7445 .....	16,326.18
Profit, 10 per cent basis, on \$210,810, section 5 reserve notes, 9.7445 .....	20,542.38

## RECAPITULATION.

"Difference to the bank" is 1.336 per cent on \$906,000 loans and discounts at 6 per cent rate.

"Difference to the bank" is 1.801 per cent on \$906,000 loans and discounts at 8 per cent rate.

"Difference to the bank" is 2.267 per cent on \$906,000 loans and discounts at 10 per cent rate.

That is to say, this bank could make as much money on its \$906,000 loans and discounts at 4.664 per cent under bill H. R. 171 as at 6 per cent under existing banking laws; or at 6.199 per cent under bill H. R. 171 as at 8 per cent under existing banking laws, or at 7.733 per cent under bill H. R. 171 as at 10 per cent under existing banking laws.

These examples of three existing banks and the examples given in H. R. Report 2584, show how existing banking laws work very great hardship to the people in every city and town in the whole country, by increasing the cost to the people of the money they borrow, over what it would cost them if the banks were working under a proper banking law. The present law hurts most in the country, where money is loaned at 8 per cent and 10 per cent interest. It hurts least in cities and places where money is loaned at 3 per cent to 5 per cent interest. Money now averages to be loaned at fully 1 per cent more the country over than it would cost the borrower under the Walker banking bill. That is to say,

if the banks were now working under the Walker bill as law, they could loan as much money for \$87 as they now charge \$100 for the use of, and make the same profit as now, provided the average interest is 6 per cent per annum.

This is because \$400,000,000, of the possible loanable funds of banks under the present law is held out of any possible constant direct use, out of the total of \$2,796,400,000 banking funds. Every dollar of this \$2,796,400,000 could be earning an income to the banks under the Walker bill. This would inevitably soon cause all loans to be made at a lower rate of interest.

Not only is this vast sum of money held out of loanable funds, but, secondly, by the law compelling all banks whose capital is less than \$150,000 to lock up one-fourth of its capital in buying United States bonds; and by compelling every bank that has a capital of over \$150,000 to buy \$50,000 worth of United States bonds, it prevents millions more dollars from being loaned to the people. The people feel the hurt, but make a mistake as to what causes the injury. It is the law, not the banks.

The scheme worked out in bill H. R. 171 is as old in its every element as modern civilization, is safer than the present system, and allows every dollar of the assets of a bank to be earning an income, thus making the price of every loan much lower. When bill H. R. 171 is enacted into law, the forehanded farmers in every town will unite and form banks, thus cheapening the rate of interest by competition, and help out their neighbors who still find it necessary to borrow money.

## APPENDIX E.

### BANKING.

[An address delivered (by invitation) before the Boston Association of Bank Presidents, at the Parker House, Boston, November 14, 1892.]

President Lincoln once remarked that statesmanship in an executive office consisted in so balancing the meannesses of mankind as to make them serve the state. In legislation, statesmanship consists in minimizing the evil that a legislative body is determined to do in some act that it passes, or in securing all the possible good that, under existing circumstances, can be secured in an act.

I do not believe that any one of the men who framed the silver act of July 14, 1890—and there were very few of them; there were practically but three—would have recommended that act as a purely financial measure. We must remember that our Government is a government of the people, by the people, and for the people, for evil as well as for good, and while the great balance of their legislative acts, and the results that they accomplish, are for good, as compared with any other form of government, yet evil the people will have and do.

Neither do I believe that there is any one who was instrumental in forming the silver act of July 14, 1890, or in securing its passage, but believes, and believes from the very widest investigation and knowledge, and standing in the very eye of the free-coinage excitement, that we should have had free coinage or come far nearer that had not that bill passed than we now are by the passage of it. For you must remember that that bill absolutely stopped the coinage of silver. It put an end to the buzzard dollar forever. It left us practically with warehouse receipts for the silver bullion at its market value, which are just as valuable, and no more so, than warehouse receipts for the commercial value of any other merchantable commodity that will fluctuate no more nor less.

Again, there is not one of the men on the conference committee, who was opposed to the free coinage of silver, who did not say to those on the committee favoring free coinage, that the bill would not accomplish what the advocates of free coinage said it would accomplish, namely, the bringing of the commercial price of silver up to 164, which is on a parity with gold of 16 to 1—our coinage ratio; that it would not accomplish that, and that the law must surely be repealed when the conditions of the country and the further education of the people brought them to a better mind. When the papers assert that the men who were then guiding your affairs, all of whom I knew and a part of whom I was, were "rattled," and under "undue excitement" and frightened, they do them an injustice that is thoroughly unworthy of the papers that so state. I am not apt to get "rattled" except on small things, not by large ones. I do not

know but Senators Sherman and Jones and Congressman Conger are men to "get rattled," but I have not so found them, to say the least.

Now, you speak of a banking system, to which, I suppose, the club desires that I should devote what few minutes I have. A banking system that will not run smoothly under the most adverse circumstances, is a banking system that is not worth talking about. A banking system that does not provide for specie payments, for the suspension of specie payments, a banking system that will not run smoothly under the most intense civil commotion and civil strife, is not worthy of your attention.

#### SUCCESS IN LEGISLATION IS A DUTY.

In any other government but ours, it is the minister of finance and men skilled in finance who guide the monetary affairs of the country: in our country they are guided and directed by the whole body of legislators, each one of whom, whatever may be his previous training, is very sure that he knows all there is to know on all questions of finance—and his confidence is always proportionate to his ignorance. [Laughter.] No man has a right to present a bill to Congress when he has not a fair chance of success in passing it; and in presenting a bill which shall provide for a national banking system, as in all other legislation, he must present the best bill, whose adoption he has a reasonable chance of securing. If the banking system of the country and the banks of the country can legitimately and economically work under it and preserve the banking system, whatever things there are in it that you may object to, you still must take it because of the good there is in the system, even if the thing itself is in some points objectionable. Success is a duty in legislation for the single legislator or the legislative body, as much as it is our duty as bankers or as merchants.

Now, the bill which I have to present to you is not such a bill as I would draw, had I authority to draw it such as is conferred upon men who manage the finances of Great Britain or France or Germany. There is considerable blarney in the title: there can be enough blarney put into the advocacy of it to secure support from all classes in Congress; but I can assure you, gentlemen, there is no blarney in the text of the bill. There is not enough financial wisdom that can be availed of and focussed, in the Congress of the United States, to devise a banking system such as this country ought to have—I mean to say, in the every-day Congress. It is only an exceptional Congress that will give you that. You have got to wait for your national system till that Congress comes, gentlemen, and it will come, when it comes at all, from the men in a Congress who are sufficiently adroit and conciliatory and popular to have men of both parties assist them in passing the measure. I believe—I can't quite say I believe, but I have very strong hopes—that the leading Democrats of the House in the present or the Fifty-third Congress can be persuaded that it is for their political advantage to take up the system which I shall present to you and adopt it, and if they so think you will have it, and if they are not persuaded of that you will not have it. It will not come purely as a matter of statesmanship, free from all party advantage and political considerations, by either the Democrats or the Republicans. Whenever you get a proper banking system in this country, it will be through some man in the minority of sufficient skill and popularity on his own side to have it support him; who has sufficient ability to draw the bill and persuasive power to convince the majority that it is for its political advantage to have it adopted. I have come down here to talk sense to you, not nonsense. [Applause.]

Now, there is not a man sitting at this board who does not know that the mechanism of banking, as an occupation, is a great deal easier to learn than keeping a grocery store or running a farm, and also that banking, in its administration, in the great concerns with which it has to deal, in the great functions which it performs in being a part of the commercial system of the country, the great courage you have to exercise and the great risks you have to take many times, demands the highest type of ability and of courage and of genius. [Applause.]

#### FOLLY OF THE STATE BANK PROPOSITION.

I have said this that you might not think that because this scheme is simple it is of little consequence. Therefore the folly, the utter folly, the foolishness—folly isn't strong enough—of talking about forty-four independent States developing and maintaining in each successive legislature enough financial genius to

devise and maintain a banking system; because you know a bank can not exist alone any more than you can sever a finger and have it live and throb and perform its functions alone. Every local bank in this country is a part of "the bank" of this country, which is the aggregate of all our banks. It is the same in every other country, and "the bank" of this country is just as much the bank of the country as though we had a Central United States Bank and every other bank was a branch of this United States Bank—precisely the same. A bank can not exist as a unit, as a shoe factory, or a cotton factory, or a woollen factory exists as a unit, complete in itself. A bank is as much a part of the current circulation of the country as the bills it issues, as much as the blood in my body is a part of and necessary to my existence—an inseparable part of the commercial transactions of the country, and no one of them can be isolated. Each is a part of the whole. It is a physical impossibility to have State banking systems. It can't be done.

It is also a physical impossibility for a national government to issue the paper money of the country and to maintain the specie payments of such issues in a country. It can not be done. It never has been done. It never has been done for a day in this country. It is only because the banks have stood at the elbow of the Secretary of the Treasury of the United States and have run the finances of the country through him. The Secretary of the Treasury is powerless without the cooperation of the banks. The little hoard of gold that now exists or has existed in the United States Treasury has been sheltered and protected and kept there by the banks, not by any power of the United States Government, from the beginning. If the banks, or any ten of the strongest banks in this country, yea, any one, had said, "We will have that gold and we will break up this system of specie redemption," it would have gone in a minute, any time in the last thirty years. Is it such a system that the country ought to be proud of? And the very existence of the subtreasury is an excrescence—abnormal, and a threat, as every bank man here knows, to the existence of every bank and the whole banking system of the country, each moment it exists. You have got to trench upon it and wring the money out of it and practically destroy it at every crisis. It is a struggle for existence between the subtreasury and the business of the country. Its very existence is in violation of the very law of the United States that forbids you to do what the United States Government is constantly doing, viz, locking up the money of the people, locking up the gold and locking up the currency. We have the most ridiculous and extravagant financial system of any country in the world, in many phases of it, while in many other phases it is the best and the grandest—of which I have not time now to speak further.

The banking institution of a country must be an "institution"—a thing "instituted," a thing whole and complete in itself, with powers of self-defense, in order to have powers of existence. And the banks of this country are absolutely defenseless to-day and have been during the whole existence of our monetary system. Why? Because you have no means of keeping the measure of value (the gold) yourselves, or in this country. We are absolutely helpless to keep the gold in this country. If we had a proper banking system, we could charge a little higher interest so as to cause bonds to be shipped, or securities, as they do in England, rather than to ship gold, simply by raising the rate of discount or lowering, as the case may be, which is the only conceivable defense that any country has in maintaining its coin supply, which is necessary to its banking system, against being trenched upon by any nation that chooses to take it. It is the only defense that the skill of man has yet devised. And yet we stand here absolutely helpless with reference to that thing, because shippers of gold can and always do draw their gold, not from the banks, but from the United States Treasury.

And, by the way, I did not come down here to address you. It was rather to talk with you, and I hope you will put in a question and I interrupt me anywhere you wish. I am used to it, as you have seen. Now, if I make any error here—I don't pretend to know all there is to be known about banking; I know but very little as compared with what you know—I want you to "go for me" at any corner.

A BANK PRESIDENT. We think you are going on very well.

Mr. WALKER. Well, that is right. Now, gentlemen, don't you see that what I have said up to the present time is true? And I shall assume that all my views are correct unless you contradict them here.

A BANK PRESIDENT. We all agree with you.

Mr. WALKER. Very well. We must have a banking system that is whole and complete in itself, absolutely dis severed from the Government, so that the Gov-

ernment has no control over it and can put no hand upon it, excepting in police supervision. You can't get it by legislation, unless it nestles in it so obscurely and so quietly, and yet so powerfully, that it can "grow," as Topsey did, with the approval of the people; and I think I have got it in the bill I submit to you.

A BANK PRESIDENT. Well, I hope we may agree with you there. That is what we want.

#### COIN IS THE LIFE-BLOOD OF BANKING.

Mr. WALKER. Now, coin is the very lifeblood of banking, and if you can't protect your coin your banking system is at peril every moment. The only possible way of protecting it is through the banks; you all agree with me in what I have said about it. Let me say that if I had known that each of you had not copies of the banking bill, I should not have come down here. I will have it referred back to the House, and by the House back to the committee in a new draft and will soon send you copies of it, and I hope you will not forget in the mean time what I say of it.

This bill provides for the issue of two classes of currency notes. It provides for their certain payment in case of the failure of any bank. Let me say that there is no difficulty at all in making the circulating notes of a bank secure as to their final redemption, in a thousand different ways. That is incidental to and no part of banking. It has nothing whatever to do with banking in itself. The thing that makes bank bills valuable is the securing and maintaining of them at their nominal coin value in their current redemption, their constant revivification, the constant touching of this paper money with the coin dollar, so that it may ever be the equivalent of coin in the commercial transactions of the country. That is the difficulty, and it is the only difficulty. And when men come to you with various schemes for issuing bank bills (currency notes), it is the merest chaff and nonsense that anybody ever talked.

My scheme provides that the reserves of a bank shall be in coin or in notes bought of the Government, which latter bills are not to be less than half the circulating notes that the bank issues. That is to say, the bank is to have its reserve in coin or coin certificates. The point of counting the coin certificate as coin simply is that the Government has the vaults in which to keep the coin, and can keep it more cheaply than the banks can store it, and ought to keep it and be at the expense of having the necessary vaults, so that the certificate ought to count in the banks precisely the same as though it was the coin itself; and of course the Government should simply issue coin certificates as custodian of the coin deposited.

Now, the way you have been banking for thirty years is this: You have had notes issued to you on bonds. The interest on those bonds has, for the last fifteen years, just about equaled what you have lost by not being able to avail yourselves of earnings on your reserves that the European banks make. It has just about equaled what ought to have been the earnings on your reserves. Many bankers have failed to see the waste on the reserve. You have lost sight of the fact that your reserve would not earn anything: in the fact that you have had an equivalent in the interest on the bonds you have deposited with the Government and had bills issued upon. Now, my scheme provides that you shall have the right, the Government printing them as now, to issue as many dollars in currency as you hold dollars in reserve, and that you shall hold an additional reserve for the currency that you issue, precisely to the same percentage as though the bills that you issue were an additional deposit. Do I make that clear?

VOICES. Yes.

Mr. WALKER. As an additional deposit.

#### ISSUING CURRENCY ON BANK RESERVES.

First. That you shall issue those bills. Then, as your reserve operates, it does two things. You hold it as a reserve, as all the banks in Europe hold as a reserve their coin, and, secondly, you issue your bills to the amount of your reserve, as European banks do, and your bills are earning you money, so that your reserve, every dollar of it, is as safe and effective as a reserve and still is earning you just as much as any part of your capital, while it is still held as reserve. Coin is no more likely to be demanded upon the currency bills you issue than it is upon the check that is presented, or any other form of your liabilities, and is just as effective as though the bills were not issued. The only point in requiring that the bills shall not exceed the reserve is to have a check upon the issue of bills so that they shall never exceed their proper limit.



Second. The notes you are by the bill required to buy of the Government, paying for them in legal tender, either gold or silver, or silver certificates, or in the present greenback, a sum equal to what you issue on your reserve, really costs the bank nothing. It simply exchanges legal-tender money for money that is not "legal tender," though commercially it is its equal and is just as useful to the community and does its work just as effectually. Now, the point of that is this: the Bank of England issues one-third of its currency notes or bills in precisely the same manner. They are not issued on a reserve. The bill simply provides that half instead of one-third shall be issued by the United States Government, and each of these bills shall be precisely the same to the bank as the other bills the bank issues on its reserve and must have the same "current redemption." But if the bank desires to go out of business, or surrender any of these bills, or falls, then the Government is to redeem them in coin of equal intrinsic value, of the nominal value of the money which was deposited or paid by the bank for these bills, and the bank itself is to redeem the bills that are issued by the Comptroller to the bank and by the bank on its reserve, taking possession of all the assets of the bank and either pledging them for a sufficient sum or selling them for a sufficient sum to redeem the bills issued by it under section 5, and then turning over the balance of the funds incumbered by the loan, to the bank, for it to distribute among its creditors. I hope I have made this thoroughly clear, that is, the final redemption, though it is a matter of comparatively little importance.

No man living can tell the slightest thing about how many dollars there ought to be per capita. We ought to have just that number of dollars per capita in paper money that the people insist upon carrying in their pockets, and that is a dead investment. It is a dead deposit. It lies there, about the same, year in and year out, but there is a profit in issuing it. If I were drawing a banking scheme simply as I would draw it by myself, I would allow the banks to issue two dollars for one; but you can never get the people to adopt that. Another thing, the existing greenback is a menace to the banking system of this country just so long as it exists, and the bill that I have drawn provides that of the money paid to the Government 90 per cent shall be used to cancel, redeem, and destroy the greenback of 1865, that 10 per cent of it shall be held as a redemption fund which the Government will hold, at its expense, and not at the expense of the bank, for the current redemption of the bills of the bank. I hope I make clear the provision for issuing currency. The bank first issues itself just as many paper dollars as it keeps in its reserve. Then it buys of the Government an equal sum, and 90 per cent of what it pays to the Government is used for redeeming and canceling the old 1865 greenbacks until they are gone, and 10 per cent of it is set aside by the Government for a redemption fund, which fund you now have to keep, with the Government to redeem your bills, at your expense.

By the way, I am not getting forward at all satisfactorily. I can't get through to-night at this rate.

VOICES. Go on.

#### WHAT BANKING IS.

Mr. WALKER. Now, a banking business is the buying, selling, borrowing, and loaning of property, not paper. It is titles to property that you actually deal in, and of course you own the property for the time being. When a man comes in and you discount his note, you hold his property in exchange, a part of it, and to the amount of the note of his that you hold. That is what you own. It is not fundamentally dealing with paper, that is to say, when you reduce it to its last analysis; but you are the owners of the property in the hands of the merchants all through the country. That is the fundamental fact of it, and it is necessary that the people know it. The people ought to be educated in the real facts. Then you get them out of their idea that you can make just as much paper as you are pleased to issue, which of course is the purest nonsense ever talked, while this property neither increases nor diminishes in value to you. You are doing these things for a fixed compensation called interest or discount, that is to say, you own the property in the hands of the merchants in Boston; you don't suffer any loss on it and you don't get any gain on it. You do it for a certain sum agreed upon, while they are taking all the risks of the losses and making all the gains.

Third. It is the duty of banks to be at all the expense, trouble, and risk of maintaining an unvarying measure or standard of value by which all the wealth or property of the country is measured for exchange, and the United States Government ought to be immediately released from that great tax upon the people. That is to say, you ought to be—the bankers ought to be—at the expense

and trouble and risk of holding the gold or silver that is the measure of value, and not the United States Government. As a compensation for that service it ought to be earning you an income all the time. You issue a form of title to the property of the bank, entitled a bank note or paper money, for the convenience of persons whose transactions are too small for them to use drafts or checks, and they are precisely the same as drafts or checks to those who use them. There is nothing distinguishable between a bank note and a draft or check, except that the bank note is transferred in payment without indorsement and is a title to the property of the bank, as a check or draft is the title to what any man has on deposit in the bank. That is to say, a bank note is a title, in the man who holds it, to the property of the bank; a check or draft is a title to what the man who signs it has in the bank's possession or custody. That is all the difference there is between a bank note and a check, draft, or anything else, either in custom, in law, or in equity.

Fourth. The doing of the things named constitutes the bank as the medium of exchange of all titles, to all the property exchanged, except that of direct barter, or that exchanged for coin. This makes banks interdependent and each a branch of the completed whole, which is made up of all the banks, and you can't dis sever them. No State banks: no Hemphill's scheme. We have had Hemphill's scheme presented to the people of Massachusetts, to the bankers. Why, that scheme simply consisted in allowing bank notes to be issued by State banks upon State bonds, county bonds, or city bonds, and who shall say whether they are good, bad, or indifferent, with no provision for current redemption or really anything else necessary to safe banking? Speaker Reed was taking tea with Mr. Hemphill in the Shoreham as I came in. We sat down for two hours and tried to make Mr. Hemphill see that his scheme was simply impracticable. It came out in the conversation that Mr. Reed had ridden from Albany to Buffalo a few years ago with Hon. Frank Hurd, who had precisely the same scheme that Hemphill had, and talked to him a large part of the time to show him the impracticability of it. Mr. Hurd finally, two years afterwards, wrote Reed a letter, saying that he had finally found that he was all wrong and Mr. Reed was all right. It is Mr. Hemphill's bill that we have had presented to the citizens of Massachusetts as the sum of all wisdom in banking.

#### VOLUME OF COIN NEEDED.

The volume of currency or the volume of coin needed in a country can be determined by trial only. England has determined that the visible coin she needs is only about \$160,000,000, and we have got \$330,000,000 in visible gold, besides all our silver coin.

A BANK PRESIDENT. No.

Mr. WALKER. How much have we got?

A BANK PRESIDENT. We have got \$104,000,000.

Mr. WALKER. Of visible coin in the Treasury?

A BANK PRESIDENT. It is a very uncertain factor what is in the pockets of the people.

Mr. WALKER. You are talking about one thing and I about another.

A BANK PRESIDENT. In the banks.

Mr. WALKER. No, I say we have visible gold coin in the country. We have visible coin. England has determined—isn't that correct—that the visible coin she needs in the banks of England is about \$100,000,000?

A BANK PRESIDENT. Yes.

Mr. WALKER. Well, it runs from \$100,000,000 to \$125,000,000.

A BANK PRESIDENT. \$125,000,000.

Mr. WALKER. We have claimed to have \$600,000,000 of gold coin in the country, and we know we have about \$500,000,000 of silver coin and silver bullion, a little more than that now. Now, then, I don't believe that we have got \$25,000,000 of coin in the pockets of the people—\$25,000,000 to \$50,000,000, I figure it.

A BANK PRESIDENT. Do you mean gold—in gold?

Mr. WALKER. We have got in visible gold \$300,000,000, I think, \$334,000,000—or we did have two years ago. By the way, these figures are a little musty, and that is another reason I disliked to come down here. We did have \$324,000,000.

My point is this: The coin we need is what the people insist upon carrying in their pockets and what we need for the reserve in our banks. Now, with reference to the issue of money on the reserve. Why, they say, that isn't as safe as your bond makes it as to its sure final redemption, if the bank fails. Well, my dear men, you conduct all your business upon the doctrine of chances. We

run all our railroad trains on the doctrine of chances. And my bill is drawn on human lines and provides for a tax on the currency notes issued by the banks on their reserves of one-twentieth of 1 per cent, to be held by the United States Treasury as a guaranty fund for the redemption of these bills issued by the banks on their reserve, provided the Comptroller should find that the property that could be availed of, of any failed bank, was not sufficient to redeem the bills it had outstanding, and that tax will make a fund twice as large as the people could have averaged to lose in all the losses on bank bills in the last thirty years, had there been no bonds held to secure them.

A BANK PRESIDENT. I thought one of the functions of the reserve was a protection of the depositors. If we issue money against our reserve, isn't that function quashed?

Mr. WALKER. Not in the slightest, because such issue of bills only increases the general liability of the bank and your reserve is proportionately increased. That is to say, the liability of a bank on a bank bill that it issues is no more than on a credit on a customer's bank book, not a particle, either as to the thing in which it shall be redeemed or in any other respect. We must get out of our heads that a bank bill varies a particle from any other obligation that a bank owes, because it does not.

A BANK PRESIDENT. Our "bank bill" is affected by the deposit of bonds.

Mr. WALKER. Oh, I am talking about my system, not the present.

A BANK PRESIDENT. As I understand, you would have us issue bills against the gold which we now keep in our vaults as reserve.

Mr. WALKER. Yes—to the amount of, not against it; I do not say as against it, but I said to an amount equal to it.

A BANK PRESIDENT. Well, you have no quarrel with the present system, Mr. Walker?

Mr. WALKER. Of issuing on bonds?

A BANK PRESIDENT. Of a national system at all.

Mr. WALKER. Well, I am trying to devise a national system that is entirely free from bonds.

A BANK PRESIDENT. You are devising a system that shall take the place—

Mr. WALKER. The place of the present national system which is about disappearing.

A BANK PRESIDENT. That is it.

#### THE PRESENT BANKING SYSTEM DISAPPEARING.

Mr. WALKER. And necessarily disappearing, and some other scheme must be devised or we can have no national currency. But did not the present system exist, I should still say that my system is 100 per cent, fully that, better than the present, because bonds with reference to money are an excrescence. They have nothing to do with it. They are entirely extraneous to it, as much as the color of the hair of the president of the bank. It necessarily has nothing to do with it and never should have, because it confuses both bankers and people, and the people have very naturally and justifiably gotten it into their heads that the banks are getting interest on their bonds and then returning the bonds to the Government, and then getting interest on the bills issued on them, the bank thus getting double interest on its bonds. You never can get Congress to continue that scheme.

A BANK PRESIDENT. Can not beat that notion out of them?

Mr. WALKER. Can not beat it out of them. That can not be done. It is of no use to talk about that, because the people are right. They do not see you lose an equal amount on your "dead reserve."

A BANK PRESIDENT. That is true. The Western and Southern man thinks that we get 12 per cent for our currency money.

Mr. WALKER. Why, certainly, and you can not beat it out of them that the banker gets double interest, because you do get it. Why should you get it? I will tell you why. Because the Government compels you to lose, in the idleness of your reserve, a sum equal to what they pay you on the bonds. Don't you see that this figures a clear loss to the people?

A BANK PRESIDENT. And the premium on the bonds?

Mr. WALKER. And the premium on the bonds. It now more than equals it; your currency is a loss to the banks, in fact.

A BANK PRESIDENT. Yes, it is a loss, added to the tax.

Mr. WALKER. Therefore the doctrine of risks that we go upon in all the other affairs of life, upon which we have life insurance, upon which we own our

property and do everything else, must be applied to this matter of the paper money that is issued by the banks, under the supervision which I have provided in this bill. In my judgment, this tax of one-twentieth of 1 per cent on the bills issued by the bank up to the amount of its reserve will more than doubly pay all the losses which the funds of the failed bank are not sufficient to meet. I intended to figure that out, but I have not had time to do so.

A BANK PRESIDENT. It must be a large sum.

Mr. WALKER. Well, it is not a very large sum, not for the thirty years, averaged over the whole number of banks.

A BANK PRESIDENT. Yes, but the assessment must be a large sum.

Mr. WALKER. It would be one-twentieth of 1 per cent.

A BANK PRESIDENT. That is, on the reserve only?

Mr. WALKER. That is, simply on the bills that you issue, up to the amount of your reserve, one-twentieth of 1 per cent. You will see it worked out as soon as I find time to do so.

You may say it is not true that your coin is earning nothing. It is earning absolutely nothing. It has not earned a farthing under the action of the United States. At 4 per cent on \$1,000,000,000 silver and gold coin. It is \$40,000,000 absolute waste annually. We might continue issuing notes on United States bonds, did we have them, which might be the equivalent of earning on this coin to a certain extent, but that is not banking, much more independent, and therefore safe, banking. But we have got now, I think, only \$170,000,000 issued on United States bonds; of course we are losing interest on the balance. Every dollar of our visible coin ought to be earning just as much as any other part of the property of a bank.

#### POWERS GIVEN THE COMPTROLLER.

Section 2 of the bill provides for the incorporation of the bank practically under the present system. The powers given the Comptroller in my bill are considerably increased. Had we not the experience of having the tremendous powers that the Comptroller now has, conferred upon him for thirty years, I might have hesitated. But there has never been a lip of criticism of the Comptroller's exercising his great powers when he ought not to do so, though he has been severely criticised time and again for not exercising the enormous powers that he has had. It has been proven by experience that it is entirely safe to trust the Comptroller with the powers which are given him in this bill.

The first is—and it is one to which you will object when you see it, every man of you—to issue to and compel banks under certain circumstances to take notes of the Government and pay for them. That is a provision that never would be availed of, except in the case of a great exigency. For instance, in our rebellion—in the late unpleasantness, I might better say—banks in certain sections, in order to embarrass the Government, might have surrendered or attempted to surrender or refused to take its currency notes, and this provision is simply to be availed of in great exigencies. That is the only point of leaving that in the bill. The next is that the Comptroller's consent must be obtained to the bank's surrendering its notes or surrendering its charter or lessening its capital, and all of those powers he now has. The third gives him power to close up banks if he has reason to believe that the bank's currency bills, issued up to its reserve, may be defaulted. Those are the powers given to the Comptroller.

Now, the bill provides for a board of experts—and I think I will read the bill on that, if it is here. That is section 25. That provision, if you could get it—simply to provide for the board of experts contemplated in the bill and provide nothing else, would strongly tend to a solution of your banking difficulties even under our present system:

"That there is hereby constituted and appointed a board of advisers of experts to the Comptroller of the Currency upon changes desirable in and methods of executing existing law concerning banking, consisting of the Comptroller of the Currency, who shall be a member ex-officio and president, and the president of the chief redemption bank in each of the five chief redemption cities in the country, or such substitute for any one of the officers named as he shall from time to time appoint, which board of advisers shall meet once a year, or oftener if the Comptroller of the Currency or a majority of the board so determines, at such a time and place as the Comptroller shall appoint. The recommendations of such board, or a synopsis thereof, shall be published in the annual report of the Comptroller of the Currency; and the decision of the Secretary of the Treasury, from time to time, as to what person is entitled to act under this section, shall be final."

In that simple section is provided a board of directors of the whole national banking system of men who from their position naturally should constitute that board, and their decisions, only as recommendations, being published, it would not be ten years before our whole banking system would have all the advantages of the existence of a great central national bank without the disadvantages of such a bank, with every other bank a branch, without the slightest disadvantage inherent in any other suggested system.

And, furthermore, the bill provides in section 14—if you will turn to it—for the gradual and natural and complete separation of the banking system of the country from the Government, in the provision in the bill in the section I have named, giving the Secretary of the Treasury the right to so do, as Manning partially did.

#### MANNING AS SECRETARY OF THE TREASURY.

And, by the way, I think Manning was one of the best Secretaries of the Treasury that this country ever saw. Cleveland's administration is to be commended for that one thing, at least, that he had the courage to put that money into banks where the people could use it [applause] when they needed it. It is lamentable that we have a banking system that compels the Government to go into a cornered bond market to buy in order to get money into the hands of the people to use. I defend Manning on that. What little I know about finance justifies him.

This bill provides that whenever the Secretary of the Treasury chooses to do so, he may deposit the money and devolve the duties on a redemption bank, or on the redemption banks. And just as sure as this bill becomes a law, within ten years, without the people knowing that the slightest change has been made, and to their great advantage and approval, our Government would be entirely separated from having anything to do with holding coin or redeeming currency, or having any responsibility for banks or anything to do with banks other than as a business establishment. Let me say to you, gentlemen, you never can have the Government of the United States touch the coin in the country or the banking in the country except it is essentially a bank itself and subject to all the conditions of banks. Banking is something that you either have to do and be altogether or let alone altogether. You can not fool with it. That you know without my telling you.

A BANK PRESIDENT. There is no red dog.

Mr. WALKER. There is no red dog. You have got to have fish, flesh, fowl, or good red herring in banking. You can not have it outside of some one of them.

Now, the substances of the bank reserves are to be gold, silver, and the Government notes bought under section 4. No less than half must be in gold, no more than half must be in silver. If the silver or silver certificates exceed the gold or gold certificates, they are counted as Government notes issued under section 4, which are the Government notes bought of the Government and for which the Government is already finally responsible. If they have the reserve in the Government notes issued under section 4, they are to be taxed 2 per cent on that part of their reserve held in such notes while they hold them. That is so that in case of suspension of specie payments, or a bank getting into a tight place and wanting to bridge it over, then, if they will pay 2 per cent, they can use this further kind of reserve; otherwise they can not. This is a very conservative provision and a very necessary measure, furthermore.

Again, a bank is allowed to issue currency to the amount held in any consecutive six months. I want you to get this point clearly in your minds. This bill permits the bank to issue notes to the amount of the reserve "held." The reserve "held" is now about \$500,000,000, we will say for round numbers, and the reserve required in cash, cash reserve, is now about \$300,000,000. The Comptroller of the Currency can allow a bank to issue notes to the amount that it "held" in any six months in the previous year, and he can reduce it any time he chooses to the amount held in any other six months in the previous year. What does that accomplish? With this board of directors for which I have provided, watching and recommending, it goes to the securing of and the elasticity of the currency, which can be availed of at any moment, varying from \$125,000,000 to \$200,000,000, as the people desire to move their crops. If this bill was law, banks would run their reserves up when the people needed funds least, when the people did not need so much currency, and would run their reserves down when the people most needed to use funds, and you would get an elasticity of \$200,000,000 without the intervention of any securities whatever. You remember that Mr.

Windom's scheme was to have a United States 2 per cent bond, which anybody could buy at any time and which the Government would buy at any time and which could be deposited with the Government at any time to again receive currency upon. You no more could get that scheme through Congress, I don't care how good a scheme it is, than you could fly, and, as I said when I began, we have no right to spend our time in talking about something that is thoroughly impracticable as a matter of legislation. I don't know whether I make that clear or not. I intend to.

#### WHAT THE PEOPLE OBJECT TO.

**A BANK PRESIDENT.** Well, you mean to say, Mr. Walker, that the people of this country are determined not to have a public debt. They won't carry a bond for the purpose of banks.

**Mr. WALKER.** Well, it comes to more than that. Mr. Windom's scheme amounted to the Government taking the surplus that the banks wanted to get rid of at any time and paying to the banks 2 per cent interest for it. Now, the people will never submit to it, and ought not to do so.

**A BANK PRESIDENT.** It will be taxing the people to pay this 2 per cent.

**Mr. WALKER.** It will be taxing them for this 2 per cent; however good it might make the currency system, it will never be adopted. Bonds in banking must go.

Now, when I say that you must buy 50 per cent of your currency of the Government, what does that amount to practically? It amounts to this, that the banks will make that much less money than they would if they issued these notes, or that they will have to charge that much higher interest than they would if they could issue that much more currency and the people could get the advantage of it in less interest on the money they borrowed and in the price of the goods they bought. But you can't make them see that, and therefore, while it is not ideal banking, while as a financial man might say, if you will allow me to say so, I should produce a different bill than this, for a bill to get through Congress and be approved of by plain people, I think this is the best thing that I can devise. If anybody else can do a better thing, I will get out of the way immediately. I am going to get out, you know, at the end of the next Congress. I am one of those who work intensely in work that I happen to be in, and I am not going to do this kind of work more than six years.

Now, as to the destruction of the existing legal tender. Why, they say you can not do that—nobody will vote for the bill. Ah, but if this bill goes into operation, we shall finally have \$600,000,000 Government notes instead of the \$321,000,000, as we now have, but they will not be legal tender; they will be bank bills, so far as the banks are concerned. They will have every advantage of greenbacks, so far as the greenbacker and the people are concerned, in what they want to reach. You see the point of the thing. That is to say, the Government issues them to the banks and the banks are responsible for their "current redemption." No one is responsible for the "current redemption" of the present legal tender. The present legal tender is a menace to our whole banking system. The new Government note would be a legitimate part of it.

The bill further provides that the reserve of a bank must average to be what the law calls for, taking any month as a whole, in any thirty days, but you can run it just as low as you choose on one day and just as high as you choose on any other day. A reserve that you can never touch is no reserve at all. You might just as well have it anchored in the sea. A reserve is for use; sometime, in some occasion of stress, it is to be used. Now, a bank ought to be permitted to use its reserve in certain contingencies. When I was in business my rule was to have fourteen days' money ahead on each Monday. Every Monday morning I provided for fourteen days' money. But if I could not have used the surplus under any circumstances whatever, only seven days' money, what good would the extra seven days' money work to me?

This bill provides that a certain record shall be kept, made up every night, of the crucial items of the business of the bank, and that those records shall be transcribed; that they shall be sent to the Comptroller before the tenth of the next month, so that the condition of any bank with which you are dealing, and of which you want to know, can be known by writing to the Comptroller. Anyone, in the matter of bookkeeping of the bank or in doing business with the bank, will never know the difference in work because of these provisions. You all want to get the information for yourselves and you can transfer it to a printed blank for the purpose of sending it to the Comptroller. The daily reserves are averaged at the end of the month, and if your reserves have for the month been

less than the law requires, you must pay the legal rate that the State law requires for what your reserve has averaged to fall below the legal requirement in that month. But however low it may be, or however high on any given day, if it averages for the month the legal amount, that satisfies the law, and that is the way it ought to be. Am I right or wrong?

A BANK PRESIDENT. Yes; that is the way it is now.

Mr. WALKER. Is it?

A BANK PRESIDENT. Yes.

Mr. WALKER. Have you a legal right to average it for a month?

A BANK PRESIDENT. We do it.

#### PROVISION FOR A BANK EXAMINER-IN-CHIEF.

Mr. WALKER. Ah, but you had better have the law for it. Better have the law to justify it. This provides, furthermore, for a bank examiner-in-chief, who is to supervise and, if necessary, instruct examiners, and who is to be responsible. The others are to work under his direction. A bank examiner-in-chief, in addition to the present bank examiner.

It provides, furthermore, that all expenses for bank examination should be paid by the Government and not by the banks, and that of course ought to be the rule. What an anomaly it is for a man to examine a bank and have the bank pay him for its examination. That is contrary to all business principles.

This bill provides for an order of paying out notes. When bank notes are deposited, your customers will sort them if you ask them to do so and you verify them before you pay them over the counter. It provides that the notes issued under section 4 shall be first paid out by you, that the notes issued to other banks under section 5 shall be next paid out, and that the last paid out shall be those issued to and by the bank itself, under section 5, and for this reason: It is so provided in order to have the banks keep the total currency of the country down to the proper point. There must be some provision to secure that end, else some banks will want a good deal more currency than they ought to have, and there is no other practicable way of getting them to relinquish such circulating notes. Under this banking system the regulation of the volume of currency is automatic. When the bank pays out currency it pays the Government issues in the first place and the issues of other banks in the next place. You send it to the Comptroller for redemption if you want to get at your own bank notes. You may as well pay out your own as the currency of other banks to satisfy the pay rolls for which customers demand your bank bills. It is simply a device for keeping the paper money of the country down to the legitimate requirements of the people. If any of you can devise any better way of accomplishing it, I should be pleased to put it in the bill.

I am not especially proud of this bill. It is only the best I can do, and if any of you can do any better, why, I will throw up anything I have, and I think I am bright enough to see it if you have anything better. It provides that the \$340,000,000 of existing legal-tender notes first issued during the civil war—the standing menace to sound money—shall be funded and destroyed, without taxation to the people, and the new notes furnished to the banks under section 4 of the bill will be issued by the banks without cost to the banks; the United States Government being at no charge for interest on them until they are presented to the Treasurer of the United States and an interest-bearing bond in exchange for them is demanded.

It provides, furthermore, for taxes on the banks. As I have said, it provides for a tax of 2 per cent on the reserve that is kept in the bills issued under section 4. It provides that, if you suspend specie payments, you shall pay a tax of 4 per cent on the whole volume of the reserve that you are required by law to keep, so that it shall be for the interest of the banks to get back to specie payments as soon as possible, and that there shall be a penalty for suspending specie payments. It provides a tax of one-twentieth of 1 per cent as a safety fund, which I have previously explained.

Furthermore, there are penal provisions, which I will not stop to read, which I wrote as we were examining witnesses on the Keystone and the other banks in Philadelphia, and which need perfecting. As the points came up I have written penal sections. I am not a lawyer and I have not had an opportunity to submit them to a lawyer.

A BANK PRESIDENT. Perhaps you can read it better.

Mr. WALKER. Well, do you want it stated to you?

A BANK PRESIDENT. Oh, yes, go on. Let's have the whole story.

Mr. WALKER. There are one or two things here that I shall have to rewrite. The PRESIDENT. Mr. Walker will send us a copy of this bill. Mr. WALKER. Yes; just as soon as I get it printed.

## THE BANK OF ENGLAND.

I want to say to you, gentlemen, that there is absolutely nothing in this bill that is not as old as the Bank of England. There is no new thing in it, excepting new arrangements to bring it into a simple and practical working system. The Bank of England's charter has its double-headed government, but it is worked as one system, and there is everything in this bank bill that there is in that, that is of any value, in my judgment. I am here enjoying a dinner, not under pay, but "working my passage."

A BANK PRESIDENT. Doing a public duty.

Mr. WALKER. Yes, I am trying to do a public duty.

[The penal provisions of the bill (section 26) were read.]

Furthermore, gentlemen, with reference to these provisions, you must remember that honest men have to submit to ten thousand provisions of law that are irksome and uncomfortable, in order that they may be protected from men who are not honest. That you must remember as you read these provisions. The honest man never knows what the law is, nor cares much about it, because, being honest, he is unconscious of law. It doesn't trouble him. It is only the rascal who is troubled by law.

The second provision you may object to considerably, but, if you look at it a moment, it only requires a record to be entered with the board of directors and to be read as the first business at a directors' meeting and to be sent to the directors on certain occasions, as follows:

"The first business transacted at the first meeting of the board of directors of each association in each month shall be to hear and to enter upon the records of the board of directors a statement from the cashier or other proper officer of the association, of the liabilities of each officer and director of the association, in the following order"—and of course this would be entered on the records and read—*i. e.*,

"First. As maker of any paper, sole, or as an officer or director of any corporation, or of a corporation of which he is a director or officer;

"Second. As indorser of any paper;

"Third. As surety for any loan or other obligation to the association;

"Fourth. As to the amount and market value of any collateral the association holds to secure any liability to the association by any one of them.

"If at any time the board of directors of any association fails to meet for a period of thirty consecutive days, the record provided for in this section shall be made by the cashier or such employé as he may designate in the record book of the board of directors on or before the 5th day of the following month, and a transcript thereof shall be served upon each and every member of the board of directors."

I have not submitted these penal sections to a lawyer, for want of time. But they are what I have to offer as my contribution to what we must have, gentlemen—a national system of banking. Furthermore, you must submit to and assist in securing some measure that can pass Congress and trust to the future to have it amended where it may be irksome or not what it should be.

I would be pleased to answer any questions that anyone would like to ask me on this subject. I have omitted some things, I see, as I have passed over. [Applause.]

The PRESIDENT. Does any gentleman wish to ask any questions? Mr. Walker would be very happy to answer them. If anybody has any remarks or criticisms to make, we would be very glad to hear them.

Mr. WALKER. Let me say again, with reference to the two kinds of currency bills, that the bank will simply lose what, in my judgment, they ought to make on what they take of the Government, and the Government will get it. I don't think that is the way it ought to be, but it is the way you will have to take it if the bill ever gets through. If you have a banking system that is national, the people must feel that the money they carry in their pockets from day to day (or just about that amount, which is half the total volume, and generally more—it generally amounts to five-eighths or three-fourths) the Government gets the profit on, and not the banks. That is the only point in that.

A BANK PRESIDENT. In your system, Mr. Walker, the Government gets the profits on the circulation?



Mr. WALKER. On one-half the total circulation, instead of the bank.

A BANK PRESIDENT. We get the profits on half and take the whole loss, just as we do now.

Mr. WALKER. Yes; that is to say, any loss or profit you take. And, furthermore, it compels all the banks, in this one-twentieth of 1 per cent tax, to guarantee the circulating notes of every bank.

A BANK PRESIDENT. Yes.

Mr. WALKER. That is the point of it. It is a very light tax to any one bank. It is the price you are called upon to pay for maintaining the national banking system.

A BANK PRESIDENT. And having uniform currency?

#### UNIFORM CURRENCY.

Mr. WALKER. And having uniform currency everywhere and having sound banks as a whole. Under the system proposed, you will find, when you come to read the bill, that no man can fail to know a sound bank, or fail to have it reported if unsound, or fail to get a seat in jail if he doesn't maintain a sound bank.

A BANK PRESIDENT. That is just what every honest man wants.

Mr. WALKER. Well, sir, this bill will do it, as far as laws can do it, because with the penal provisions and with the daily records which they must keep, and keep accurately, and with the monthly reports required and the sending to the Comptroller transcripts of the daily records so that each banking institution may know the condition of every other, you would not have, I think, one failure under the law proposed where you have ten now.

A BANK PRESIDENT. Would those monthly reports be printed and circulated among the other banks?

Mr. WALKER. Oh, not at all. They are matters that the several banks can not have, unless there is some reason why they should have them. The reports sent to the Comptroller are all private, unless there is some special reason for asking for their contents. These reports being in existence, the clearing houses would regulate that.

A BANK PRESIDENT. Just as it is to-day.

Mr. WALKER. Just as it is now with the examinations. But, of course, if anything should appear that was not right concerning any bank and any bank doing business with it made application to the Comptroller, as it is now, the privilege of seeing it would be granted upon its honor, whether the bank was one with which it wanted to do business or not. It would be conducted the same as business is now, between you and the Comptroller.

I should really like gentlemen to give me their impressions upon the matter of the provisions of this bill. Of course, when you come to read the bill, you may say, "It isn't at all what I thought it was."

A BANK PRESIDENT. This provision about voting, if it passed every time you have a directors' meeting, is for the indebtedness of the—

Mr. WALKER. No; it doesn't provide anything of the kind. It simply provides that there shall be a record made of the indebtedness of the directors, and it shall be read to the directors once a month. There is no vote passed, nothing of that sort. It is a provision which compels the directors to always know what is being done in the bank, so that no two or three directors can take the funds of the bank, as they did in the Maverick Bank, and the rest of the directors not know what is going on.

A BANK PRESIDENT. Suppose they did not have a meeting only every six months?

Mr. WALKER. It provides that there shall be a transcript of that record sent to each director who is not present, for thirty days.

A BANK PRESIDENT. That is a good idea. I don't see anything wrong with it.

Mr. WALKER. Now, let me say one thing more. There is a tremendous disposition in Congress to put penal provisions on to various things that bank directors do, which I have quietly been the means of preventing; while right in certain respects, they were faulty in others. All you want for safe banking, as a rule, is to have every director know what is going on.

A BANK PRESIDENT. That is it.

Mr. WALKER. That is all you want, and that is all this bill requires.

A BANK PRESIDENT. No business to be a director unless he knows.

Mr. WALKER. And if you have a provision that compels the giving you information of what the directors themselves are doing with the funds of the bank I will risk the outsiders.

Mr. PEIRCE. Mr. President, it seems to me it would be very ungracious indeed for us to have invited our friend Mr. Walker, who has made such a very interesting address as he has, without expressing to him our great gratitude and respect for his scheme. But besides that, personally I am very much gratified when I find, in view of the clamor which has been going on here for the last month or six weeks respecting the tendency of a large number of our fellow-citizens who belong to the Democratic party, who have been charged with insisting upon the destruction of the national-bank system and the introduction of a wild-cat and red-dog system in currency that should debauch and destroy all of the industries of the country, our respected friend from the heart of the commonwealth, who is one of the leaders of the party which has been the origin of these charges against us, comes here and admits that the national-bank system of which we are a part is about to disappear, and he finds in his bill, it seems to me, a remedy which we may well consider. It seems to me there are features in that which are superior to those which our friend Mr. Harter presented to us and to which we listened with great respect. Certainly, all of the contributions which are made by Mr. Harter on one side, Mr. Walker, representing another section of the country as well as another section of the political division of the country, on the other, will bring us together, irrespective of our political predilections, and hit upon a bill which shall give us a currency which shall partake of all the benefits of a national currency, flexibility and certainty in redemption, which he undertakes to give in his bill, which Mr. Harter hopes to undertake in his.

Mr. WALKER. Well, now, it is due to the Democrats and to the Republicans, if we are going to talk politics here, to say that the charge against the Democratic party was invited by a clause in its own platform.

A BANK PRESIDENT. Mr. Harter says he did not put it in.

#### REPEAL OF THE STATE BANK TAX.

Mr. WALKER. Well, if he did not put it in, it was put in from the South, down in Alabama. But I think Congress will not repeal the 10 per cent tax—the Democratic Congress now to assemble—because a motion was made to repeal it in the session just closed and all the People's party voted against it, and a good many Democrats voted against it, and all the Republicans voted against it, which made quite a heavy majority against it. The theory upon which the country is now being agitated, that money shall be national and that the National Government shall make greenbacks and issue it on rag, tag, and bobtail and red-dog, that they may issue it on their farms, is so thoroughly exploded that they will not go back to the State system. I really don't think there is any danger of it. Now, I think I had a little hand in beating Mr. Harter on Mr. Harter's proposition to repeal that tax in the last Congress.

A BANK PRESIDENT. Well, I suppose the great danger is that, in the midst of all this reshuffling of the currency by the disappearance of the bonds and confinement of the national-bank circulation, we shall be brought into a caldron of uncertainty, we are very likely to be, that we shall neither have a national system nor a State system, but that the Populists and the lunatics will insist upon having the Government issue all the currency, which Senator Sherman of Ohio was rather inclined to favor in one of the last speeches he made. That, we and you, you certainly, are opposed to. You are certainly opposed to the issue by the Government.

Mr. WALKER. I am opposed to the Government doing anything more than printing for the bank, as the bank's agent, the bills which it issues.

Mr. PEIRCE. Yes, so I understood. But you see that there is a great danger that in this rearrangement of the circulating medium which must ensue by the disappearance of the bank currency, the national currency—

Mr. WALKER. Let me say to the gentleman simply one thing, that the solution of the silver question and all of the other schemes that we now have is in securing a national banking system. Unless some law is enacted that shall give you a national banking system you will have red-dog money, as you already have hinted. You have got to have a banking system that the people are satisfied with, and one that they think will not cheat them; not only will not cheat them, but one that they will see with their own eyes it is impossible to cheat them in. You have got to have a national banking system or you will have a red-dog system.

Mr. PEIRCE. Don't you think it will stop the clamor of free coinage?

Mr. WALKER. If you can get this banking system or some banking system through Congress that will end the clamor, and nothing else will stop it.

Mr. PEIRCE. That is it. That is the testimony of all good men. Mr. Herbert (?) explained that very theory last summer.

A BANK PRESIDENT. What is the reason you do not repeal the tax on circulation and let us all issue bills to the face of the bonds?

Mr. WALKER. Well, what is the reason you can not have everybody obey the golden rule? The reason you can not is because you can not get in Congress one vote in four for it.

A BANK PRESIDENT. That is all. They want more currency, and we will give them all they want if you give that.

Mr. WALKER. Very true. But you are going to have it from where? Not yourselves? Now, I have not put the blarney in the advocacy of this bill that can be put in, on the floor of Congress. I think I can make Congress see that it has the real greenback in it because it has a good greenback and has everything in it that they really want, that is safe, and the text of the bill is just as sound as the charter of the Bank of England. I have corresponded with currency reformers and talked with them and been kept up nights by them till morning, many times, for three years. My office is the headquarters of every man who is wild on the money question, and I want to get at something sound, that they will agree is sound and be satisfied to take. I want to put a little sugar on the medicine, instead of vinegar, so they will take it.

A BANK PRESIDENT. Well, that is about what Mr. Herbert (?) says must be done. He did not put it in just those words.

Mr. WALKER. Well, I am not going to tell you here what my scheme is, but if it works out you may have a banking system before you are aware of it, and if it doesn't work out, you will not. Unless the leaders of the Democratic party, of whom you are one, can be made to see that there is good politics in this bill as well as good legislation, we shall not have it, and if they can so see it, and I think I can make them see it, we shall. For I think the Democrats in that House are not prejudiced against me, if I am a Republican.

A BANK PRESIDENT. That is true. They always liked you at the State house. That is so.

#### A SETTLEMENT OF THE COINAGE QUESTION.

Mr. WALKER. In closing, I wish to again repeat the statement that, should this bill become a law, it would furnish a normal and inexorable demand for gold and silver coin in this country, precisely as a normal and inexorable demand for it exists in England, France, and Germany, and would thus settle the exasperating coinage question. There is now no normal and inexorable demand for a dollar of gold and silver coin in this country.

Furthermore, under this bill this country could protect and keep its gold and defy Europe to bring us to a "silver measure of value," by preventing its shipment when the interests of the country demanded a stay in the shipment of gold, as England protects her store of gold. Again, under our present hermaproditic banking system, with the Government responsible for maintaining gold payments and the banks at the mercy of the Government, and the United States Treasury dependent on the banks for successful administration, it is impossible for the country to have any "measure of value metal" in legitimate touch with any one of our multitudinous forms of paper money. It is a physical impossibility for the Government to "maintain specie payments" for a day without the assistance of the banks.

Furthermore, it costs the people—the Government—a vast sum of money to maintain specie payments, even with the assistance of the banks as it is now doing, and the soundness of both the United States Treasury and the banks is also at daily peril.

Under the bill proposed, the maintaining of specie payments or keeping the "measure of value metal" in touch with our paper money would not cost the Government or the banks one cent, and it would put in our hands precisely the same means of defending our gold supply from shipment that England has successfully used for eighty years without a single failure. Only by enacting this bill or some similar bill can the vexatious silver-coinage question be settled satisfactorily to all parties, and all our paper money be alike. We must enact some banking law satisfactory to the majority of the people, or we never shall have our finances in a satisfactory condition.

This bill gives, in as high a degree as is possible in any law, the four things essential in "paper money;" first, safety; second, convertibility—current redemp-

tion; third, elasticity; fourth, uniformity, as the present bank charters expire.

The PRESIDENT. Well, gentlemen, here are a couple of copies if anybody would like to look at them. Perhaps you do not care to to-night. We will have one each. Just as soon as he gets the bill perfected and referred to the proper committee he will send us each a copy.

Mr. VIALLE. I move that the thanks of the association be extended to the Hon. Joseph H. Walker for his very able address this afternoon.

The motion prevailed.

The PRESIDENT. Gentlemen, before we adjourn I would like to say that I have been exceedingly interested in the address of our friend, Mr. Walker. I think this bill has very many merits in it. I think, however, that in order to comprehend it thoroughly it needs to be studied, and therefore, I don't think that any of us can thoroughly comprehend the bill as he has presented it to us to-night until we have seen and taken in some of its salient features. I am exceedingly gratified that he has been with us and that you have been willing to thank him so unanimously for his address, and I trust that we will all have copies of the bill and then we will look it over. If we have any suggestions to make, he will be very glad to receive them, I know. Gentlemen, what is your pleasure?

Adjourned.

## APPENDIX F.

### BANKING AND CURRENCY.

#### THE NEED OF A SOUND SYSTEM OF BOTH.

[Address before the Department of Commerce and Finance, World's Congress Auxiliary of the World's Columbian Exposition, at Chicago, Wednesday, June 21, 1893.]

Mr. PRESIDENT, LADIES, AND GENTLEMEN: Never did a body of men meet, in peaceful times, under more anomalous financial conditions. It is conceded that the prosperity of a country depends upon steady employment, high wages, and prompt payments for the masses of the people. It is stated by those who have most carefully investigated the subject that wages are very much higher, employment is more steady, and payments are more prompt in this country than in any other.

It is also stated that the people of the United States are taxed less per capita than the people of any other civilized country.

We have also had the inestimable advantage of vast quantities of as fertile land as any on the face of the earth, free to the taker, or at a price scarcely more than nominal.

We have received a body of immigrants, many of them of the very best brawn and mind, who have made, and furnish, with our own people, the best market in the world.

Every condition, in quality of soil, in climate, in character of our people and institutions, has conspired to make for this country a prosperity such as no seer ever prophesied or poet ever sang.

Our consumption of commodities has been three times per capita that of Europe, making our market the equivalent of 200,000,000 of European people. We consume one-third of all the goods manufactured in the world, which equals a market for manufactured goods of over 600,000,000 of average people. In fact, our prosperity and development can scarcely be realized.

So favorable has been our condition that a bad financial system and a most expensive currency has not seriously injured the country until now, when its evils have culminated. Faulty finances have been to us like a mole on the arm of a man reveling in his strength, until it has developed into an ugly ulcer, poisoning his blood.

We are now fully conscious of our condition and all are agreed that some remedy must be had. To hold Secretary Carlisle responsible, and abuse him, for our culminating financial ills, is as just and rational as the abuse heaped upon an attendant in the delirium of fever.

The simple fact is that the disease has ripened, and our trouble is in proportion to our previous good health, like fever in lusty youth, which is all the hotter and more dangerous because of the vigorous body. My contention is and will be, throughout this paper, not that we have less paper money, but cheaper and better money.

The affirmative of the question assigned me, viz, "The commercial need of a sound system of money and banking," is so obvious, and admitted by all, that I shall devote the time allotted me to an exposition of the subjects embraced in the question, viz, Money and banking, and to the anomalous financial condition of the country.

In order to an intelligent discussion of the question, it becomes necessary that I should first clearly state the nature and function of "money," in its relation to all other forms of wealth, and,

Secondly, to state clearly the nature and function of "banks" in their relation to all other owners and dealers in property—wealth.

#### WEALTH DIVIDED INTO THREE CLASSES.

Wealth is roughly divided into three classes:

- (1) Productive wealth.
- (2) Consumable wealth.
- (3) Coin.

Coin is neither productive nor consumable. It has but two uses, viz, that of a measure of the value of commodities, at the point of their exchange, and there only, and that of currency. Coin being absolutely dead capital, producing nothing, and nonconsumable, the having or keeping a dollar of coin more than is necessary is an utter waste to the country of all the capital invested in coin in excess of what is necessary. A sufficiency is enough, in coin or paper money, as in all other things.

Productive wealth is, roughly, real estate. The handling of titles to this form of wealth is the business of savings banks, trust companies, insurance companies, and all other companies or individuals dealing in titles to wealth that are known as solid securities. This business is wholly distinct from that of banks of issue, or banks handling titles to "consumable wealth," which banks only are contemplated in the question before us.

Banks of discount, which this discussion concerns, are formed to deal in titles to "consumable wealth." They buy and sell wealth that is "in transit" between the producer and the consumer. In economics, any consumable thing, in whole or in its parts, is said to be "in transit" from the time it is begun until it reaches the possession of the man who does not propose to sell it again. A stove is "in transit" from the time the ore that enters into its construction is mined, until it is purchased by the man who sets it up in his house. A pair of boots or shoes is "in transit" from the time the skin on the animal begins to grow until the boots or shoes go into the possession of the wearer. The bank, in making what is called a "loan" to its customer, thereby transfers a specific amount of its property to the possession of the so-called "borrower," and the borrower gives to the bank, in exchange for that title to the property of the bank, a title to his (note) undivided property or that of some other man (the property represented in the note). This property is deliverable to the bank on a specified day in the future and to a sufficient amount in excess of the property the bank transferred (called interest or discount), to compensate the bank for the use of the funds the bank loaned, between the date when the bank delivered its property to the borrower and the date upon which it is to be returned.

In order to get clearly in our minds what is the real, rather than the seeming, function of a bank, we must get at the fundamental thing a bank does, and what I have stated is exactly what a bank really does. In making all loans each particular paper given is identical in essence with every other, whether a check, draft, bill of exchange, or paper money, or a credit to the borrower on the books of the bank. The real thing the borrower gets is capital. The paper money he gets is not "the loan." It only represents the loan and passes out of his possession in a day. It is only a token, a symbol of the capital, the wealth which the bank transferred to the borrower. While the specific piece of paper, of whatever name, which the borrower secured, passes out of his hands in a day, the "capital" borrowed of the bank by him remains in his possession for the seven, thirty, or sixty days, or four months, as the case may be, as well as the property he is subsequently to deliver and for the length of time the obligation runs.

In other words, men do not borrow or lend "money," but capital—wealth—property. We talk of borrowing and loaning "money," as we talk of the sun's rising and setting, and the form of speech concerning the one is no more accurate than concerning the other. We know the fact to be that the earth revolves, while we say "the sun rises." We know we borrow and lend "capital," while

we say we borrow "money," which is only a title to wealth, as a deed is a title to land. It is as irrational to attempt to increase wealth by increasing money as it would be to talk of increasing land by increasing deeds. Money is no more wealth than deeds are land. Money is only a title to property—wealth—as deeds are titles to land, and neither is useful beyond its power to give possession of the thing it signifies.

As the average daily transactions of banks are about \$400,000,000, it follows that the banks buy and sell, of business men, each year about \$120,000,000,000 of property. I put this statement in this simple and popular form to divert attention from the false notion that money is substance in business transactions instead of a token. It is as untrue that money is wealth because it conveys the ownership of wealth as it is untrue that freight cars are merchandise because they carry merchandise, and as foolish to think of adding to the wealth of the country by increasing money as to think of increasing merchandise by increasing freight cars. It is a very serious thing to any country to be short of the number of cars that can be profitably used to carry every passenger who buys his ticket to ride or to carry every pound of merchandise that offers for transportation, but to have any more of money, coin or paper, or of cars, than is necessary is not only a positive loss to the country, but is an excrescence upon and demoralizing to all legitimate business.

#### THE LOANABLE FUNDS OF THE COUNTRY.

The loanable funds held by national banks in this country is shown, by the report of the Comptroller of the Currency, to be in round numbers \$2,800,000,000. Of this sum \$1,800,000,000 are deposits of customers and the balance belongs exclusively to the banks. The loans and discounts are \$2,200,000,000 and the other \$600,000,000 is held as a reserve. This means that the banks hold titles to \$2,200,000,000 of the consumable wealth of the country that is now in the hands of the farmers, manufacturers, merchants, etc., and that farmers, manufacturers, merchants, etc., hold titles to \$1,800,000,000 of the funds now in banks.

As the deposits are \$1,800,000,000 and the daily transactions are \$400,000,000, it is evident that the average time each deposit remains in bank is four and a half days. This \$1,800,000,000 of capital is and can only be made available to all the community by banking. Its constant use would be impossible without banking or its equivalent. Upon the principle of chances, as railroad trains are run, and all other things done, the banks know that their deposits will average to equal the amount drawn from them each day, and therefore they make loans on thirty, sixty, or ninety days, or even four months. They do this knowing that the capital they are the agents in loaning, once, will change real ownership from 7 to 30 times before the capital loaned will be returned. Without banks or their equivalent, each man would be obliged to keep all the time as much quick capital as he needed, at those times when needing the most, and this \$1,800,000,000 would lie dead capital.

Furthermore, it is impossible for any other agency than banks to economically issue paper money that is sure of immediate redemption in coin, on demand. This issue of paper money is not necessary to, or even an essential part of the function of, banks. Some banks whose customers do all or nearly all their business with checks and drafts now refuse to issue currency, and there is no device by which such banks could keep it in circulation, in sound banking. There are hundreds of private bankers in the country whose connection with national banks, as officers, etc., enables them to put all the onerous duties of banking upon such national banks and take only the more profitable business to themselves, who have no desire to issue currency.

Banks are public markets for the exchange of their own bona fide capital and that of others, which capital can not be diminished. All the currency or other paper they issue is only to facilitate the exchange of capital. Government, on the other hand, has and can have no capital. In economics it is only an agent to collect and expend taxes.

Government, State or national, has no machinery, and can construct none—none can exist excepting such as inheres in the bank—that will enable it to issue paper or coin money, excepting at an enormous cost to the people, unless it becomes a full-fledged bank. The annual direct cost of the experiment of doing so, which the United States Government is now trying, is \$40,000,000 or more, in direct and indirect taxation of the people. Had we a rational national banking system; had we a banking system conformed to what the experience of the centuries approves; had we a banking system modeled after the solid, safe, and

economical system of England; had we a banking system modeled after that of Germany, every loan and discount made by banks could be made at a rate of interest about 1 per cent lower than they are now made and the banks pay as large dividends as now. A saving of 1 per cent on the \$2,200,000,000 loans and discounts would be \$22,000,000 annual saving to the people.

#### EXCESS OF COIN THAT IS EARNING NOTHING.

If we had had a rational banking system, wholly dis severed from the Government, excepting in police supervision, for the last thirty years, we never should have heard of a political "coinage question," either of gold or silver. Had we now such a banking system, we should not be carrying more than \$400,000,000 of coin in excess of what we can possibly find economic use for. This excess entails an annual loss at 5 per cent of \$20,000,000, which, added to the \$22,000,000 which the people are made to pay in excessive interest, make an annual loss to the people of over \$40,000,000. Not a dollar of coin in this country is earning, or can be made to earn, income. That can be done only on coin in bank reserves, where the visible coin in Europe is, and is there earning an income.

That my words are the words of truth and soberness is susceptible of very easy demonstration. The fundamental principles of the banking system of England have stood every shock of and been justified by eighty years' experience. Hers is one of the most successful financial systems ever devised as to safety, cheapness, flexibility, and abundance. Compared with that of the United States, it shows our system to be expensive, rigid, and uncertain. Our system of finance, as compared with that of England, ought to bring the blush of shame to every statesman who is responsible for its existence.

Every dollar of coin money habitually carried in the pockets of the people must be deducted from the aggregate coin in a country, to ascertain the amount of commercial coin. Coin in the pocket performs only the function of currency. As much goes back into the pockets of the people, each day, in payment, as comes out of them, in the purchase of commodities. Therefore, the coin in the pockets of the people is a perpetual or dead deposit, so far as commerce is concerned. This is equally true of all paper money. Economists can take cognizance only of "visible coin" as the coin of commerce.

According to the report of the Director of the Mint, we have \$1,200,000,000 of coin in this country.

We have of visible gold coin .....	\$337, 000, 000
We have of visible silver coin .....	468, 000, 000
<b>Total visible coin of commerce.....</b>	<b>805, 000, 000</b>
France has of visible gold coin.....	264, 000, 000
France has of visible silver coin .....	251, 000, 000
<b>Total visible coin of commerce.....</b>	<b>515, 000, 000</b>
Germany has of visible gold coin.....	206, 000, 000
Germany has of visible silver coin.....	58, 000, 000
<b>Total visible coin of commerce.....</b>	<b>262, 000, 000</b>
England has of visible gold coin.....	125, 000, 000
England has of visible silver coin .....	0, 000, 000
<b>Total visible coin of commerce.....</b>	<b>125, 000, 000</b>

The mere reading of these figures ought to bring the blush of shame to every American who knows the feeling of financial security and power, the unbounded confidence, that reposes in the breast of every inhabitant of Great Britain, and the well-grounded sense of insecurity, weakness, and fear that prevails here, which is paralyzing every enterprise in this country. Whose fault is it that this condition of things exists? Who are the statesmen or nonstatesmen who should be held responsible? One party has been relegated to the rear. Has the other party the courage to remedy an evil so palpable, so gigantic, and yet so easily corrected?

## ADMIRABLE FEATURES OF OUR BANKING LAWS.

Our banking laws have three admirable features:

- (1) Their supervision by expert examiners and the publicity of their condition, which ought to be made even more thorough and controlling than now.
- (2) The requirements for bank reserves, and especially their being allowed to keep a part of the reserves at the great banking centers.
- (3) The certainty that the "currency notes" of the banks will ultimately be paid in full.

While each one of these things is eminently desirable, not one of them, or all of them combined, compensate for the fatal defects of the system. Every one of them can be secured as well, or better, in a better system. Furthermore, they are no part of banking proper. Every man in this country at all informed on the theory or practice of sound banking and the best methods of furnishing the people with a sound and cheap currency, knows that the currency furnished our people under existing banking laws is the most expensive and the poorest in every respect save one, of any currency that is furnished to the people in any first-class nation.

All persons whose investigations and experience give their opinion any special value know that the money of a people should be (1) safe, (2) abundant, (3) elastic, (4) cheap, (5) uniform, (6) it should be in the locality of its issue, where it is most needed, as far as it is practicable to have it.

In every one of these elements of a sound currency or "good money," the United States stands at the foot of the list.

Not a man present will dispute the proposition that what makes a "sound currency" or "good money" is its certain and instant current redemption, convertible into coin, when a demand for coin is made. This demand is made and answered ten times, or ten thousand times, as the case may be, with every dollar, during its life, and as often as it is returned to the bank issuing it.

Where two coins of different commercial bullion value are legal tender, sure redemption means that it is instantly done in the coin of the highest commercial bullion value. "To doubt money is to discredit it." There is not a man present who does not know that all-pervading doubt exists, as to the continued current redemption of our currency. This fear is manifest everywhere and is injuring every business and occupation, and paralyzing some. This injury to industries is more or less apparent in proportion to their magnitude and fundamental character. It is not done to ourselves alone, but its effect is world-wide. How thoroughly inexcusable, and even disgraceful, to the country, our financial condition is, will be made apparent by seeing how impregnable and superior to all others our position would be had we a proper national banking act.

All economists know that coin is now used almost exclusively as a "measure of value," certainly so in this country, and also that foreign commerce alone really tries the "coin strength" of a nation's commercial system. We have men of commanding intellect and genius, the equal of those in any country or of any time. Have they been playing the demagogue, for party advantage, on questions of finance? The genius of her statesmen maintains a commercial system in Great Britain, the absolute impregnability of which is nowhere questioned, on \$125,000,000 of visible gold, while she has a foreign commerce alone of \$25 to every dollar of her visible gold. We have \$337,000,000 of visible gold and a foreign commerce of only \$2.20 to each dollar of visible gold; and yet every acknowledged financier in the country is compelled to distrust the soundness of our money and our financial integrity. Is it not perfectly clear that with three times as much of the gold of commerce as Great Britain, and with only one-twelfth the demand upon each dollar of this gold that is made upon each dollar of the gold of Great Britain, all our financial troubles and anxieties are caused by a discreditable financial system, and are not caused by our lack of financial strength or our need of more gold or more coin of any kind.

## COMPARISON OF FINANCIAL SYSTEMS.

The facts I have given show that in gold, proportionate to England's, or to any legitimate commercial demand that could be made for it, had we a sound financial system no fear would exist. Our stock of visible gold coin is proportionately 3,829 times as large as that of England. Did England insist on hoarding as much gold, in proportion to her commerce, as we now have, she would insist on having \$1,424,000,000 in gold instead of \$125,000,000. Her statesmen absolutely refuse to be at the trouble and expense of keeping more than \$125,000,000,



or one-twelfth of the vast proportional sum we now have, and for two reasons: First, because it would tax her people \$6,500,000, or an annual tax of 20 cents on every man, woman, and child, and secondly, because it would embarrass every other nation and ruin her commerce. Compare the wisdom of her statesmen with that of ours. Here we unblushingly put an annual tax on our people of 67 cents a head, a financial system infinitely inferior to that furnished free of charge to the people of Great Britain by her statesmen.

Again, the actual daily need of coin is not a matter of speculation. As I have before said, our daily bank exchanges are about \$400,000,000, and we know that only 1½ per cent of them are made in coin.

This proves beyond peradventure that our actual daily use is only \$6,000,000 of all kinds of coin. Six millions against a stock of \$337,000,000 of visible gold alone, and about \$800,000,000 in all kinds of coin! and yet, like *Oliver Twist*, while shivering with fear, we call for more, and refuse to conform our financial system to approved methods.

Again, the efficiency of each \$1,000 in coin, in making the exchanges of the world, has increased a thousand fold faster than have the exchanges of any country or of the world. This efficiency has increased faster in the last ten years, and is now increasing faster than ever before, by the better use of rail-ways, steamships, telegraphs, telephones, and, above all, in improved commercial methods and economies. In trade between Boston and Canton the efficiency of each \$1,000 in coin has increased thirteen thousand times since 1830, \$1,000 now being the equivalent of \$13,000,000 under the methods of 1830. Then, a ship loading for a six months' voyage to Canton, took its supercargo to trade for a return cargo and what coin it needed to pay the difference. Now the coin is transferred by telegraph, and an answer received in five minutes. Thirty days was consumed in going to and from Boston and St. Louis. Now coin is transferred in one minute. Coin is now ten thousand times more efficient in that trade, \$1,000 now being equivalent to \$10,000,000 in 1830, and so on to the end of the chapter. The most enterprising, progressive, and courageous nation in the world allows ignorance, prejudice, and supposed class interest to cast it down to the foot of the nations in use of its real and comparative financial strength, integrity, and economies.

In the second and third qualities of sound money, abundance, and elasticity, we are at the same disadvantage. No currency can possibly be "abundant" that is not elastic. Have as much as you please, and it still will be cribbed and confined. This we know from experience. At a fixed and invariable amount, whatever the amount may be, normal business adjusts itself to that amount. At the moving of the crops, or at any other periodical expansion of trade, there must inevitably be a stringency. Instead of all uniting to conform our financial system to approved methods, we have two bodies of citizens fighting a fierce battle over this foolish question of "quantity." One is contending that we have not enough money, and the other that we have too much. Both are right and both are wrong. This country must have an elasticity of from \$100,000,000 to \$200,000,000 in its currency, between the maximum and minimum amounts. Our currency never will be abundant or elastic until we adopt a system that will allow an adjustment as wide as I have indicated.

#### WHAT OUR MONEY COSTS.

Fourth, as to "cheapness," our money averages to cost our people, in interest on loans, fully \$100 where it ought to cost no more than \$86, or one-sixth too much. There is not another first-class country in which the reserves of its banks are not kept in coin. There is no such country, excepting the United States, where every dollar of its funds—the wealth—of the people in its banks, is not available to the banks to loan. In every country, excepting the United States, the banks are allowed to issue currency (circulating notes) to an amount equal to their reserves. In other countries all the visible coin is in the reserve of banks where the people can surely get what they need of it at any moment, by presenting the paper issued by the bank, to the amount of the coin they desire. Notes being issued by the banks to the amount of their reserve, every dollar of banking funds is earning an income. Here, not a dollar of the bank coin reserves is earning any income.

In England, Germany, France, etc., the coin reserves of banks are performing three functions:

(1) They are used to measure values in every transaction in the country, as all transactions are ultimately and equivalently settled in the banks. The pay-

ing of the "final balance" in coin is the equivalent of each bank paying each single obligation in coin.

(2) They act as our bank reserves act. They are at hand to satisfy any and every obligation against the bank, which obligations practically mature only in balances shown, of debts and credits between banks.

(3) Currency notes are issued to an amount equal to these coin reserves, and they are thus made a source of as much income to the bank as any of its "quick" funds.

As I have before said of the \$2,500,000,000 of banking funds in our banks, \$600,000,000, or more than one-fifth, is absolutely, needlessly, and foolishly—I had almost said wickedly—and by compulsion of law, held out of earning an income. This is an enormous sum. While we glibly pronounce the words, we fail to realize the significance of this enormous loss. The law only compels about \$400,000,000 to be kept in reserve. Had we a financial system that justified the same confidence that is felt in other countries, the usual reserve would be no more than \$400,000,000. I therefore use \$400,000,000 in my calculations, proving by them that the average bank "loan and discount" is forced by the law to a price to the borrower one-sixth higher than its normal price would be, had we a rational system and that of other countries. Assuming an average interest of 6 per cent on the loans and discounts of national banks, viz, \$2,200,000,000, the interest amounts to \$132,000,000. One-sixth of this sum, or about \$22,000,000, is absolutely wasted to the people in unnecessary cost. One-seventh of the funds in banks, viz, \$400,000,000, being compelled to be held from earning an income, the interest charges on the remaining six-sevenths must be one-sixth higher.

(5) As to "uniformity." Our currency is admitted to be about as uniform as was the color of Jacob's cattle.

(6) Having currency "in the locality of its issue and where most needed" is of very great importance. No one would claim that existing law is so framed as to legitimately press currency back to the locality of its issue. The requiring of a proper system of current redemption for, and paying out of currency, by banks, by not allowing them to pay out their own currency when they have that of other banks in their vaults, would induce them to return the currency of other banks to the United States Treasury for redemption, and thence to the banks issuing it. Banks can earn no money on their own currency, unless out of its vaults in circulation. This would influence banks to give local men and local business the preference in all loans, in order to keep the currency out as long as possible, which would be an advantage to the section of country where a bank is located, not realized by those who have not seen the experiment tried.

#### GOVERNMENT TO EXERCISE ONLY POLICE SUPERVISION OVER BANKING.

The definitions and illustrations introduced in this paper show that the nature of money is such that it is physically impossible for governments to do more concerning it than to exercise a police supervision over it, and that banks take the place of "money." In fact, banks are money, in the check, draft, bill of exchange, etc., issued on them. Every sound business maxim, every correct business method, presupposes a bank as a part of each business concern. Banks are interwoven with and are a part of all business enterprises. It is a physical impossibility for a government to be an agent in any part of banking without being a "bank" and a copartner with every one of its patrons. Banks have come to be an inseparable part of every business, as they are an inseparable part of currency, whether they issue any currency or not. It is shown by the returns made to the Comptroller by national banks, on a given day, on two or more occasions, that the percentage of coin used in each day's transactions is about 1½ per cent; of currency bank notes, about 4½ per cent; and of checks, drafts, bills of exchange, etc., which do the work of money, about 94 per cent. Issuing paper money by banks is essentially and actually no more in kind than writing a credit on the book of the customer of the bank. If to day the use of every check, draft, bill of exchange, etc., were prohibited and should cease, and "bank currency notes" take their place, and thus the issuing of bank bills be increased more than twenty-fold, it would not increase the liability of a bank or affect it in any way, working no advantage or injury to it. It would simply inconvenience and increase the risk to every person in the community doing any business and almost beyond calculation.

A moment's investigation will show that, striking as this statement may be, it is absolutely true. The business man would then keep that money in his safe or vault, instead of keeping his blank checks or drafts. He would then be obliged to have his currency money in his safe to the same amount that he now has

credit on the books of the bank. Again, the deposits which every prudent business concern carries in a bank bear a certain percentage to the business of the concern, as reserves do to banks, and are to each one carrying them his reserve to meet contingencies known or unknown, precisely as the bank keeps the reserve required by law, of 15 per cent or 25 per cent, as the case may be, to meet contingencies. Some business concerns secure from the bank, or otherwise, on each Monday morning, enough money to pay every obligation maturing in fourteen days. The concern then has one-twenty-sixth as much money on hand as its annual business. This is its reserve capital—capital not in active use. When the sun rises on the following Monday, it still has a reserve amounting to one fifty-second of its annual business. This is exactly what banks do. They are simply business concerns, and do their business as other business is conducted.

Simply coining metals into money for private persons is no part of issuing coin money, even by the Government, in the sense in which the term is now used. Never did any government try the experiment of issuing money any more faithfully, or under any more favorable conditions, than has the Government of the United States. The utter want of confidence in the money of the country, betrayed in every financial quarter, pronounces the experiment a failure. Look at the existing conditions. We have of—

Legal-tender notes (old issue).....	\$347, 000, 000
New Treasury notes (July 14, 1890).....	130, 000, 000
Gold certificates (paper).....	143, 000, 000
Silver certificates.....	327, 000, 000
National-bank notes.....	172, 000, 000
Currency certificates.....	11, 000, 000

Total paper outstanding..... 1, 130, 000, 000  
wholly dependent on less than \$100,000,000 for redemption.

“CURRENT REDEMPTION.”

While theoretically the Government is responsible for the current redemption of the \$347,000,000 legal-tender notes only, whoever is to finally redeem it, the Government, in fact, must “currently redeem” in coin, every dollar of the \$1,100,000,000 as long as there is a legal-tender note in circulation. Were every dollar of this \$1,100,000,000 currency issued by the banks they would now have in their vaults, to redeem it, every dollar of the visible gold in the country, viz, \$337,000,000. All visible gold in England, Germany, and France is in the banks of those countries. The inexorable laws of trade and finance compel it. These laws are such that gold can not be taken from any bank and not be quickly returned to some bank, and ultimately to the bank from which it was drawn. Proper banking laws, establishing a proper banking and financial system, make it strongly for the pecuniary interest of every bank to conserve the gold it needs. Still more strongly is it for the pecuniary interest of every man in the country to help the banks to get and keep the gold they need. On the other hand, every law of finance and trade militates against the getting or keeping, by a bank or by any person, gold it does not need.

In finance, the Government counts only as an individual. Bankers have a thousand legitimate and beneficent ways of keeping the gold they need and for the use of any person who demands it of them. The Government has none. Banks are obliged by their regular customers to keep gold and wholly and necessarily at the expense of the bank and to the good of every citizen of the country, rich or poor. No bank will keep one dollar in gold more than sound finance compels it to keep, as witness the Bank of England, which keeps an average of only \$125,000,000 of gold and refuses to have any more. The United States Government, and every other government, has, and can have, no legitimate and normal need of coin under a rational financial system. Under our hybrid system, it is utterly helpless to get and keep one dollar of gold, sorely as foolish legislation is now compelling it to get it, unless it is freely and benevolently given it by friends. It is inevitably in the attitude of a mendicant, naturally and inevitably, by the laws of the universe, which fix alike the condition of individuals, governments, and banks. Its attitude as to money is the exact opposite of that of banks.

While there is a single million of legal-tender notes in circulation, that current money can be exchanged, for the Government is inexorably bound to redeem every dollar of the whole \$1,100,000,000 of currency afloat. Every one of us knows that no power could overcome the natural defenses of banks so as to divert \$337,000,000 of gold from them, while everyone knows that the \$100,000,-

000 in the United States Treasury is as utterly defenseless as it would be in the possession of an individual doing as much business and owning a floating debt of \$1,100,000,000 in demand notes, as does the United States. Everyone is now demanding that the issue of legal-tender Treasury notes to the amount of \$4,500,000 a month for the purchases of silver for the sole purpose of increasing the Government currency shall cease. But if our financial and banking system is a proper one, why repeal the law? Let the purchases go on. No matter if the business of the country is being paralyzed by fear of the inevitable consequences of governmental money. If the Government can safely furnish currency of any kind, or to any amount, no better kind, or one that is more secure, can be found.

Let the purchases go on, for "right is right," and "truth is truth." The final result must justify all right action. Let the country suffer and wall in its strength; the final result must be beneficial. Politicians of one party are putting the politicians of the other party "in a hole," and demagogues and money cranks are in a delirium of joy. Or else let the Government boldly go into the banking business. There is no middle ground. As I have said, banking is issuing titles to banking funds in exchange for titles to the property "in transit" of its patrons, which titles are being made and maturing in equal volume every hour. If wisely managed, they can not be drained of coin. Governments are simply great corporations, subject to every financial law and condition of every other business concern, great or small. They can do a banking business as well as any farmer, manufacturer, or merchant.

#### THE SURE AND EFFECTIVE REMEDY.

There is, then, only one sure and effective remedy for the financial ills that every candid man admits are now afflicting our country.

There is no help for us while the Government continues its purchases of silver to increase currency, or while the United States Government is responsible for the "current redemption" in either gold or silver coin, of a single million of Treasury notes or legal-tender notes. We know the people will not justify Congress in levying taxes to pay them; therefore some other practical method of disposing of them, of which the people will approve, must be devised. Neither can the tax on State-bank circulation be safely repealed until every Government legal-tender note is disposed of.

The Committee on Banking and Currency of the last Congress reported to the House a bill (H. R. 10615) which will be before the next Congress, which fully meets and remedies every defect and difficulty of our financial situation. Repeal the purchase clause of the silver act of July 14, 1890, and pass the banking bill mentioned, and we shall be immediately in a stronger financial situation, as well as in every other, than any country on the face of the earth.

For security (1) the bill provides that every bank shall keep its cash reserve in coin, at least half in gold coin, and may keep the other half in silver coin.

For quantity and elasticity (2) that banks may issue currency notes at any time to an amount equal to their average reserve during any six consecutive months in the previous year, and the Comptroller may reduce the sum to their average reserve during any other six consecutive months, thus earning income on the reserve, and giving elasticity of \$100,000,000 to \$200,000,000.

(3) That banks must proportionately take upon themselves the "current redemption" of existing legal-tender notes, by each bank taking a part of them equal to the currency it issues because of its reserves, the Government to "finally redeem" them when the bank goes out of business.

(4) For more perfect examination and reports by the examiners.

(5) For an expert board of advisers (directors) associated with the Comptroller.

(6) That banks may be used by the Secretary of the Treasury to do the work of current redemption of bank notes, etc.

(7) Bonds are eliminated, but every other beneficent feature of our present national banking system is kept and perfected, and a tax imposed upon banks of one mill per annum on each dollar they issue of currency. This tax, small as it is, will yield many times more money than the losses to holders of bills could possibly be, as shown by thirty years of experience. This tax to remain in the United States Treasury in place of bond security.

The scheme contains not a single new feature in banking. It would simply apply to banking in this country those maxims and regulations concerning all things affecting banks that are approved by the experience of the ages and are now in operation in the strongest European banks.

COMMITTEE ON BANKING AND CURRENCY,  
*Tuesday, January 16, 1894.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

Hon. JOSEPH H. WALKER, a Representative from the State of Massachusetts, appeared before the committee in behalf of H. R. 171.

**STATEMENT OF HON. JOSEPH H. WALKER.**

Mr. WALKER then addressed the committee. He said:

Mr. Chairman and gentlemen of the committee: After the very great courtesy extended me by the committee in allowing me to print my argument in favor of the bill, and inviting me furthermore to incorporate in that argument the argument made by me before the Boston bankers and the World's Fair Financial and Banking Congress, I do not feel it would be fair to the committee, or necessary, to occupy any time except in answering questions that may be asked in reference to sections of the bill as we take them up, unless the committee should desire to have me go on further with general remarks.

Mr. HAUGEN. I would like to have Mr. Walker state in a few words the difference in the two kinds of issue he provides for in his bill.

Mr. WALKER. There is no difference in the world to the public, but when a bank goes out of existence the U. S. Government must redeem in coin the bills issued under section 4, and the bank itself, from the assets of the bank, must redeem the bills issued under section 5. Secondly, so far as the bills themselves are concerned, to the public there is no difference, excepting this, that the bills issued under section 4 have the same legal-tender qualities as in the existing greenbacks, excepting they are not legal tender between banking associations. They are not legal tender between banking associations, because the whole theory of the bill is that the people of the United States ought to be relieved from taxation, to maintain a coin measure of value, and to redeem paper money, and that all of that expense shall be put upon the banks, and in order to put it upon the banks they must not be allowed to tender to each other the bills issued under section 4.

If the banks are compelled by law to pay coin for the balances between the banks, that maintains specie payments, and I have not the slightest objection under the Supreme Court decision to allowing bills to be made legal tender from private persons to banks or as between private persons, sole or corporate. I think it is unconstitutional, but the reason I write that in the bill is because that is the existing law, and I have determined in this banking bill to raise no issue as to existing laws either as to coinage or legal tender, or anything that can be used of that nature to defeat the bill. Furthermore, the bills which are issued under section 4—I wish to especially call the gentleman's attention to it—are all of them an exchange of the existing greenbacks, Treasury notes, and silver certificates, so that there will be no expense to the people in changing the old greenbacks for the new greenbacks but the banks shall relieve the people of all expense and take it upon themselves, and that kind of money shall always equal the money that the banks themselves issue equal in amount to the "reserve held." This may be properly entitled "A bill to relieve the people of taxation."

The CHAIRMAN. Will you please, assuming that this bill becomes a law and that we were now ready to operate upon it, explain how you would proceed to organize a bank under this bill to carry it into effect, and what would be the general effect upon the currency of the country as to its volume, elasticity, etc.?

Mr. WALKER. A bank would be organized exactly as now, excepting a certain percentage of its capital must be invested in buying the "new greenback" instead of buying bonds.

Mr. HAUGEN. Section two provides for that.

Mr. WALKER. This bill contemplates a retirement of the existing legal-tender Treasury notes and a part of the silver certificates. For each one of those retired a new "legal tender" would be issued which the banks would be obliged to "currently redeem," and for each one of those new legal tenders that would be issued there would be a bill issued by the bank, so that for every dollar retired or exchanged there would be two dollars issued; so much as to the volume of the currency.

Mr. HALL. Will you allow me to ask you how we can issue two dollars for one?

Mr. WALKER. Because it is not primarily for the interest of the bank to buy of the Government that new legal tender. It is for the interest of the bank to issue currency notes up to the amount of its "reserve held," and they can not get those currency notes except by buying of the Government the new greenbacks equal in amount to those currency notes that it issues. If it issue \$50,000 of currency notes up to the amount of the reserve held, say \$50,000, assuming that they do, they are obliged to exchange lawful money, gold, gold certificates, or silver, or silver certificates, or Treasury notes or greenbacks for the new "section four notes," so that for every note it issues directly up to the amount of its "reserve held" it is obliged to get a note of the Government, which makes two for one. Is that clear?

The CHAIRMAN. You retire the Government notes?

Mr. WALKER. I retire \$90 of the old Government legal-tender notes for every \$100 of new Government legal-tender notes. The bill requires the Treasury of the United States to keep the other \$10 out of each \$100 for a "current redemption fund," and to apply to the notes issued to the banks under sections 4 and 5, so that all of the circulating notes of the United States will find current redemption, which will make them good money; and that is the only possible way of making paper money "good money," viz, by current redemption in coin.

Mr. HAUGEN. I would like to know what the bank pays for these greenbacks which it buys of the Government?

Mr. WALKER. Dollar for dollar, in gold, gold certificates, silver, or silver certificates, Treasury notes, or greenbacks.

Mr. HAUGEN. What does the Government do with the gold and silver; put it in a vault?

Mr. WALKER. It is put in the Treasury as miscellaneous receipts, or rather it buys with it \$100 in new greenbacks in the first place until they are all exhausted, and then \$100 worth of Treasury notes until they are exhausted, and \$100 worth of silver certificates down to a certain point. That will leave all the silver dollars and silver certificates anyone desires. I do not want you to be frightened by that proposition concerning silver, for I have made provision for all the silver the people can possibly use or desire to use. It destroys \$90 of the old greenbacks and keeps \$10 for current redemption of all the notes of the bank, which would make 5 per cent on all the bank notes, precisely as it is to-day, being 10 per cent of half. This is the only prac-

tical way to fairly apportion to the banks and securely put upon the banks the expense of maintaining the measure of value, coin by the current redemption of all paper money.

Mr. JOHNSON, of Indiana. You do not provide for the future extinguishment of the present currency?

Mr. WALKER. There will be \$100,000,000 more currency in circulation at the end of Mr. Cleveland's administration than there is to-day, but every dollar will be taken out of the list of "fiat money" and made "good money" by current coin redemption if this bill passes.

Mr. JOHNSON, of Indiana. The matter I suggest is this: In the provisions of the bill it does not contemplate absolute extinguishment of existing currency, only down to the point of reserve, \$100,000,000. It does not contemplate by the very terms a complete extinguishment of existing currency?

Mr. WALKER. The bill provides that when the greenbacks have been extinguished down to the volume of the reserve held for their redemption then that reserve shall be immediately used for cancellation of that amount of greenbacks, and that releases all gold for use; and now let me say that the reserve of coin held by the Treasury is not by legal requirement; that is to say, it is not a reserve that is required by any existing law; therefore, if this bill should pass, as every operation in finance is anticipated, every condition is anticipated, the Treasury would naturally and immediately call upon that to expend in the current expenses of the Government. As long as the law does not positively require it to be kept, the practical working of this bill would be that it would never be used for that purpose, but would be used for the current expenses of the Government, being immediately free gold in the Treasury, and relieve the present Treasury situation immediately, thus leaving \$86,000,000 of free gold to be used for current expenses by the practical operations of the bill, so we would need no present loan.

Mr. HAUGEN. The decision of the Treasurer now, I understand, is that that money is available?

Mr. WALKER. It has always been held in law, by every Attorney-General, that this reserve has been kept there precisely as a bank keeps a reserve in excess of what the law requires, for prudential reasons and not because of legal restrictions upon it.

Mr. JOHNSON, of Indiana. There is about \$346,000,000 of currency?

Mr. WALKER. Yes, sir.

Mr. JOHNSON, of Indiana. Does your bill contemplate absolutely wiping out all of that sum?

Mr. WALKER. My bill does not contemplate wiping out one farthing of that sum, but it does contemplate exchanging that paper money, which the Treasury of the United States is now obliged to redeem at the expense of the people, for another which the banks would be obliged to redeem without any expense to the people.

Mr. JOHNSON, of Indiana. You mean to exchange the whole of the \$346,000,000?

Mr. WALKER. The whole of the \$346,000,000. Furthermore, it contemplates the exchange of the whole \$150,000,000 Treasury notes and—

Mr. JOHNSON, of Indiana. You mean also those under the act of July 14, 1890?

Mr. WALKER. Yes, sir. Furthermore, it extinguishes whatever silver certificates the demands of trade of the country do not require by exchanging them for section 4 notes, in order to make a place for a cheaper money for the people. It is demonstrated beyond all question

that if this bill goes into operation the money of the people will be from half to three-quarters of 1 per cent cheaper in Boston, New York, the Northeastern sections of the country, and Chicago, and where money is cheapest, and from  $1\frac{1}{2}$  to 2 per cent cheaper where money is most expensive. That is as clearly demonstrated in the statements and arguments I have before presented.

Mr. HALL. I would like to ask if this bill does not contemplate eventually the taking of the National Government out of the banking business?

Mr. WALKER. Completely; except as to supervision, it takes it completely out of having anything whatever to do with finance. Now, let me say a further word here, if you will excuse me. Gentlemen, financial institutions of Europe, without an exception, have stood through all the decays of thrones, and governments, and cabinets, and revolutions, and wars, and almost absolutely uninfluenced by them. I will not say absolutely, but, saving a financial stringency or one which was only temporary, and they have always been the sole and sufficient reliance of each government in its conflicts with foreign powers or in their domestic difficulties. We to-day are on the borders of a precipice in our financial condition in case of war.

Mr. HALL. I wish to ask a question and if I do not come in the line you want—

Mr. WALKER. You gentlemen of the committee are running this thing.

Mr. HALL. But I was going to say this, that that idea of taking the National Government out of the banking and currency business has always been favored. I have always been in favor of it, but here is the argument we are meeting constantly in the West, and I want you to frame an answer for it for we will have to meet it in the West, and that is, by relegating the entire control of the volume of the currency to the banks they would be interested in keeping down at seasons the volume of money, and at other seasons increase it when the interest of the producing class did not demand it, but when on the contrary it was inimical to their interests?

Mr. WALKER. In answer to the gentleman, Mr. Chairman, there was never a financial scheme conceived of, by the most radical Greenbacker or Populist, that could put the volume of the currency so absolutely and completely in the hands of the people as this very bill.

Mr. JOHNSON, of Indiana. Why?

Mr. WALKER. Because there is a provision in the bill that requires the banks to take out this currency whenever the Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall require them to take it out.

The CHAIRMAN. How can you force them to do it?

Mr. WALKER. The provisions of the bill fully disclose how.

The CHAIRMAN. I am simply asking you now for information.

Mr. WALKER. By the provisions of the bill the banks are completely under the control of the people, through the Comptroller of the Currency and the Secretary of the Treasury, as to the volume that they shall issue at various times and all matters touching paper money. They can only take currency to the amount of their "reserve held," and an equal sum in new greenbacks. When they hold a less reserve in any six months of any previous year they take out a less amount and equal to the reserve they held in any six months, and a greater amount when they held a large reserve in a previous year. The effect of that would be when money was the cheapest and less needed they would run the reserve



the highest, and when most money is needed and in the time they can make the most money on their circulation they run their reserve the lowest, and the leeway between the two will be nearly \$200,000,000 by actual figures, that is, computing it on the existing system, and that is a larger leeway than anybody ever dreamed of being necessary.

Furthermore, the banks now hold \$94,000,000 of bonds, and at any timewhenever in a crisis they desired more currency and they were willing to pay the rates of interest provided by law in the State where the bank was located, they can turn in their bonds and get currency to the amount of the bonds and return it in any time after ninety days, by paying the rate of interest of its State. That would be a penalty of interest on such notes at the rate of the State in which the bank is located, and would naturally retire the excess of currency, when it was not needed, down to the popular demand for it. Again, under this system it is to the advantage of the banks to issue just as much currency as they can possibly make the people take. Therefore it becomes of pecuniary interest to banks, which it is not to-day. It is a loss to-day to the banks all through the West and South, where interest is the highest, and men are entirely justified in the condemnation they are passing on the existing banking system. I am with you, and I am ten times more radical and determined in my denunciations of the outrageousness of the cost of money to our people in the districts in the country where money is the highest than any Populist. I say it will become the interest of the bank to issue money under my bill, and therefore they will get out all they possibly can.

Furthermore about this bill. Under it it becomes the interest of the bank to lend this money to a neighbor who wants to use it paying men in workshops and factories and buying farm products around home and in the country, rather than to the man who wants to pay a draft with it in redemption cities; so that under this bill the preference would always be given to the farmer and the producer of stock and the manufacturer and to any man who wished to pay his money out that he borrowed, representing the capital that he borrowed, in the neighborhood, rather than to a man who wants to pay notes in a city, but all will be accommodated.

Mr. HALL. Under your system the lending of money on real estate will be entirely prohibited?

Mr. WALKER. It would, because the existing law reaches to that. I am glad you called my attention to that because that is not affected in this bill at all, because the first provision of this bill is:

That national banking associations, organized for the transactions of business under this act shall be subject to existing law, excepting as hereinafter provided.

Now, let me say one word in regard to this real estate. A bank of discount has no more to do with real estate and is as much outside of it as anything that can be conceived of. A bank of discount is formed for the purpose of handling consumable wealth, crops, goods, and in order that its capital shall be kept solely for that purpose, so that the producer shall get the utmost price for his products, is why the bank is forbidden to put capital into anything that can not be sold and transported, because there is no quick market price for real estate as compared with consumable wealth. Consumable wealth has a price that is practically cash and uniform; it can be shipped anywhere and sold anywhere, and therefore it always has a quick cash price and the price is uniform as compared with realty. Realty depends upon a thousand circumstances for its price—\$10,000 to-day, \$5,000 to-morrow—factories, farms, houses, and realty of that kind are exceedingly slow of

sale and slower of payment. Therefore the law prohibits banks of discount to touch realities, because it destroys the ability of the bank to furnish a man that produces from the soil, the workshop, and factory with the money necessary to handle and transport his products.

Again, the savings bank and trust companies are organized with special reference to dealing in realities and nothing else. Trust companies and savings banks and all moneyed institutions and individuals with, few exceptions, in the country handle what are called "solid securities." Banks of discount handle consumable wealth and short-time paper given for consumable things, and the moment that the bank touches anything that can not be immediately realized on in cash, the country is in a stringency. The banks which failed in the United States in the crisis of 1893 were, with scarcely an exception, banks which had loaned on realities directly or indirectly. This has been demonstrated; I do not believe one man in a hundred who voted for the law which restricted banks of discount to consumable wealth by being loaned to individuals who handle consumable wealth, knew the philosophy of the thing at all, but they did know this, that the minute banks touch real estate they fail in the first "pinch." Whenever a crisis comes the banks who have anything to do with real estate fail, because they can not immediately realize on it.

Mr. HALL. You have a reserve?

Mr. WALKER. Yes.

Mr. HALL. Do not you believe that any reserve in a bank tends to affect, or destroy, or impair the elasticity of the currency?

Mr. WALKER. A bank can not do business a day without a reserve and bankers everywhere keep the reserve which the needs of their respective business requires them to keep. The law of the United States takes a general average, and requires that bankers in the country shall keep a reserve of 15 per cent and bankers in the cities a reserve of 25 per cent; but the reserve that each bank actually keeps, while they conform to the law, they keep a reserve with reference to the needs of their particular business, and some banks have to keep 50 per cent reserve, and some keep 75 per cent, others 15 per cent.

Mr. JOHNSON, of Indiana. You seek to utilize the reserve by issuing notes on it?

Mr. WALKER. That is one way of stating it.

Mr. JOHNSON, of Indiana. What I want to get at is whether it does not impair the efficiency of the reserves by issuing notes against it?

Mr. WALKER. I think the gentleman from New York, Mr. Warner, has previously expressed a desire to ask me a question.

Mr. WARNER. As I understand the result of this bill, if it acts as is intended, will be to divorce the Government from all responsibilities for redemption of the currency?

Mr. WALKER. From every particle of responsibility for it.

Mr. JOHNSON, of Indiana. Current redemption you mean?

Mr. WARNER. You mean any redemption?

Mr. WALKER. Anything that looks to a bank redemption.

Mr. WARNER. Exactly; I understand also that it is proposed to give, as between individuals at least, and to some extent beyond that, a legal-tender quality to the currency proposed?

Mr. WALKER. Do you want that answered now?

Mr. WARNER. Yes, sir.

Mr. WALKER. A legal-tender quality between individuals, sole or corporate, as between themselves, or themselves and the bank, to the

bank paying it to individuals, but between banks it is to have no legal-tender quality.

Mr. WARNER. Now, is not the plan involving those two features subject to this objection: That while the Government uses the power of Government to compel individuals, willy-nilly, to accept this currency, and thereby assists the banks and banking institutions in floating it, that at the same time it repudiates its responsibility in that regard, and leaves as a result a definite advantage to the banks, and a definite, not exactly of oppression, but a definite compulsion upon the people, and an equally definite repudiation of responsibility for the result?

Mr. WALKER. I am personally opposed to making these bills that are purchased of the Government "legal tender" to any extent, and most determinedly and earnestly opposed. But, as I stated before, I do not propose to controvert any existing law as to that or the decisions of the Supreme Court, so I put that in the bill. You will excuse me from going into that at all.

Mr. JOHNSON, of Indiana. There is ultimate redemption provided for and that is made by the Government?

Mr. WALKER. The Government guarantees that when the bank goes out of business that nobody shall lose anything by them.

Mr. JOHNSON, of Indiana. To be paid out of what?

Mr. WALKER. Out of any moneys in the Treasury not otherwise appropriated. It gives the Secretary of the Treasury the right to sell bonds for coin and to pay them if there is not enough free money in the Treasury in order to make their final redemption secure.

Mr. JOHNSON, of Indiana. Then there is an ultimate redemption by the Government?

Mr. WALKER. A final redemption. That is to say for the bills issued under section 4 when the bank goes out of business the Government agrees to pay them back in coin dollar for dollar, but under no other circumstances except when they go out of business.

Mr. JOHNSON, of Indiana. I so understand it. That involves redemption of notes that the law has authorized them to issue. Now you provide for two classes of notes. Is the Government ultimately liable to redeem every one of those notes?

Mr. HALL. You will understand the Government is obliged to redeem the notes issued under section 4.

Mr. WALKER. I am afraid this hearing will be rather mixed—

Mr. JOHNSON, of Indiana. You have provided the hearing and I am asking you a very plain question?

Mr. WALKER. The notes printed under section 5 shall not be counted in any reserve fund, and it also says:

And every provision of this act shall apply equally to the promissory currency notes issued under both sections 4 and 5, provided, however, that notes issued under section 5 shall not be counted in any reserve funds, and the notes issued under section 5 shall be finally redeemed and paid as provided in section 17 out of the assets of the bank; but notes issued under section 4 shall be finally redeemed and paid by the U. S. Government as provided in section 13.

It provides that the U. S. Government shall redeem section 4 bills in coin of the bullion commercial value of the nominal value of the money which the bank paid the Government for them.

Mr. JOHNSON, of Indiana. Is it your answer, then, that the Government redeems ultimately all the notes which the banks are authorized to issue?

Mr. WALKER. It is not.

Mr. JOHNSON, of Indiana. What is the fact then?

**Mr. WALKER.** The fact is the Government finally redeems, as I said, the bills the bank issues under section 4, that the bank buys and pays solid coin for, and the general assets of the bank must first pay those issued under section 5; that is to say, the bills issued up to the amount of the reserve, not upon the reserve, but up to the amount of the reserve. Now, if I remember rightly, you asked me about the safety of issuing bills up to the amount of the reserve. Is that your question?

**Mr. JOHNSON, of Indiana.** Yes, sir.

**Mr. WALKER.** Those notes are not issued upon the reserve in any sense. They are issued up to the amount of reserve held.

**Mr. JOHNSON, of Indiana.** Does not that impair the reserve very much more?

**Mr. WALKER.** Not a particle.

**Mr. JOHNSON, of Indiana.** Does it not make the liabilities that much more?

**Mr. WALKER.** That fact does not indicate the impairing it in any sense whatever. That does not even look to its impairment nor hints at it. The provision is that the cash reserve shall be kept in coin. The "reserve held" is considerably more than the "cash reserve." The cash reserve is about three and one-half fifths of the reserve held, because the bank is permitted to hold some of its reserve in other banks; what it holds in its own vaults must be in coin or coin certificates. Under the present law there is not the slightest provision of law which compels the use of a dollar of coin anywhere in this country, a most anomalous condition of banking in a civilized country; not a single provision. There is not a single provision of law which requires the use of coin anywhere or by anybody in this country.

**Mr. HAUGEN.** Does your bill provide for the use of coin except between banks only?

**Mr. WALKER.** Yes, sir; the bill provides that the banks shall hold their reserve in coin, but in order that the bank may be limited in the issue of its bills and that it may be limited to a substantial sum and in a way that shall make it for the interest of the bank to make itself more and more secure by holding a reserve and as an inducement to the bank to hold that reserve beyond the requirements by law, a provision of the bill is they shall not issue these bills under section 5 to an amount exceeding the reserve, without any reference to their capital. Most provisions of bank laws limits issuance of bills to the capital of the bank. This does both. This bill practically says that the bills issued under section 5 shall never exceed half of its capital because it provides that one-half of these bills shall be issued under section 4. They issue bills up to an amount equal to the "reserve held." Flexibility in the currency is impossible where currency is issued on coin, because you can not have flexible coin, therefore the flexibility must be between the "coin reserve," \$400,000,000, and the reserve "held," which is \$600,000,000 to-day, or at least in normal conditions.

This bill provides that there shall be the same reserve held against these notes that are issued, that is held against the individual deposits of the bank, but that this additional reserve may be held in other banks. Now, then, there is no conceivable way by which any law or any practice can make any obligation of a bank, of any name or nature have any more security in its reserve than any other obligation. That is, to say whether it is a certified check of the bank, or whether it is a simple bank check, or whether it is a credit to a depositor written on his book,

or whether it is currency notes issued, each one has precisely the same claim upon the reserve, and there is no human device that can give one form of the bank's liability a preference over the other on its reserve. Therefore, the fact that they issue these notes is nothing to the reserve, provided the reserve is increased in proportion to the notes issued.

Mr. HALL. May I interrupt the gentleman for a moment here? The hour has arrived for the meeting of the House and I think we want to hear Mr. Walker more on his bill. I move that we rise.

Mr. WALKER. I hope the gentleman will read this bill carefully, and I will be pleased very much if my friend, Mr. Johnson, and Mr. Hall, and anybody, the chairman especially, if you would ask me any questions upon points I have not covered; and now I wish to have it understood that Mr. Springer is invited—not to make any comparison with my bill but because he has put it in a general banking bill—to take the fourteen items which were submitted by me and index his bill as to its provisions covered by them, so that we may know what it contains, and if there is any other general banking bill we ought to do the same with that.

The CHAIRMAN. As soon as Mr. Walker has completed his hearing, I would, with the indulgence of the committee, like to be heard upon the bill I have introduced, and I think I can make it plain. It is understood Mr. Walker will continue his remarks at the next meeting of the committee, which will be on Friday.

Mr. WALKER. My only point in asking you to get the point of inquiry in your mind was for fear that I am imposing myself too long upon the committee, and I am rather sensitive on that point.

Thereupon the committee adjourned to meet at 10 o'clock a. m. Friday, January 19, 1894.

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COMMITTEE ON BANKING AND CURRENCY,  
*Friday, January 19, 1894.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

Hon. JOSEPH H. WALKER, a Representative from the State of Massachusetts, appeared before the committee in continuation of his remarks on H. R. 171.

**STATEMENT OF HON. JOSEPH H. WALKER—Continued.**

Mr. WALKER then addressed the committee. He said:

Mr. Chairman and gentlemen of the committee: If there is no objection I will waive the presence of a quorum and go on and explain the bill.

I have been asked to begin and form a bank under my bill, supposing the bill was law. First, they proceed under existing law. The bill provides that the formation of a bank shall be under existing law. After having complied with the law up to the point where the law requires the purchase of bonds, the bill provides that, instead of purchasing bonds, they shall purchase a new greenback with lawful money—"every association having a capital not exceeding \$250,000 an amount equal to not less than one-tenth of the capital stock" of the new greenbacks, and pay dollar for dollar for them, and "every association having a capital

in excess of \$250,000 an amount not less than \$25,000." This is to buy the new greenbacks to put in place of the old ones as these are canceled—90 per cent, as I explained the other day, and the 10 per cent kept for a "current redemption" fund. If its capital is over \$250,000, it has to buy \$25,000 of these new greenbacks. Having purchased these and commenced business, it issues additional notes under section 5 as its reserve increases. Whenever its reserve "held" exceeds the sum that it has paid into the Treasury for the new greenbacks by any sum whatever, then they can apply to the Comptroller and receive bills under section 5, which I have explained, to the amount that their reserve "held," buying additional bills under section 4 to keep the amount of such notes equal to those issued under section 5. As their reserve increases their bills may increase.

Mr. COX. Pardon me just there a moment. You have purchased there now, say, under that proceeding, \$90,000 of greenbacks, which they have bought from the United States in legal-tender money, if they choose?

Mr. WALKER. If they choose.

Mr. COX. Now, when they go to work their reserve runs up, say, to \$100,000. Now your idea is, as I catch it, they are entitled to an additional amount of that currency?

Mr. WALKER. Not that currency, but currency under section 5 to the amount of \$10,000.

Mr. COX. What kind of currency is that?

Mr. WALKER. It is currency printed and sent to them precisely as bills are sent to them now when they have deposited bonds, only they are not required to deposit anything, a safety-fund deposit fund being provided.

Mr. COX. This is based on the reserve?

Mr. WALKER. Not based on the reserve, but up to the amount of the reserve. Let me say, no bank with \$100,000 capital would buy over \$50,000 of the greenbacks, because when their reserve equals \$50,000 they would get an additional \$50,000 without paying anything for it, issuing up to the amount of the reserve, and in no case could they issue bills of either kind or both kinds in excess of their capital, so that a bank like the Chemical National Bank of New York, which is violating the spirit of the law thoroughly and completely while obeying the letter of the law, it having several millions surplus with only \$100,000 of capital, thereby relieving the holders of their capital entirely from liability practically. That bank under this bill would have to capitalize some of their surplus in order to get their proper share of currency, and it is an additional safeguard in that respect, that is to say, they can take out bills not to exceed their capital, and when the reserve they hold against their deposit exceeds their capital why then they have got to increase their capital to get the full advantage of this bill. When it goes up to half of that capital then they can get out dollar for dollar for their capital. Is that clear to you? It seems to me it must be. So that the whole operations of a bank are not affected in any respect under this bill from what they are under the present law, except the additional safeguards provided in it, except in regard to bonds being taken out of the whole system. And now I want to impress upon the minds of this committee to the extent of my ability the incalculable evil of bonds in a system of banking.

Mr. COX. Just before you leave that point. Now, I drop back to the proposition I made a moment ago—

Mr. WALKER. I hope you will ask questions until I make that clear.

Mr. COX. Say the organization of a bank is formed and they have, I will assume, a capital of \$100,000, and that they apply and receive their circulation by paying in legal money of the United States. Now, suppose it is paid in greenbacks, and if it has paid in—

Mr. WALKER. Greenbacks, gold, silver, gold certificates, and silver certificates.

Mr. COX. I am supposing they are using the greenbacks. Now, what becomes of that; is it canceled?

Mr. WALKER. The Treasurer is obliged to buy and cancel \$90 of those old greenbacks for every \$100 of the new greenbacks issued.

Mr. JOHNSON, of Indiana. And it does not contract the currency?

Mr. WALKER. No, not at all; and as the bank has to buy this money of the Government, however, that it circulates, the theory of the bill is that they should be relieved of all expense of every name and nature, taxes and everything else, if they are put to that expense. Therefore I require \$10 in every \$100 shall be set aside by the Government as a redemption fund of the bills of the bank, and as the bank issues half up to the amount of its reserve and buys half from the Government, 10 per cent of the half they buy of the Government equals 5 per cent on the whole and leaves the amount of the fund for redemption precisely what it is now, 5 per cent on the whole. That is clear, is it not?

Mr. COX. Yes, sir; that is clear.

Mr. WALKER. Is there any other point on that?

Mr. BROSIUS. The purpose then is to retire the greenbacks as rapidly as the new notes go out?

Mr. WALKER. Yes, sir; and you get \$100 of new notes and you get a \$100 circulation besides of bank issue.

Mr. HALL. And take all of that indebtedness off of the Government?

Mr. WALKER. Every cent, and do not let me go away without explaining the silver certificate proposition, I do not want you to be scared on the silver proposition because that does not contract the silver currency at all.

Mr. JOHNSON, of Indiana. You take it off the Government by—

Mr. WALKER. By putting it on the banks.

Mr. HALL. I did not get what you spoke of just then.

Mr. WALKER. Do not let me get through this hearing without explaining my provision in regard to the purchase of silver certificates; I do not want to touch upon it just at this moment, but before I get through I want to explain it to you.

Mr. BROSIUS. I presume you have explained heretofore the effect of the bill upon the outstanding bank notes?

Mr. WALKER. The idea is that these banks will come under this bill as their charters expire, as it is a great deal more profitable under the bill, and they would naturally come under it, and I think before the end of this administration; my judgment is the whole banking system of the country will come under it, also a great many private banking institutions.

Mr. HALL. Do not you contemplate they can turn in these national-bank notes the same way as the present greenbacks?

Mr. WALKER. No; because I do not want this bill as it comes before the House and country to have the slightest squint towards lessening the currency. The banks can surrender their notes and then be organized under this law, and get new notes, and they will do it.

Mr. COX. In that respect they would come in just as a bank which has gone into liquidation?

Mr. WALKER. Precisely; I want this committee, as far as they are able, to give me an original hearing on the bond question. One party in this country established our national-bank system, and the other party has been deterred from criticising the system from the fear of exciting a suspicion in the community that they wanted wild-cat money, and thus have misrepresented wholly the advantages of the present banking system. In other words, the people of this country have become thoroughly saturated with the idea that they have the best banking system in the world, when it is the worst and the most expensive, excepting simply a man can not lose anything on the note he holds.

Mr. JOHNSON, of Indiana. And they have never considered the expense?

Mr. WALKER. They have never considered the expense and terrible waste.

Mr. JOHNSON, of Indiana. Before you go to the next point, I want to have my mind cleared upon one point; I suppose it is because I am dull, but I want to ask you one question—

Mr. WALKER. That is what I am here for.

Mr. JOHNSON, of Indiana. You speak of \$2 going out at one time for \$1. Do you mean that under section 4 they get a certain amount of currency which, with the amount they get under section 5, makes it \$2 for \$1?

Mr. WALKER. Yes, sir; well, more than that; they get \$110 for every \$90.

Mr. JOHNSON, of Indiana. I understand that. Now, another thing. You spoke of taking the cost from the Government and putting it on the bank. Now, assuming that it is true—I know but little about finance—

Mr. WALKER. I will tell you. The practical working of it is this: The Government now has to keep at its expense and a very heavy expense, the theory is, \$100,000,000 in the Treasury which is a plain expense of \$4,000,000.

Mr. JOHNSON, of Indiana. You mean by losing all the interest on it?

Mr. WALKER. Yes; so the Government holds an immense amount of coin as well as several hundred millions on which it issues certificates. Now, the theory is it is not a loss. They do not realize that it is a loss, but it is a loss just the same for this reason. Anything is a loss that you can avoid the expense of. If the banks of issue had this silver and gold which is in the Treasury it would come in touch with all the currency at the point of redemption and demand on the bank, and the bank would issue notes up to the amount of it which would be to the bank no greater risk than it would be to owe the same to the depositors. As I said the other day there is no conceivable way in law or equity by which any gold or silver in a bank is set aside for the special demands of any obligation.

Mr. JOHNSON, of Indiana. Right there. What do you mean? That it is a loss from the holding of the gold and silver upon which the gold and silver certificates are issued, and therefore you will transfer it to the banks?

Mr. WALKER. If banks were not allowed to issue any bills it would be just the same loss to the bank as to the Government, and would not relieve the bank; but if they issue bills as I propose it would allow every part of their assets to be earning money the same as banks in Europe, and when banks earn money, competition of the banks will bring down the price to the people. Just here I would remark the legal rate in Massachusetts is 6 per cent, but a man who wanted to



borrow money would be amazed if he was asked that. I could go to Boston and borrow \$100,000 on quite long time on my note at 2 or 2½ per cent.

Mr. COX. He would be amazed in my State if he was not asked that.

Mr. WALKER. I know that, and I want a banking system that will give to your State every advantage possible and relieve every restriction possible, and I want to say again that under this bill the Eastern, the cheap section of the country practically, will save from half per cent to 1 per cent for all the money they use, and your section may save 2 per cent, and bills will be issued by the country banks more largely.

There is more in that bill than you dream of; I have lived with it and slept with it.

Mr. BROSIUS. May I inquire this: The principal difficulty of this whole thing is the disposition of this money. You were speaking of this being a benefit to the country. Now, will you make it clear to my mind, as I do not quite catch your explanation, if you can, how your bill, if it goes into operation, will get money into the country. Take the Southern States for instance, which seem to be in need of money. Their banks are local; men who have money, capital, go into the banking business; now, how will your system increase the banking benefits in those remote sections of the country?

Mr. WALKER. It will not increase it in the sense, probably, that you ask the question as being positive and direct, a scheme or machine that can be taken and set down in the country and be an advantage to it, that after the bill has passed banks will spring right up. It is not in such a sense as that, but in this sense, that this bill will make still more discrimination between high-rates and low-rates centers, lessening rates by making it an advantage to take money from New York and Boston and send it into the country because they get more money in the country than the city. For the first one, two, or three years in the operation of this bill the advantages will be in the East, in the moneyed centers, as much as in the West before they learn how to use it. We did not learn how to use our railroads until the war came on and we used them as we never used them before; we did not know how. The telegraph, when it was inaugurated, took thirty years to learn how to use it, and it is not yet learned thoroughly. Under this bill the banks in the country can make a great deal more money, because they can issue bills, and men will be taking capital out of the cities and will send their money into the country where they can issue bills, because it is an object to issue them and make money upon those bills.

Mr. BROSIUS. Your point is, that local capital becomes available for banking purposes?

Mr. WALKER. Not only local capital, but, furthermore, capital sent from the centers. Now, gentlemen, take this bill and see the restrictions that are put on banks, the watchfulness, and the reports they are obliged to make every month, why they would know what was going on just as I know about my business in Chicago. I have put on my desk a statement mailed to me every morning from Chicago, I will illustrate it in this way, of every dollar's worth of goods bought, every dollar's worth sold, the number of men employed, the total wages, and exactly the finished product, and I know just what is going on in that factory as much as if I were in it. This bill provides for reports of the whole banking business so that the Comptroller, sitting in his office, can know the conditions of the bank on the 20th day of every month, so they can not lie or steal with impunity.

Mr. JOHNSON, of Indiana. Does he not know now?

**Mr. WALKER.** Not at all. The provision now is, they simply send an examiner there at uncertain periods.

**Mr. BROSIUS.** And they make reports regularly.

**Mr. WALKER.** He reports that he has examined a bank, and that examination is not a tithes as full as I require. And, furthermore, what I require here will not be difficulty to the banks. Why, I used to take an account of stock of an immense factory every Saturday night. Now, how long did it take? It took fifteen minutes of each foreman, because it was done methodically, on a printed schedule, and it was done the last thing before they left the factory; hence it was no trouble to do the work. Now, if a bank would have these printed schedules, and every morning transfer to their schedules, it is done. And, let me add, that is business.

Now, let me add a word in regard to the use of bonds. When security is wanted for bank bills is when there comes a crisis or a time of unsettled conditions. In a time of war, for instance, if we had a foreign war or a convulsion at home—we have had one, and who says we will never have another; human nature does not change—but whenever that time comes your bonds go down. The bonds of the U. S. Government went down to 95 during last summer; I do not know but what they were lower. Do you know to what point they went, Mr. Warner?

**Mr. WARNER.** My impression is about 95.

**Mr. WALKER.** They were liable to go to 80.

**Mr. WARNER.** I will say right here, in reply to your question, that although they were quoted at 95 it was impossible to dispose of them at that rate; no large quantity offered on the market could have been disposed of for any price whatever.

**Mr. WALKER.** Well, now, that is right in the line of what I am saying. Do you not see we are liable to get a shock in our currency and our whole monetary system if you base it on bonds. I tell you, gentlemen, you could not get a person in Europe who is a financier, and whose mind is unwarped by existing conditions, to touch a bond in a banking system under any circumstance whatever. There is nothing that will induce them to do so.

**Mr. BROSIUS.** Do not \$75,000,000 of the bank notes of the Bank of England rest upon Government security?

**Mr. WALKER.** Not Government security of any name or nature. The Bank of England, and that is my system exactly, so far as that is concerned—the Bank of England issues three-fourths of the bills on coin in its vault. It issues one-fourth on the credit written on its books, due from the Government £15,000,000, and the Government allows banks to issue that £15,000,000. They are allowed to issue, in excess of their coin, that amount of their bills, and when there comes a stringency or pinch, with a great lot of machinery, because it is English, you know, they allow them to issue in excess of that amount.

**Mr. BROSIUS.** They suspended the operation three times?

**Mr. WALKER.** It is simply they have to provide for flexibility, which my bill provides for in a much better way. What does the Government do further? They allow the bank to use these bills and pay it 2½ per cent; instead of that I do not allow the Government to pay any interest, and instead of issuing one-third I issue half, and half of this circulation here is less than one-third of it there in safety.

**Mr. BROSIUS.** And you do not call that Government security?

**Mr. WALKER.** Not the slightest.

Mr. BROSIUS. It is the liability of the Government upon which they pay interest; then why do not you call it a Government security?

Mr. WALKER. That is not any more Government security than——

Mr. BROSIUS. Our bonds are Government security?

Mr. WALKER. My dear man, wait a minute. I am not talking about our system now; about bonds now.

Mr. HALL. Let me ask you a question?

Mr. WALKER. Let me answer his question first.

Mr. BROSIUS. You misunderstand me. You say there is no banker in European countries who would use government securities, and I directed your attention to the fact that a part of the circulation of the Bank of England was based upon government securities?

Mr. WALKER. No; it is not.

Mr. BROSIUS. You do not call it bonds, but it is security, that is all.

Mr. HALL. I see your point. It is this: The United States bonds, upon which security is based here, is a negotiable instrument deliverable from hand to hand and passing through the markets. The security of £15,000,000 that is put into the Bank of England, upon which there is an issue, is an unnegotiable instrument, and is an account between the English Government and the banks?

Mr. WALKER. That is the difference, and——

Mr. HALL. It makes all the difference in the world.

Mr. BROSIUS. They are both liabilities.

Mr. WALKER. It makes the difference in one point—the negotiability of it—but there is nothing added to the security, and ——

Mr. BROSIUS. And you say now ——

Mr. WALKER. Let me finish my sentence and you will find what I am getting at. It is not a question of how indebtedness of the Government may be transferred from one individual, sole or corporate, to another, that is no point of the discussion, but it is a point of security, is it not, Mr. Brosius?

Mr. BROSIUS. It is a liability for which the Government is the security.

Mr. WALKER. Now, you are upsetting all your statement, because under my bill the Government is liable to pay just half of these bills, and it is simply paying back what it has received when the time arrives. The Government is liable to pay half precisely as the Government of England is liable to pay one-third, and the security is just as complete with that provision in that bill as it is with any bonds that you can use, so that the security is not involved in this question. You admit that.

Now, there was another question. Let me say again, I want to enforce this matter of bonds. Bonds will, sometime or other, bring tremendous disaster, even if we could carry on the bond system, but the answer conclusive to the bond scheme, or State bond, or United States bonds, or city bonds, or any other, is that the people have condemned it almost unanimously. The people have said, as emphatically as any people have said anything in the world, "We will not allow a bank, State or national, it does not make any difference, to receive interest on bonds and then take out a little smaller bond in the name of currency and charge us interest again on them."

Mr. COX. Doubling it?

Mr. WALKER. Doubling it. Now, when they said that——

The CHAIRMAN. When did they say that?

Mr. WALKER. They said that in every stump speech that has been made all over the South, West, and very largely throughout the North,

and there is no question about it, and I submit that we stultify ourselves if we go before the country undertaking to conquer that prejudice.

The CHAIRMAN. Did I understand you to say that the present national-banking system was—

Mr. WALKER. I say that all the obloquy visited upon the national-banking system, in my judgment, originated in the objection to bonds.

Mr. COX. That is true.

Mr. WALKER. And I want to say to this committee it will stultify itself if it goes before the country and undertakes to compel the people or induce the people or persuade the people to go on any further under this bond scheme. It can not be done, and if there ever was a unanimous condemnation of a scheme, it has been of that system.

Mr. RUSSELL. Even with the 10 per cent less of circulation?

Mr. WALKER. It does not make any difference; there has not been a Comptroller of the Currency for the last twenty years who has not recommended allowing banks to issue bills up to the face value of the bonds.

Mr. RUSSELL. Is not that what the people have objected to rather than the issuing of bonds?

Mr. WALKER. I think the people have set down on it. There is not a man in this Congress—well I will not put it that way, but 19 Congressmen out of 20 if they should vote for that scheme in this House and go home to their constituents would receive a condemnation for doing it quite as severe as any other act they might do that was fairly rational and fairly wise.

Furthermore, I want to say that bonds are not a tithe of the security that a specified specific sum as a safety fund is with the power of the Treasury to pay it out in liquidating such notes.

Mr. WARNER. Is not legitimate business paper the best security for currency, anyhow?

Mr. WALKER. The best security in the world.

Mr. JOHNSON, of Indiana. Short-time paper, commercial paper?

Mr. WARNER. Yes; business paper, short time, and not "accommodation;" that is, representing actual purchases in the regular course of business by the maker of the paper.

Mr. JOHNSON, of Indiana. That includes short-time paper?

Mr. COX. I agree with you.

Mr. WALKER. Let me answer this question.

Mr. COX. This is not a question but a mere matter of—

Mr. WALKER (to Mr. Cox). Will you keep your question until I answer this. Let me say to this committee by the failure to obey my orders by one of my clerks I lost \$40,000 clean, besides all my profits in one year, and aside from that time—

Mr. JOHNSON, of Indiana. A mere bagatelle?

Mr. WALKER. It was not a mere bagatelle, but it is what we business-men have to undergo, and this is where the income tax comes in. There is no other so safe thing in this country aside from "solid securities" where you take a mortgage or obligation on a thing for half of its value, or two-thirds, nothing so secure as the average business paper of the country for a man to hold through a crisis. Now, you may be surprised—

Mr. WARNER. May I ask another question there, is there any investment comparable with it in amount that is carried year by year in the most conservative financial institutions at so low a rate of interest, thereby evidencing their faith in its security as commercial paper?

Mr. WALKER. No, sir; there is not.

Mr. WARNER. There is nothing comparable?

Mr. WALKER. Now, as an evidence of this, I will add. For several years I owed anywhere from \$100,000 to \$300,000, not all the time, as there was a few months of a year that I owed nothing, but I owed from \$100,000 to \$300,000, and my orders were to the clerks who managed it to keep me posted and be sure to keep my name in the market, and any time I wanted to raise any money I wanted to raise it in a half a minute. That money cost me less than 3 per cent per annum, and I borrowed one morning \$50,000 for  $1\frac{1}{2}$  per cent per annum on five months. I am telling you these things to show you that the banking system is a part of every business transaction of the country, large or small, and you want a banking system that runs right on parallel lines with the business of the country and runs along with it and is a part of it without taking the Government into this partnership. We must have such a system.

Mr. WARNER. Will you allow me to interrupt you for a moment to make this statement. This is a statement of an old financier of New York who has made the calculation carefully. He stated to me lately that commercial paper in New York for the last ten years had averaged in cost a little less than 2 per cent, and that Government bonds had averaged about  $2\frac{1}{2}$  per cent.

Mr. BROSIUS. Do you mean the strongest firms?

Mr. WALKER. I mean such commercial paper as is carried in banks. The keenest financier we have in this country considered commercial paper, with its facility of being handled, a better investment than Government bonds, and not involving anything like the risk incurred upon railroad and many other first-class investments of the country.

The CHAIRMAN. Will you allow me a statement here in connection with this fact?

Mr. WALKER. Yes, sir.

The CHAIRMAN. The explanation is that commercial paper is what is called gilt edge; in other words, you can borrow \$50,000 for months and it is just as good as Government bonds; but if a man goes into the market and is hunting for chips and straws, he has got to pay a higher rate of interest.

Mr. WALKER. He pays in proportion to the value of his chips and straws.

The CHAIRMAN. In other words, if the personal security is as good as the Government bonds, it will get interest as good as Government bonds?

Mr. WARNER. Yes; and I was speaking in regard to the average business paper held in the banks of New York.

The CHAIRMAN. They do not hold any other kind but that.

Mr. WALKER. Let me close this discussion by this statement: The rule of loaning money, everywhere the world over, is that the rate of interest depends (1) upon the safety of the loan, (2) upon the amount loaned, and (3) upon the time; and it does not affect in the least that economic law in its operations under any circumstances or anywhere under any system of banking or no system of banking. In other words, the issue raised by the chairman of the committee is not an issue as to the working of this economic law in the discussion of the subject of banking; it is the same under all systems.

Mr. BROSIUS. You are basing your banking system upon the idea that all the commercial paper is good commercial paper, or at least it is up

to the average commercial paper, but what are you going to do basing it upon commercial paper if it is not good commercial paper?

Mr. WALKER. That is not an issue. That is not at all an issue, because the character of commercial paper has nothing to do with the economic law that pertains to buying or discounting business paper in banking. That is distinctively financing by officers or the bank.

The CHAIRMAN. What is the difference there?

Mr. WALKER. Well, one is the action of the officers of banks in loaning its funds, the other the fundamental laws acted upon in all bank acts.

Mr. BROSIUS. Mr. Warner said commercial paper was quite as safe as the other, and I was alluding to the fact that there was some commercial paper that is not good?

Mr. WALKER. That is true, and the same under all systems. Excuse me for trying to keep to the point at issue.

Mr. COX. I want to call to your mind something that is not a question at all, and that is in regard to the idea of issuing circulation on the par value of the bonds. You remember, in the Fifty-second Congress, we passed a certain bill in the House and it went to the Senate and Mr. Sherman put that amendment in the bill, and when it went into conference it came back to the House and we took a vote on it and knocked it out. I think it was decided nearly two to one.

Mr. WALKER. I recollect we passed some little bill in the House.

Mr. COX. I will tell you exactly the history of it. It was a bill like we passed the other day to try to prevent directors from absorbing funds. It went to the Senate, it was passed in the Senate, and Senators Sherman, Aldrich, and Harris, of my State, were the conferees on the part of the Senate, and they sent that amendment back in the bill into the House and the House refused to agree to it.

Mr. WALKER. It is a dead issue, and we are simply butting our heads against a stone wall in trying to enact such a law.

Mr. COX. I mean that for Mr. Brosius, because he has a bill of that kind.

The CHAIRMAN. Will you state to me upon whom your bill-holder would rely to redeem his circulating note in coin in case of a crisis or —

Mr. WALKER. Let me say that in all the safest monetary operations in the world a system of bonds is absolutely eliminated and they depend upon a safety fund, if upon anything, upon the same principle which is in this bill. Now, with reference to the New York safety fund. Had that law been decided by the courts as the legislature intended it the safety fund in New York would have met three times over the demands made upon it, but when the courts of New York decided that the safety fund was liable for all liabilities of the bank, of course it swamped the fund and defeated the system.

The CHAIRMAN. It will be ten minutes before debate is reached in the House, and I would like to ask Mr. Walker to explain before we leave this subject upon whom the responsibility of redeeming the notes in circulation in coin would rest in case of a crisis; for instance, when there would be a feeling of insecurity, and a desire to know whether the note would be redeemed, to whom would the holder of the note go?

Mr. WALKER. All the assets of a bank, including the assessment upon the stockholders, would have to be first used to pay the circulation issued under section 5, and this circulation would be but half. We have run for thirty years upon precisely this system of mine, excepting as to the bond security.

There were only six banks which failed in the whole thirty years

whose circulation under my bill could have exceeded the assets that would have been collected under my bill, and the tax that would have to be put on their circulation to pay fully all the losses that could have accrued under this bill is one one-hundredth of 1 per cent on the circulation that the bank could take out for which the Government is not responsible for its final redemption. The bill provides an annual tax of ten times that sum, namely, one-tenth of 1 per centum, and I say to the committee I would not have the slightest hesitancy to pledge what little I have to the Government if it ever exceeded under any circumstances for any one year the amount of tax provided. Let me add right here that this matter of what would be an ample safety fund is easily determined. That can be determined with absolute accuracy as much as you can the life and death rate for an insurance company and from our experience under the existing system.

Thereupon the committee adjourned to meet on Tuesday, January 23, 1894.

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**COMMITTEE ON BANKING AND CURRENCY,**  
*Washington, D. C., Tuesday, January 23, 1894.*

The committee met at 10 a. m.

The chairman, Mr. Springer, desiring to speak on the bill introduced by him, called Hon. Lewis Sperry to the chair.

**STATEMENT OF HON. WILLIAM M. SPRINGER.**

**Mr. SPRINGER.** Mr. Chairman and gentlemen of the committee: I have presented for your consideration a bill known as House bill No. 4960, "to provide a national currency." I will briefly explain its provisions, and then make some observations in regard to it.

In the first section of the bill a commission is created, consisting of the Secretary of the Treasury, the Treasurer of the United States, and the Comptroller of the Currency. This commission is charged with the duty of carrying this act into effect. The reason for creating a commission of this kind is to insure greater security to the people and greater responsibility in the administration of the Government in reference to the currency.

It will be observed that the commissioners are not given any additional salary, and that the force now in the Comptroller's Bureau is required to perform the duties which may be required by this commission, and the Secretary of the Treasury is authorized to assign any force of the Treasury Department to perform any duties required in this bill. No additional expense is incurred, but greater responsibility and security will be provided for. It is the duty of this commission, in the first place, to provide the notes which may be used for national currency, and cause such notes to be printed by the Bureau of Engraving and Printing.

There is no limit to the discretion of the commission in the amount of such notes. It is assumed that it will keep on hand enough to meet the requirements of the act. It is provided that these notes shall be a legal tender in payment of all debts, public and private, and shall also be receivable for all dues to the Government. They are made convertible into coin on demand.

**Mr. COX.** Except as otherwise provided in the contract.

**Mr. SPRINGER.** Except as provided in the contract. They are thus made legal tender from the fact that they are convertible into coin on demand. I assume that a currency which is convertible into coin on demand can never be so redundant as to inflate prices, and that it will only perform those functions in business which would be performed if the notes were not in existence.

**Mr. COX.** Do you provide for the redemption of the notes in coin?

**Mr. SPRINGER.** I will reach that in a moment. Section 4 provides that national-currency notes, which are authorized by this act, shall be issued, in the first instance, in this manner: Any bank, banking association or corporation having banking powers, organized in pursuance of the laws of the United States, or of any States or Territories, or in pursuance of the laws in force in the District of Columbia, being solvent, and which has a capital stock of which at least \$25,000 has been paid up in cash, may, upon complying with the provisions of this act, receive national-currency notes upon the deposit with the national-currency commission of the bonds hereinafter required.

The banks now in existence have been named in the bill without any effort to cause them to reorganize or change for the purpose of doing business. I simply take such institutions as we now find in existence. These banks must be solvent, and have a capital stock of at least \$25,000 paid up capital in cash. Banks of this kind, complying with the provisions of this act, may be entitled to receive, on making proper application, the currency notes provided for in this bill, but in no case to exceed the capital actually paid in.

The security deposited by the banks consists of four kinds, as provided for in section 5.

**First.** The bonds of the United States, and bonds the principal and interest of which have been guaranteed by the United States; and any bank making a deposit of such bonds shall be entitled to receive national-currency notes to the amount of the par value of such bonds.

**Second.** The bonds of any State of the United States which have been continuously for two years preceding the date of their deposit at par in the market and the interest upon which has at no time since the issue thereof been in default.

**Third.** The bonds of any county or parish of any State, or the bonds of any city or town in the United States, which had at the last preceding census of the United States a population of not less than five thousand, and which bonds have been for two years preceding their deposit at par in the market and the interest upon which has at no time been in default. All such bonds must have been issued in pursuance of law and for municipal purposes exclusively; and must be, in the opinion of the national-currency commission, ample and valid security for the purposes for which they are deposited; and the several States in which they are issued must have made the necessary provisions for the payment of the principal and interest thereon.

**Mr. BROSIUS.** How much currency do you issue on those State bonds?

**Mr. SPRINGER.** Ninety per cent of the par value.

**Mr. COX.** That last clause confuses me, where it says—

The several States in which they are issued must have made the necessary provisions for the payment of the principal and interest thereon.

In quite a number of States the bonds are outstanding and interest is paid upon them; but a number of States have made no provision for redemption.

**Mr. SPRINGER.** This is in reference to county and municipal bonds. I simply mean that all of the States must have authorized municipalities to create these bonds. I mean that the State in which these bonds are issued must have authorized first the issue of the bonds and made provision by which interest is collected, and also that amounts sufficient in the end to pay principal and interest.



**Mr. BROSIUS.** If any such State has not made such provision then the bonds are not made eligible for deposit.

**Mr. SPRINGER.** If suitable provision has not been made for final payment of the bonds they can not be received as security.

**Mr. HAUGEN.** Why not insert that?

**Mr. SPRINGER.** That could be done. There are a great many provisions to which I will myself suggest amendments.

Section 6 provides that these notes shall not be subject to the 10 per cent tax upon the circulation of State banks, nor shall they be subject to any tax of the States or General Government, except as provided by this act. The reason for that is that if you allow these notes to be taxed by the States they might be taken out of existence.

**Mr. HALL.** They might be taxed under the income tax?

**Mr. SPRINGER.** The income derived from them could be taxed as income.

Section 7 provides that this currency commission shall be authorized to reject any bonds which it may not deem to be sufficient security. The object is to prevent a mandamus being brought against the commission. It need not give any reason for refusing to accept them.

The next provision is in regard to the disposition of these bonds in case of a depreciation. It is provided in the bill that the bank itself shall guarantee payment of the principal and interest, and the bank having guaranteed the bonds, the commission is to notify the bank of any depreciation, and in that case the bank is required to make it good, and if it does not it is the duty of the commission to sell the bonds for what they will bring and to hold enough of the proceeds to pay the outstanding notes issued to the bank, giving the bank the remainder; and if there is a deficiency, to sue the bank for it. The assets of the bank are all liable for this deficiency, whatever it may be.

**Mr. BROSIUS.** The bank is to guarantee the bonds, and the bonds are for the security of the Government?

**Mr. SPRINGER.** Yes, sir.

**Mr. BROSIUS.** Of what use is the guarantee of the bank, as the assets are liable anyhow?

**Mr. SPRINGER.** The mode of reaching that is that the Government resorts, first, to the bonds held as security, and if that fails it goes to the assets of the bank for the balance. In section 10 the United States is given a first lien upon all assets of the bank for this purpose.

The notes are issued by section 11 in 3 series, A, B, and C. Upon the issue of the notes of series A the bank shall pay a tax of 1 per cent, upon the issues of series B it shall pay a tax of 2 per cent, and upon the issues of series C it shall pay a tax of 4 per cent. The notes of series A issued to any bank shall not exceed in amount 50 per cent of its capital, and the notes of series B may be issued to any bank to an amount equal to 25 per cent of the capital stock thereof, and the notes of series C may be issued to any bank to a like amount.

**Mr. HALL.** You do not mean 25 per cent of the capital stock, but of the notes issued?

**Mr. SPRINGER.** I mean an amount equal to 50 per cent of the capital stock upon which the tax is 1 per cent, and an amount equal to 25 per cent in addition 2 per cent will be charged, and upon the other 25 per cent, 4 per cent.

**Mr. HALL.** Notes can be taken out only to the amount of 90 per cent.

**Mr. SPRINGER.** They can be taken out to the full amount of the capital stock.

Mr. COX. That is for elasticity?

Mr. SPRINGER. The object is to procure elasticity. There is nothing in our present financial system which provides for sufficient elasticity in our currency. I do not know whether this provision is strictly proper or not. I am in doubt about it. I think that is a matter worthy of your serious consideration. There is but one system of banking in the world where elasticity is provided for in a way similar to this, and that is by the Imperial Bank of Germany. The Imperial Bank of Germany is authorized to issue circulating notes to the amount of 294,000,000 marks, without any tax being put upon them. That is equal to \$74,000,000 of our money. If the bank issues an amount in excess of this \$74,000,000 the excess is subject to a tax of 5 per cent. The object of that provision is, in time of stringency to enable the banks to take out a larger amount of currency than their limit of circulation, provided they pay 5 per cent interest per annum upon such excess. There is, in addition to this currency, 120,000,000 marks, or \$30,000,000 of treasury notes issued by the Government—Government paper similar to our notes. But that has nothing to do with the bank's limit.

In Canada the provision in regard to taxing note issues can hardly be said to have been made with a view to flexibility. It simply provides that if a bank suspends payment in coin it shall be liable to pay 6 per cent per annum on its outstanding notes during the time of suspension.

Mr. JOHNSON, of Indiana. The reason the Bank of England has no provision for suspension is because the bank is authorized to violate its charter.

Mr. BROSIUS. It has been authorized to violate its charter and has done it several times.

Mr. SPRINGER. The Canadian banks have a provision by which some elasticity is afforded. It was the opinion of Mr. B. E. Walker, a Canadian banker of thirty years' experience, who addressed the World's Congress of Bankers in Chicago last summer, that in Canada about 20 per cent of the currency was required at certain seasons of the year in excess of what was required at other times, in order to supply the wants of trade. In other words, that elasticity which was required in that country amounted to more than 20 per cent of the whole volume at some seasons of the year.

Mr. HAUGEN. How is that provided for?

Mr. SPRINGER. By banks of issue, which are not restrained in the amount, issuing notes as business requires, but not exceeding the unimpaired paid-up capital. The whole capital of the banks is only \$60,000,000. The whole amount of notes is only \$33,000,000.

Mr. WARNER. I suppose the notes rose to \$37,000,000 or \$38,000,000 by October?

Mr. SPRINGER. Yes, sir; that is the time of year which I mention when the circulation is lowest. It was \$33,338,000 on the 31st of August, 1893, as shown by the report of the Comptroller of the Currency, page 251. The question of elasticity in currency is one of great importance, and one in which the financial world is more interested at this time than in any other. If you will refer to "Dunbar's Theory and History of Banking," Chapter VI, you will find that in our country the necessity for elasticity has been in some measure provided for by the clearing houses in the great cities. On four occasions the clearing house in New York came to the rescue of the money market by authorizing clearing-house certificates, and without this there might have been serious financial disaster.

I will not take time to read all the bill. The provision in the bill in regard to the redemption of the notes at all times is as follows: The Government assumes all responsibility for the redemption of these notes. In the first place, the Government provides, by borrowing money and issuing its own bonds, a fund in coin of 20 per cent upon the amount issued to all banks; so that under this system there would be 20 per cent in coin in the Treasury in the hands of this commission for redemption, which payment would be provided for at the Treasury and at all subtreasuries of the United States. The Government can borrow this money at 3 per cent.

Mr. WALKER. What do you mean by the Government borrowing money?

Mr. SPRINGER. On bonds.

Mr. WALKER. What money?

Mr. SPRINGER. The 20 per cent reserve.

Mr. COBB. Do you not think 20 per cent is larger than is necessary?

Mr. SPRINGER. It may be.

Mr. JOHNSON, of Indiana. In what section do you provide for this reserve?

Mr. SPRINGER. In section 14. The Government can not make its currency redeemable in coin, unless it is actually prepared to pay coin on demand. Nothing but actual payment will meet the requirements of business when trouble arises. Therefore you must have money, and I have provided that the Government shall borrow. I was about to say it would be economy for the Government to do so. If \$100,000, for instance, were issued at 1 per cent, the Government would get a thousand dollars a year; so that the Government would not be subject to any loss on the transaction, as this amount would amply pay the expenses of printing bills and keeping up the system. The system contemplates the Government keeping 20 per cent in reserve all the time. If this is not provided for by the Government borrowing, the banks should be required to furnish the 20 per cent in coin, and then the Government would not have to borrow anything, unless the coin reserve should fall below 20 per cent, and then the Government would be responsible.

Mr. JOHNSON, of Indiana. Would you not make the responsibility rest on the bank?

Mr. SPEINGER. I think not. I provide for coin reserve in the Treasury for redemption. That is not tying money up to pay a demand that may never be made.

Mr. JOHNSON, of Indiana. You tie it up by keeping it in the Treasury?

Mr. SPEINGER. We tie up coin and not paper.

Mr. COX. If the Government holds 20 per cent of coin for redemption of these outstanding notes, you have reduced the circulation to the extent of that 20 per cent which is in the Treasury. Now, if you take out the full extent of the capital stock of any bank, say \$100,000, in what manner do you get back your \$100,000? That is not quite clear to me.

Mr. SPEINGER. The bank comes forward with its securities, and it puts up \$100,000 in bonds, upon which may be issued at least \$90,000. Of course \$20,000 of coin would be withdrawn from circulation.

Mr. COX. You would have \$80,000 when you take off 20 per cent. You have retired from circulation \$20,000.

Mr. SPEINGER. Yes, sir.

Mr. WALKER. The reserve is to be held by the Government. It is not provided for in the reserve of the bank?

Mr. SPRINGER. I am of the opinion that this is ample.

Mr. WALKER. It is not, for this purpose.

Mr. SPRINGER. It is ample for the redemption of the notes.

Mr. WALKER. It is held as a reserve now.

Mr. JOHNSON, of Indiana. The law provides for inspection and examination; and do you provide for that in your law?

Mr. SPRINGER. Yes, sir; by examination.

Mr. HAUGEN. There is a certain amount of money required to be held by banks now. Do you make that requirement?

Mr. BROSIUS. That is to secure deposits; and his bill does not refer to that.

Mr. SPRINGER. It does not. I simply provide that the issuance of currency be kept separate and apart from the matter of discounts and deposits. Banking, as such, is not a matter which concerns the whole people, but the currency does.

In this respect my bill is not without the best precedent. In fact it has been accomplished in the Bank of England. The issuing of currency has been divorced from the loaning of money, the receiving of deposits, and the doing of ordinary banking.

Mr. JOHNSON, of Indiana. Is there not a Government regulation in England?

Mr. SPRINGER. Yes, sir.

Mr. WALKER. The currency is to be kept entirely separate from the discounts and loans; the bank under your bill is relieved from redemption in coin currency, and the Government is to redeem in coin all these notes, instead of the bank redeeming them. That is all.

Mr. SPRINGER. That is my position exactly. If you will pardon me, I will call your attention to the "Theory and History of Banking," by Dunbar, p. 163; where you will find this statement is made.

So completely is the banking department (of the Bank of England) deprived of all special facilities or privileges in dealing with the issue department, that it has often been said that, for all practical purposes, the notes might as well be issued by a public office at Westminster as by a department of the bank itself.

There is a note in the text explaining further:

In Ricardo's pamphlet, a Plan for a National Bank (Works, p. 499), it is proposed that notes should be issued to the bank by public commissioners, holding securities and gold substantially as at present.

Mr. WALKER. But are not these bills issued by the issue department to the discount department in the Bank of England?

Mr. SPRINGER. Yes, sir.

Mr. WALKER. Then that does not amount to anything more than precisely what we have here. The Government issues the bills on the bank by printing them. It is precisely the same?

Mr. SPRINGER. Yes, sir.

Mr. WALKER. Then explain to the committee how that in any sense divorces the currency of England from the loans and discounts, as the only possible way that public or private persons can get this money is through the discount department.

Mr. SPRINGER. That is right.

Mr. WALKER. Then how is it divorced?

Mr. SPRINGER. The issuing of the currency is divorced, but not the distribution; and that is the difference provided for in this bill. The issuance of notes is divorced entirely from the banks, and the Govern-

ment provides the issues but uses the banks, just as in England, for the distribution of the currency.

Mr. WALKER. Does the issue department, or the loan and discount department of the Bank of England redeem these notes?

Mr. SPRINGER. The Bank of England redeems its own notes. The circulating notes of the bank of England are issued first, to the amount of £14,000,000, which is the amount of the Government liabilities or bonds due the bank; and secondly, to the amount of gold actually deposited in the bank by private individuals; and this amount is actually in reserve for redemption of all outstanding notes.

Mr. WALKER. Is it not a fact that one set of men control or pass upon the issue of bills, and another set of men pass upon the loans and discounts, when the coin is at the call of the loan and discount department always, which makes it in no respect different from what it would be if the same set of men authorized both?

Mr. SPRINGER. It differs in this, that the loan and discount department can reach this gold for the purpose of redeeming the bills, but not for the purpose of loaning it to customers.

Mr. WALKER. That is a distinction without a difference.

Mr. SPRINGER. There is a difference. The bank can have access to the coin deposited to redeem its notes, but not for loaning it to its customers.

Mr. JOHNSON, of Indiana. You do not seem to rely upon the soundness of a bank as a protection for its bonds, but you rely upon its securities.

Mr. SPRINGER. A provision for determining solvency is provided for, but the bonds are chiefly relied upon to protect the Government.

Mr. JOHNSON, of Indiana. A bank which goes to pieces necessarily involves the stoppage of the issue of currency.

Mr. SPRINGER. That is the case if a national bank goes into bankruptcy now. Nobody looks to a bank for the payment of its notes.

Mr. JOHNSON, of Indiana. It is an interruption of the flow of currency. Your bill ignores the bank as a bank.

Mr. SPRINGER. It does not ignore them entirely, because I have provided for ascertaining their solvency. The commission is authorized to make investigation of the banks. A bank must be solvent, and must remain solvent, in order to procure currency.

Mr. HAUGEN. If an inspector reports against the solvency of a bank it would be required to put up securities.

Mr. SPRINGER. It must be solvent in order to obtain currency, and it must also put up securities.

Mr. JOHNSON, of Indiana. Where is that provided for in your bill?

Mr. SPRINGER. It is provided for in section 18. There are also provisions in the bill extending to the notes to be issued the sections of the national-bank act relating to the selection of bonds, to their custody, to the printing of the notes, to the plates and dies, and to a multitude of other things. This bill provides that the sections of the Revised Statutes, which are given, relating to the misconduct of bank officials and others shall be made applicable to notes issued under this act.

Mr. JOHNSON, of Indiana. Then you do look to inspection and examination of a bank as a bank?

Mr. SPRINGER. Certainly; for the purpose of obtaining information as to whether the bank is solvent; that is all. It ought to be solvent, as it guarantees the bonds deposited by it.

Mr. SPERRY. Does that apply to State bonds?

**Mr. SPRINGER.** Certainly. If bonds should be declared void by the court and the Government has to pay the notes of a bank, its only security is the guarantee which the bank has made for its bonds.

**Mr. HALL.** We have now four kinds of paper currency, and this makes a fifth kind. There is no way provided for taking up those now existing; but you make one more kind.

**Mr. SPRINGER.** It is true that I have. I have not sought to bring about the millennium by this bill, but I hope to start in a right direction—in the direction of securing a uniform currency for the United States.

**Mr. WALKER.** How do you do that, by authorizing another kind of currency?

**Mr. SPRINGER.** By having a currency department in the Government and looking to a uniform currency, so that all these others will be brought within its provisions. I hope, if this is successful, that we will keep on until we shall have but one kind of currency in the United States.

**Mr. WALKER.** Then you do not depend on this bill, but upon future legislation?

**Mr. SPRINGER.** I depend upon this for laying a foundation for a system upon which we can erect a superstructure by future legislation that will bring about a complete system of national currency.

**Mr. JOHNSON, of Indiana.** Is it not simply a provision for adding to the present bonds to secure circulation upon deposits of State and municipal bonds? Is not that all there is in it?

**Mr. SPRINGER.** It provides a broader foundation for the currency than we now have. The currency may be issued to other than national banks; in fact, to all solvent banks, State and national.

It does not do away with the organization of national banks as such. The banks are already in existence and have their organizations.

**Mr. JOHNSON, of Indiana.** Do you regard a system of securing notes by bonds as calculated to give us an elastic currency?

**Mr. SPRINGER.** I think so, with the provision in regard to taxing them.

There is an impression that there is a vast amount of available capital in the country upon which bills of this kind can be issued. I was surprised when I looked over the report of the census to find that there were so few bonds upon which currency can be issued.

**Mr. JOHNSON, of Indiana.** How much currency could you put out on such bonds?

**Mr. SPRINGER.** The whole amount of the national bonded debt in 1890 was \$891,000,000. It has since been reduced to about \$600,000,000. The State indebtedness in 1890 was \$228,000,000, and the county indebtedness was \$145,000,000; the municipal indebtedness was \$724,000,000. The total amount of national bonds outstanding on June 30, 1893, was \$585,037,100, and about \$200,000,000 of these are held now by national banks; so that we have only \$385,000,000 of national bonds which are available for the purpose of additional security. The total of such bonds of all kinds, national, State, county, and municipal, in existence now available as security for currency is only about \$1,500,000,000.

**Mr. WALKER.** Do you think it is a sound system of banking to bank on debts?

**Mr. SPRINGER.** That is done all over the world. There is no better security than a Government bond of the United States. It is much better than the assets of a bank.

Thereupon the committee adjourned to meet Friday, January 26, 1894, at 10 a. m.

COMMITTEE ON BANKING AND CURRENCY,  
*Friday, January 26, 1894.*

The Committee on Banking and Currency this day met, Hon. Lewis Sperry in the chair.

Hon. WILLIAM M. SPRINGER, a Representative from the State of Illinois, appeared before the committee and continued his remarks in the advocacy of H. R. 4960.

**STATEMENT OF MR. SPRINGER—Continued.**

Mr. SPRINGER then addressed the committee. He said:

Mr. Chairman and gentlemen of the committee: When we adjourned at the last meeting of the committee I was calling attention to the fact that there was a misapprehension in the public mind as to the aggregate amount of State, county, and municipal bonds in existence in the United States. I desire briefly to recur to that subject for the purpose of concluding what I then desired to say in reference to it. I have taken the volume of the census on debt recently published, the volume of the census of 1890, and in that it will be seen that there were in existence on the 1st day of January, 1890, bonds of the States to the amount of \$228,000,000; of counties and parishes to the amount of \$145,000,000; and municipal bonds to the amount of \$724,000,000.

The bonds of the United States outstanding on the 1st day of January, 1894, amounted to \$585,000,000. To these should be added \$64,000,000 of bonds issued in aid of the Pacific railroads. This makes about \$650,000,000 of Government bonds outstanding on the 1st of January. Of these bonds about \$200,000,000 have been already deposited by national banks to secure circulation on national bank notes, leaving still in existence about \$450,000,000 of such national bonds as are available for securing the circulation of national bank notes.

Mr. COX. I do not remember, but can you bank on those Pacific bonds?

Mr. SPRINGER. I can not say whether they are available under the present national-bank law or not, but they are under the bill which I have introduced.

Mr. COX. I meant under the national-bank law. I do not think you can bank on them.

Mr. SPRINGER. They are available under my bill because I use the term "bonds, the payment of which the United States has guaranteed."

Mr. HAUGEN. They would necessarily have to be renewed within a few years.

Mr. SPRINGER. I was going to speak about that. These Government bonds will soon become due and payable. All of the Government bonds will soon become due. A great many of these bonds are held in Europe, a great many of them are held in this country under decrees of courts, in trust relations and under wills of deceased persons, who have required portions of their estate to be invested in Government bonds and interest paid to dependent relatives.

Therefore, taking in view the fact that a great many of these Government bonds outstanding are held in Europe, a great many of them are held in trust capacities, and by savings banks, and by individuals of fixed incomes who want something certain to rely upon, very few more of these bonds are available as security for circulation of any

kind. In view, therefore, of the early time when those bonds will be paid by the Government or become due, and from the fact that very few are available or can be reached to secure bank circulation, this Government must provide a broader basis for securing the national currency than Government bonds, or depart entirely from the principle of securing circulation by the deposit of bonds or securities of any kind. We must take one or the other of those alternatives, either abandon the use of bonds for securing circulation or broaden the basis. I hold we should broaden the basis, and in doing this I see nothing in existence so available for safe security as the bonds of our States, our counties, and our municipalities.

Mr. HALL. Let me ask a question right there; our entire State and municipal bonds would not exceed \$1,000,000,000?

Mr. SPRINGER. Just about \$1,000,000,000; nearly \$1,100,000,000.

Mr. HALL. You could not get on those bonds deposited more than 90 per cent of the amount?

Mr. SPRINGER. Yes; that is what my bill provides.

Mr. HALL. And a great many of those bonds in themselves would be excluded by the terms of your bill, being bonds that did not come up to the requirements of the law. There are a great many others which are not available at all and can not be secured at any price, as, for instance, the municipal bonds of the State of Texas or of the school fund, which can not be used in that way. In other States the bonds are held by States and in trust, so that the amount of bonds that you could use that would be good bonds and would be available would not exceed \$500,000,000 likely. Upon that you could secure 90 per cent of circulation by the terms of your bill, which would be \$450,000,000. Have you any other way of getting more circulation than that?

Mr. SPRINGER. I was just coming to that part, I was just about to reach that branch of the argument. I estimated the municipal bonds which are held in trust capacities, as in the case of Texas by legislative enactment, tied up, as it were, a large portion of these, and a great many of these municipal bonds, are not available by reason of the fact that they are excluded under the terms of the bill; the whole volume, as has been said, only amounts to about \$1,000,000,000. A great many of those are issued by school districts and in municipalities or localities having less than 5,000 inhabitants, but it is my opinion that from \$600,000,000 to \$800,000,000 of those bonds could be made available. It is also my opinion that if this system should be put into working operation the national banks would retire their circulation and take out a circulation in these notes, which would make at least \$200,000,000 more available; but that would retire, of course, the national-bank currency to that amount.

Mr. HALL. There would be nothing gained there?

Mr. SPRINGER. Nothing in the amount, except the 10 per cent more which could be issued under my bill than is now issued to national banks, but it would provide a basis of \$200,000,000 more for the currency issued under my bill. These bonds and other governments added to the \$600,000,000 to \$800,000,000 of State, county, and municipal bonds available would give us at least a basis of a billion dollars of bonds to secure a national currency.

Mr. HAUGEN. How much would that be in excess of the present national currency?

Mr. SPRINGER. Assuming that the greenbacks, silver certificates, and national-bank notes will remain, it would make it possible to add \$600,000,000 to \$700,000,000, probably not exceeding the amount first



named, to the present volume of the currency, and I think that that is as much as would be added in the next fifteen or twenty-five years probably, a safe margin to enter upon and trust to future Congresses to take care of us during a more remote period. It is possible that State, county, and municipal indebtedness would increase as rapidly as would the demand for increased currency; if so the volume would always be adequate to the wants of trade.

Now, I want to make this suggestion, that there is no danger of adopting the principle of recognizing State, county, and municipal bonds to a limited extent. There is no danger of an unlimited or depreciated currency being issued as provided in this bill. Another point to which I wish to call your attention is, these issues are limited to the amount of the capital stock of the banks. I have compiled from the report of the Comptroller of the Currency for 1893 a statement showing the capital stock of all the banks in the United States.

Mr. SPERRY. You mean all of the banks or simply all the national banks?

Mr. SPRINGER. All of the banks in existence on October last. The capital stock of all the national banks was \$078,000,000; of the State banks, \$250,000,000; of the loan and trust companies, \$94,000,000; of the savings banks, \$33,000,000; and of the private banks, \$26,000,000; making a total of \$1,082,000,000, showing a remarkable coincidence of an almost exact amount of banking capital with the amount of State, county, and municipal bonds in existence in the United States.

Mr. HAUGEN. You mean all banking capital?

Mr. SPRINGER. All the capital of existing banks.

Mr. HALL. It is simply a coincidence?

Mr. SPRINGER. Yes, it is simply a coincidence; the facts have no relation to each other otherwise. Under the provisions of this bill currency subject to 1 per cent taxation could be issued in amount equal to only 50 per cent of the capital stock of these banks if every one should avail itself of the privilege of this measure, which it is preposterous to assume. Hence, they could only take out \$500,000,000 of currency at a tax of 1 per cent, and when they went above that the tax would be increased as provided in the bill.

There are in the United States, as I have compiled from this report, national banks to the number of 3,700, State banks to the number of 3,500, loan and trust companies to the number of 228, savings banks to the number of 1,030, and private banks to the number of 848, making a total of banks in the United States of 9,966.

The resources of all the banks of the United States is a matter to be considered in connection with a safe currency, because under the provisions of the bill which I have introduced the resources of banks are liable to make good and to guarantee the bonds which are deposited, and the aggregate of those resources is \$6,777,000,000, according to the report of the Comptroller of the Currency of the last October.

Now I come to the question raised by the gentleman from Indiana at the close of our last session. He asked very pertinently what was the difference between the bill that I have introduced and the national banking system which now exists. I wish to explain that and answer the question. In the first place, the bill which I propose does not contemplate the organization of banks under it. It entirely separates the matter of issuing currency from the business of banking proper. It is purely a currency measure.

Second. The national banking system has proven utterly inadequate to furnish currency for the people of this country, and it has proven

ineffectual to furnish an elastic currency. We have now only about \$185,000,000 of bank notes in circulation, and it has been as high as \$350,000,000, and is continually getting smaller, and the elasticity which was intended to be accomplished by the bill did not prove effectual at a time when elasticity was needed. In the third place, the basis upon which national-bank currency is secured is, as I have just explained, so ineffectual as to make it impossible for the banks to exist much longer under that system, or for the circulation to be increased much more than we now have. So that the present system of national banks, so far as providing a currency for the people of this country adequate in volume and sufficiently elastic to meet the demands of the trade, has failed, and we must provide something else; we must go a step further.

Now as to the difference between this bill and what would be the practice under a system of State banks. Under a system of State banks our currency would be subject to the various requirements of 44 States of the Union. Some of the States have adopted constitutional provisions prohibiting the incorporation of banks authorized to issue circulating notes, and among those States are some of the largest of the Union, Illinois, Missouri, and Texas being three of them. Many of the new States which have adopted constitutions since the war have provisions prohibiting State banks to issue circulating notes. Hence a State-bank system would be local in its application, and could not be national in any sense. The issues of these State banks would be controlled by the various laws under which they were established; some would be good, some bad, and some indifferent, always creating an apprehension as to which was good and which was bad.

Mr. COX. Let me interrupt you for one moment to answer this proposition. Under the present system of banking, how could a State bank issue circulating notes if they were not as good as the green-banks or the national-bank notes?

Mr. SPRINGER. That of course depends upon the conditions which surround them. Banks would start up under favorable conditions, people would take the currency and go on flourishing when everything was flourishing, but when the evil day came and the banks were pressed there would be a rush upon those banks for redemption of the notes, and some would not be able to meet the run upon them and, as past history has demonstrated, would have to go down under the pressure.

Mr. HALL. Right there for a moment, with your kind permission; there has been a very erroneous idea as to the relation existing between the State banks and wildcat currency?

Mr. SPRINGER. I will come to that.

Mr. HALL. But you know that under the State banking system that allows a State to charter a State bank of issue, a banking association chartered by the State for the purpose of issuing money, wildcat currency will be an utter impossibility within the meaning of that term which we understand it, and which brought around a disgraceful currency before the war. Those were in existence not chartered by a State, which were not authorized to issue money by any State charter, and that gave the origin to the term.

Mr. SPRINGER. I will explain that. Where a State should establish strictly a State bank and become, in some way, a partner of the banking business by taking a portion of the stock, as was done in many cases, being interested in the profits of the bank, as in the case of the State Bank of Indiana, those issues were generally maintained and made good by reason of the fact that people regarded the State as

responsible. But a large portion of the State bank notes were issued in pursuance of general banking laws by corporations organized under the laws of the State. Such were the banks which we had in Illinois before the war and all of them went by the board. But I did not intend to dwell upon that subject. I will assume for the sake of argument that State banks start off all right, and, in ordinary conditions, would be good. But a State bank system would make a multiplicity of circulating notes and create an uncertainty in the public mind as to whether they would be good in cases of emergency.

The very fact of 44 different kinds of currency in existence, assuming that all the States would adopt the system, would probably produce as many as 10,000 different kinds of bank bills in circulation, would cause the greatest difficulty in the transaction of business. It would be a serious impediment to the transaction of business in the stores, in the banks, and everywhere else.

The State bank notes would be liable to taxation in the States where they were held. Bonds put up for security would be liable to taxation, and the bank would be obliged to keep a reserve for redemption, which would tie up 15, 20, 25, or 30 per cent of the amount of notes they would otherwise have, which they would be compelled to keep as a reserve. The notes would be subject to taxation and the bonds would be subject to taxation. The banks would be subject to the inconvenience of local circulation and their notes would be frequently returned for redemption, and perhaps at times the notes would be subject to discount when they go away from home. I believe under this bill State banks could avail themselves of its provisions much more profitably to the banks than under any system of State banks which has been proposed, and the notes would be secure under any and all conditions. A system which is not perfectly secure under all conditions ought not to be tolerated in this country.

Mr. COX. You will pardon me for asking you a question before leaving that branch. In regard to these bonds you provide as security for circulation in your bill, suppose State banks were restricted in circulation to the same sort of securities, would not the circulation be just as good as under your bill?

Mr. SPRINGER. No, sir; and I will tell you why.

Mr. COX. If the Government comes in and guarantees them?

Mr. SPRINGER. Certainly, if the Government came in and required those securities to be put up and guaranteed the payment of the notes the difference between that system and the one I have provided would be merely nominal. The guarantee of the Government would make the notes good. But how would the Government be protected unless it held the bonds?

Mr. WARNER. If I may ask a question; I understand it is proposed to make these notes a legal tender. Now, leaving out the question of Government guarantee, that would be, I take it, an exercise of the prerogative of Government in favor of banks and banking capital; that is to say, compelling the people of this country, no matter what might be their judgment in regard to the worth of those bank notes, to accept them in satisfaction of debts and in their business. That I understand, if it were left alone, is what you propose?

I understand that it is to be supplemented by a Government guarantee. Is that—the Government guarantee—not practically a fiat money factor? In other words, is not the bill that you propose a combination of a forced private currency with a Government fiat?

Mr. SPRINGER. I will answer that. If you mean that a Government

bond is fiat, if you mean that the greenback which we have is pure fiat money, if you mean that every obligation to pay by a State or municipality is fiat, then perhaps you are right. But I understand by fiat money a mere naked declaration of the Government that a piece of paper is \$1 or \$10, as the case may be, and the Government makes you take it as a legal tender for everything.

Mr. JOHNSON, of Indiana. Without redemption or promise of redemption?

Mr. SPRINGER. Without redemption or promise of redemption; simply that the paper is a dollar, and that is what I regard as fiat. But under the provisions of this bill the Government promises to pay, and is actually able to pay, coin on demand at all the subtreasuries of the United States for these notes. It is no hardship on the individual to make these notes a legal tender in payment of debts, because when you take it and go to the subtreasury the Government will give you coin for it, if you want it. The payee is not damaged in any way. It is purely a matter of business, and prevents in many cases the taking out of coin in the Treasury and paying it back again in order to accommodate some individuals who insist upon coin payment.

Mr. WARNER. I think the gentleman from Indiana and the chairman will permit me to insert in their definition, of what would relieve a currency from the opprobrious epithet of fiat, the words "and provisions for redemption," a mere promise being a practical fiat in itself. As I understand the plan proposed by our chairman, it makes no provision of gold or silver for the actual redemption of these notes?

The CHAIRMAN. Twenty per cent reserve is provided in coin.

Mr. WARNER. And 80 per cent is fiat. The difference between—

Mr. SPRINGER. No; excuse me.

Mr. WARNER. That is what I desire to call to your attention. As I understand fiat money, it is money which the Government insists upon shall be considered as money without regard to the fact whether or not there is actually property owned by the Government, held in trust or otherwise, as a provision for its redemption. The mere probability that it will not be called upon is not a provision in the sense that distinguishes between actual money and a fiat currency.

Mr. JOHNSON, of Indiana. You do not hold money is fiat money unless the Government actually has in the vault its par value in coin to redeem it?

Mr. WARNER. I take it that money is fiat where its redemption depends on the power that makes it legal tender, unless that power has money or property—not a mere possibility in the future—with which it can, and will if required, redeem the notes in question.

Mr. JOHNSON, of Indiana. Ninety-nine out of a hundred of all the paper money circulating in the world is fiat money according to that definition.

Mr. SPRINGER. I am not going to contend with the gentleman from New York in regard to this matter.

Mr. JOHNSON, of Indiana. I think I would.

Mr. SPRINGER. I am not going to argue for the mere sake of argument. But as far as this bill is concerned, it does meet his requirement, unless he holds that a State, municipal, or Government bond is not property or a thing of value.

Mr. WARNER. As regards the municipal bonds, it will not be subject to my present objection; as regards Government bonds, I certainly mean to insist that a Government obligation under seal is no more actual property than a Government fiat not under seal.

**Mr. SPRINGER.** Then you hold the present greenbacks are fiat money?

**Mr. WARNER.** Absolutely.

**Mr. SPRINGER.** I do not, and that is where we differ; but so far as this bill is concerned, if you assume, and I do assume, that very few more Government bonds will ever be reached for purpose of security. Now, in the first place, the municipal bonds are worth 10 per cent more in the market than the amount of the currency in circulation. Here is 20 per cent of coin actually in existence; here is the promise of the Government to keep that coin reserve up to 20 per cent if it be reduced; here are the bonds with the assets of all the banks in the United States, assuming that they all take advantage of it, to make good and guarantee the notes which are put out.

There never was and there is not to day in the civilized world a paper currency that has behind it such security as is provided for in this bill, not one. I have studied the banking systems of the world and there is no country where there is behind a circulating note so ample a security as is provided for in this bill. And I want to say, further, that unless you give the power to banks to issue notes in their own discretion and abandon the system of security by bonds, you can not make them any more secure than they are made by this bill. It has absolutely gone to the fullest extent of placing values behind the circulating notes.

**Mr. COBB, of Alabama.** What about the convertibility of these bonds? That which secures the notes must be convertible instantly.

**Mr. SPRINGER.** You mean the bonds deposited for securing the notes?

**Mr. COBB, of Alabama.** Yes.

**Mr. SPRINGER.** The bill provides that whenever they depreciate 5 per cent below the par value the Government commission shall notify the bank to substitute other bonds in their place and make good the deficiency; and failing to do that, the bond is treated just as collateral is treated, it is put upon the market and is sold for whatever it will bring, and the difference, if there is any difference between the amount of notes outstanding and the amount for which the bonds sold, has to be paid by the bank, and all the assets of the bank are liable for the difference. Hence you can not make a better security.

Thereupon the committee adjourned to meet on Tuesday, January 30, 1894.

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**COMMITTEE ON BANKING AND CURRENCY,**  
*Tuesday, January 30, 1894.*

The Committee on Banking and Currency this day met, Hon. Lewis Sperry in the chair.

Hon. WILLIAM M. SPRINGER, a Representative from the State of Illinois, appeared before the committee in continuation of his remarks in advocacy of H. R. 4960.

**STATEMENT OF MR. SPRINGER—Continued.**

**Mr. SPRINGER** then addressed the committee. He said:

**Mr. Chairman** and gentlemen of the committee: I am much obliged to the committee for permitting me to further address them upon the bill which I have introduced. I have already referred to its provisions

and made some general observations in regard to particular sections and provisions of it. I desire now to address myself to another feature of the question. I am of the opinion the people's wants in regard to money can only be supplied by furnishing a sufficient amount of paper currency. So far as coin is concerned, very little circulates. The Director of the Mint and the Secretary of the Treasury have estimated that the amount of gold coin in circulation on January 1, 1894, was \$508,000,000.

While this amount is said to be in circulation it can not be said to be in active circulation. We very seldom see any of it in actual business transactions. But it performs the function of money as the reserves in our banks and is hoarded by some individuals. It performs also one of the greatest and most important functions of money. It is a measure of value. Very little, however, of this vast sum of money is used in exchanges which require immediate payment. Since the passage of the Bland-Allison act and the Sherman act the Government has coined 419,322,000 silver dollars and \$77,000,000 in subsidiary coin, half dollars, quarter-dollars, dimes, and nickels, and \$11,600,000 of this subsidiary coin were in the Treasury on the 1st of January last, leaving only \$65,000,000 outstanding. There was in the Treasury on that date 361,000,000 of silver dollars and only \$57,800,000 in circulation, so that the silver dollars and silver subsidiary coin in actual circulation amounted to only about \$123,000,000 or \$124,000,000. Not quite \$2 per capita of silver is in circulation, notwithstanding the Government has coined nearly \$500,000,000 in dollars and subsidiary coins.

Mr. JOHNSON, of Indiana. Represented largely by paper?

Mr. SPRINGER. Yes, sir; I am coming to that.

Mr. HALL. Does that include silver bullion for which silver certificates were issued?

Mr. SPRINGER. No, sir; I have not touched upon that at all.

Mr. WALKER. That is, silver outstanding in the hands of people doing business? Is that all of the silver money in circulation?

Mr. SPRINGER. That is all; only \$65,000,000 of halves, quarters, dimes, and nickels, and 57,800,000 silver dollars.

Mr. HENDERSON, of Illinois. Are not silver certificates—

Mr. SPRINGER. I am coming to that. What I desire now to call attention to, is, notwithstanding the vast volume of silver coined only this much has escaped from the Treasury and is out among the people doing business. In lieu of the 361,000,000 silver dollars in the Treasury there is outstanding an equal amount of silver certificates which performs all the functions of money, dollar for dollar.

Mr. COX. What is the amount of that?

Mr. SPRINGER. Three hundred and sixty-one million dollars. That is paper is out in circulation doing the business, performing the functions of money, actively and actually performing it, while the silver dollars lie idle in the Treasury.

Mr. HALL. I do not understand you right at that point, Mr. Chairman; you do not mean that three hundred and sixty-one million dollars is all the paper money in circulation?

Mr. SPRINGER. Oh, no; silver certificates only. If the people desired those silver dollars, they hold these \$361,000,000 of silver certificates, which are orders on the Treasury for silver dollars, and they could go at any moment and call for it.

Mr. WALKER. And your point is that the people do not desire the silver dollars?

**Mr. SPRINGER.** They are not calling for them, and they are not in circulation, except as I have stated.

**Mr. WALKER.** They prefer paper money to silver dollars?

**Mr. SPRINGER.** They prefer the paper money to the silver dollars and to gold dollars. It is not coin therefore that is actually doing business—

**Mr. WALKER.** Or that the people want.

**Mr. SPRINGER.** Or that the people want, because if they wanted coin they would bring the gold from its hiding places and put it in circulation, and if they wanted silver it is there lying on deposit subject to their order to the amount of \$361,000,000.

**Mr. COX.** If you will pardon me for just a moment there. You speak of bringing gold out of its hiding places, what do you mean by that? Where is this gold of which you speak amounting to something like \$508,000,000? I want to locate it.

**Mr. SPRINGER.** That is held as reserves in the banks, some of it locked up in safety deposit vaults, some of it stored away in stockings, and there is some of it carried, I suppose, in the pockets of people. At any rate it is generally out of sight.

**Mr. JOHNSON,** of Indiana. I have heard a great deal about the hoarding of gold by the people. I venture the assertion that there are not in my Congressional district twenty men who have any gold in their possession.

**Mr. SPRINGER.** I am not talking about that. I am simply saying, notwithstanding the fact the Treasury Department shows there is \$508,000,000 of gold coin in the United States in circulation, the point that I make is that it does not appear in circulation where we see it and know it. It is somewhere, however, according to the estimate, but I think the estimate is large.

**Mr. COX.** Do not the figures show that this gold, I do not mean to say all of it, but a large portion of it, is held by the banks for their reserve?

**Mr. SPRINGER.** I have so stated; that is the general statement.

**Mr. WARNER.** Is it not equally correct in regard to gold as well as to silver? If they wanted the gold they would call upon the United States for it, just as they would in regard to the silver, since up to this time they have been always getting it when they asked for it.

**Mr. SPRINGER.** They can get gold out of the Treasury, if they desire it. The greenbacks are all payable in gold, but as a rule they do not call for it to circulate it as money, only for the settlement of foreign balances. There is less than \$100,000,000 at the present time in the Treasury for this purpose.

**Mr. WARNER.** As long as it is there to be had for the asking, my point is that there is no distinction in that regard between the gold and the silver?

**Mr. SPRINGER.** I do not make any distinction. I make this distinction as between paper money and coin of all kinds, that the coin that is needed and used in actual transactions is only used for subsidiary and small transactions, and that the people do business largely with paper money.

**Mr. HALL.** Would it not be more accurate if you said, "add all the paper money and silver and gold in circulation together and that does not perform but 5 per cent of the business of the country, the rest being done on the credit system?"

**Mr. WARNER.** By individual paper instead of public paper?

**Mr. SPRINGER.** There is a table published by the Comptroller of the

Currency which I think expresses this fact very clearly. The Comptroller called, on the 15th of September, 1892, on all of the national banks to make a statement of the amount of deposits on that day.

Mr. WALKER. You mean not the total amount of deposits, but that he called for the amount deposited on that day?

Mr. SPRINGER. I mean the deposits made in one day in ordinary business transactions in the United States, and it showed in the 3,490 national banks (they did not go beyond that) there was deposited \$331,000,000 in those banks in the United States, and of those deposits 90 per cent were in checks, drafts, and private indebtedness.

Mr. WALKER. Ninety-three per cent is my recollection?

Mr. SPRINGER. No, sir; 90 per cent in checks and 10 per cent in currency on the day to which I refer.

Mr. HALL. And that is a very large estimate?

Mr. SPRINGER. Those were the transactions of the national banks, and that was the business done on the 15th of September, 1892.

Mr. WALKER. Let me say here that every time the Comptroller has called for those statistics it has been at my suggestion, request, and urgency, even from the time of Mr. Knox down.

Mr. SPRINGER. Of the 10 per cent which was received in money there is no statement as to whether it was in paper or coin, but I think you will find of the 10 per cent that was received in money that 8 per cent at least was in paper money and not over 2 per cent in coin of all kinds. Hence it is paper currency and individual checks that really do the business of the country.

I have simply referred to these facts for the purpose of showing that our duty as a committee, representing one class of the business of the House of Representatives which is committed to our care, is to perfect some measure that will contribute to the establishment of a safe, sufficient, and elastic paper currency for this country.

I desire now to state my reasons briefly for favoring a national currency, a currency having its authority and vitality from laws passed by Congress. I believe Congress has the power to furnish a national currency for all the people of this country, and I believe it is the duty of Congress to do so. Referring to this duty, Daniel Webster, in the U. S. Senate, on the 28th day of September, 1837, said: "That it is the constitutional duty of this Government to see that a proper currency, suitable to the circumstances of the times and to the wants of trade and business, as well as to the payments of the debts due to the Government, be maintained and preserved; a currency of general credit, and capable of aiding the operations of exchange, so far as those operations may be connected by means of the circulating medium; and that there are duties, therefore, devolving on Congress in relation to currency beyond the mere regulation of the gold and silver coins." Gentlemen will find that statement in the abridgement of the debates of Congress, Benton, volume 13, page 416.

Mr. WAERNER. The chairman is aware, of course, that does not refer to legal tender; and the chairman is doubtless aware that when Webster had matured his views upon that point he distinctly favored the concurrent use of a currency which might be called a national currency, and also of a local currency, corresponding to the State banking system?

Mr. SPRINGER. He favored national banks.

Mr. WAERNER. Did not he favor the other as well? You will find that in his speech made in Wall street, I think it was about 1840, and those were his final matured views.

Mr. WALKER. Before what body?



Mr. WARNER. It was a speech made, I believe, at a mass meeting held in Wall street, New York City.

Mr. SPRINGER. The power of Congress to furnish a national currency carries with it the duty of furnishing it in ample volume for the purposes of trade and commerce. The currency should be sufficient in all parts of the country for the transaction of business. If that is done then there is no place for local or State currency, and it would not circulate, unless perhaps at a discount, and if it does circulate at a discount it would be to the injury of those who used it. I desire to call attention to the fact that we have passed beyond the realm of speculation so far as the power of Congress over the subject of paper currency is concerned.

Mr. SPERRY. Let me ask you one question, so that I may get your meaning. You say that if we have a national currency that is acceptable over the country the local currency could not circulate?

Mr. SPRINGER. I do not say it could not circulate, but that if it did, it might be at a discount. I am of the opinion a local currency would not be necessary for the transaction of business, because if the Government furnishes an ample volume there will be no necessity for a local currency and the national currency would be more generally used because it would be preferable.

Mr. WARNER. Does not the gentleman remember in the period between 1862 and 1866 and even 1867 we did have a national currency in the shape of greenbacks which circulated all over the United States, and at the same time a local currency in such general circulation that the national-bank bills could not be given out except by suppressing that local circulation, which was not done until August, 1866?

Mr. SPRINGER. That was an abnormal condition and I do not think the period between 1861 and 1866 should be referred to as a precedent in regard to anything concerning the currency and banks. We were entirely at sea then as far as money was concerned.

Mr. HALL. Let me ask this question: Was not that a time to test the currency the best of all times?

Mr. SPRINGER. I know as far as the State of Illinois is concerned (I can not speak of any other State) we had a State bank currency, and in 1861 and 1862 it disappeared like the dew before the morning sun and not a dollar was left.

Mr. WARNER. May I ask the chairman if the reason for that was not that it was founded then, just as the proposed system is now founded by the chairman in his bill, upon a lot of stocks and bonds, the credit of which was attacked?

Mr. HENDERSON, of Illinois. Upon bonds exclusively, I think.

Mr. SPRINGER. It was founded upon State bonds, and when those States went out of the Union it was supposed that the bonds would be confiscated. We can not legislate on precedents of a time when civil war had destroyed all confidence. We can not take conditions of that kind into consideration.

Mr. WALKER. You say this currency disappeared; do you mean to say it was found to be of no value?

Mr. SPRINGER. The bonds were greatly depreciated, and some of them were supposed, for a time, to be worthless.

Mr. WARNER. Was there a general bankruptcy of the State of Illinois at that time?

Mr. SPRINGER. There was a general suspension of the banks.

Mr. WARNER. I think the chairman misunderstood my question. My question was not in regard to a general banking system, but it

was whether, at the time you have mentioned, there was general bankruptcy throughout Illinois, or was there simply a crash in the financial system?

Mr. SPRINGER. In the banking system and not a general bankruptcy.

Mr. WARNER. Then, although the currency based upon those securities was worthless, is it not a fact that if the currency had been based upon the ordinary commercial paper of the State, would not they have passed through that ordeal unscathed?

Mr. SPRINGER. Possibly. If the Government of the United States had guaranteed—

Mr. WARNER. No, not that—

Mr. SPRINGER. I am answering further. You are assuming one condition and I am assuming that if the Government of the United States had been behind those issues, as behind the bills I propose, they would not have been depreciated or affected by the war.

Mr. WARNER. My point is, that without the Government being behind them at all, had that currency depended upon the business of Illinois—upon ordinary business transactions made through its banks—it would have passed through that ordeal unscathed.

Mr. SPRINGER. Possibly, and I am glad my friend has called out that point. Under the bill which I have introduced not only are all the assets of the banks, the State banks, the local banks, liable for this currency, but the bonds which are deposited are liable, and the Government itself is behind all of that.

Mr. WARNER. I may say to the chairman that I am with him, I agree entirely with the chairman that it is safe. My objection is not that it is not safe, but you use arbitrary and questionable methods to make it safe.

Mr. HALL. I know you do not wish to do injustice to anybody, I know that. Now, I want to draw this point to your mind and that is, in the time of the civil war, after the States had seceded, after Louisiana had left, Louisiana State bank notes could not be bought for greenbacks or even for gold; gold was refused for Louisiana State bank notes under the State bank system of that State, which was somewhat similar to that in Massachusetts.

Mr. SPRINGER. That is all right. They may have been good in Missouri and Louisiana, but they would have been worthless in Illinois.

Mr. BLACK. I would like to ask one question. I understand that your position in regard to State banks is based very largely, if not entirely, upon the experience of Illinois?

Mr. SPRINGER. No, sir; I want to say right here, if you will permit me, I am willing to wipe out the past in regard to State banks and look entirely to the future and urge nothing against them except the argument of inconvenience. It is inconvenient to have forty-four different kinds of paper money in circulation in the United States, and that is enough in itself to discredit State bank currency as far as I am concerned.

Now, gentlemen, if you will permit me, I desire to say that, notwithstanding our difference of opinion in regard to the virtues of State banks and their failures, I hold that Congress has the power to deal with this subject, and if Congress has the power to deal with this subject, it seems to me it does not require argument to establish that a currency emanating from Congress or through authority of Congress, which would be acceptable in every part of the country without question, and have the fewest character possible of bills in circulation so

as to make it easily understood by the people, would be preferable to a variety of bills and a complication of systems.

Mr. HALL. You add another to the five already existing?

Mr. SPRINGER. One more would be less objectionable than 44 more, and to that extent, I think, the difference in degree would be in favor of my system.

Mr. JOHNSON, of Indiana. There is sometimes a difference in principle, too?

Mr. SPRINGER. Now, the case to which I wish to refer is *Veazie Bank v. Fenno*, reported in 8 Wallace, p. 548, where the Supreme Court decided this question not only as to the right of Congress to prohibit the State-bank issues, but as to the power of Congress to provide a national currency. I wish to quote briefly from that decision:

It can not be doubted that under the Constitution the power to provide a circulation of coin is given to Congress. And it is settled by the uniform practice of the Government and by repeated decisions that Congress may constitutionally authorize the emission of bills of credit. It is not important here to decide whether the quality of legal tender in payment of debts can be constitutionally imparted to these bills; it is enough to say that there can be no question of the power of the Government to emit them; to make them receivable in payment of debts to itself; to fit them for use by those who see fit to use them in all the transactions of commerce; to provide for their redemption; to make them a currency, uniform in value and description and convenient and useful for circulation. These powers, until recently, were only partially and occasionally exercised. Lately, however, they have been called into full activity and Congress has undertaken to supply a currency for the entire country.

Mr. WALKER. What is the date of that decision?

Mr. SPRINGER. This is December, 1869. This decision did not emanate from a Republican court, as some have supposed. It was pronounced by Chief Justice Chase, who, except on the slavery question, was a Democrat. On the bench his associates were Mr. Justice Nelson, appointed by President Tyler; Mr. Justice Greer, of Pennsylvania, appointed by President Polk; Mr. Justice Clifford, of Maine, appointed by President Buchanan in 1858; Mr. Justice Swayne, of Ohio, appointed by President Lincoln; Mr. Justice Miller, appointed by President Lincoln; Mr. Justice David Davis, appointed by President Lincoln, and Mr. Justice Field, appointed by Mr. Lincoln. That was the court. The dissenting opinion was made by Mr. Justice Nelson and Mr. Justice Davis. The other members of the court concurred in that opinion.

Mr. WALKER. Is that the famous greenback decision?

Mr. SPRINGER. No, sir; this is a decision in regard to the 10 per cent tax on the State banks. The court further says:

To the same end Congress may restrain, by suitable enactments, the circulation as money of any notes not issued under its own authority. Without this power, indeed, its attempts to secure a sound and uniform currency for the country must be futile.

Thus it appears the court holds that Congress can not only suppress State-bank issues by the taxing power, but by penal statutes it can prohibit them in all the States.

This decision has been quoted many times. It is the law of the land as much as if its text were in the Constitution itself. However much you or I as individuals may think that the court erred when it made that decision, we have no right to think so as legislators, because the Constitution provides that the Supreme Court shall be the final arbiter as to what the meaning of the Constitution is.

We have no right in matters of legislation to say to-day that Congress can not establish a national currency. That question is settled. The Supreme Court has interpreted that, and the decision of the

Supreme Court is as I have stated here and that is the end of argument in regard to it.

In the same decision the court further said:

It can not be doubted under the Constitution the power to provide a circulation of coin is given to Congress. And it is settled by the uniform practice of the Government and by repeated decisions that Congress may constitutionally authorize the emission of bills of credit.

The court further said:

Viewed in this light, as well as in the other light of a duty on contracts or property, we can not doubt the constitutionality of the tax under consideration.

Mr. COBB, of Alabama. Were these deliverances within the facts of the case or a mere dictum of the court?

Mr. SPRINGER. Well, I am not going to argue that.

Mr. COBB, of Alabama. It makes a great difference; anything that the court may say outside of the facts presented is worth nothing except as the opinion of the judge delivering it.

Mr. SPRINGER. The decision of the court was that the tax of 10 per cent on State bank circulation was constitutional, and the court went on in its opinion and said that Congress need not resort to the taxing power but that it could suppress State bank issues by prohibitive legislation. The Supreme Court of the United States has decided that Congress may suppress, and has the power to suppress any kind of State currency. I simply want to lay this down as a starting point in this discussion that we may safely pursue that course, knowing the Constitution is not in our way. I think all must admit that the Constitution is not in our way if we desire to establish a national currency.

Mr. JOHNSON, of Indiana. I do not suppose that will be denied?

Mr. SPRINGER. No; I think that will be conceded by everybody. Conceding, therefore, that a national currency may be issued under the authority of the Government of the United States, let us consider how best we can distribute that currency to the people. How can it be brought to the people for their use? There are three methods, it seems to me, by which a Government currency can reach the people and be utilized as money. The first is by loaning it out to the people; the second is by paying it out for Government liabilities in lieu of raising taxes, and the third is by furnishing it through the agency of banks. In either or all of these methods the Government should perform the function of issuing the currency. Now, my objection to the first of these methods—

Mr. HALL. The subtreasury?

Mr. SPRINGER. The subtreasury is. If you resort to this you must provide a system of loaning money to the people on mortgages, on real estate, or on the products of the soil. How can the people be supplied in this way with the currency? Is it not impossible, is it not impracticable, to reach the people through those means?

Mr. HALL. We all admit that.

Mr. SPRINGER. I think you all admit that. The number of banks in existence, as shown here, is over 9,000. The number of transactions in a day, with all the banks, in money or checks, which actually passed for the payment of debts, is enormous. The report of the Comptroller of the Currency for 1893, to which I have referred, shows that about \$500,000,000 were deposited in all the banks, State and national, in one day in September last. Actual money was not deposited to that amount, but checks, other credits, and money to that amount were deposited in one day. This indicates the vast volume of business done in a day,

and such a vast volume of business would call for a great number of loans to supply the wants of trade in every day's transactions, and it would be utterly impracticable to furnish that through Government agencies.

Thereupon the committee adjourned to meet on Friday, February 2, 1894, at 10 o'clock a. m.

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COMMITTEE ON BANKING AND CURRENCY,  
*Tuesday, February 6, 1894.*

The Committee on Banking and Currency this day met, Hon. N. N. Cox in the chair.

Hon. WILLIAM M. SPRINGER, a Representative from the State of Illinois, appeared before the committee in continuation of his remarks in advocacy of H. R. No. 4960.

**STATEMENT OF HON. WILLIAM M. SPRINGER—Continued.**

Mr. SPRINGER then addressed the committee. He said:

Mr. Chairman and gentlemen of the committee, I beg pardon for consuming so much of the time of the committee, and will endeavor to be as brief as possible. If I could have been permitted to make the statement without interruption I could have finished in a very short time, but I have accommodated the wishes of the committee as far as possible in answering questions, which has taken up the most of the time which I could otherwise have used. I do not object to this, and it is perhaps a good method of bringing the committee to a correct understanding of the question.

When we adjourned at the last meeting I was proceeding to show that the currency ought to be issued by the United States, or under authority of the United States, and I was pointing out the different methods of its distribution. I referred to the method which was demanded in a good many quarters, in some parts of the country at least, of loaning money by the Government to private individuals on real-estate mortgages, and on farm products. I had pointed out the objections to this system, and I was about to refer to, and will now refer to, another method of distribution, which is to issue currency notes by the Government in lieu of raising taxes; in other words, to pay the expenses of the Government by issuing greenbacks instead of raising money from the people by taxation. That is in some respects the method we have now so far as greenbacks are concerned.

The greenback is simply a debt which the Government owes to the people, and instead of paying it it has issued a promise to pay, which circulates as money. This is a system which, in the opinion of some people, can be used as a permanent and adequate means of furnishing money to the people. The greenback as it now stands is a safe currency. It is secured by the deposit of gold as a redemption fund in the Treasury for about 20 per cent of outstanding Treasury note circulation, including the Sherman notes, which, in all, amount at this time to about \$500,000,000, all of which are, by the decision of the Treasury Department, held to be redeemable in gold coin. That 20 per cent of actual deposit, when the fund is up to its maximum of \$100,000,000, seems sufficient to float the \$500,000,000 of Treasury note currency.

While this plan has very many attractive features about it, I think it is one of the most dangerous that could be adopted as a permanent and exclusive system of furnishing money to the people. I am in favor of retaining the present volume of Treasury notes, as they are well secured and will be promptly redeemed as the present law provides. But if it is understood that the Government may, from time to time, increase the volume of the currency, Congress will be importuned at every recurring session for larger issues of Treasury notes. There are bills pending before this committee now calling for an issue of several hundred millions more of currency. There is no elasticity about a system of this kind. It is simply an arbitrary decree of the Government that so much money shall be paid out in the shape of "promise to pay" for the expenses of the Government or for special objects in order to furnish the people with currency. I have seen it stated in the newspapers that there was some gentleman of good intelligence in Ohio who was about to raise an army of a hundred thousand men to come down here and stay here until Congress would issue \$500,000,000 more of paper money.

Mr. HALL. Would you allow me to interrupt you there. I want to say this: The chairman is now arguing on what I consider one of the most dangerous things in our Government to-day and that is the idea that the Government has money, and can make money and send it out. Now, I believe my people are just as well educated as the average community in the West and South, and more so, and——

Mr. BLACK. Do you think they are as well educated as the people of the North and the East?

Mr. HALL. No, I do not mean to say they are as well educated as some of the people of the North and East, to be frank with you about it, but we have a public school system which puts public schools in every 3 miles. I want the chairman to dwell on this point, and that is the object I have in view.

Now, for instance, the secretary of the State Democratic committee in my State, a man who is the editor of the largest newspaper in the central part of my State, has come out as a candidate for Congress—he is not in my district and therefore I have got no fears of a personal character—but he advocates in his newspaper and through his speeches on the stump that all the U. S. Government has to do in order to make the people wealthy is to issue money to them and that the security for the money should be a loan on real estate, not drawing a distinction between security and convertibility, convertibility being the *sine qua non* of a good currency, and if this committee could just send out in some form a conclusive argument suited to the average intelligence of the West and South I think it would be well, for I think we are all in the same boat, as I have been through the Southern States and have heard a good deal on this very question. I believe that would be doing great good to the entire people, because they want to do right, and I know my people are just as intelligent as they are anywhere else, except possibly people in the Northeast, whom I admit probably have better and more school advantages than we have.

Mr. BROSIUS. Do you include in this statement the man who has promulgated this idea that the Government can make people rich by giving them money; do you include him in your intelligent class?

Mr. HALL. No; my idea is this. The idea they have is that if you give the Government perfect security they are willing enough that it should be loaned at one-half or even one third the value, and that would be perfect security as far as that is concerned if it could be car-

ried into practice, but the error they make is that that character of money is not good money unless it is convertible money.

Mr. JOHNSON, of Indiana. They think because Government bonds, which have a long time to run, can be kept at par, therefore you can keep that much money; they do not draw the proper distinction, and I am glad you made that interruption and called the chairman's attention to it.

Mr. SPRINGER. I want to call attention to the danger that would come ultimately to the people of adopting either of those methods of issuing and distributing the currency. If the Government goes into the business or is to go into the business of loaning money to the people it can only get its supply from printing it, and it therefore brings the printing press into competition with the existing capital of the country, and all the accumulated and loanable wealth of the country would be destroyed by the Government coming in competition with it by printing irredeemable currency and loaning it to the people. Now, my understanding of the wants of trade is that the people need a currency that they can obtain in their every day transactions. As I pointed out the other day, the transactions of the people in one day in this country are enormous, beyond the comprehension of the mind.

Over \$500,000,000 of trade is done every day in the United States, and the people need money in places where money can be had. If the Government should issue \$1,000,000,000 or \$5,000,000,000 of money and loan it out on mortgages, advances it on farm products, pay it out for expenses of government, or for some special improvements, the next year the people who need money in their business could not get it except by going to the banks and capitalists to borrow it. This thing of supplying the people with money must be for all times in order to be adequate; it must be for to-morrow and the next day. The people who do business must have money accessible all the time—this week, the next week, and next year to do business. This money must be ever present to help in financial transactions; it must be always accessible. If the Government went into the business this year and issued \$5,000,000,000, the next year the people would have to borrow of the capitalists just as they did before. The Government can not create values by act of legislation. If the Government were to begin this system it would be but a few years until the issues would be beyond the reach of redemption, and then the whole system would go down in financial ruin and bring all the business of the country with it.

There can be no safe currency furnished to the people that is not actually redeemable, convertible into coin on demand, and if the Government enters into the business of furnishing money to the people, irredeemable or unlimited currency, the Government, in order to make that currency good, must put up a sufficient coin reserve. The Government would be called upon to assume to furnish all the people at all times at all places with all the money they can use. This would be an impossible task. Look at the condition of business now. If you will refer to the report of the Comptroller of the Currency for 1893, you will find there are now in existence in the United States national banks to the number of 3,781, State banks to the number of 3,579, loan and trust companies to the number of 228, savings banks to the number of 1,030, and private banks to the number of 848, making a total number of banks of 9,466 in the United States doing business. Those are the places where the business of the people is done and to which business people go when they want money just as they go to a dry-goods store when they want dry goods, or to a clothing store when they want to get a

suit of clothes. The people will go where those things are to be had. If the Government is going into the money-lending business it must appoint agents almost as numerous as are the employes of those banks, which have on an average say 3 or 4 men each employed, which would mean 35,000 or 40,000 employes.

Mr. SPERRY. Post-offices?

Mr. SPRINGER. The post-offices have all the business they can do now. If you add the banking business to them you will have to increase the number of employes, because the employes of post-offices are doing something; they are all fully engaged in transacting the postal business of the country. The Government can not meet the business requirements of the country by issuing its notes and loaning them to the people, or by paying them out for current or extraordinary expenses.

How, then, can the Government interpose in the matter of the currency and not disturb existing values, or fall into the practice of unlimited issues? It can only do this by availing itself of the existing financial institutions of the country, using them as distributing agencies, as provided in the bill I have submitted, or in some measure of the kind. There is a great prejudice against banks. I know that such prejudice has prevailed in many parts of the country and that many good people think that a bank is an institution devised by wicked Wall street for the purpose of oppressing and robbing the people. This prejudice is not without foundation.

It is due to the fact that State banks before the war and national banks since that time have been authorized by law to issue their notes, their "promises to pay," and circulate them as money, by loaning them out to the people. The people can not understand why a bank should be endowed with a function which properly belongs to Government only, the right to issue circulating notes, and thus create the money of the country. If, however, banks should be confined to the business of banking proper—the business of receiving deposits, loaning money, selling exchange, etc., there are no institutions in existence more beneficent and more to be desired, when rightly managed, than banks. If it were not for the banks the whole surplus money of the country, which is now utilized, would lie idle in the pockets of individuals or in safe-deposit vaults. The banks enable the people to have five times more actual currency in circulation than they would have without them. In a high state of civilization, and where there is great public confidence, there will be a great number of banks and the greater will be the facilities for the transaction of business.

Instead, therefore, of diminishing the number of banks, they ought to be increased. Hence I put in my bill a provision that a bank may apply for this national currency which has a capital stock of \$25,000, and there is nothing requiring any specified population of the city in which they are doing business. Let every small village of the United States have a bank where people can put in their surplus earnings at night and be secure. The surplus earnings will form an aggregate, which will furnish a loanable fund for the people, who may thus do business with the surplus money of the country. In every community where you find a bank you find the people thrifty and saving. They go to the bank and put in their earnings and keep them against a rainy day. I do not know whether banks encourage thrift or thrift encourages banks, but they seem to go together; they seem to go hand in hand.

Now, the bill which I have introduced has in view a system by which the banks, which are accustomed to loaning money to the people, can furnish it to the people, and can supply themselves with a sufficient



amount to do the business of the country. If this system were adopted, Congress would not be called upon to say how many thousands of dollars or how many millions of dollars should be issued. The system would be self-acting and self-supplying, and the business of the country would determine how much was needed. The bankers would not take out the money unless it was profitable to take it out, and if it was profitable to take it out, there would be somebody who would want it who would pay interest on it and give security for it. And if it were not profitable, they would not take it out, and if it had been taken out they would return it, and business only would be the guide as to what would be the volume of the currency.

We might double our population and the law need not be changed. And if we should have a population of 100,000,000 or 200,000,000 of people in this country, instead of 70,000,000 or 65,000,000, Congress need not be called upon even to determine whether it should be so much per capita or so much should be issued; whatever would be needed would be issued; whatever was required in trade would be called for, and no more and no less. The objection which I have to authorizing banks to take out circulation or to issue circulating notes without depositing the security with the Government is this: If the banks are to issue circulating notes in proportion to their capital, or upon some fixed standard that the Government shall prescribe, and put up no security with the Government, they will be obliged to keep a reserve for the redemption of their notes and to redeem, them on demand, or Congress should require, as the Canadian system does, the establishment of central agencies where the money is redeemed as well as at the bank itself.

I am opposed to putting upon the banks the burden of redeeming the circulating notes of the country. The business of banking has no necessary connection with the business of the currency or furnishing currency to the people. A bank of discount and deposit has no necessary relation to the currency any more than it has to the coins of the country. You might just as well claim because the banks receive deposits and loan money that they shall have right to coin money and to issue coins with their own stamp upon them. There is no necessary relation between the two operations. The banker takes the coin as he finds it from the Government, and he pays out that coin which the Government has provided, and none other in the way of coin. Now, why not let him take the paper currency as he finds it from the Government and pay out that? What has a banker to do with the currency of the people? Why should he be clothed with the power to say what should be currency and what should not? If I could I would divorce the banks entirely from the business of currency issuing and require that the Government should supply the currency upon proper security to be furnished it.

Mr. COX. If the chairman will yield to me just at that point, I would like to hear the chairman upon this proposition for a moment. The security for your circulation is based upon State bonds, U. S. bonds, municipal bonds, etc.

Mr. SPRINGER. Yes; that is correct.

Mr. COX. Now, that class of bonds are all issued upon the authority of the States. Now, will not your bill in that aspect meet with this opposition, that the security for your circulation is entirely under the control of the legislation of the States and how is the Government of the United States to control that which is based on that circulation?

Mr. SPRINGER. I will answer that, and I am very glad the gentle-

man asked the question. Under the bill which I have proposed the Government of the United States alone is responsible for the currency it has put out and will redeem it in coin on demand. The only object in taking the security from the banks is to indemnify the Government against any possible loss on the currency which it issues, and it takes, therefore, the bonds which the banks offer as security. Now, the bank in depositing such security under this bill must guarantee the payment of the principal and interest of the bonds which it deposits, unless they are Government bonds, and of course the Government does not then require their guaranty, but the bank guarantees the payment of the principal and interest of those bonds, and all of its assets are liable for their payment. If the bond depreciates 5 per cent after it has been deposited, the bill provides that the currency commission shall notify the bank of this depreciation and call upon it to deposit other bonds to make the security good, and if the bank fails to make it good, then those bonds are treated precisely as if a private individual had deposited them as collateral upon his note, and the Government sells them in the market for what they will bring.

Mr. WALKER. Suppose it would not bring anything?

Mr. SPRINGER. Then the Government holds the bank liable on its guaranty and holds all of the assets of that bank to make good the guaranty.

Mr. WALKER. That is to say, the bank guarantees the Government and the Government guarantees the bank?

Mr. SPRINGER. The Government does not guarantee the bank; it simply guarantees the notes which are out.

Mr. WALKER. It is the same thing?

Mr. SPRINGER. No; it is not; the notes will always be good. Suppose the Government might lose all of the amount which the bank puts up.

Mr. WALKER. Then what?

Mr. SPRINGER. The note-holder is protected always—

Mr. WALKER. The Government loses that.

Mr. SPRINGER (continuing). Even if the Government should lose it all, but the history of the national banks in this country shows since the banking system was established in this country only \$10,000,000 has been lost to the depositors even, while the bill-holders have lost nothing and that the Government has collected \$70,000,000 in that time from the 1 per cent tax upon the notes of the national banks; so that the Government would now be ahead \$60,000,000 on the transaction if it had guaranteed the depositors and had paid all their losses. Now, I assume the Government will never lose anything, but, even if it did, the tax which the banks must pay would more than cover any possible loss to which the Government could be subjected. But behind the Government, under my bill, lies the promise of the banks to make good the possible loss on the bonds, and the promise of the banks is all that is behind the bills that the gentleman from Massachusetts proposes to have issued under his bill; that is, the bank only is liable.

Mr. WALKER. That is not so.

Mr. SPRINGER. It is all you ask, as I understand your bill, that the banks should be liable for their own issues. My bill requires more than that; it requires that the banks shall deposit first-class bonds and shall be liable to the Government for their payment and that the Government shall be liable to the bill-holder, so that under no circumstances shall the bill-holder have any concern about the banks as to whether his bill is good or not.

**Mr. COX.** Will you pardon me? I understand very well the proposition and the security of the note which you propose to issue. But the Government is liable for the note; then it is protected, as you say, by the bonds deposited there, and secondly it is protected by the value of the assets of the bank?

**Mr. SPRINGER.** Yes, sir.

**Mr. COX.** Now, that is its protection, and then, in addition, you provide what you might call a safety fund of 1 per cent. Now, this is the point, and I want you to bring out this proposition in detail: Suppose after the bank has deposited bonds, say of the State of Tennessee, and has complied with the law, that the legislature of Tennessee passes an act and refuses to assess taxes either to pay the principal or interest upon the bonds, how will you proceed with that?

**Mr. SPRINGER.** The bill requires that the bonds should be sold in the market and lets the bank take care of its own collateral. The Government has nothing to do with collecting the amount due on the bonds; it simply sells them for what they will bring.

**Mr. COX.** I know that is bound to be the process; you take an insolvent bond and put it upon the market, then do you require the bank to make good the difference between the defaulting bond and the good bond?

**Mr. SPRINGER.** I do. The Government is required by this bill to bring suit—

**Mr. BROSIUS.** That is, it closes it up?

**Mr. SPRINGER** (continuing). To bring suit against the bank for the difference between the price received in the market and the outstanding notes which the bank has taken out. The bank is held liable for the difference, and all the assets are liable. Now, let us see what are the assets of the banks of this country. The assets of all the banks of the United States on the 1st of October last were \$6,777,000,000. The assets of the national banks were \$3,000,000,000, and the assets of all the State banks were \$1,130,000,000, and the assets of the savings banks were \$1,700,000,000.

**Mr. WALKER.** Does your bill authorize the Government to bring suits against the banks collectively?

**Mr. SPRINGER.** No, sir; each bank by itself is responsible for the bonds which it has deposited.

**Mr. WALKER.** Then that point does not count?

**Mr. SPRINGER.** It shows this much, that assets of the banks are largely in excess of the capital stock. The capital stock of all the banks is only equal to \$1,082,000,000 in the United States, while the resources of all the banks are equal to \$6,777,000,000, so the assets are about six times more than the capital stock.

**Mr. COX.** That statement includes all the banks?

**Mr. SPRINGER.** It includes all the banks. You will see the relationship which exists, that the assets of the banks are six times as much of the capital stock, that is the average, and under my bill the banks can only take out an amount equal to 50 per cent of the amount of the capital stock upon which they are taxed 1 per cent, and 25 per cent on which they are taxed 2 per cent, and 25 per cent more on which they would be taxed 4 four per cent. Now, I assume, and this is what I regard as an elastic feature, that the banks would take out in currency an amount equal to only 50 per cent of the capital stock in ordinary times, but in times when business was greater, say between September and May, they could take out 25 per cent more and pay 2 per cent on it, and in times of great financial stringency, such as last year, they

would probably take out 25 per cent more and pay 4 per cent on it for the time they had it out.

Mr. COX. The assets of the banks are \$6 for \$1 as compared with the capital stock. This is the proposition you lay down?

Mr. SPRINGER. That is what the record shows.

Mr. COX. Now, tell me how it is that a bank has \$6 of assets for \$1 of its capital stock; where does it get it?

Mr. SPRINGER. It is the deposits of the banks.

Mr. COX. The bank becomes the debtor of the depositor?

Mr. SPRINGER. The assets of the bank consists of its capital, of its surplus, and of its deposits. Now, this bill of mine gives the Government a first lien on all of this just as the national bank law gives the Government a first lien upon the resources of the banks in order to make good any demands the Government has upon them. The bill-holder has the first lien upon all the assets of the banks to make good their claims, just as in the Canadian system and as in the Scotch system; the assets of the bank are held first for the security of the bill-holders, and the depositors must wait until the bill-holders are satisfied.

Now, one thing further. A bank of deposit receives money and loans it out at thirty, sixty, and ninety days, and sometimes for six months, and the banks promise to pay those depositors on demand. In fair weather this is all very well. But when the financial storm comes, and depositors are rushing wildly to get their deposits, and go to the bank for it, everybody knows that the bank can not pay them. That is just as certain as any fact that exists, that a bank can not pay all of those liabilities on demand, if they are called for at the same time. Now, it is proposed by some to base the people's currency and its convertibility upon that very place in our financial system which is the weakest of all others, namely, the banks of discount and deposits. Should we send the bill-holder to the place where depositors are rushing in, in order that he may get his bill redeemed before the bank closes its doors? Let us look at our financial history a moment. Last summer 154 national banks failed in three or four months.

There was not one man in this broad land of ours who looked into his pocket to find out whether he had one of the bills of those broken banks; nor did a banker look to see whether he had them in his vaults. Why? Because the Government had promised to pay them. The Government had promised to pay those bills and nobody cared in that regard whether the banks failed or not. Now, suppose that the Government had not promised to pay them; suppose those bills rested upon the assets of the bank for their redemption? Every national bank in the United States would have gone to the wall; every national bank last summer, every one of them would have gone down. I undertake to say that there is not a national bank in the United States that had any circulation outstanding that would not have gone down before that storm. Why did not they all go down? It was because, by the wisdom of Congress, we had placed the redemption of those bills, not upon the banks, which could not pay their own depositors, but upon the Government, which could pay the notes, and which had promised to redeem them.

Mr. WARNER. Does not our experience show that your conclusion is an entirely erroneous one?

Mr. SPRINGER. No, sir; I think not.

Mr. WARNER. As a matter of actual fact during the very time when distress was greatest and financial failures most frequent, was there

not such a demand for currency that business corporations, that municipal corporations, that manufacturing associations, and even private individuals were called upon to issue enormous amounts of currency upon less security than would have been afforded by any bank? And have you a single record of a single case in which this currency was returned upon a bank, or a corporation, or upon an individual, in such a way as to cause him the slightest embarrassment?

Mr. SPRINGER. I will answer that. The reason why currency was at a premium during the course of last year was because the Government had promised to pay not only the currency issued through hundreds of national banks, but it was responsible for the great volume of the currency, amounting to nearly \$1,100,000,000. This vast sum, consisting of Treasury notes, bank notes, and coin certificates, was held at par by the promise of the Government to make it good. That was what it had behind it. Now, the notes issued by the banks of South Carolina and by the clearing-house association of New York were issues made to meet that particular emergency. The security behind it was more than ample, and everybody knew it. That made that currency therefore as good as the Government money, but it was the Government credit that kept that standard up. If the Government currency had been at a discount all else would have gone to the wall. The fact that in that emergency the clearing-house association was able to put up a guarantee of the allied banks of New York on clearing-house certificates simply shows that the securities that were demanded by the people were in that very emergency deemed sufficient, and were taken accordingly. It was simply a voluntary transaction with their customers for the purpose of settling balances.

Mr. WARNER. That is just what I am referring to. The people voluntarily accepted and used not only the guarantee of the associated banks of New York, but, so far as I can find out, the voluntary guarantee of every corporation, of every manufacturing association, and of everybody else who issued shinplasters through all that time. Now, I am not commending the prudence of that, but I am calling the chairman's attention to this, that, so far from the distress of last summer, to which he particularly refers, causing such a lack of confidence in the institutions or individuals as to send currency in for redemption, the exact opposite of that took place; that, in fact, even this illegal currency was never returned as the consequence of any lack of confidence, but came back in a natural way as distress went away.

Mr. SPRINGER. Now, I will ask the gentleman, in order to utterly explode the position he has taken, to state whether he is willing to allow these corporations to furnish the currency for the people?

Mr. WARNER. I am willing that every Federal law upon our books which refers to legal tender, to bank currency, or anything of that kind, shall be absolutely repealed, and leave the currency to be furnished by individuals, by corporations, by municipal associations, or by anybody whom the several States shall permit—subject only to such provisions as shall provide publicity and honesty as to the basis of issue. I go the whole length of it, though I am not oblivious to the advantage of having provided certain administrative details.

Mr. SPRINGER. The gentleman has answered me that he would prescribe a system, throwing around the system safeguards—

Mr. WARNER. I put no effectual guard except publicity.

Mr. SPRINGER. He is willing to provide some guard under which private individuals and corporations can issue currency, but he can hardly expect such a system to be adopted in this country.

Mr. WARNER. We could not go to a country where there is a worse banking system.

Mr. SPRINGER (continuing). Because no Congress of the United States is going to throw down the bars and let every man and corporation in the United States issue money *ad libitum* and only require publicity as a means of security.

Mr. WARNER. I would require publicity and honesty as to the basis of note issues.

Mr. JOHNSON, of Indiana (to Mr. Warner). You spoke of something which was good during the late panic which was not guaranteed by the Government. You refer to these various kinds of money you have just mentioned?

Mr. WARNER. I refer to the pay checks, certified checks, "clearing-house certificates" (which were not really such), corporation and individual shinplasters, etc.

Mr. JOHNSON, of Indiana. The kind you had during that panic?

Mr. WARNER. Yes; and I instanced these, not as constituting an ideal system, but as what seemed to me conclusive proof that our chairman was mistaken in thinking that a currency—that paper used for money—necessarily depends at all upon the guarantee of government to secure its circulation.

Mr. SPRINGER. Well, the gentleman referred to simply a temporary arrangement which was made in particular localities, where the persons issuing the obligations to pay, or whatever you may call them, were well-known parties in the neighborhood.

Mr. COX. And would it have been possible to put that in circulation anywhere except in that particular locality?

Mr. SPRINGER. That is just what I was saying as fast as I could. I was referring to that as an expedient adopted in localities where people knew the persons who issued them and took them just as they took certified checks in many localities, and they passed round and round, and performed the function of money; but that has no more relation to a system of currency for all times and for all people than any other fact in finance has reference to the currency of the country. It was simply an episode, and I do not want to establish an episode, but I want to establish a system as broad as our land and as permanent as the Republic itself.

Mr. WARNER. The chairman has referred to a crucial difference between such temporary currency as we have discussed and a system of currency which would do for the whole land. I want simply to call his attention to the fact that the only necessary distinction between a currency which circulates universally and these separate kinds of currency circulating locally is precisely the distinction which I made in answer to the question of the chairman. I suggested that means should be taken to insure publicity and honesty. I do not mean honesty in the sense of financial solvency, but such precaution against counterfeits, etc., as shall supply for the whole country those opportunities of information which when supplied for a locality make a local currency acceptable in that locality, and which, when supplied for the country, will make a currency good for the entire country.

Mr. JOHNSON, of Indiana. Suppose there is a case in which a currency is good at par all over the country, and suppose there is another currency which is good only in a particular locality; will there be any discrepancy between that money? Will not the money which is universally good always stand better than the money which is only good in a particular locality?

Mr. WARNER. I do not want to take up the time of the chairman, but I will answer the gentleman's suggestion—

Mr. JOHNSON, of Indiana. Will not the money which effects exchanges in all parts of a broad land be infinitely better than the money which circulates only in a particular locality?

Mr. WARNER. Unquestionably a money which will effect exchanges everywhere will tend, whenever there is a plethora of currency, to drive out of use money the repute of which is limited to a locality. But the fact that under a national system such as the chairman has proposed its bills will be equally current in all parts of the country seems to me to be one of the greatest objections to them. The very fact that they are practically a legal tender tends, at any moment of stress in public affairs, especially when currency is even temporarily superabundant, to the export of the currency, gold, which is actual property and accepted as such everywhere, leaving us more and more to depend upon fiat currency, with a continual lessening basis of actual property currency, gold or silver, upon which to base it.

Mr. JOHNSON of Indiana. I am not advocating the particular kind of money advocated by the chairman in this bill, but to me it is a very plain proposition; it is a preferable thing to have money which is of the same value throughout the entire country, and that that kind of money is infinitely preferable to a money which will circulate at par only in a particular locality, and I take it if you undertake to circulate the two together that one—that is, the local money—must necessarily fall below par.

Mr. WARNER. If the gentleman means that it is desirable the country should be well informed in regard to its currency, and that every part of the country should have the same information as a basis for confidence in the currency issued in any part and accepted by the people of that part, I agree with him. If the gentleman thinks, however, it is well to have a currency issued in any part of the country circulate so generally in far-off parts of the country as to make its return for redemption less prompt and less easy whenever our currency is redundant, I disagree with him; I think it is a bad thing.

The CHAIRMAN. We will not be able to discuss our views on that, as the time for adjournment has arrived.

Thereupon the committee adjourned.

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COMMITTEE ON BANKING AND CURRENCY,  
*Friday, February 9, 1894.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

The CHAIRMAN. I wish to present to the committee a letter received yesterday from John C. Wands, who is proprietor of a manufacturing establishment known as the Freight Car Equipment Company, of St. Louis, Mo.

The chairman read the letter to the committee.

The CHAIRMAN. I have also received a number of letters and editorials in regard to the bill which I have presented, some of which are very favorable, and others not so much so, but the New York Times has a very able editorial, nearly a column long, on my bill, in which it says it furnishes a foundation for a safe currency system. I may remark that other papers have been very favorable in regard to it. I simply pre-

sent these matters to the committee to show that it has been given careful study at least.

If the members of the committee are now ready we will proceed to hear Mr. Warner in regard to his bill.

### STATEMENT OF HON. JOHN DE WITT WARNER, A REPRESENTATIVE FROM THE STATE OF NEW YORK.

Mr. WARNER appeared before the committee in advocacy of the following bill.

[H. R. 5595.]

A BILL to provide for a safe and elastic bank-note currency.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all acts and parts of acts imposing a tax of ten per centum on notes of State banks and State banking associations, or of national banking associations, either when used for circulation and paid out or when used for circulation or paid out, be, and the same are hereby, repealed as to all such notes as shall be issued under the provisions of this act.*

SEC. 2. That State banks and State banking associations, when thereto authorized by the laws of the States in which they are respectively situate, and also national banking associations, may issue circulating notes subject to the following regulations, namely:

First. Such notes shall be printed in blank by the Comptroller of the Currency, who shall cause them to be printed in design so as plainly to show, (one) if such is the case, that they are issued by a national banking association; (two) the State, if any, under the law of which they are issued; and (three) the bank or banking association by which they are to be issued.

Second. No such notes printed in blank shall be furnished by the Comptroller of the Currency to any such bank or banking association unless he shall be satisfied, (one) if other than a national banking association, that, by the law of the State in which it is situate, the holders of the circulating notes issued under this Act of any such bank or banking association are given a paramount lien upon all its assets and the avails thereof in preference to any and all other claims whatsoever, subject to the necessary cost and expenses of administering the same, and that the shareholders of every such bank or banking association are held individually responsible for all of its outstanding circulation issued under this Act each to an amount equal to the par value of the shares held by him therein, together with any amount not paid up on such shares—this in addition to the amount invested in such shares; (two) that it has made adequate and convenient provision for the redemption of its circulating notes to be issued as provided in this Act, either at the capital city of the State in which it is situate or at some other city of such State which shall have been approved by the Comptroller of the Currency; (three) that the amount of its capital, paid up and then unimpaired, is not less than fifty thousand dollars, and that the aggregate amount of the face value of such notes printed in blank and furnished such bank or banking association, together with its circulation issued under the national banking Act, if it be a national banking association, and still outstanding, is not greater than seventy-five per centum of its capital stock, paid up and then unimpaired; and (four) that it is not in default in compliance with any provision of this Act.

Third. The circulating notes issued under this Act by a national banking association shall be, and hereby are, given a paramount lien upon all its assets and the avails thereof, subject to the necessary costs and expenses of administering the same, except such of the avails of the bonds of the United States deposited to secure its circulation as may be sufficient to redeem such circulation issued under the national banking Act; and the shareholders of every national banking association shall be held individually responsible for all its outstanding circulation issued under this Act, each to an amount equal to the par value of the shares held by him therein—this in addition to the amount invested in such shares.

Fourth. All such notes, as aforesaid, once delivered by the Comptroller of the Currency to any such bank or banking association, shall be considered as outstanding until destroyed by him and registered as so destroyed.

Fifth. Every such bank or banking association, which is not a national banking association, shall make to the Comptroller of the Currency not less than five reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president or cashier of such bank or banking asso-



ciation, and further attested by the signatures of at least three of its directors, trustees, or associates, if so many there be. Each such report shall exhibit in detail and under appropriate heads the resources and liabilities of such bank or banking association at the close of business on any past day designated by him, and shall be transmitted to the Comptroller of the Currency within five days after the receipt of a request or requisition therefor from him, and, in the same form in which it is made to the Comptroller of the Currency, shall be published in a newspaper published in the place where such bank or banking association is established, or if there is no newspaper in the place, then in one published nearest thereto, at the expense of the bank or banking association; and such proof of publication shall be furnished as may be required by the Comptroller of the Currency. The Comptroller of the Currency shall also have power to call for special reports from any particular bank or banking association whenever in his judgment the same are necessary in order to a full and complete knowledge of its condition.

Sixth. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, appoint a suitable person or persons to make an examination of the affairs of every bank or banking association not a national banking association issuing notes under the provisions of this act, who shall have power to make a thorough examination into all the affairs of such bank or banking association, and in so doing to examine any of the officers or agents thereof under oath, and shall make a full and detailed report of the condition of such bank or banking association to the Comptroller of the Currency. All persons appointed to be examiners of such banks or banking associations shall receive the same compensation as is accorded examiners of national banking associations for performing like services, which amounts shall be assessed by the Comptroller of the Currency upon and paid by the respective banks or banking associations so examined. But no person shall be appointed to examine the affairs of any bank or banking association of which he is a director or other officer.

Seventh. On receiving from the Comptroller of the Currency notes printed in blank, as aforesaid, except when such notes are in substitution for notes worn, defaced, mutilated, or otherwise rendered unfit for circulation, the bank or banking association receiving such notes shall, except as hereinafter provided, pay to the Comptroller of the Currency a special assessment of one-half of one per centum of the amount for which, at their face denomination, such notes are to be issued; and within thirty days from each first day of January thereafter each such bank or banking association shall, except as hereinafter provided, pay to the Comptroller of the Currency a further assessment of one-half of one per centum of the amount to which, at their face denomination, such notes issued by such bank or banking association more than one year previous shall remain outstanding; and from the assessments thus collected from any such bank or banking association shall first be paid any and all expenses specially chargeable against such bank or banking association incurred in carrying out the provisions of this act: *Provided*, That the assessment hereinbefore mentioned shall not be required of or paid by any bank or banking association whenever after payment therefrom of expenses as aforesaid there shall remain in the hands of the Comptroller of the Currency from previous assessments paid by such bank or banking association, free from liability, actual or contingent, for circulating notes issued under provisions of this act, either of banks or banking associations which have failed or of those which, in the opinion of the Comptroller of the Currency, are otherwise liable to become a charge thereupon, its proportion of the amount, after deducting all general expenses of carrying out this act not covered by receipts from revenue, as hereinafter provided, of at least three per centum of all circulation issued under the provisions of this act and still outstanding: *And provided further*, That such assessment shall not be required of or paid by any bank or banking association after the same shall have deposited with the Treasurer of the United States lawful money to redeem its circulating notes outstanding, as hereinafter provided. The avails of such assessments as aforesaid, so to be paid to the Comptroller of the Currency, shall constitute a guarantee fund for the ultimate redemption, after all other reasonably available assets liable therefor shall have been exhausted, of all circulation to be issued under this act. The Comptroller of the Currency may cause the guarantee fund hereinbefore mentioned, for the integrity and safe-keeping of which the United States shall be and continue to be responsible, to be invested in United States bonds, or, in his discretion, in such other securities as may produce the greatest amount of income consistent with safety; the revenue derived therefrom shall be used to defray the general expenses of the Bureau of the Comptroller of the Currency necessarily incurred in carrying out the provisions of this act. But nothing herein contained shall be construed as giving any bank or banking association the right to demand, receive, or draw any interest upon the amount it may have contributed to the guarantee fund hereinbefore mentioned, or upon any part thereof, or to any repayment of such amount or of any part thereof.

Eighth. Any such bank or banking association, or its receiver, assignee, or legal representative, may at any time deposit with the Treasurer of the United States lawful money of the United States equal to the amount of its outstanding circulation issued under this act, and thereafter the assets and stockholders or shareholders of such bank or banking association shall be free and discharged from any liability for or on account of any such circulation or its redemption; and when any such notes, for the redemption of which lawful money has been thus deposited, shall be presented to the Treasurer of the United States the same shall be redeemed by him in lawful money.

Ninth. No bank or banking association shall, either directly or indirectly, pledge or hypothecate, for any purpose whatsoever, any of its circulating notes issued under this act; any president, cashier, director, or other officer of any bank or banking association who shall knowingly violate the provisions of this section or who shall participate in or assent to any such violation shall be deemed guilty of a misdemeanor and shall be fined not less than one thousand dollars nor more than five thousand dollars, or imprisoned at hard labor not less than one year nor more than five years, or both.

Tenth. No person, firm, corporation, or association shall receive from any bank or banking association or national banking association any of its circulating notes issued under this act as security, or as collateral security, for any loan of money, or receive the custody or promise of custody of such notes as security, or as collateral security or consideration for any loan of money. Any person, firm, corporation, or association offending against the provisions of this section shall be deemed guilty of a misdemeanor and shall be fined not less than one hundred nor more than one thousand dollars, and a further sum equal to the value, at the face denominations, of the notes so received.

Eleventh. It shall be the duty of the Comptroller of the Currency to receive worn-out, mutilated, or defaced circulating notes issued under this act and, on due proof of the destruction of any such circulating notes, to deliver to the bank or banking association issuing the same other blank circulating notes to an equal amount. Such worn-out, mutilated, or defaced notes, after a memorandum has been entered in the proper books, as well as circulating notes which shall have been surrendered to be canceled, shall be destroyed by maceration in the presence of four persons, one to be appointed by the Secretary of the Treasury, one by the Comptroller of the Currency, one by the Treasurer of the United States, and one by the bank or banking association whose notes are thus destroyed, under such regulations as the Secretary of the Treasury may prescribe. A certificate of such destruction, signed by the parties so appointed, shall be made in the books of the Comptroller of the Currency and a duplicate thereof forwarded to the bank or banking association whose notes are thus destroyed.

Twelfth. The provisions of sections fifty-one hundred and eighty-seven, fifty-one hundred and eighty-eight, fifty-four hundred and fifteen, fifty-four hundred and thirty, fifty-four hundred and thirty-one, fifty-four hundred and thirty-two, fifty-four hundred and thirty-three, and fifty-four hundred and thirty-four of the Revised Statutes of the United States, so far as they are not inconsistent with the provisions of this act, are hereby made applicable in full force to the notes printed under the direction of the Comptroller of the Currency under the provisions of this act.

Thirteenth. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall cause notes in blank, in convenient denominations, to be printed upon the distinctive or special paper which has been, or may hereafter be, adopted by the Secretary of the Treasury for printing United States notes, and such notes to be furnished to banks or banking associations under the limitations above provided; and shall cause to be registered each bank note delivered to any such bank or banking association, and shall also receive, receipt for, destroy, and register the destruction of any such notes which may be redelivered to him by any such bank or banking association or national banking association for such purposes; and shall cause to be assessed and collected, safely kept, invested, and used the special assessments for guaranty of circulation issued under this act; and shall co-operate with banks and banking associations and national banking associations in carrying into effect this act according to the true intent and meaning thereof; and for such purpose may adopt and promulgate such rules and regulations consistent with this act as, with such approval, he may consider proper; and shall report to Congress at each regular session thereof, within ten days from its assembly, his proceedings under this act, the rules or regulations which he may have adopted or promulgated, his recommendations in such regard, and any fact which he may deem of special interest or pertinence in this connection.

Sec. 3. That this act shall not be so construed as in any way to exempt national banking associations from any of the provisions of the law heretofore existing except in so far as such provisions are necessarily annulled by the express provisions of this act.

Mr. WARNER. Mr. Chairman and Gentlemen of the Committee: I shall endeavor to detain the committee as short a time as possible and shall try to be peculiarly brief, if in the treatment of such a subject one can be so, in the remarks which I shall make in advance of questions, this in order, without troubling the committee any more than is necessary, to leave as much time as is possible for the discussion of such points as may be raised by questions. I take it that it is in such a way we shall more probably reach the particular matters which several members of the committee may think need elucidation.

We have had under discussion a number of bills which have been discussed to such an extent that I shall try to take advantage of that fact in shortening the discussion upon this bill. It will be remembered that the subcommittee having in charge bills referring to the matter of the repeal of the tax against State bank issues reported here some months ago a draft of a bill which was gone over more or less thoroughly in the committee.

Mr. HAUGEN. Let me ask if that was after the bill was printed?

Mr. WARNER. It was.

Mr. HAUGEN. Was your substitute printed?

Mr. WARNER. The draft that was printed was a report made, without committing individuals, by Mr. Cox, Mr. Hall, and Mr. Warner, and at the same time there was presented and printed with that report a bill that Mr. Cox preferred—

Mr. COX. Let me interrupt you one moment. The subcommittee was composed of three Democrats. That bill was reported as the report of all of the committee and then my bill was reported with it as a report of the minority and they were all printed together.

Mr. WARNER. In view of the fact that a comparatively lengthy report of the committee has been somewhat discussed, it may possibly lead to more prompt understanding of what this bill is to say that it differs from that report mainly in two particulars.

In the first place, I have so changed the basis of the bill, by striking out all reference to other institutions than State banks, and State banking associations, and national banks, as to conform to the action which the committee did actually take before dropping the consideration of that draft, so that this bill refers only and exclusively to State banks, State banking associations, and national banking associations.

Mr. COX. In so far as the tax on the others is concerned, it is not disturbed in this bill?

Mr. WARNER. It is not disturbed at all. I have simply adopted the action of the committee in so far as it was definitely had in amendment of the details of the draft.

In one other respect the bill now presented by me differs materially from the draft reported from the subcommittee, and that is this: As presented by the subcommittee the draft was an attempt to repeal all Federal legislation which to that subcommittee seemed inconsistent with our views of the constitutional rights of the Federal Government. The result was, necessarily, to leave absolutely untouched and untrammelled by Federal legislation the question of what circulation should be permitted by any State within its own boundaries. It will be remembered, however, that before the committee ceased consideration of that draft, it had already ordered an amendment which trenched upon that principle. As explained at the time, it was regarded by every member of the subcommittee as utterly immaterial as a practical matter. No member of the subcommittee believed for a moment that a State currency, forbidden by the Constitution of the United States from being

made a legal tender even within its State, and inhibited by express law of the Federal Government from any circulation whatever outside of that State, could either form any material part of our currency or be any obstacle in the way of any other currency.

Mr. JOHNSON, of Indiana. That is, you thought it was nugatory and could not float?

Mr. WARNER. Could not float. That being the case, and this committee having already by its action trenched upon the principle, it seemed to me best, as a practical matter, to confine this bill to such repeal of what some of us believed to be unconstitutional, unwise, and impolitic legislation, as would do away with the prohibitory tax against State-bank issues. With that end the first section of this bill is so changed from the draft presented by the subcommittee as to provide for neither more nor less than the repeal of the tax as to such currency alone as may be expressly authorized in the bill. Such is the distinction between this and the draft, which, having been discussed, is more or less familiar to every member of the committee.

Another bill discussed in this committee is the bill presented by the gentleman from Tennessee (Mr. Cox), providing for what has been generally termed the "unconditional" repeal of the tax against State bank currency. This bill differs from that mainly in that this bill provides by affirmative legislation for permitting national banks to take advantage of the same freedom, that by the repeal of the tax against State bank currency, would be left to State banks and State banking associations. Let me explain. The material difference between the bill presented by the gentleman from Tennessee and the one which we are now discussing is not in the matter of more or less Federal supervision. In so far as there is any difference in that regard I want for myself to say I consider it immaterial. For, in my bill, as now presented, an attempt has been made to reduce the whole matter of Federal participation in carrying out the plan to such purely ministerial functions as scarcely to justify the claim that "supervision" is provided for; and, therefore, in that respect, I regard the difference between the bill introduced by the gentleman from Tennessee and that now presented by myself one of immaterial details rather than of principle.

Mr. JOHNSON, of Indiana. Where does the President of the United States stand on this bill?

Mr. WARNER. I have not the remotest idea.

In another regard, however, it differs very materially from the bill introduced by the gentleman from Tennessee. This difference does not appear upon the face of the bill, but is the result of circumstances, which in brief are as follows: When the national banking system was established and given a monopoly by the ten per cent prohibitory tax law against other bank issues, it was not done in order to suppress wild-cat currency. In those times "wild-cat" currency was frequently referred to, but with reference to former years, and other money—of 1831 and 1845, etc. The wild-cat currency question had solved itself long before 1866. The tax was not then imposed in order to keep out of circulation an unsound currency. It was imposed in order to drive out of circulation a currency that was so sound and of such good repute that the people would not take the national-bank bills as long as they were allowed to use the State-bank currency.

Mr. JOHNSON, of Indiana. Some of it was good and some of it was bad?

Mr. WARNER. At the time that this tax was taken off there was no suggestion made in either house of Congress of the badness, if you may

so call it, of the currency as a reason for the repeal; but it would of course be hard to make the statement that every bank throughout the United States was at that time in good repute.

Mr. BROSIOUS. I want to state, in that connection, the arguments made in support of the national-bank bill refers very frequently to the bad money which had existed before that. That was one of the arguments employed.

Mr. WARNER. The arguments, so far as I recollect, invariably and, I am certain, generally, referred distinctly to bad money which had existed years and years and years before, and not to any assumed state of the currency which then needed remedying in that respect.

Mr. JOHNSON, of Indiana. I have always understood the reason that the national banking law was enacted was in order to get a uniform currency throughout the whole country, which, of course, involved the idea that there was a lack of uniformity, and also to furnish a market for the bonds.

Mr. WARNER. As stated by the gentlemen who presented the matter in Congress, commencing with Senator Sherman, before any bill was presented, it was in brief this: Inasmuch as the Government found it hard work to market its bonds or to find a circulation for its legal-tender paper, it was urged that a law should be passed which, in the precise language of Senator Sherman, should "destroy the banks," and compel the use of the national circulation thus given a monopoly.

Mr. BROSIOUS. Because the channels of circulation were filled up with this State money.

The CHAIRMAN. Please let me state that in the State of Illinois we had our worst condition of State banks in 1861 and 1862, when we lost all of our currency, and the people were left suddenly without any circulating medium, and at that time there was a demand for the national currency and the greenbacks came in.

Mr. WARNER. I am very glad the gentleman calls attention to that—although I should have preferred to have it come in at a later time—because the experience of Illinois is one of the most instructive things that has ever been had in any State. Illinois attempted to get along with a banking system based upon special security. That special security consisted in a large measure of State bonds. With the slightest question of the security of these bonds—at a time when the general finances of Illinois was unshaken—at a time when, if the bills had been based upon the commercial paper of the merchants of Illinois, there was not a single one that would not have been promptly redeemed if sent in for redemption—a rumor, afterwards corroborated by the fact, that the special security was depreciated or worthless, caused those bills to be sent in so promptly for redemption that it absolutely ruined the currency system throughout Illinois. That is the case, and I am glad this point was called to my attention.

The CHAIRMAN. The assets of the banks, however, were left for the payment as well as the special securities?

Mr. WARNER. As a matter of actual fact were not the bills afterwards paid—the most of them?

The CHAIRMAN. The bill holders lost nearly all.

Mr. WARNER. If that is the case, then it was because the condition which I have just suggested was not enforced. If there was no general financial crash in Illinois, then if those bills had been based in reasonable proportion upon the actual commercial paper of Illinois—on the notes of the merchants who did not fail, as they did not, for on this the Chairman will agree with me—there could have been no question

either about the credit or currency of these bills or their redemption.

Mr. BROSIUS. Let me suggest to my friend that the assets of the banks were liable for those notes.

Mr. WARNER. I have not looked up the question as to what those assets consisted of. If the banks were allowed to issue currency beyond their capital, without limit in proportion to the good commercial paper they held, then the mere fact that the assets were liable for the bills is not a material condition—

Mr. BROSIUS. That is true.

Mr. WARNER. And to anyone who proposes such a system I have only to say that I consider it as bad as a special security system, which may go to pot without even the fact of insolvency being the cause.

But to return. I have stated that I consider immaterial the difference in regard to Federal supervision between the bill presented by the gentleman from Tennessee and that presented by myself. The material difference between them is this:

At the time when this 10 per cent tax was imposed, the great business of bank-note circulation was carried out through local banks, under State laws. The moment the tax was imposed, and monopoly began under the national-banking act, the greater number of the old strong State banks took out national-bank charters and are classed to-day as national banks, although their business, their solvency, their commercial connections, etc., are growths of the old State-bank system, and not in any way the result of or promoted by their becoming national banks, which was simply an incident in their history—an attempt to accommodate themselves to the circumstances forced upon them. More than this, in many States there are practically no other banks in existence than the national banks. Not merely that, but in a number of States, by constitutional prohibition or by inhibition of law passed in accord with their constitutions, there is no legal way by which any banks of issue, except national banks, can be established.

The great States of Texas, Missouri, and Illinois are in that category. The result is this, that, whereas if the tax had not been imposed originally, there is no question in my mind, any more than there is in the mind of the gentleman from Tennessee, but that we would now have an abundant and elastic currency supplied in a natural way; yet, since, in all of the States, a greater proportion of the institutions which can be most relied upon to furnish a safe currency are national banks; since in all of the States the only institutions which have had any experience in the last thirty years in dealing with currency are the national banks; since in a number of the States, by their constitutions or by their laws, no other banks of issue except national banks are possible, the result of that condition of things is that the simple repeal of the prohibitory tax against the notes of State banks and State banking associations will not give the people an elastic currency, because it would still leave under the inhibition of the national banking act the very banks which alone could give, with any sort of promptness, a safe and elastic currency to our people.

Mr. JOHNSON, of Indiana. Your idea is it would take time for the bank to change from one system to the other and that during that time there would be trouble in regard to the currency?

Mr. WARNER. That is one trouble; the institutions all over the country, which are in the best condition to supply currency under any law, which were the backbone of the old State systems, which are the only ones in some States which are permitted to issue by the State law any currency whatever, would, by the mere repeal of the ten per

cent tax, be left powerless to do what they alone can do promptly—assist in furnishing a safe and elastic currency.

And so, believing that this matter is not merely a vindication of Democratic principle, in which I agree thoroughly with my friend from Tennessee; believing that it is not merely a repudiation of the right of the Federal Government to interfere with what I believe to be the exclusive prerogative of the State, in which regard I would be glad to vote for the repeal of the State bank tax, no matter whether that repeal did any practical good or not; but, more than that, believing that what we want is practical relief; believing that what the Democratic masses as well as the Republican masses want is not merely a return to Democratic principle, but a provision for a safe elastic currency, I propose this bill, which, in addition to the repeal proposed by the gentleman from Tennessee, involves also an enabling act. Without giving them a monopoly, without giving them any advantage, it puts national banks upon the same footing as it does State banks in the opportunity it gives them to avail themselves of the new system of currency.

Mr. COX. If this is within your line of thought just there—

Mr. WARNER. Certainly.

Mr. COX. It gives both systems the same advantages; that is the practical effect.

Mr. WARNER. That is it.

Mr. COX. Then that necessarily changes the securities of the national banks?

Mr. WARNER. I am glad the gentleman asked that question, although I would have preferred for it to have been put a little later on; but I am glad to take it up now. The bill I propose does not directly interfere with the present national-bank system. It leaves every national bank free to issue national-bank bills under the same restrictions and the same regulations and upon the same security as now; and if, as some of our friends, especially on the Republican side, believe, as I do not, that there are a great number of people throughout this country who greatly prefer a national currency, based upon national bonds, the result will be that the national-bank system will go on just exactly as it does now.

National banks can take advantage of this act only to an extent which will not make the aggregate circulation of any national bank a greater per cent of its capital than is allowed a State bank right alongside of it. It can issue so much new currency under this act as, when added to the amount it shall have issued under the national-banking act, will make the same amount of currency outstanding in proportion to its capital as is permitted to a State bank. Have I made myself clear?

Mr. BROSIUS. That is, the national banks can issue two kinds of currency?

Mr. WARNER. Precisely. But no national bank can issue any more currency in the aggregate than can a State bank right beside it with the same capital.

Mr. RUSSELL. Do not you think there might be a danger of the national currency being at a premium over State currency in certain sections of the country?

Mr. WARNER. I see no earthly objection to national currency being at just as big a premium as anybody wants to pay for it. In other words, I have enough courage of my convictions to say that I am perfectly willing to let the two kinds of currency stand together, and let

the people choose between them; and if the people want national-banking currency so much that it is at a premium, the result will be that the national banks will have, for that very reason, enough inducement to issue national-bank currency to drive this other currency out of circulation; and if the people want national-bank currency there is no reason, even from a Democratic standpoint, why they should not have it. If, on the other hand, the result shall be what I believe it will be, and the people are equally well satisfied with the other currency, then, because it will be more easy and profitable to issue it than to issue the national-bank currency, I believe that the national-banking system will die a painless death.

Mr. BROSIUS. I want to get that idea clear in my mind on that point. Conceding that having two kinds of currency, and one would be at a premium over the other, do I understand you to say that would not be a real objection to having two kinds of currency?

Mr. WARNER. Mr. Chairman, my answer is this: It is simply inconceivable that it needs a Federal inhibition to prevent banks from issuing currency which can not get out at par, but which they will have to redeem at par as fast as it can be handed back through the window after it gets out the door.

Mr. BROSIUS. If the gentleman will excuse me, my inquiry was predicated upon the assumption of having two kinds of currency; one would be at a premium over the other, and my inquiry was that if we assumed that, would not that be a real objection to have two kinds of currency, and I asked the question because my friend stated a moment ago that if one was at a premium he did not see any difference why people would not—

Mr. WARNER. The hypothesis is so utterly inconceivable that it is very hard for me to answer his question, but I will answer that if it were possible for two kinds of currency to be in coincident circulation, and one kind was at a premium, and there were people—and that would have to be included in the hypothesis—who liked the kind at a premium, and there were other people who liked the kind at a discount, I should say let each have what he wants.

Mr. RUSSELL. Have you ever known of anyone who preferred a security at a discount to some other security at a premium?

Mr. WARNER. I never did, and that is the reason why the gentleman's hypothesis seems to be almost unthinkable.

Mr. BROSIUS. You say that that hypothesis is unthinkable. Does not my friend know that prior to the war, when we had a State bank currency, the notes issued by the different States had variable values, and that the Western and Southern money was always at a discount in the Eastern market?

Mr. WARNER. I believe—

Mr. JOHNSON, of Indiana. The people took that money, not from preference to the other, but from necessity.

Mr. WARNER. The gentleman from Indiana has answered a greater part of the inquiry of the gentleman from Pennsylvania. The difference in the current value of notes before the war consisted of two factors, one a mere factor of exchange, which, gentlemen will agree with me, is something which has nothing whatever to do with the particular matter we are now discussing, and which now, with our very great facilities for communication between different parts of the country, is an immaterial matter. What I mean is if mercantile paper is absolutely first-class in New York it will buy just as much of San Francisco paper, probably, as it will buy of New York paper, and *vice versa*,



but in former times, when communication was slow and expensive and risky, when we practically had no facilities for telegraphic transfers, so that a great loss of time and interest was also involved, the simple matter of exchange was a more important one.

Now, to the other point. The other factor in the variation in the worth of money before the war was this: On account, largely, of lack of communication or facilities for communication, but sometimes for other reasons as well, different communities were absolutely forced to carry on their business by the roughest kind of barter, or to avail themselves of currency which they themselves knew to be more or less doubtful. For example, there was a time in the western part of the gentleman's own State when the facilities for business in every shape were so limited that whisky was made legal tender. You could not sell a note for so many gallons of whisky at New York at that time except at great discount.

The trouble was not that the whisky was bad, or that the people were not honest, but that, on account of the lack of facilities of communication, they had been forced to use poor means of exchange instead of good means, and had to take the consequences. But at present I believe if the national banking law was repealed, which, however, I do not propose, that the communications now existing between all parts of our country are such as to take away the necessity for use in any part of any currency that its people did not consider as perfectly good. In other words, there would be banking houses or agencies established at every town where good currency was needed which would be putting out there the currency of the strongest banks in the country. But if that were not true, the fact that we leave in existence all of the national banks, which now supply national currency all over the country, would, it seems to me, absolutely guarantee us against the existence of any currency which would circulate at a discount.

Mr. JOHNSON, of Indiana. Your expectation is that under the practical operation of this bill national banks would soon go out of existence?

Mr. WARNER. My expectation is that the national-bank currency will soon go out of existence, because that, after this plan has been in operation a few years, there will be nobody, not even my friend from Connecticut, who will see the slightest reason for the existence of a national-bank currency.

Mr. JOHNSON, of Indiana. Your answer to my question is, yes?

Mr. WARNER. What is the question?

Mr. JOHNSON, of Indiana. By the practical operation of this bill national banks will go out of existence?

Mr. WARNER. I do not think the bill will drive them out of existence. I do think that under its operation there will soon be found to be no office which national-bank bills can subserve to an advantage; but the bill does not drive them out of existence.

The CHAIRMAN. Have you taken into the consideration of this matter of a depreciated currency what is known as the Gresham law of finance?

Mr. WARNER. Unquestionably.

Mr. HAUGEN. As to whether the national banks will be driven out of existence because of the Gresham law?

Mr. WARNER. No; the Gresham law operates only in case, either by legislation or by circumstances, a forced currency is given to poor money. What I mean is this: If, for example, the business of a par-

ticular community is very large and from a lack of communication there is only a supply of shinplasters or of light-weight money, people may and will to a certain extent use that money rather than let their accounts go unsettled or be left to ordinary barter. That is practically a forced legal tender. Now, if that same result is brought about by a law which makes the poorer money legal tender in payment of debts, then people will use it for that purpose; and in every case where, either by law or by circumstances, a forced circulation is given to poor money, the result will be that everybody who stops to think—and most people do—will continue to pass that poor money and keep it in circulation while they will continually hoard the good money or use it to pay debts in quarters where creditors will not take the poor money. The result will be that the poor money will drive the good money out of circulation. If it is claimed that any amount of poor money or doubtful money which is not given, either by circumstances or law, forced circulation has any effect whatever upon the circulation of good money, then I do not concur. I believe it is generally conceded that this is entirely outside of the workings of Gresham's law.

The CHAIRMAN. I do not concede it.

Mr. BEOSIUS. I do not take that as being conceded, and I do not think it is true.

The CHAIRMAN. Let me state my disagreement on that proposition. The creditor will take the depreciated money rather than have his debt remain unpaid, holding that that is better than nothing, and if this—

Mr. WARNER (interrupting). The creditor will not take the depreciated money unless his necessities are such that he is practically forced to take it; and the fact that he is taking depreciated money does not make it current or help it crowd out good money any more than, if he takes a horse he would not buy except in payment of a bad debt, this drives good horses out of the market.

In other words, I do not understand that Gresham's law involves a novel principle of currency or any uncommon trait of human nature. It is simply this, that it is so natural for us to prefer our own interest to that of our neighbor that each of us, if he has both good money and poor money, will pay his debts with the poor money if he can make his creditor accept it and keep the good money for himself or pay it out to some one whom he can not make take poor money, with the result that the poor money is kept in active circulation and the good money hoarded or sent out of the country just as in Gresham's time. There is no Gresham law, or any other kind of a law, that says people will keep poor money when they can get good money for it. As long as poor money has a legal or virtual forced currency it will drive good money out of circulation; but whenever this poor money is made redeemable in good money it will be promptly offered for redemption and the good money will drive out, or call in, the poor money just as it did in Gresham's time. Whenever current redemption in good money is adequately provided, Gresham's law has no basis on which to operate.

If I may be pardoned the suggestion, the gentleman seems to have accepted the loose statement of Aristophanes, rather than the more accurate one of Ricardo, which, under permission, I will insert here.

Oftentimes have we reflected on a similar abuse  
 In the choice of men for office, and of coins for common use;  
 For your old and standard pieces, valued and approved and tried,  
 Here among the Grecian nations, and in all the world beside,  
 Recognized in every realm for trusty stamp and pure assay,  
 Are rejected and abandoned for the trash of yesterday;  
 For a vile, adulterate issue, drossy, counterfeit, and base,  
 Which the traffic of the city passes current in their place.

[Frere's translation of Aristophanes, "Frogs."]

Whilst each of the two metals was equally a legal tender for debts of any amount we were subject to a constant change in the principal standard measure of value. It would sometimes be gold, sometimes silver, depending entirely on the variations in the relative value of the two metals; and at such times the metal which was not the standard would be melted and withdrawn from circulation, as its value would be greater in bullion than in coin.—RICARDO.

Mr. BROSIUS. Might I say right there, the channels of circulation can only contain a certain amount of money?

Mr. WARNER. That is right.

Mr. BROSIUS. If we fill those channels of circulation with a certain kind of money, inferior money, does it not crowd out the other?

Mr. WARNER. The gentleman is entirely correct in that. It is certainly true that, while the amount of money which is required for business purposes varies from day to day and from week to week; yet at any given time there is a certain amount which for that time is sufficient; and if there is afloat, under circumstances which prevents it from being promptly redeemed, or under circumstances which discourage its contraction by redemption, a greater amount of money than is wanted, the poor money will tend to drive the good money out.

We have an example of that at the present time to which I would like to refer. In this country, at the present time, we have a number of different kinds of currency. Some of those kinds of currency, notably one, gold, is deemed by everybody throughout the country and throughout the world to be absolutely money. In the opinion of a great many people, no matter how small a proportion of our population, the other kinds of currency are subject to a question of doubt, infinitesimal it may be, so small as not to be expressed in difference of exchange, but a doubt which makes a preference, and, going outside of our country, the great mass of the people prefer the gold which they do understand to the other currency which they do not understand, even though they may not stop to reason in regard to the comparative safety of the one as compared with the other.

At the present time, not, as I believe, on account of any question of lack of confidence in the currency, but as the result of numerous causes, there is not that certainty as regards the immediate future which induces prudent men to want to borrow, or that assurance of prompt prosperity which induces prudent men to want to lend money. The result is, between the borrower and the lender, that a large amount of money has accumulated in banks, and to-day in the city of New York alone there is, I presume, \$100,000,000 deposited in the banks that is to-day drawing no interest, and they can not let it out at 2, or even 1, per cent a year.

Mr. RUSSELL. That is because it is a condition of the business of the country; that does not depend upon a currency system?

Mr. WARNER. I am endeavoring to follow out the suggestion of my friend from Pennsylvania; the business situation is now such that what under ordinary circumstances would be merely a normal supply of currency is to-day more than, in the suspended condition of business, the business community wants to use.

Mr. COX. One moment on that point; is not this the state of facts—

Mr. WARNER. I would like to continue this. Now the result of that, in exact accord with the principle which the gentleman from Pennsylvania mentioned, is this: People not being able to get interest for their money look about for investments. There are very few standard investments as to which a part is not owned in Europe—no matter

whether it is 10 per cent or 20 per cent; in some cases the percentage is larger. Therefore, when a man tells his broker he is getting no interest on his money and that he has \$20,000 or \$50,000 locked up in the bank which he wishes him to invest in some way that will enable him to get a little interest, and that broker goes into the market and buys Erie, or New York Central, or sugar trust, or any other kind of investment, that causes a current of those securities from other parts of the country and other parts of the world to meet the demand thus caused.

Now then, if only 10 per cent of those are procured from Europe, if only 5 per cent are procured from Europe, the result is this, that the European part will all have to be paid for with the kind of money that is recognized as such in Europe. Therefore, even if everything here can be here paid for by any currency we have, the result will be that we will have a drain of gold from this country; that will be the net result on account of the plethora of currency as compared with the wants of business. Now, suppose we should have a business revival, of which there are some signs now—if there should come a period of confidence so that prudent men would be glad to start new enterprises and want to borrow money, so that other prudent men would have such faith in the average prosperity of would-be borrowers as to be willing to lend money—the result would almost immediately be that people would sell instead of buying bonds and stocks, and the result would be that the situation would become more favorable for securities going away than for them to come hither.

The result would be not merely that the operation would be stopped of those causes which tended to drive out of this country the gold and keep in this country other currency, but there would be set in operation causes that would bring gold to this country on account of the fact that our other currency was sucked up by the demands of business. We had an example in another line only a few weeks ago, when people hoarded currency. If you will remember, during last August everybody hoarded every kind of currency they could, in order to have ready money, and the result was that \$40,000,000 of gold actually came back to us from Europe, brought here practically by the exchange of securities. Now, whether it is by a panic, causing a want on the part of the people for the currency, or whether it is by expansion of business and growth of confidence that cause more money to be needed on account of the greater amount of business to be transacted, in any case, as long as we need the whole of, or more than, the currency we have of all kinds in the country, there is no tendency to drive any kind of currency out. But the moment that, either from a suspension of business and a lack of demand for the currency we have in the country, or from any other cause, the amount of currency extant is greater than the amount required for the business of the country, then we have drawn from us the kind of currency, if there is any kind we have, that people like elsewhere; and we have left with us the kind of currency, if such there is, that is more acceptable here than elsewhere.

Under this bill, I believe an absolutely automatic contraction of the currency would take place whenever the amount outstanding was greater than that required by the then demands of business. I believe too there would ensue instantly an automatic expansion of the currency whenever the amount outstanding was less than the growing demands of business. And a main difference between this system and the system proposed by the gentleman from Illinois, the good points of which I recognize, is its automatic elasticity. You take State-bank currency and let it be issued; and if, for example, a banker in New

York found they were piling in the currency upon him he would promptly send home for redemption the bills of other banks. In each village they would send home for prompt redemption the bills of the banks of every other village; and money of less repute would be most promptly sent home for redemption. Whereas now the national-bank currency, being good in every part of the United States, the currency proposed by the gentleman being evenly good, so that there is no question of redemption, that fact takes away an inducement for prompt redemption, upon which I confess I rely as most beneficent in order to help insure automatic expansion and contraction of the currency in precise proportion to the demands of business.

Mr. JOHNSON, of Indiana. Your whole theory in regard to the automatic expansion and contraction of the currency is predicated upon the belief that some of the banks will not be worth anything?

Mr. WARNER. No.

Mr. JOHNSON, of Indiana. I can not see that there is any other result.

Mr. WARNER. I am very glad that you made that point.

Mr. BROSIUS. That is the very point upon which the whole system seems to be based. That is the pivot upon which the whole automatic system rests, that the money issued by the State banks is not as good universally as the national-bank notes, and that therefore for fear lest something will overtake them, some misfortune, they are instantly returned for redemption to those banks? If it is not that fear which prompts the New York banks to return them at once for redemption, why would they return those notes any more than they would the notes of a national bank issued in Pennsylvania for redemption?

Mr. WARNER. I will tell you. Under this bill the banks are left to get as large a profit as possible from local circulation; and the process of issuing notes to meet the demands of their locality is so facilitated as to permit them to exploit in the most prompt and thorough manner the local field. Now, so long as the demand for the currency is such as to permit the banks in any locality to keep afloat the full amount of their notes, which they are permitted by law to use, they would have no particular interest in sending other notes home for redemption—excepting periodically and in a perfunctory sort of way. The very moment the amount of currency in the country becomes redundant, then the only way that any bank can keep its own notes outstanding, and thereby continue its profits on circulation, is to keep the field about itself clear by sending promptly back to the localities from which they come the notes of other banks that are presented over its counters.

Mr. BROSIUS. That is equally applicable to national banks as State banks?

Mr. WARNER. Yes, so far as concerns the new currency proposed, but not as concerns the present national-bank currency, the conditions for the issue of which are such as not to offer the same opportunities for profit, and hence not the same inducements to send home redundant circulation.

The CHAIRMAN. I understand from your bill that the bills of the banks are redeemable in United States notes, legal-tender notes?

Mr. WARNER. They would have to be as long as we have legal tender.

The CHAIRMAN. They would not be compelled to pay in coin?

Mr. WARNER. Not necessarily; though if I had my way they would be.

The CHAIRMAN. And your reason for presenting them to the bank for redemption is the holder of the bill prefers the legal-tender note to the bank's note?

Mr. WARNEE. The bill-holder, whenever he finds that he has more money than he needs, and he is thus compelled to choose without reference to whether he knows anything about those bills or has any doubt as between the two kinds, will deposit the bills he does not know about rather than the bills he does know about; while each bank the very moment they get to its counter—and there is the real place where the system effectually works—will be obliged, will be induced, will be practically paid, to send back promptly, by every means that the ingenuity of commerce can devise, the notes of every other bank than its own.

Mr. RUSSELL. And if he was fortunate enough at that time to hold the national-bank currency he would not do that?

Mr. WARNEE. I accept the gentleman's suggestion that under the national-bank system there is less inducement and opportunity whenever we have a plethora of currency for the banks, of their own accord, to reduce it down to the proper level; and it is because there is less inducement under the present system, and because I want to give greater inducements and make the system more automatic in its workings, that I believe that in this respect the system I propose is superior to the present national banking system.

The CHAIRMAN. Let me ask you there, in order that I may understand you thoroughly. The bills are in all instances printed by the General Government?

Mr. WARNEE. Yes, I am coming to that.

The CHAIRMAN. The name of each bank issuing will be upon the bills which are to be signed by the bank officials?

Mr. WARNEE. Precisely.

The CHAIRMAN. Now, this banking system is open to all banks existing that may avail themselves of it?

Mr. WARNEE. Within limitations.

The CHAIRMAN. To issue 75 per cent of the unimpaired capital stock of the bank?

Mr. WARNEE. Yes, sir.

The CHAIRMAN. There are 9,000 banks in the United States, including loan and trust companies, of which there are 228. There are about 800 private banks and about 1,000 savings banks, and of national and State banks probably nearly 7,000. Assuming that only national and State banks will avail themselves of the currency you would provide for 7,000 different kinds of bills of banks, and each bank probably would have five different denominations of bills, one dollar, five dollars, ten dollars, twenty, and a hundred, say, so you would have 30,000 different kinds of bills in circulation in the United States?

Mr. WARNEE. Yes, in the same sense that under the present national banking system we have, say, 20,000 different kinds of currency.

The CHAIRMAN. These banks not being liable for their own redemption—

Mr. WARNEE. The national banks are liable for the redemption of their bills, and if the system is such as in the line of probabilities to leave the proposed guaranty fund a sufficient insurance against failure, the result would be the same here as in the case of the national banks.

The CHAIRMAN. The question is, in regard to the circulation under that bill each bank would be liable for the redemption of its own bills.

Mr. WARNEE. The national banks are now—

The CHAIRMAN. With the additional guarantee of the Government?

Mr. WARNER. Not at all.

The CHAIRMAN. The Government promises to pay, ultimately, the national bank notes?

Mr. WARNER. Not at all; the Government promises simply to apply certain property of the bank, to wit, certain national bonds that the bank has deposited, in the payment of the notes.

The CHAIRMAN. That is, practically, the bill-holder does not look to the bank but to the General Government, but in your case the bill-holder would look entirely to the bank for redemption.

Mr. WARNER. The bill-holder would know that the bank had taken out what might be called a "Lloyd's" insurance, which, in the opinion of Congress, is sufficient to insure the prompt payment of their bills. The question of whether the assessment for the guarantee shall be a half per cent or one per cent, or whether it shall be accumulated to three per cent or to five per cent, is a matter of detail for the judgment of the committee.

The CHAIRMAN. Just on that point. The guarantee fund raised by your bill is 1 per cent?

Mr. WARNER. No, 3 per cent on the circulating notes.

The CHAIRMAN. I did not so read it, but that is all right. That is all you have as a guarantee, that is collected from all the banks to be held for the redemption of the notes of a particular bank that might fail?

Mr. WARNER. Precisely, for the currency alone.

The CHAIRMAN. The tax derived from all parts of the country will be liable for the failure of one particular bank?

Mr. WARNER. Unquestionably.

The CHAIRMAN. It is a general partnership by which they are all carried?

Mr. WARNER. It is like a Lloyd's insurance.

The CHAIRMAN. Now the only fund is the fund that is raised here?

Mr. WARNER. Yes; so far as concerns the guarantee fund, and that is only to cover the currency and nothing else.

The CHAIRMAN. You mean 3 per cent of the whole amount of the circulation?

Mr. WARNER. Yes.

The CHAIRMAN. How much would the tax be upon each bank for the amount paid in?

Mr. WARNER. It pays a tax of one-half per cent upon taking out, and also pays an additional tax of a half per cent on the amount outstanding more than a year. In view of the fact that a great part of that taken out is in circulation for a much less time than a year I believe it practically involves for the first two years a tax of about three-quarters of 1 per cent upon the circulation. But in case of banks that continue a large circulation for a number of years, it would involve only a total assessment for the whole time of 3 per cent in the aggregate, in addition to the expenses, and would probably be reduced to below one-half per cent a year on actual circulation as the ultimate result.

The CHAIRMAN. This guarantee is the only agency the Government assumes so far as the redemption of the notes is concerned?

Mr. WARNER. With one exception. Whenever a bank wants to go out of business or has failed, upon the deposit, by it or its receiver or representative, with the Treasurer of the United States of an amount of cash equal to the outstanding amount of notes issued by it, it is provided that from that time all liability of the bank on account of its cur-

rency shall cease; and that the Treasurer shall apply the cash thus deposited to the payment of those notes when presented.

The CHAIRMAN. Just as it is in the national-bank bill now.

Mr. RUSSELL. I want to call your attention to this provision under which the Comptroller of the Currency can issue these notes; that he must be satisfied "that it (association or bank) has made adequate and convenient provision for the redemption of its circulating notes to be issued as provided in this act." I want you, either now or perhaps at some subsequent hearing, to give your opinion of what that adequate and convenient provision should be?

Mr. WARNER. I am perfectly willing to answer the question, although I consider it somewhat immaterial. So long as the clearing-house association of a city—

Mr. RUSSELL. But these banks are not all in a city.

Mr. WARNER. Wait a moment. If the clearing house of the principal city of a State was willing to take upon itself the current redemption of those notes, that would ordinarily be sufficient. In other words, what I mean to say is this, If I was a banker sitting in New York and I declined to accept exchange which was made payable at and accepted by a clearing-house association of a large city in any State, I have no doubt that my friends, the presidents of the other banks, would say, and say rightly, I was a crank. I can conceive of circumstances, however—

Mr. RUSSELL. That would depend upon the time.

Mr. WARNER. I can conceive, however, of circumstances such as to raise a very proper doubt as to whether that was a safe provision. That is the reason why, in preference to any hard and fast legislative provision I, leave it in such shape that the Comptroller of the Currency can at any moment insist upon such provision as he considers adequate.

The CHAIRMAN. Is not that a very large discretion to give to any man?

Mr. WARNER. I am inclined to think it is. That is the most objectionable provision to my mind in this whole bill; and the only reason why I venture to suggest it is that, after attempting to weigh the probabilities and the possibilities of trouble under this, and attempting to weigh the convenience of having some such provision for redemption, I have arrived at the conclusion that I would not be justified, by a doubt as to the policy of giving discretion to an executive officer, in losing the great convenience and confidence which would, I believe, result from this proviso.

Mr. RUSSELL. But he has got to adopt some rule according to this, because he is not allowed to use these notes blank until he is satisfied that the bank has made adequate and convenient provisions?

Mr. WARNER. Yes; he can change it the next day.

Mr. RUSSELL. I do not know about that, for if a bank complies with the provisions—

Mr. JOHNSON, of Indiana. I think after you conclude your general remarks it will add much to this hearing if you will take it up by sections afterwards.

Mr. WARNER. That is what I intended to do.

The CHAIRMAN. Do you desire to continue your remarks at the next meeting?

Mr. WARNER. I think I had better do so.

The CHAIRMAN. Then the committee will now stand adjourned until the next regular meeting of the committee, when Mr. Warner will continue his remarks.

Thereupon the committee adjourned.



COMMITTEE ON BANKING AND CURRENCY,  
*Tuesday, February 12, 1894.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

Hon. JOHN DE WITT WAERNER, a Representative from the State of New York, appeared before the committee in continuation of his remarks in advocacy of H. R. 5595.

Mr. WAERNER then addressed the committee; he said:

Mr. Chairman and gentlemen of the committee: I have already referred to the general difference between the bill proposed by myself and the draft proposed by the subcommittee on the one hand and the bill proposed by Mr. Cox on the other. There have been two other bills discussed before this committee, one being that of the chairman.

In view of the very full discussion which that has had it may be proper to say that this bill is, nearly as may be, a counterpart of the bill proposed by the chairman, proceeding, as it does, upon a directly opposite principle.

The bill proposed by the chairman, as he very fully explained, for example, was based upon the assumption that it is the duty of the Government to provide a currency for the people, not merely to coin money—as to that he and I will agree—but to supply paper currency, a currency which does not work out its own redemption as coin does. Another principle suggested by him and worked out thoroughly in his bill is that the supply of currency and the administration of the currency system is not necessarily or even desirably connected with any particular kind of business whatever, has no necessary connection with discounts and deposits or the other classes of what are called banking business; and also, it being the duty of the Government to provide a currency, and this having no particular connection with any other sort of business, that it is proper for Congress, and indeed the duty of Congress to undertake such details of administration as it may consider necessary to insure a safe, an abundant, and a satisfactory supply of currency.

This bill is based upon the opposite assumption; that it is not the business of the Government to supply note currency any more than it is the business of the Government to supply our daily bread. This bill is based upon the principle that, instead of note currency having no connection with banking business, it has no business to exist except as an incident, not necessarily of business transacted by a bank, but of the general kinds of business the greater part of which we ordinarily term banking business. My bill is also based upon the principle that, instead of its being the Government's business to attend to every detail of management of our currency system, the best thing the Government can do is, generally speaking, to let it alone.

In my bill no attempt has been made to meet all the exigencies and conditions which may arise in the development and use of a currency system. It is based upon the assumption that, if we should repeal every law in regard to the matter, this country would probably go on and have a pretty good bank-note currency. The only reason for any administrative provisions here—the excuse for it, indeed—is this: that the experience of civilized nations, especially those most nearly like ourselves, has led them on the whole to do their business with reference to note currency under certain restrictions and subject to certain safeguards. Unquestionably, too, in view of the thirty years' paralysis that our State banking system has been subjected to, we have no right

to assume, and it would be false if we did assume it, that our State banks are in a position now to supply promptly as safe and elastic a bank-note currency as if they had had the experience and development of the last thirty years to base it upon.

Therefore, though I doubt very much whether any advantage to be derived from any participation by the Government in the management or supervision or use of the bank currency system is sufficient to outweigh the probable disadvantages which in other respects will come from any interference by the Government with it, yet there is no question but that there are advantages which, for the present, will come from having the system start out under such uniform, well-known, and well-established conditions as shall enable those who have no means of keeping track of different systems and those who are not qualified to weigh the advantages of different plans—and they constitute nine hundred and ninety-nine one-thousandths of our people—to have at the start a confidence that comes from knowing that the system they are asked to test is the result of the best experience of other countries under similar conditions. And therefore the provisions of this bill are merely an attempt to make our Government serve, not control, the note-currency system we propose, and to provide at the start such safeguards, a limited number of them, as it may be assumed each State would immediately or very soon adopt for itself in some shape or other.

It is an attempt on the part of the Government to do, more cheaply and more advantageously for each State than it could do for itself, something that it must be assumed to want done, either by itself or otherwise. In other words, the analogy between the system I propose and the post-office is perhaps the most plain one. There is no question but what every man around this table, no matter what his party, would immediately rise in strong opposition to our Government controlling in any manner the kind of news or the kind of correspondence or the sort or the amount of business that should be facilitated by the post-office; and yet there is probably not a man around the table who does not recognize the universal desire on the part of every civilized man for facilities of communication with his fellows, and who will not agree with me that the post-office simply does just what each individual is certain to want done more cheaply for each individual than he could do it for himself. That is the principle and only principle upon which I can for a moment justify any even ministerial, as distinguished from political or economic, supervision by our Government of a State-banking system.

Now, briefly to refer to the bill of Mr. Walker, I understand that the difference between the bill reported by the gentleman from Massachusetts and the one reported by myself is this: I believe the gentleman from Massachusetts agrees with me, although I do not intend to speak for him, in the business principles upon which note currency can be most safely supplied, floated, and redeemed. He differs with me in the extent to which the details of administration, not economic, should go. He goes further than do I in committing administrative detail to the Federal Government. I do not understand that there is any very serious difference between the gentleman from Massachusetts and myself as to the proper basis of a currency.

Mr. JOHNSON, of Indiana. That is, he believes too much in the paternity of the Government, according to your theory?

Mr. WARNER. He agrees with me, as I understand it, that the currency business should be left to run itself as an incident of other business with which the Government has nothing whatever to

do; he, however, sees no objection to carrying the administrative assistance of the Federal Government down to matters of detail—

Mr. JOHNSON, of Indiana. And that, you think, is unwarrantable?

Mr. WARNER—to a point which, I think as a matter of policy, is unwarrantable. As I understand it he protests as strongly as I do against the Government attempting to regulate, in a political way, or even in a general economic way, the supply of currency. There are some features in his bill which might suggest much more radical differences such as, for example, those providing for legal tender, but, as I understand the gentleman from Massachusetts, that is simply a concession to his own party friends.

The first paragraph of the bill I have introduced provides for the repeal of all acts or parts of acts imposing a tax of ten per centum on notes of State banks and State banking associations, or of national banking associations, when issued under the provisions of this act. In other words this bill does not attempt to wipe from our Federal statutes all traces of what I consider unwarrantable interference on the part of the Government with the banking system; it simply repeals so much of that legislation as applies to State banks, State banking associations, and national banking associations, when acting under this act.

Mr. HALL. Do you use the words "banking business" to mean the power of issuing currency. Just a moment ago you used them in that connection to mean the power of issuing currency?

Mr. WARNER. I do not remember to have used it just in that connection, but I would hardly want to say that, when I use the words, I mean to limit them as narrowly as that, because the legitimate issue of currency seems to me to be an incident of what may be called the banking business, though not necessarily business transacted exclusively through a bank.

Mr. JOHNSON, of Indiana. I do not understand the meaning of this section exactly. It repeals all acts and parts of acts imposing a tax of 10 per cent on national-bank associations, either when used for circulation and paid out or when used for circulation or paid out—

Mr. WARNER. Mr. Chairman, the peculiar phraseology of the first paragraph is due to the peculiar phraseology—and to some extent the incongruous phraseology—of the different acts now upon the statute books relating to the subject. I have endeavored in the repeal clause to include, as far as possible, the provisions of the several acts, and the result is not a very happy one, though not my fault, I hope.

Mr. JOHNSON, of Indiana. I do not understand that there is any tax imposed by the present law upon any national-banking association.

Mr. WARNER. I beg the gentleman's pardon. The present law imposes a tax upon any notes of any national bank unless issued in accordance with the national-banking act.

Mr. JOHNSON, of Indiana. That is in the existing national-bank act?

Mr. WARNER. Yes.

Mr. COBB, of Alabama. If you impose a tax upon certain banks and not upon others then the tax is not uniform.

Mr. WARNER. This bill imposes no tax upon any banks.

Mr. COBB, of Alabama. That is to say, because the United States crushed out the banks by a tax that therefore there are no banks?

Mr. WARNER. No; this repeals the tax as to every bank which has been "crushed out" by the U. S. Government.

Mr. JOHNSON, of Indiana. This does not repeal the tax now imposed by the law of the United States upon any person or individuals operating, except such as are operating by virtue of the law of a State?

**Mr. WARNER.** You are right.

**Mr. JOHNSON, of Indiana.** You have gone somewhat into the discussion of this in your bill here and also during the other discussions we have had before this committee, but now tell me why you oppose the unconditional repeal of the tax upon State banks?

**Mr. WARNER.** The reason is this: Under our present national-bank act, if unconditional repeal was had simply of the 10 per cent tax against State banks or banking associations, then, since in several of the States there are absolutely no banks except national banks which would then be able to issue any currency whatever, and also because in the States where State banking systems were the strongest, the old strong State banks have taken national-bank charters; therefore, simple repeal will still leave incapable of assisting to furnish a safe and elastic currency the only banks which in some States could do so, and in most of the States the greater number of banks which are in the best condition, both as regards soundness and experience, for doing so.

**Mr. JOHNSON, of Indiana.** Will not national banks surrender their charters under the national-bank law and accept charters under this law?

**Mr. COX.** What is to prevent other companies from establishing banks, if you repeal the act?

**Mr. WARNER.** I will answer the two questions together. There would be nothing to prevent the surrendering by national banks of their charters and going back again under State laws, but there are great objections to forcing them to do so—the great conservatism of business institutions, the expense involved in doing it, and the real loss which, especially in their opinion, consists in the parting with the good will that always attaches to an institution, unchanged in status and name, that has won for itself a good reputation. So much for that. And in great States like Texas, like Illinois, and like Missouri, their constitution or organic law is in such shape that, even if the national banks could take out State-bank charters, they could not even then issue any bills.

**Mr. JOHNSON, of Indiana.** The necessary effect, then, of this bill is to create different kinds of banking institutions?

**Mr. WARNER.** It is to establish a new system.

**Mr. JOHNSON, of Indiana.** Instead of preserving a uniformity it will have a contrary effect, necessarily, according to your own statement?

**Mr. WARNER.** It establishes one new system; as long as the national-bank system continues, it may be said to be an additional system.

**Mr. JOHNSON, of Indiana.** According to this theory the national banks would not, in those States which you have mentioned, go out and take charters under the new system?

**Mr. WARNER.** They might not immediately do so.

**Mr. COBB, of Alabama.** In that connection I want to ask your objection to the existing systems of—

**Mr. JOHNSON, of Indiana.** Are those the only objections you have to the unconditional repeal of the tax of 10 per cent upon the State-bank circulation?

**Mr. WARNER.** Mr. Cobb some minutes ago asked the question if I wanted to favor existing institutions, and I will say to him very frankly I do. I always expect to be in favor of existing institutions; and I believe that, as far as possible, what we should attempt to do is to facilitate the development of existing institutions under existing conditions rather than attempt any legislation which will, to any extent that can be avoided, interfere with existing institutions, to build up new ones.

Mr. COBB, of Alabama. In that connection your point made there was you are opposed to the repeal of the State bank tax because certain States in the Union had constitutional inhibitions against the establishment of State banks; that is one reason, and yet your very bill provides for a system which could not be established in Missouri and in these other States where the constitutions prohibit them.

Mr. WARNER. I beg the gentleman's pardon. This bill provides for a system which could go into operation to-morrow in the States of Missouri, Texas, and Illinois, no matter whether they permitted their State banks to issue currency or not.

Mr. COBB, of Alabama. But they would not be powerless to prevent those under a State-bank charter; you mean under a national-bank charter?

Mr. WARNER. I appreciate the gentleman's suggestion. It is a fact that as regards the States of Texas, of Missouri, and Illinois, and others similarly situated—

Mr. JOHNSON, of Indiana. How many more are there?

Mr. WARNER (continuing)—this act does give an immediate and valuable franchise to national banks in those States, in which no other institutions in those States have at present any opportunity of sharing. If I were a citizen of Texas, Missouri, or Illinois I should feel it my duty to call the attention of the legislature to that and demand that the financiers of those communities should be given a chance to take advantage of this without complying with the provisions of the national-bank act; but as long as those states chose to keep their institutions from sharing the benefit of this act that would be their own lookout.

Mr. COBB, of Alabama. Would it not be the same thing if you should repeal the 10 per cent tax unconditionally and then call upon those States to take advantage of it in the way you suggest?

Mr. JOHNSON, of Indiana. According to your theory there would not be any great necessity for speed in changing the constitution of those States which inhibit these State banks, because you say conservative business would not desire to make a sudden change.

Mr. WARNER. No; there would probably be no great haste in changing the system; and that would be because the national banks now in those States possess in large measure the confidence of the people of those States and would supply in part at least the immediate demands of those States for a safe and elastic currency. That answers the suggestion of the gentleman from Alabama. It is true we might pass an act in such shape as practically to choke the people of Missouri, Texas, and Illinois into changing their constitutions as a condition of receiving the benefits of this act; but my idea is rather to let them change their constitutions whenever they please, and that no act we shall pass should be such as will coerce them. If they wish to take advantage of it well and good; if they do not, then well and good, too.

Mr. HALL. Suppose they do not take advantage of it, would not there be a tendency upon the part of those States that did avail themselves of it to try to get out all the currency they could under the circumstances, and make competition to furnish other States with the best currency.

Mr. WARNER. Unquestionably, and that is one reason why it is not worth while to coerce them.

Mr. HALL. I want to ask another question, and that is this: You know that there is an objection, not in my mind, but an objection I have heard urged in a thousand different instances by the Populist

class of the United States. You will find the Populists are all opposed to State currency, or opposed to any kind of currency except a currency issued by the national Government, and the argument they bring against that is that the minute you divest the power of issuing money from the national Government where the people have control of it, and vest it in banking institutions at once the banking institutions organize and form a syndicate and will decrease the volume of the currency and bring about a corresponding decrease of the price of the products, and then buy up their products, etc. That argument I do not recognize has any sense in it for the reason that it is based upon a false principle, but I would like now for you to meet that.

Mr. WARNER. The terms upon which, in any State, local institutions are to be allowed to take advantage of this proposed system is left exclusively to the legislature of that State, and hence it would be entirely competent for the people of any State to afford such facilities and to offer such inducements, or on the other hand to impose such restrictions, as in their mind would head off monopoly, and see to it that they are supplied with an abundant supply of currency.

Mr. JOHNSON, of Indiana. Is it your contemplation that in the course of time the national banks really would surrender their charters and this constitutional provision prohibiting State banks would be changed, repealed, and that the local banks, which I take is the aim of your bill, would supersede them?

Mr. WARNER. I have no hesitation in answering that the business common sense of this country will turn out to be much more true to its interests than will any prediction or supposition I may make. I believe, however, that the result will be this: A large proportion of the national banks, especially those which do not depend in a large measure upon their circulation, will continue at least a generation, possibly for two generations, to act under the national-banking act; but, in so far as concerns national-bank circulation, in all probability it will slowly dwindle, unless conditions of war or conditions of panic or such extraordinary business prosperity shall ensue as shall continue the inducement to issue currency under the national-bank act.

Mr. JOHNSON, of Indiana. The unconditional repeal of the tax on State-bank circulation would not interfere in those States which have constitutional prohibition; it would leave them to go ahead under the national-bank act?

Mr. WARNER. Certainly.

Mr. JOHNSON, of Indiana. Then, the reason you gave for not providing for the unconditional repeal would not apply?

Mr. WARNER. I beg your pardon. They could still go ahead under the national-bank act, but they could not take advantage of this act which offers opportunities and inducements for a safe and elastic currency, which the national-bank act does not offer.

Mr. JOHNSON, of Indiana. But they could get the advantage just as quick that way as the other; they would have to repeal the constitutional inhibition?

Mr. WARNER. Not the slightest; the national banks do not depend upon the State law, and are not affected by State constitutional provisions with reference to State institutions.

Mr. COX. I want to draw your mind to this proposition. Take the State of Missouri or any one of those States. You adopt your law and the national banks in the State of Missouri want to get the advantages of the provisions of your law. Now, will you tell me exactly what advantages that bank would get under your law in those States which

it does not already have under the national-bank act? Of course I understand your law in one respect; at the outset in furnishing the security for circulation I understand that it is different from the national bank law; but after it has done that, what other advantage does it get under your law which it does not have under the present banking law of the United States?

Mr. WARNER. I do not entirely understand the question of the gentleman.

Mr. COX. Let me make it clearer, if you please. In those States which have provisions against the issue of certain circulation the only thing your bill can affect are national banks.

Mr. WARNER. And such other banks as, by their free will, the people of the States shall afterwards permit.

Mr. COX. I am putting my question on the basis of existing law. It simply now confers some benefits upon the national bank system.

Mr. WARNER. Certainly.

Mr. COX. Because if it did not, it would not affect it at all. Now, then, I want to know what advantages or what privileges do the national banks get in the States of Missouri, Illinois, or other States that they do not already have under the national bank law.

Mr. WARNER. The privilege of issuing under terms which do not compel them to provide Government bonds.

Mr. COX. I see that.

Mr. WARNER. And the privilege of issuing without a special tax of—

Mr. COX. You mean one-fourth of 1 per cent.

Mr. WARNER—practically 1 per cent a year on the circulation. Those are the two principal points. They could act with greater facility and promptness and at a less expense.

Mr. COX. Your first point is that they get a circulation upon a different security?

Mr. WARNER. They will have better facilities to get circulation.

Mr. COX. Second, the tax on the circulation is repealed?

Mr. WARNER. And they will have less expense in getting the circulation.

Mr. JOHNSON, of Indiana. You were asking about States which have no constitutional prohibition?

Mr. COX. I asked about the States which have a constitutional prohibition. I want to see what benefit a bank gets under this law in those States. Now, that is the benefit derived by national banks in those States that have a constitutional prohibition, and those are all the advantages that any national bank can get under your law, whether there is a prohibition in the State or not?

Mr. WARNER. That is all.

Mr. HALL. There is another constitutional inhibition existing which you will find—

Mr. WARNER. Please wait a moment. Last summer we had a stringency of money, and money was worth almost anything you could charge for it. It was very important to the people that that want should be supplied. The national banks started in to supply it and did their best, but as an actual fact their circulation did not increase to any extent until after the want was over, and then it grew so rapidly when it was not wanted that "the last state of that man was worse than the first." Under the system now proposed currency could be promptly supplied to relieve a community.

The CHAIRMAN. By the deposit of securities?

Mr. WARNER. Without any special security at all. If a bank for example had \$1,000,000 capital it could issue \$750,000 as quickly as the Comptroller had the notes printed.

The CHAIRMAN. As soon as this bill was passed a bank with a million dollars capital would simply write to the Comptroller and state that it desired to make application to issue currency under this law, and if he would approve of it, he would send them notes to the amount of \$750,000, and there would be nothing more to do except the signing of the officials' names to it. Now they would put these notes in the vault, and whenever anybody wanted to borrow money, or when there was any stringency, and they wanted to get it out, they would lend it out!

Mr. WARNER. Exactly; subject, of course, to the conditions imposed, which involve no unnecessary delay or expense.

Mr. HALL. I do not know how the constitutions of the States of other members of this committee read, but here is a provision in your law in the second subdivision of the second section making the stockholders doubly liable—that is, a double liability clause. Now, there is a clause in the constitution of our State which provides that there shall be no double liability of any stockholder. There is a constitutional inhibition against it, abolishing any power of the legislature to make a law to create a double liability on a stockholder. Now, I do not know how the constitution of other States read, but I expect that upon examination you will find half of the States of the Union have a constitutional inhibition against a double liability on the stockholders.

Mr. WARNER. Mr. Chairman, my answer to that would be this: In the first place, I think the gentlemen is mistaken. I think the tendency in most States is towards an increased liability of stockholders and towards perhaps a—

Mr. HALL. It does not apply to banks solely, but all corporations.

Mr. WARNER. I understand, and if the laws of any State are in such a condition, and that State wishes to keep them in such a condition, as not to permit the capital within the State—the institutions of its State—to take advantage of this act, it is far from my intent to coerce them; that is their business.

Mr. HALL. How is the law in New York?

Mr. WARNER. There would be no trouble about the law in New York.

The CHAIRMAN. I want to ask, assuming a bank is organized in the State of New York with a capital of a million dollars and that stock has all been paid out under the law which makes the stockholders liable simply for the stock out, now can you make those stockholders liable for an amount equal to that which is a double liability, we will say, without the consent of every stockholder by a reorganization of the whole bank. How can you make a bank liable when they have not agreed to be liable?

Mr. WARNER. That is a very proper question. This act applies only to associations other than national banks. As to these other institutions, there would have to be legislation, upon such terms as it is ordinarily had in changing the corporate constitution of a bank. In our State, however, every charter is granted, with an expressed reservation of the absolute power of the legislature to alter and amend its charter at any time.

The CHAIRMAN. By the legislature, but not by Congress?

Mr. WARNER. Precisely. Now, this act provides, so far as the matter to which you refer is concerned, that it shall be provided for by State law. There are two reasons why I left it in that shape. In the



first place I do not believe in passing Federal acts practically to coerce banking systems. I believe in giving them opportunities and in letting them take advantage of them if they please; and, second, I have drawn this act, so far as possible, to avoid the question of jurisdiction between State and Federal courts.

Mr. COX. That was the difficulty you had.

Mr. WARNER (continuing). And by simply providing this prerequisite there is left no possibility of any question as to the right of the State court to enforce the preference given as well as the double liability of shareholders.

The CHAIRMAN. How would the note holder enforce any individual liability?

Mr. WARNER. By suit in the courts.

The CHAIRMAN. Each man by himself?

Mr. WARNER. He could do so. But the States all have provisions for receivers, joinder of all interested by proceedings in equity, etc. It is not my idea for one moment that this act contains or suggests all limitations, safeguards, etc., which ought to be thrown about any banking system.

Mr. JOHNSON, of Indiana. You leave it largely upon the States?

Mr. WARNER. Yes.

Mr. JOHNSON, of Indiana. Each one to pass its own laws?

Mr. WARNER. Precisely. In contradistinction to what our chairman calls currency—that is, something which is legal tender, something which is separate from business, something which the Government is to see to—the currency provided for in this act is simply a series of bills of exchange payable to the bearer; and every proviso in this act, even though in form a limitation, is intended rather in a legitimate way to float the currency than to restrict it.

Mr. RUSSELL. Corporation notes which would circulate?

Mr. WARNER. We have gotten, Mr. Chairman, into such a vicious method of thinking as regards the extent to which we are dependent upon Federal Government, that we do not stop to consider as to whether law really amounts to anything or not. We assume that any Federal legislation we have upon the statute book is effective; and we believe that some terrible thing would come upon us if we did not have it. If we found a law upon the statute book to-day permitting the people of the United States to breathe as often as they pleased, and, ten years hence a revision of the statutes should occur, and that law should be left out, I am greatly mistaken if three-fourths of the people would not howl and cry that the people of the United States were being left to suffocate. As long as that feeling remains, as long as we think we are dependent upon Federal law, we have got to go slowly.

Now, Mr. Chairman, the second section of the act simply provides in the first paragraph that the institutions which issue circulating notes subject to the succeeding provisions may include State banks and State banking associations—whenever they are authorized to issue notes by the laws of their States—and also, without reference to local authority, national banking associations. The first condition is that the notes shall be printed in blank by the Comptroller of the Currency, and it is provided that they shall be printed in such shape and form as to show what bank issues them, the State it is in, and that they are issued under this act. The object of that is not to restrict the currency, but rather to assist its circulation by a practical guarantee against counterfeits.

In accord also with the universal admission, in case of notes intended to circulate as currency, that it is necessary for the public to be informed as to the amount of them outstanding, the Comptroller of the Currency is to register these notes and thus provide against over-issue. This whole paragraph is purely an administrative provision, assuming what I believe to be universally admitted to be a matter of fact, that these are services which should be performed by somebody for each bank, that they are services in aid of and not in restriction of circulation, and which can be performed by the Comptroller of the Currency for all the banks at a less expense to each than it could be done by each bank for itself.

Mr. COX. I do not see that there is a provision for the registration?

Mr. WARNER. There are two matters, the distinctive paper and registration elsewhere provided for, which, perhaps, should be put in that paragraph.

The CHAIRMAN. What is the necessity for the registration when you simply limit the amount to 75 per cent of the capital stock?

Mr. WARNER. There is the question as to what notes are outstanding, and their redemption, especially when notes of banks which have gone out of existence come in and they have to be redeemed.

The CHAIRMAN. That is merely a record of the transactions which takes place with the Government?

Mr. WARNER. A matter of bookkeeping. Then, too, if there should be discovered a peculiar kind of counterfeit you can conceive that it would be desirable to know just exactly what bills were outstanding which were subject to that peculiar risk and subject to the peculiar kind of investigation necessary to head it off.

The CHAIRMAN. The object of that provision is twofold—to prevent the bank from overissuing 75 per cent of the capital stock and to secure such uniformity in the appearance of the bills as would prevent counterfeiting?

Mr. WARNER. Not merely to provide against its overissue, but to provide against any issue that is not publicly known. For example, if some bank of Massachusetts that has a capital of \$3,000,000 should have outstanding only \$100,000 of currency, then even in the most troublesome times—if it was known that there was only \$100,000 outstanding—an Oregon bank would not hurry to send it in for redemption; whereas, if the same bank had currency outstanding to the amount of three-fourths of its capital stock there would be a tendency to send it in. Now, while in my view it is better that currency should be elastic, I do not conceive that it is our business here to prevent a bank from having any advantages for its circulation which its conservatism may earn for it.

Mr. BLACK. In the second section of this bill you provide "he shall be satisfied that it has made adequate and convenient provisions for the redemption of its circulating notes." Where do you provide for the redemption in this bill?

Mr. WARNER. I will take that up. Under paragraph second it is provided that the Comptroller shall not deliver these notes in blank unless he shall be satisfied, if other than a national-banking association, that, by the law of the State in which it is situate, the holders of the circulating notes issued under this act of any bank or banking association have the first lien upon the assets of the bank, and the benefit of the provision for double liability on the part of the stockholders. That I have already touched upon.

Mr. HENDERSON, of Illinois. From what are you reading?

Mr. WARNER. On page 2, section 2, I have referred to that very fully.

Mr. COX. Let me call your attention to this point:

Subject to the necessary cost and expenses of administering the same, and that the shareholders of every such bank, or banks, or banking associations are held individually responsible for all of the outstanding circulation issued under this act, each to an amount equal to the par value of the shares held by him therein.

I want to understand that. Is that what you call the double-liability clause?

Mr. WARNER. The stockholder is liable not merely to lose his stock, but also to be assessed in addition as much as the par value of the stock, "together with any amount not paid up on such shares." This last is to provide for cases where banks are organized by people subscribing and thereby making themselves liable for a certain amount of stock at a certain valuation, without, however, paying in their subscription except as it may be called for.

Now, in case of a national bank they can not do that. They can not do it in most of the States to-day, but there is no reason, theoretically, why any State might not see fit to authorize corporations to exist upon that plan. It has certain advantages, even as regards security; and, therefore, in order to make the matter perfectly clear, it is provided in the first place that they shall be liable for their stock, and in the second place for an amount of any unpaid subscription to their stock, and in the third place an amount in addition equal to the par value of that stock. That is simply to impose upon them the same responsibilities as are imposed on stockholders in national banks at present. The reasons why it is suggested in this bill that this should be provided by State law is particularly to avoid conflict of jurisdiction between Federal and State courts.

Now, in regard to paragraph 2, and the condition:

That it has made adequate and convenient provisions for the redemption of its circulating notes to be issued as provided in this act, etc.

I do not believe, on the one hand, that there is any State in the United States which will permit the existence of a system of State banks to issue currency which would not provide some plan of redemption which would be practically sufficient so far as the security of the currency is concerned. In the next place I do not believe there is a single State where, even if this was left unprovided by law, the banks which would issue, and get any profits out of issuing, currency would not as the first means of getting their currency afloat, so as to get any profit out of it, make satisfactory arrangements for adequate redemption facilities. And, third, if there were such States and such banks I do not think the people in any locality would be fools enough to touch with a ten-foot pole the currency of an institution which would go into business without making such provision. What is more, I have no question but that not merely will the banks to be organized under this act come up to this provision, but I believe they will, of their own accord, arrange for much more elaborate and satisfactory provision for redemption at certain points in this country than is here suggested. The object of this provision is simply, at the inception of the system, to provide, in a uniform shape, a redemption provision, which, being looked after by the Comptroller of the Currency, will satisfy those, like the gentleman from Connecticut, who have very little faith in local conditions, but who have a great deal of faith in anything which the Comptroller of the Currency, being a Federal officer, has attended to.

Mr. HALL. I do not think you can say that the people generally can be relied upon to detect bad currency, for in Indiana, which I suppose is an ordinarily intelligent State, they accepted Confederate money the other day, so a member of Congress told me.

Mr. JOHNSON, of Indiana. We have some people who are——

Mr. WARNER (interrupting). Mr. Chairman, there is absolutely nothing we can do for that kind of people. I would give up that job in advance.

Now, the third provision of this section is, "that the amount of its capital paid up and then unimpaired is not less than \$50,000." The amount of the capital may be much more than \$50,000, but it must have at least \$50,000 actually paid up, and its paid-up capital alone is to be used as a basis for circulating medium. In regard to national banks the minimum capital was fixed thirty years ago as \$50,000. Probably, \$100,000 or \$150,000 would be a less onerous requirement to-day than \$50,000 was then. I believe it is in accord with the general consensus of opinion of the people that the least capital upon which a banker should be allowed to do a currency business is \$50,000.

Again, each bank has to pay the special expenses which are properly chargeable to it, as distinguished from those chargeable to the system. With a very small bank the special expenses which would be necessary in preparing the plates and attending to its issues, etc., would become quite an onerous tax upon it. It would be a still more onerous tax if it was left to attend to the matter itself, and it would be still less able to do so in competition with larger institutions; so as a practical measure, as an expression of what I believe to be the idea of propriety throughout the country in general, and also recognizing the fact that by force of circumstances which no law can change, a currency issue, when the expenses of proper precaution are taken into consideration, is not profitable unless it is of a certain extent, I have fixed at \$50,000 the minimum of capital upon which it should be encouraged.

Mr. JOHNSON, of Indiana. I have forgotten what is the smallest amount authorized under the national bank act?

Mr. WARNER. \$50,000.

Mr. JOHNSON, of Indiana. Your provision is the same?

Mr. WARNER. Yes.

Mr. HALL. It is dependent upon the population in regard to the organization of a national bank?

Mr. WARNER. I mean that that is the smallest amount allowed. As a matter of fact, if I was the czar of this country I should put it at \$100,000, and I believe the people would approve it.

Mr. COX. They are forbidden to issue unless they have \$50,000?

Mr. WARNER. Yes.

Mr. HAUGEN. How about a State bank with less capital than \$50,000?

Mr. WARNER. The State bank can go on as a bank of discount. This does not keep any State bank from going on as a bank of discount.

Mr. JOHNSON, of Indiana. Suppose a State legislature complied with this provision and the bank had money issued to-day, and suppose, subsequently, the legislature changes these features?

Mr. WARNER. I should suppose that would stop the issuing of money.

Mr. JOHNSON, of Indiana. What is the remedy and where could it be sought?

Mr. WARNER. In that particular case if the State undertook to violate in that way the obligation of a contract, which would be the case, if it attempted to interfere with the liabilities already incurred, I

suppose the matter would go to the Federal courts, but for that general reason and not on account of any particular provision here.

Mr. JOHNSON, of Indiana. Suppose the State legislature on some subsequent occasion would dispense with that condition or impair it?

Mr. WARNER. It seems to me that that would be an attempt to impair the obligation of a contract, and that it could be taken into the Federal courts.

Mr. COX. In that connection I will say that that impresses me very much, and I think if you follow that up it will impress you also. Suppose the State legislature complies with the conditions of this act?

Mr. WARNER. Yes.

Mr. COX. And it has concluded that a charter can be issued?

Mr. WARNER. Precisely.

Mr. COX. If a subsequent legislature should come along and repeal that act, does not it necessarily result that this is a forfeiture of the charter under which the bank is acting?

Mr. WARNER. Exactly; and I was discussing with Mr. Johnson the status of outstanding obligations.

Mr. COX. Now, if it is within the construction of the Federal statute, there is no difficulty about where the jurisdiction is; but here is the point I am after: The State complies with this, but the State has authority to put other matters there, and she will doubtless put others, as you said a moment ago you did not propose to restrict it any further?

Mr. WARNER. No.

Mr. COX. When you get these additional statutes you have got exclusive jurisdiction in the State courts and you have got exclusive jurisdiction under your bill in the Federal courts, so your charter is run under two independent governments as far as jurisdiction is concerned?

Mr. WARNER. You raise a question which has been raised in one shape or another in our State, and I presume has been raised in others. In these cases there is the authority of the State to alter or amend the charter at any time. Now, I believe it is the uniform ruling of the courts, that no change which a State may make in a charter under such a general clause in anyway affects the rights which may have already accrued or which may be already vested in the holder of any contract of or claim upon the institution.

Mr. COX. Right there—

Mr. WARNER. One moment—If the State, however, should insert either in its general law or in the special act incorporating a bank such a provision as in the opinion of the Comptroller would authorize a change in the charter not subject to such precedents as I have noted, then the Comptroller would say, "You have not provided for it, you have tied a string to the provision, and I can not accept it. If you simply provide for amendment of the charter at any time, then, under the law as developed by decisions, that does not bother me; and as regards notes outstanding at any time they are amply protected, and after you change your charter I will simply not issue any more notes. If, however, the charter of your corporation is subject to be so changed as to make its liability for contracts already entered into contingent, that is not what this act says and I will not accept it."

Mr. COX. You have a serious difficulty existing in some States; take my own State and several others are in the same fix. There the constitution provides that a charter granted by the legislature shall be subject to be amended or repealed.

Mr. WARNER. So does ours in New York.

Mr. COX. That is a constitutional provision. Now let me draw your mind to this: Suppose after the legislature charters a bank and that bank has got the full amount of money, has come up to the provisions of this law, the legislature comes along and says, if we permit you to take out 75 per cent of this circulation, you need not be liable only to the extent of the stock.

Mr. WARNER. Precisely; and the construction of our courts on that precise state of facts would be this—

Mr. COX. You would have a direct conflict between the legislature and—

Mr. WARNER. No conflict. The Comptroller would simply give out no more blank notes. Now so far as circulation already outstanding is concerned, the law in our State, which I believe is in accord with that generally accepted, is this—The change of the charter is powerless to effect obligations which have been entered upon before the change. You might have to go into a court of equity; you might have to take your remedy in a different shape; but, if there is anything that is well settled in law, it is that provision of our Federal Constitution which provides against the interfering with the obligation of contracts.

Mr. JOHNSON, of Indiana. How about the one who takes these notes subsequent to the act of the legislature changing the charter?

Mr. WARNER. I am inclined to think in that case—if the notes were not actually issued by the bank until after the change—there might be a very serious question of law.

Mr. JOHNSON, of Indiana. Where would the remedy be?

Mr. WARNER. If it is assumed that, after a law of his State had taken away its protection from bank notes thereafter to be issued, a citizen would accept notes thereafter issued; then it may be assumed that that citizen would have an interesting problem on his hands. But when it is remembered, not merely that no one would take such notes, but that the bank would be subject to the 10 per cent penalty tax for issuing them, it can hardly be claimed that any practical difficulty is likely to arise.

Mr. JOHNSON, of Indiana. Do not you think the greatest element of strength to a banking law in this country is for the remedy to be under one jurisdiction, either State or national?

Mr. WARNER. That is where the gentleman from Indiana and myself differ. While there are, unquestionably, advantages sometimes to be secured by a centralization of administration, yet in regard to this particular matter I believe it is a very serious question whether, even as to administrative detail, it does not do more hurt than good.

The CHAIRMAN. This is a very important part of this bill, and I suggest that we meet on Friday and continue this hearing.

Thereupon the committee adjourned.

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#### COMMITTEE ON BANKING AND CURRENCY,

*Friday, February 16, 1894.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

Hon. JOHN DE WITT WARNER, a Representative from the State of New York, appeared before the committee in continuation of his remarks in behalf of H. R. 5595.

Mr. WARNER. The next proviso is that the total amount of circulation to be issued under this act shall not at any time exceed 75 per

cent of the paid-up and then unimpaired capital of the institution which issues it. That is of course an arbitrary provision. Experience has shown, however, as reason would suggest in default of experience, that the amount of circulating notes which a bank can safely float is somewhat in proportion to its actual capital, not merely because that actual capital may be finally resorted to for the payment of those notes, but because the general business of the bank bears some proportion to the capital which is invested in doing that business. Again, if the circulation is to be restrained to what I conceive to be its only legitimate function, that of serving as an incident to business in general, it is desirable that the amount of circulation shall be so limited as not to exceed the needs of the legitimate business which would be transacted through the bank issuing it.

As to the proper figure, I think we will all agree, as the result of experience, that allowing more than 100 per cent of the capital to be issued in the shape of circulating notes has proven an inducement to illegitimate circulation and has brought about disaster. The Canadian law—which is the last law as to the workings of which we have definite data of experience—fixes the limit, I believe, at 100 per cent of the capital. In practice, however, even with all of the elasticity which has actually resulted under that law, I believe the actual issues have in no case gone above 68 per cent in the case of any bank, or 60 per cent for the bulk of the banks. It would, therefore, seem that 75 per cent would afford adequate chance for elasticity.

Mr. BEOSIUS. Their experience was that the limitation had no effect, they never reached that?

Mr. WARNER. They never reached it at all; so on the one hand 75 per cent would seem to be a limit sufficiently liberal to permit such elasticity as may be desired, and on the other hand there is no reason why conservatism in that regard may not be met by proposing to this extent a lower limit than the total amount of capital.

The only other question is whether we would thus provide for enough currency.

Mr. COX. Just there I want to break in and ask——

Mr. WARNER. Just one word more. The other question, of course, is whether that limit is liberal enough to allow a proper elasticity. The mere fact that in Canada it is liberal enough might serve as an analogy, but not necessarily as a demonstration. When, however, you reflect that there is now about \$700,000,000 of capital employed in national banks, and that 75 per cent of that would therefore permit of an extension of the currency through those institutions alone of say \$200,000,000 or \$300,000,000 above what is now utilized by them; that the capital invested in State banks which are now without a system of circulation but doing a profitable business, is probably a quarter or one-third of that, and would rapidly increase under the system suggested by this act—as there would be greater inducement for capital to embark in the business, there would seem to be no possibility but that the limit was liberal enough to permit all the currency that could safely or properly be called for in this country.

Mr. COX. Now, under your law, under your proposition, what amount of circulation could a national bank take out?

Mr. WARNER. The question asked in regard to that would be reached a little later.

Mr. COX. Probably I am ahead of you in regard to that?

Mr. WARNER. On the one hand, in order to interfere as little as possible with the national-bank act, and on the other hand in order so to

draft the bill as to permit every national bank to have the advantages of the system by giving it similar opportunities to those given other institutions, it is provided, in the case of a national bank, that the circulation to be taken out under this act shall be only such an amount as, together with any circulation it may have taken out under the national bank act, shall not exceed 75 per cent of its capital.

Mr. COX. That would give the national banks the right to take out altogether 75 per cent of the capital stock. Now what I want to call your mind to is this, assuming that, now would a national bank or State bank organized under it be compelled to take out any circulation?

Mr. WARNER. It would not.

Mr. COX. Do not you regard that as a right serious difficulty?

Mr. WARNER. I confess I do not. The assumption that the banking capital of the country can by any possibility find it to its interest to combine to keep the amount of money loaned below what it would be possible to furnish at fair interest, is in my mind unthinkable. If that could be imagined, the possibility that all of the rest of the country possessed of money would not immediately take advantage of such a conspiracy in such way as to defeat it, is to me unthinkable.

Mr. COX. When your national bank refuses to take out circulation of course the argument made upon that is that perhaps the bonds are too high, but under your system, that question of United States bonds being practically dispensed with, other security being substituted in its place, now suppose a bank is compelled to take out a circulation, not that they may take it out, but they are all compelled to take it out, and suppose it finds it can not use the circulation, then does not your bill provide it may return the securities? Does not your bill provide it may return them to the Government, and is not the interest upon the securities, whether used or not, paid over to the bank?

Mr. WARNER. I have provided for no securities. I would say to the gentleman—I think I appreciate, if not the particular point at which he is aiming, at least the general drift of his thought, and my answer to it, as I understand it, would be this: This is a bill to give certain privileges to the States and to State and national banks, and to supplement these by a certain amount of administrative assistance on the part of the General Government. There is nothing in this bill which will prevent a State from imposing conditions to its authorization, which must be had before, as to its banks, this act goes into operation. It can, if it wishes, impose a special tax so long as the circulation outstanding is not more than a certain amount; it could, if it wished, exempt from taxation on condition that the circulation was kept over a certain amount. There is nothing to prevent each State from taking such measures as it pleases in that regard.

Mr. BROSIUS. Allow me to correct a misapprehension which arose a moment ago; I would direct you to section 10 of the act of 1882 which provides—

At no time shall the total amount of such notes issued to any such association exceed 90 per cent of the amount at such time actually paid in of its capital stock.

That is the limit.

The CHAIRMAN. The original act, section 5171 of the Revised Statutes, provides the amount of circulating notes which can be issued in proportion to the capital stock.

Mr. BROSIUS. That act is repealed; this act repeals that. That is the old law which was repealed by the act of 1882 which makes the limitation the same in all cases.



Mr. COX. But you can not get it on that except by a deposit of bonds, and you are not compelled to take the circulation out. We have gotten now, however, off the point which I was much interested in. I drew your attention to the proposition if the securities upon which it was based for the redemption of the notes finally would not be drawing the interest all the time whether the notes were used or not, so that if the bank did not take the notes out they would get the interest upon the securities deposited for final redemption, and if they did take out the notes and get the use of the notes they would be just exactly in the position of the national banks where they get the interest upon the bonds and notes. Now, you said there was no security of that kind; I expect I misunderstood you, but you provide in your bill that some satisfactory means (I need not discuss that here) shall be provided, and that the securities shall be deposited in the capital of the State.

Mr. BROSIUS. No securities are provided but satisfactory means of redemption.

Mr. COX. That is what I am talking about. It has to be something satisfactory for the redemption of the notes. Your clause reads this way:

That it has made adequate and convenient provision for the redemption of its circulating notes, to be issued as provided in this act, either at the capital city of the State in which it is situate, or at some other city in such State which shall have been approved by the Comptroller of the Currency.

Mr. WARNER. I may say that the ordinary provision for redemption, even under the strictest and most conservative conditions, is not in general a deposit of securities. It consists most frequently in the undertaking of a clearing-house association to clear certain paper or to redeem certain notes. That is the ordinary provision. I can conceive of a case where a bank might choose to deposit securities and obtain such individual or other guarantee as the Comptroller might think sufficient; there is a possibility that such provisions for redemption might be had, but such are not the ordinary ones, and they are not the ones which existed before the war. The best known system is probably that known as the Suffolk bank system, which was entirely independent of any special security. The more commonly known systems are now the ordinary clearing-house systems, which could be used in precisely the same way to clear, that is, to redeem, the notes of a bank, as they are now used to clear its exchanges.

Mr. COX. Yes; but you see there are quite a large number of banks that do not belong to any clearing-house association.

Mr. WARNER. There will be banks which belong to no clearing-house association, but there is no State where there will not exist either clearing-house associations or some other form of associations for clearing the exchange most current in that State. It is entirely probable that a clearing-house association might exact from those banks a deposit of securities before it would undertake that office, but that is something with which the Comptroller would have nothing to do.

Mr. BROSIUS. You could hardly conceive of a banking system in a State without a clearing-house association?

Mr. WARNER. There is no such a thing. In some form or other it is almost necessarily involved in every complicated series of business transactions.

Mr. COX. I must confess that my mind is not clear and I always want to get it as clear as possible as we go along. Now, you carried me into the clearing-house association subject, but I am on the point

of the final redemption of the notes. There must be some place where they must be paid. Now, if the clearing-house adopts a mode, would it be in regard to redemption, or would it be in regard to their circulation; so long as the clearing-house is satisfied that the circulating note is good and must be redeemed it seems to me, then, that is all the clearing-house can do. If they secure the redemption, then what kind of a legal obligation have we got on them?

Mr. WARNER. None whatever. The thing provided is this, that, until these agencies are in such shape that the Comptroller of the Currency shall consider adequate and convenient arrangement is provided for the redemption, he has no authority to issue a single dollar.

Mr. BROSIUS. You leave it all to him, and it is in his discretion?

Mr. WARNER. Practically, under sanction of the publicity of his work and the injunction to report in full to Congress his practices and rules in regard to the matter, in order that, if other legislation be needed, it may be had.

Mr. COX. Pardon me for this question, and then I think I will leave you. The final redemption of the notes would depend upon the provisions that the State might adopt itself?

Mr. WARNER. It might in case a State chose to go to that extent in its law.

Mr. COX. There would be nothing in this act that would prohibit a State from going to that extent?

Mr. WARNER. Not the slightest.

Mr. COX. Then, when you get to that point and the State has control of what shall be done and provides for the ultimate redemption of the note and power to do that, I have some trouble in drawing a distinction between that and the State-bank law pure and simple?

Mr. BROSIUS. This is a State-bank law pure and simple, covered with a thin drapery of national authority?

Mr. WARNER. It is intended to be, as nearly as possible, an absolute enfranchisement of the banks of this country, leaving the several States to act as to institutions within their borders, but adding for the time being an administrative system on the part of the General Government in regard to certain important matters, as to which the universal experience of civilized nations in banking has demonstrated the need of uniformity in order to bring about greater security—in order to bring about greater acceptability—this to assist the circulation of the currency and to secure such economy that the business attended to by the Government shall be less expensive for each than if it was done by each for itself.

Mr. COX. Pardon me, if you please, I hate to take up so much of your time, but I want to get this as clear as I can. Now, you have conceded, in the questions I have put to you, that so far as ultimate redemption of notes are concerned that the authority of the State is undisturbed. Now, then, when you come to uniformity—

Mr. WARNER. You now use the word "ultimate." If you used that word I did not hear it. As far as the ultimate redemption of the note is concerned the guarantee fund is, of course, intended to insure that.

Mr. COX. Hear me, if you please, just there. The object to be attained and the object desired is that the notes shall be fully protected and that they shall be good?

Mr. WARNER. Not merely good, but current; this is for current redemption.

Mr. COX. Now, in order to make them good and current, you concede to me that the State has full authority as to how she shall do that?

Mr. WARNER. It may insist upon any conditions it pleases.

Mr. COX, Now, then, it is suggested to you by my friend on the left that one of the objects of Federal legislation is to provide uniformity in regard to the matter. Now, if 44 States have the right to say what will support and make the notes good, how is the Federal Government to produce uniformity as to the security for the redemption of the notes and for their being current?

Mr. WARNER. If there shall be any such difference between the laws of the several States as, after they having conformed to this act, shall cause the notes of one State to be preferred over the notes of another, that certainly is, in a sense, a lack of uniformity. This bill, however, is drawn in accord with the conviction that, if these provisions are observed, the whole of the currency will be good. And it does not seem to me an objection that a State is given the opportunity to endeavor, by making its paper gilt edged, to get as much profit for its financiers, and such circulation for the notes of banks within it, as it may secure by such action.

I doubt myself whether there would be any material difference in the currency of notes of a State which made the most meager conditions and those of a State which insisted upon the most elaborate and most conservative detail, so long as they both came within the requirements of this act. But if there should be a difference, they have a right to it. Take the State of Delaware, for example. If it thinks that by putting peculiar safeguards about its currency it can make Delaware currency acceptable throughout the country to an extent which the business of Delaware would not, of its own actual impetus, bring about, why the State of Delaware is free to exploit that source of credit for the State and profit for its financiers. My opinion is that the State of Delaware would find that it had gotten into a business in which it had very little influence; but there is no reason why it should not attempt it if it wants to.

The CHAIRMAN. Let me ask you a question right in that connection, bearing on that subject. What would be the means resorted to by bill-holders, in the hopes of securing the payment of good money for their notes, in the case of the failure of any bank having this issue? Suppose a bank closes its doors and the bills are scattered all over the United States, where does the bill-holder go to get his money?

Mr. WARNER. The bill-holder would be precisely in the same condition as any other holder of an obligation on the bank, except that he would be entitled, first, to have all the assets marshaled and to be paid before other than bill-holders were allowed to participate; second, to have equity proceedings instituted and the additional liability of the stockholders realized; and, after practical exhaustion of those, third, to be paid from the guarantee fund provided for.

The CHAIRMAN. That is simply an individual right of each individual?

Mr. WARNER. Precisely.

The CHAIRMAN. They are scattered all over the United States, and of course you would not expect a man who had \$5 upon a bank, say at Little Rock, to bring a suit in chancery and—

Mr. WARNER. The receiver of the bank would marshal the assets as fast as possible and would deposit as promptly as possible with the Treasurer of the United States an amount of cash equivalent to the amount of currency which by the books of the Comptroller appeared to be outstanding. He would do it as promptly as possible as the only possible way of being able to go ahead and settle up the other affairs of the insolvent corporation.

The CHAIRMAN. Each bill-holder would wait for the winding up of the bank, and when there is anything deposited he would hunt it up and see if there was anything for him?

Mr. WARNER. I am astonished at the question, because the chairman is perfectly well acquainted with what is done in regard to the bills of broken banks. The first thing that is watched for is as to the arrangement made for the redemption of the bills. In this case, the fact that the National Government took charge of the matter after other resources had been exhausted, would practically make those bills continue current as far as individuals were concerned, and, as far as banks were concerned, would probably bring about a deposit, either at certain places in each State or at a certain central point of the United States, according as the convenience of the different banks suggested, of paper in banks in the course of liquidation.

The CHAIRMAN. The practice in our State of Illinois when the banks failed was for the bill holder to go to some bank and sell the notes for what he could get for them, and a few banks would finally get all of them and present them and get the profits of the discounts which they made by buying the notes. The bill holder always found himself in possession of an uncurrent bill, and he was apt, from necessity, having only a small amount, to take whatever he could get for them, and that furnished always a harvest for the bankers.

Mr. WARNER. That would doubtless be the result if you permitted a bank to issue three or four times the amount of its capital; if there was no place where the issues were registered so that any man could know in advance of the final settlement whether the amount of bills outstanding were three or four times the amount understood to be in circulation; if there was no provision for ultimate redemption; if there was no provision as to the liability of the stockholders, etc. Under such conditions as these I have no doubt but that the suggestion of the chairman would involve a very serious matter. But such are not the conditions proposed by me.

Again, I want right here to say, as to the possibility that there may be trouble under this or any other system, that I do not for a moment deny the possibility of trouble under this or any other system. The only question is, how far we can go in anticipating and in preventing trouble without, in our anxiety to fix everything all right, doing more harm than good. There is a limit, and my judgment is that this bill goes as far as is convenient, practical, or proper.

Mr. JOHNSON, of Indiana. Do you rely for the ultimate redemption of the bills largely upon the tax imposed on the banks?

Mr. WARNER. I have studied somewhat the experience of the State which had by far the most extensive system of banking in the Union before the war, which system was under conditions as far removed from even the attempted safety provided by this as one can imagine, and subject to every vice that I have attempted here to head off. The lesson of that experience is that this provision would have been far more than ample to provide for the ultimate redemption of the notes. With the additional safeguards thrown about the system by this bill, my belief is that the guarantee fund would be very rarely resorted to at all. The existence, however, of a guarantee fund of 3 per cent upon the total outstanding circulation, even if superfluous, would be certain to give such currency to the notes as to keep innocent billholders from being even temporarily subjected to inconvenience. In my view such is the main benefit which would come from this provision.

Mr. JOHNSON, of Indiana. In the case, however, of the failed bank

you would rely upon the guarantee fund largely for the ultimate redemption of the bills?

Mr. WARNER. Certainly. I would place great reliance upon it as insuring ultimate redemption. I do not think however it would be often resorted to.

Mr. JOHNSON, of Indiana. That is what I was trying to get in answer to my first question.

Mr. COX. A sufficiency of the fund guaranteed by that tax, whether it would be sufficient or not, must depend upon the other assets of the bank, which are provided by State law.

Mr. WARNER. It is a question of probabilities. Experience, however, shows that without the precautions provided by this act, and irrespective of State laws, a guarantee fund of that size would, practically, be sufficient, and that under the safeguards provided by this act, this guarantee fund is far more than ample. In my answer to the gentleman from Indiana, I say to him that while, of course, there is a possibility that that fund may be drawn upon from time to time, yet its main use, in my expectation, would be, not in the extent to which it would actually be called upon and therefore be effectual in bringing about ultimate redemption, but in the guarantee which it would hold up to the nation that ultimate redemption was there and the assurance that would meanwhile be afforded the innocent note-holders of banks whose solvency was doubted.

Mr. JOHNSON, of Indiana. You assume a guarantee fund in place of bonds, as under the present system, would be sufficient, predicated upon statistics which have been drawn from national-banks? Your claim is by reason of the failures under the national-bank act are shown to be very small as compared with the amount of money raised from the tax on national-bank circulation—

Mr. WARNER. I repudiate any reliance on those statistics. My suggestion is based on experience under the New York acts.

Mr. JOHNSON, of Indiana. I simply want to observe the analogies are only good in the event the guarantee—

Mr. WARNER. In case one depends upon an analogy—

Mr. JOHNSON, of Indiana. Whether one depends upon an analogy or not, the adequacy of your guarantee fund depends of course upon the safety of your banks outside of that by other provisions with which you have surrounded them.

Mr. WARNER. Precisely.

Mr. JOHNSON, of Indiana. You feel you have amply protected the banks by the provisions of this bill?

Mr. WARNER. I do. I base my conclusion, not upon our experience under the national-bank act, as to which the suggestion of the gentleman is pertinent and forceful, but upon the experience of the State of New York under the loosest kind of banking laws.

Mr. SPERRY. Was that fund always sufficient?

Mr. WARNER. It was more than sufficient to make the bills good; but by a construction of the act it was decided that depositors also had a right to share in this guarantee, so that, although the fund would have been amply sufficient to have paid all of the bills, even though the bills were so loosely issued that banks supposed to have \$200,000 in circulation turned out to have more nearly half a million, although the precautions against counterfeiting were such that after they had paid out the whole amount of actual notes outstanding of honest banks they would find they had been paying a lot of counterfeits, and that many of the genuine notes remained yet to be paid.

For many years after it was established all payments made from it were refunded from the assets of the broken banks. About 1842 the banks gladly paid assessments in advance to clear up matters then pending; but this mainly because by the new law the safety fund was available before broken bank assets, and the broken bank bills were accepted as payment on account of such assessment.

And before it came to an end, by the abandonment of their circulation by New York State banks under the national banking act, the safety fund had paid out millions of dollars in excess of enough to redeem every note having a lien upon it. It was the attempt to indemnify depositors that proved too much for the system.

Mr. JOHNSON, of Indiana. You are drawing simply upon the experience of the State of New York?

Mr. WARNER. Yes.

Mr. COX. Now, let me draw the gentleman's mind to this proposition. This bill provides for a guarantee fund?

Mr. WARNER. Yes.

Mr. COX. That is for the benefit of the noteholders?

Mr. WARNER. Yes.

Mr. COX. Now, you conceded a moment ago that the States have control of the matter so far as regarding the security for the same purpose, that is, for ultimate redemption?

Mr. WARNER. Yes, sir; so far as they care to provide it.

Mr. COX. When you undertake to provide by Federal legislation for a guarantee fund in this way and leave the State to make provisions in regard to the other matters, does it not strike you that your guarantee fund is an argument for the States and an inducement to the States to let the banks go into operation on a very weak and unsatisfactory security, relying upon that guarantee fund?

Mr. WARNER. So far as mere inducement to provide security is concerned, the existence of this guarantee fund might be used to some extent as an argument against the use of special security in some States where, if the guarantee fund did not exist, it might have been required. I can appreciate that.

Mr. JOHNSON, of Indiana. You state that the administrative features which you embody in this bill are satisfactory to protect the banks, and this bill is upon the theory that the States are already able to give good currency?

Mr. COX. It is conceded that so far as a fund for the ultimate redemption of the outstanding notes is concerned, a guarantee fund must and can be provided for by the State. Now then, here is a difference in the system you are going to inaugurate and the system of New York: The very statute that provided a guarantee fund in the State of New York is the same power, the same legislature, as the one which provided the other additional security for the redemption?

Mr. WARNER. If the gentleman will look at the different variety of laws which were embraced within those relating to banks in New York which had the use of this guarantee fund, and also at the very serious defects in those laws as demonstrated by experience, there is one thing which I have no doubt the gentleman will do—he will admit that the plan I propose is much safer than was that.

Mr. COX. I concede all of that, but that system has this in it which that has not, that the State had the entire jurisdiction of the entire matter.

Mr. WARNER. Yes.

Mr. COX. Now you have split the jurisdiction, putting a part on the Federal Government and leaving a part on the State government?

Mr. JOHNSON, of Indiana. Let me ask a question right there which is suggested by the gentleman from Tennessee, although it may not be directly on what you are saying: What banking system can the people of this country devise through the medium of their State legislatures that they can not equally devise in Congress through the medium of their Representatives?

Mr. WARNER. Mr. Chairman, the gentleman from Indiana belongs to a school of politics the members of which sincerely believe that when a matter can be attended to with anything like equal convenience by either State or National Government, the National Government should take it up. I belong to a school of politics the members of which believe, that where any matter can be attended to with anything like equal convenience by State agencies—indeed without such extraordinary inconvenience as practically to call in national interference as a matter of necessity—that it should be left to the States.

Mr. JOHNSON, of Indiana. Now do not you think that there is more likelihood of our securing uniformity by a general act passed by Congress, through the Representatives of the people in Congress, than there will be to have each State, through its own legislature, pass its peculiar banking laws?

Mr. WARNER. If what the gentleman means is identity, I agree with him; if what the gentleman means is uniformity in the sense I use it all through this matter—that is to say, uniformity in proper and necessary provisions—I should say that it is just as practicable to effect it by such an act as this, subject to further action by the States, as by an act of the Federal Government.

Mr. JOHNSON, of Indiana. What I am driving at is this, if each State is left to itself to devise, through its own legislature, a banking law, there is more likelihood to be a lack of uniformity and soundness of the currency, taking it on the whole, than through their representatives acting directly or in one central body, and the point I want to make is this—

Mr. WARNER. Our Representatives acting in this House are naturally affected by every wave of sentiment, sound or unsound—I mean to characterize neither—that for the time being seems to have the uppermost in politics. If this matter was referred to the States themselves, the States would be affected by such influences as work upon them locally. Now, sir, I have found the nearer you get home to what a man is responsible for locally, and to what he knows about, the more conservative he is. For example, there is no question but that the State of Arkansas, if I am not mistaken, would instruct its Representatives to procure the United States to issue fiat money. I believe there is not a district in Arkansas from which a representative in the State legislature would not receive his recall to permanent private life should he propose that the State of Arkansas do any such thing.

Mr. HENDERSON, of Illinois. If you will allow me to ask one question?

Mr. WARNER. Just a moment. In other words, Mr. Chairman, while I appreciate the number of the political wild animals still roving about this country, although I might classify them in a different way from what would the gentleman from Indiana; my own idea is that it is a plagued sight safer to let those animals rove in their own locality until they are killed, in the places which they curse the most, than to bring them here in a menagerie to scare the nation.

Mr. JOHNSON, of Indiana. Do you not believe a monetary heresy or

craze may seize the best portion of the country and obtain recognition which would not be injurious in a State legislature where it was utterly powerless, but which when finally exploited and found its way here in the National Government might influence the entire country?

Mr. WARNER. I do not believe there is a State legislature, acting in reference to State law upon matters for which the State is responsible, and in which its citizens are primarily interested, that would not be more conservative than would the same legislature in egging on Congress to do something in which it had no responsibility except in common with others.

Mr. COX. Amen.

Mr. HENDERSON, of Illinois. The question I want to ask is this. If it would be true that Arkansas would instruct her Representatives and Senators in favor of fiat money, why would not they, if they had the power, issue fiat money themselves?

Mr. WARNER. My dear friend, that is just exactly what they would not do. You take the men on this floor whom you—not myself—may pick out as being absolutely unsound on the financial propositions raised in this House, and examine them as to their capacity to conduct their own affairs, and the extent to which they have been conservative, in their private business and I think you will find, without exception, that they are perfectly stainless from your own standpoint.

Mr. JOHNSON, of Indiana. If your argument proceeds upon the theory that the State is an identity—

Mr. BROSIUS. I was just going to ask if the gentleman would allow himself to be called home to his bill by a question that I would like to put to him. In regard to the state of security we have developed in the progress of thirty years to a high state of perfection, but the difficulty is in regard to the state of elasticity. Now, I would like to have the gentleman give me his judgment whether the provisions of his bill would be likely to secure a higher degree of elasticity than we may secure under the national banking system with such modifications as might be suggested by himself.

Mr. WARNER. To the extent that the matter of the organization of banks and their permission to do business is left to the several States, to that extent will local laws be from time to time so modified as to enable banks to meet the demand for elasticity of the currency.

It will be easier, from time to time, in accord with the needs of the several sections of the country, to adjust the currency circulating within those sections if the matter is left with each State to act whenever it may see fit and in such direction as it sees fit, compelled all the time to act within lines of safety, than if by any system, no matter how perfect it may be, we shall attempt to do the same thing through Federal legislation. The State legislature has power to adapt its legislation to the needs of the locality and the local development of business. Something which would be perfectly immaterial as to the soundness of the currency might be very material to its elasticity in certain quarters. Again, if Texas or Missouri, for example, proposed something which would be reasonable or desirable there, but in New York or Massachusetts might be dangerous, or at least not desirable, delay, inconvenience, and friction might result.

The result would be just the same in Federal legislation, as compared with State legislation, upon this subject, as it is now with the decisions of our U. S. Supreme Court on commercial matters, in comparison with those of our State courts. It is notorious that if you want to know what the law will be in the Federal courts, all you have got to do is to read the



statutes and decisions of New York, Illinois, Massachusetts, and a few other states. If you want to know what is the Federal law in a case not already decided, you have got to calculate how far the U. S. Supreme Court is behind those states. So in regard to the adjustability of a banking system to meet local as well as general developments in methods of doing business, the system I propose would be superior to the Federal system. I do not, however, wish to be understood as suggesting that the main requisites for securing elasticity could not be secured under a Federal system.

The CHAIRMAN. Now let us go back to another matter, and that is the matter of final redemption; the Canadian system is a national system?

Mr. WARNER. Yes.

The CHAIRMAN. You have assimilated your system to that, and the whole banking system of Canada is governed by a law passed by the Dominion of Canada?

Mr. WARNER. Yes.

The CHAIRMAN. That law provides that each bank shall deposit an amount equal to 5 per cent of the average circulation with the Government, to be called a redemption fund, and when a bank fails the whole fund that has been deposited by all the banks is liable for the circulation of that failed bank, and the liquidator immediately applies it to the payment of all notes outstanding, and as soon as the bank fails to pay on demand, the notes of that bank draw 6 per cent interest, and so the bills, instead of going down, go to a premium. Now, the Scotch system is a joint system, every bank is liable for all the circulation, but they apply—

Mr. WARNER. As to that, there is no reason why we should not have the branch-bank system here.

The CHAIRMAN. So you have only one system in each case under which all the business of the bank is wound up, and therefore it does its work well in ordinary times; but that is very different from a system where you simply enter into a portion of the business of winding up the bank by the Government and leave the bill-holder in an uncertainty. I would like to have you explain the difference between the system upon which you base your bill as a precedent and the one which you have actually adopted.

Mr. WARNER. The chairman, except in a few particulars, has fairly stated the basis of the Canadian banking, so far as redemption is concerned; and I have only to say in regard to that that Canada is rather comparable to one of our States than to our whole country; and the reasons which, to me, make a State system, as distinguished from the national-bank system of the gentleman from Illinois, desirable, are also in favor of leaving as much as may be to the State and as little as may be to the General Government. The only reason why I have not provided that there should be a central place of redemption, that there should be, a guarantee fund to start with of, say, 5 per cent, to be increased, say, to 10 or 15 per cent, etc., etc., is because that after going over, as far as I was able, our experience, it seemed to me it was not necessary.

The value of any currency system, especially in its prompt utilization by those who wish to borrow capital on as easy terms as possible, and as regards the whole question of elasticity, is largely dependent upon the lack of those things which offer obstacles to its being used and are a practical tax upon its use. I therefore felt it my duty in drawing this bill not to go further than the conservative basis of experience suggested.

There are no reasons, however, why, if the provisions of this bill are not ample for the purpose, amendments should not be had which shall meet, and more than meet, the very difference to which the gentleman has called attention, between this bill proposed and that now successful in Canada.

Mr. JOHNSON, of Indiana. The Canadian system takes no note of geographical limits, although Canada is quite a large country. It is a broad national act to furnish the people with the currency.

Mr. BROSIUS. There is not a province in Canada that has any agency in the currency of the country at all; the Dominion of Canada is a unity.

Mr. WARNER. Unquestionably.

Mr. COX. It is absolutely repugnant to our system of government.

Mr. JOHNSON, of Indiana. Has it occurred to the gentleman that there may be more reluctance in regard to a guarantee fund for the practical guarantee of the solvency of every bank where 44 States will have to frame laws under which the banks would be conducted than if all of that was framed under one general law?

Mr. WARNER. I have no doubt the gentleman is entirely correct. The answer to that, however, is this. Putting as liberal an estimate as experience would justify upon the rate of the assessment proper to be required to make up and keep good this guaranty fund under the conditions suggested here, that rate is so far below the ordinary expenses caused the banks by our present system, that there can be no question but what it would be promptly and readily paid, especially since it is in aid of increased profits by facilitating the circulation. As to how much the banks would stand, whether they would stand an assessment of 2 per cent a year, for instance, I can not say. I think they will not be oppressed by the rate I propose. I think it is sufficient; and therefore I do not consider it important to discuss whether, under some other plan, they might not be willing to submit to a higher rate.

The CHAIRMAN. We were talking about final redemption. In case a bank fails and wants to wind up, I do not know that I understand what system you have provided for current redemption; except so far as the Comptroller of the Currency shall prescribe.

Mr. WARNER. None whatever.

The CHAIRMAN. Can he prescribe a different system for one bank from another?

Mr. WARNER. Certainly.

The CHAIRMAN. It is in his discretion?

Mr. WARNER. Absolutely.

The CHAIRMAN. To say what each bank shall do for itself?

Mr. WARNER. I have no doubt, as a matter of fact, the practice will become crystallized into a very plain system of rules within the first year, and that it will continue almost uniform except as modified by the development and facilities of commerce.

The CHAIRMAN. Now, I want to ask if you think there is a man in the United States who is so wise and great as to be intrusted with power so important as to exercise solely upon his discretion that responsibility with nobody who can make him even by mandamus do this and that or the other; he is above the courts—

Mr. WARNER. I appreciate the suggestion of the gentleman, and, as I mentioned in an earlier hearing, this is the one clause of this bill about which I have had the most doubt. I believe that without such provision at all these notes would be perfectly safe. It is unthinkable to

me that it is necessary that we should have Federal statutes to prevent people from doing what is either impracticable or unprofitable, as certainly would be the attempt, with the lime light of the press of this country thrown upon it, of any bank to make much profit out of circulation without providing adequate provisions for redemption. I have no question myself but what, as a matter of fact, there will not be 5 per cent of the banks of the whole country but which, directly or through some intermediary, will clear at New York, Chicago, St. Louis, and other cities. The provision of this bill is put here simply as an additional—probably superfluous—safeguard.

Mr. JOHNSON, of Indiana. All legislation proceeds upon the theory of the fallibility of the people.

Mr. WARNER. But not of the infallibility of legislators.

Mr. JOHNSON, of Indiana. That is true.

Mr. WARNER. This is an enfranchisement of the banking currency of this country upon certain conditions, and it will take some time for this to get into practical operation. This act provides that whatever rules the Comptroller may adopt shall be submitted to Congress within so many days after the beginning of its session. And there is nothing, even if he did not submit these rules, to prevent Congress from taking such further action as it may see fit in limiting his discretion. By the provisions of this act the attention of the Congress and the press of this country is to be called to those rules very soon after Congress meets.

It is not a question of taking an old system and giving to a gentleman at the other end of the avenue the capacity to throttle it; it is taking a new system and putting upon it just such safeguards as we believe will practically insure its safety, and then allowing him until Congress meets to make such rules as within the provisions of this act, not inconsistent with it, he shall think proper in regard to details, which we can afterwards change if we please. My own belief, Mr. Chairman, is that ten years after any system of this kind goes into operation, the only call for the exercise of discretion of the Comptroller will be in the line of adapting this system to some new development of clearing houses or communication facilities; and that by that time the people will have become so used to knowing that they can attend to their own business that in all probability this power of the Comptroller to make rules will be absolutely forgotten, unless in a good, fresh burst of Democratic feeling it should be thought best, because they have not amounted to anything good for many years, to take away the restrictions that fetter the natural development of banking in the States.

Mr. JOHNSON, of Indiana. Are not people attending to their business either through Congress or their State legislatures when they pass a law regulating any particular kind of business?

Mr. WARNER. In one sense, yes. There is, however, a way of attending to one's business which interferes with the business of other men and communities, and there is a way of attending to one's business by abstaining from bothering as far as possible with other people's business;—and that is Democratic.

Mr. JOHNSON, of Indiana. The gentleman is evidently afraid of too much legislation?

Mr. WARNER. Exactly; I believe our principal business is to repeal bad laws.

Mr. JOHNSON, of Indiana. I am afraid the gentleman will succeed in putting a bad law upon the statute books.

Mr. BROSIUS. Where a business is a general business a man can only attend to his own business by attending to the business of people generally at the sametime?

Mr. WARNER. I accede entirely to the gentleman's suggestion. The main difference is in the tendency of men. Some find it easy to believe that a particular thing is an excuse for attending to other people's business; and others find it hard to believe that anything but the most urgent necessity justifies anyone in interfering with anybody else's business.

The CHAIRMAN. I desire to have Mr. Warner explain whether the proposition to delegate to the Comptroller the power to make regulations in regard to current redemption of these notes is not in fact a delegation of legislative power by Congress to the hands of an individual?

Mr. WARNER. It is so only in the sense that discretion as to any detail of business in any Executive Department is a delegation of legislative power. The Executive Departments are, of course, our agents in one sense; anything they do or leave undone are our acts and omissions; and the leaving to them of any discretion is leaving to them a matter which might possibly come within legislative power.

The question, however, is not as to theory. The gentleman will immediately admit if we start down at the last detail as to how the Treasury Department is going to be run, that he would go a great way before he would interfere with the discretion of our executive officers in regard to details and methods. On the other hand I admit that if we start from the top down we would go a great way before I should not hesitate in leaving any discretion whatever. The question is simply where the line is to be drawn; and whether the question is one of business which may be properly left to an executive officer, or a question of politics which can not be properly left to him.

Mr. JOHNSON, of Indiana. It is a very hard thing to have the government of many men without a little delegation of power.

Mr. WARNER. It is impossible.

Thereupon the committee adjourned to meet on Friday, February 23, 1894.

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**COMMITTEE ON BANKING AND CURRENCY,**  
*Friday, February 23, 1894.*

The Committee on Banking and Currency this day met, Hon. William M. Springer in the chair.

Hon. JOHN DE WITT WARNER, a Representative from the State of New York, appeared before the committee in continuation of his remarks on H. R. 5595.

Mr. WARNER. Mr. Chairman and gentlemen of the committee: I am a little uncertain how far, so far as the bill itself is concerned, I may be deemed to have proceeded, but, as I understand, the ground has practically been covered down to and including line 56, on page 3. The next paragraph, paragraph 4, simply makes definite what notes shall at any time be considered as outstanding and provides, for the purposes of this act, that all notes shall be considered as outstanding after the blanks have been once issued by the Comptroller until their actual destruction shall be made and registered by him.

There will occasions arise which would not be met by that provision. For instance, a steamer might sink in mid-ocean carrying down a large amount of those notes. It has never been found practical, however, in any legislation to provide for special cases. They have been dealt with by special legislation whenever occasion arose. So, to any objection to the provision here, that it does not apply to every possible case, my

answer is it does apply to cases which can properly be met by a general act, and that extraordinary cases will have to be met in the future, as in the past, by special legislation. We had special legislation, as you will remember, in regard to bonds at the time of the Manhattan Bank robbery.

The next paragraph is paragraph 5, on page 4 of the bill. It provides for reports by every bank or banking association which shall take advantage of this act, and which is not a national-banking association, such reports being precisely the same in character and extent as are now required by the national-banking act of national-banking associations. The reason for the exception of the national-bank associations by this act is, of course, perfectly plain. They are already provided for by legislation which, so far from being repealed, is expressly confirmed by this act.

The next paragraph—paragraph 6, on page 5—provides for the right and the duty of inspection, by the Comptroller, of the banks, not national banks, taking advantage of this act to the same extent as he now has the right and duty in regard to national banks. The reason why national banks are excepted from this particular provision is the same as in the case of the similar exception from the former provision.

There is, however, one point in this connection to which it may be proper to call attention. While the reports and investigations and the publicity of the result of these reports and inspections are the same as now provided for in reference to national banks, there is nothing in the act by which the Comptroller can take advantage of the results of these inspections and reports to supervise, control, or in any way direct the course of the bank so inspected or reporting except in one regard. He is left with the discretion of judging whether the results of such reports justify the issue, if it is asked, of more blank notes under this act. With that exception, the object and effect of these examinations and these reports is simply to give such publicity to the affairs of each institution—to secure a collation at the point where it will be most accessible to the whole country of the result of the examination of these institutions, and thereby, as far as possible, on the one hand to keep the public informed of their status, and on the other hand to give the public the benefit of the natural rivalry which would arise between these systems to make them as perfect as possible—this in order, not by control, but by inducement on the one hand and a menace of loss of circulation and credit upon the other, to bring about the most healthful and most prompt development in the direction of security of the State system thus permitted. It is not, except indirectly, a provision for the security of the notes which are issued—

Mr. JOHNSON, of Indiana. In other words the Comptroller may make examinations and publish the information, but has the Comptroller any power to proceed and appoint a receiver—

Mr. WARNER. No.

Mr. JOHNSON, of Indiana. All the power he has is not to deliver the notes—that is, any additional notes, if he thinks they have not complied with the provisions of this bill or if he expects it to fail.

Mr. WARNER. There is no special result as regards notes which are already outstanding, except in so far as the tendency of this system of examination and these reports shall bring about a more conservative course of business on the part of the bank and a more limited acceptance of notes on the part of the public in case its condition has not been good.

Mr. BROSIOUS. Do I understand the Comptroller has no power to close a bank under any circumstances?

Mr. WARNER. No, sir; not the slightest. He has nothing whatever to do with it.

Mr. BROSIOUS. But he determines whether it shall have any circulation in the beginning?

Mr. WARNER. Unquestionably.

Mr. BROSIOUS. Suppose after it gets its circulation and it is discovered to have perpetrated a fraud, he has no power to withdraw it?

Mr. WARNER. Not the slightest. It would do no good if he had the power; he could do nothing more than marshal the assets of the bank and the guarantee fund in his hands to pay the notes. He is to have the power to withhold the giving out more notes, and therefore would actually have the power, so far as security of circulation is concerned, that he now has under the national-bank act. The difference is this, that I have left him without that apparent guardianship over everything on earth, upon which people rely for protection in times when there is no trouble, and which they find worthless whenever the strain really comes. The omission of this takes away from the notes no security which by any possibility they would have by giving the Comptroller additional powers. It simply avoids a conflict after the coin has been stolen, if it has been stolen, between two authorities, as to which one shall lock the stable door.

Mr. COX. In the first instance, if they have got the currency and misapplied it or have been guilty of fraud, everything the Comptroller can do is to say that they shall not have anything more?

Mr. WARNER. Precisely; that is all that he can do now.

Mr. BROSIOUS. Oh, no.

Mr. WARNER. He can stop the bank, but what good does that do?

Mr. COX. Then who shall stop the bank?

Mr. WARNER. Any man who holds one of its notes or one of its obligations and who wants it stopped.

Mr. COX. To what court would it go?

Mr. WARNER. In a State court if he was a citizen of that State, and to the United States court if he was a citizen of another State. Any man who holds any note or obligation of that bank is left absolutely free to stop it.

Mr. COX. One more question, if you please. I understand that process. Now an application, say, is made for taking out currency?

Mr. WARNER. Yes.

Mr. COX. And the bank insists that it has complied with the law and the Comptroller insists upon the other side that they have been guilty of fraud. Then there is a sharp conflict between the bank and the Comptroller; who is to decide?

Mr. WARNER. The Comptroller is absolute until that authority is curtailed in some way by Congress.

Mr. COX. It will then take additional legislation to relieve that bank, notwithstanding it may be absolutely solvent?

Mr. WARNER. I have no doubt, after the first report here from the Comptroller, that there will be a section or two added to this bill which will be a guide and a limit to some extent in the exercise of his discretion. I have no doubt, as the operation of the act goes on, that precedents will become more and better established and legislation more definite, so the question my friend raises will become almost an immaterial one. For the present, however, he possesses the discretion given by the bill.

**Mr. COX.** There is no way you can reach the Comptroller unless there is legislation directing him to issue more money!

**Mr. WARNER.** No.

**Mr. COX.** He can not be touched by the courts!

**Mr. WARNER.** The very moment you make legislation providing certain limits or providing certain conditions then, upon compliance with those conditions or upon the claim it has been complied with, you can mandamus the Comptroller I believe.

**Mr. HALL.** But you give the Comptroller here judicial power, therefore he is not liable.

**Mr. WARNER.** For the time being, unquestionably; until we can see our way clear to—

**Mr. HALL.** But I mean under your bill!

**Mr. COX.** Now, your legislative power also is granted power that it shall issue currency!

**Mr. WARNER.** Under certain conditions named in the act.

**Mr. COX.** Now, then, when that is done it raises a question of some character or kind. Now, suppose the Comptroller says: "I do not think you have complied and I will not do it." Then you are driven to the United States courts for the mandamus for the construction of the act.

**Mr. WARNER.** Precisely.

**Mr. COX.** When you do that can you mandamus the Comptroller of the United States in a State court?

**Mr. WARNER.** In a State court? I should imagine not, under a Federal act.

**Mr. COX.** Well, I am trying to get your mind on this point; you will necessarily have to go to a Federal court to exercise that power!

**Mr. WARNER.** Unquestionably; and any legislation which we pass here, enfranchising in any way a State-banking system from the imprisonment to which it has been subjected for the last thirty years, is subject to precisely the same suggestion.

**Mr. COX.** Now, a moment ago you held when a bank was in an insolvent condition the Comptroller could not wind it up or put it in the hands of a receiver! You then said the note-holder must come to the State courts!

**Mr. WARNER.** To the State court if he is a resident and to the U. S. court if he is a nonresident.

**Mr. COX.** Does your act confer jurisdiction upon the State and Federal courts?

**Mr. WARNER.** Not the slightest.

**Mr. COX.** Then, if he has to go to the State court to wind up a bank, and you have to go to the Federal court to get a mandamus on the Comptroller to comply with the law, then you meet two jurisdictions in regard to it!

**Mr. WARNER.** Not the slightest. It is only one of the cases which may arise under any act, on account of the relations between the State and Federal courts—not on account of the phraseology of any particular act, but because it is a matter as to which Congress has acted or the Constitution speaks. For example, if our State of New York passed a law which I believed tended to impair the obligation of a contract, then, not because there is any authority given by the act to go into the Federal courts, but because of our Federal Constitution, I can carry that point to the Supreme Court of the United States. In that sense there is a dual jurisdiction in regard to nearly everything we do. We pass here a certain act of Congress. If there arises a question of interpretation of that act, the Supreme Court of the United States, and the

Federal courts before it gets there, are the arbiters. In this sense any legislation enacted by Congress may be said to involve a dual jurisdiction, unless it takes jurisdiction away from the State courts.

Mr. HALL. I want to say, in order to clear the question in my own mind, of which Mr. Cox, of Tennessee, spoke a few moments ago. Under the sixth section of your bill, and under the same spirit running through the whole bill, the Comptroller of the Currency is given certain judiciary functions. He is to decide whether a bank has acted in such a way as not to entitle it to further currency. In deciding that question he acts in a judicial capacity. I want to know if there is any authority for any court to mandamus an officer who acts in a judicial capacity? I just ask that for information?

Mr. WARNER. If what the gentleman refers to is to cause by a mandamus a certain decision to be rendered in a matter as to which discretion is given, I answer him, no. If the question is as to whether a mandamus does not lie to compel any officer upon whom a duty is devolved to perform that duty, then I say, yes.

Mr. HALL. But that is the very question. Do not you leave it discretionary with him here; do not you leave him that play of ground that is necessary to perform those functions?

Mr. WARNER. Unquestionably, unless this bill is so amended that it shall prescribe more definitely the conditions under which he shall act, or until we have further legislation which shall do so; then it is very probable that, in most of the cases which might arise under it—questions such as the gentleman raises—the Comptroller might plead that he was not subject to mandamus. Whether he would be subject to mandamus afterwards would depend upon the nature of the legislation had.

Mr. HALL. But I am speaking of this bill?

Mr. WARNER. I believe most of the questions would be such as would not be reached by mandamus. I mean most of the questions that might arise unless further legislation was had.

Mr. COX. As a rule, you can not mandamus a man to perform a duty when discretion is lodged with that man?

Mr. WARNER. You can not do it at all so as to take away that discretion.

Mr. COX. Does it not follow, on the other side, that where you authorize and direct him to do a thing, then a mandamus will lie?

Mr. WARNER. It will lie to compel him to act, but it will not lie to compel him to act in the direction any particular man wants.

Mr. COX. It will compel him to act when the law discloses what he shall do?

Mr. WARNER. Precisely.

Mr. COX. But it does not compel him to act when he exercises his own discretion?

Mr. WARNER. I think we agree, but let me see. A mandamus will lie to compel an officer to perform his duty—

Mr. WALKER. Any prescribed duty.

Mr. WARNER. To perform any prescribed duty. It will not lie to direct the manner in which he shall perform that duty, provided the law leaves it to his discretion.

Mr. COX. Then you must have your act either one of two ways. If you confer discretion upon the Comptroller there is no way to force him to do it?

Mr. WARNER. None whatever, until you have either amended this act or by subsequent legislation made more definite provisions.



**Mr. COX.** I would like to know whether by this act or any other act, if you confer discretionary powers upon him, why as a matter of course there is no jurisdiction lying in a mandamus?

**Mr. WARNER.** Not as to the discretionary power, no; but it is very easy so to draft a law that the question as to his action shall depend simply upon a proven state of facts, and in that case you can lead him by mandamus right square up to the trough and make him drink.

**Mr. JOHNSON, of Indiana.** Your bill requires that the State shall charter the State banks and require that there shall be a first lien of the noteholder upon the assets of that bank. Now, suppose the State does that and the Comptroller of the Currency refuses to issue on the ground it has not done so, and it was very clearly susceptible of proof that it had been done, the court could mandamus?

**Mr. WARNER.** Yes, sir.

**Mr. JOHNSON, of Indiana.** Now, I want to ask you in regard to another branch of the subject which I wish to get you to explain. If you should unconditionally repeal the 10 per cent tax upon State bank circulation there can be no conflict of jurisdiction between the Federal and State courts, they being all before the State courts?

**Mr. WARNER.** None caused by this law.

**Mr. JOHNSON, of Indiana.** Under the national banking law there can be no conflict, because everything is amenable in the courts of the United States?

**Mr. WARNER.** Well.

**Mr. JOHNSON, of Indiana.** But under the conditions which you seem to establish by your bill the jurisdiction must necessarily be divided, and there may be frequent instances in which doubtful questions would arise as to which court would take jurisdiction of the matter; am I right or not?

**Mr. WARNER.** Mr. Chairman, the gentleman is not right. If we simply have the unconditional repeal there would still be possible appeal to the Federal courts in any case; for example, involving any question of impairing the obligation of a contract, in any case involving the construction of the repealing act, in any question involving the question as to whether or not some other act upon the statute books was more or less inconsistent with the repealing act.

**Mr. HALL.** Just right there I want to know if the Federal courts, in case of the unconditional repeal of the State bank tax, would not be the court that a man would go into ninety nine times out of a hundred if he were a nonresident of the State in case the bank had not complied with the conditions to have a receiver appointed under the Federal courts?

**Mr. WARNER.** Unquestionably.

**Mr. HALL.** Therefore, it is open to the same objection as your bill on that point?

**Mr. WARNER.** In the extent to which this act leaves any even administrative assistance in the hands of the Federal Government, I think the gentleman will admit we have seen there is a clear demarcation of the jurisdiction. There is, as there must be always, the question of the construction of this act, but as between the most extreme case the gentleman can imagine of the demarcation between the two jurisdictions and the demarcation laid down in this bill, there is no material difference.

**Mr. JOHNSON, of Indiana.** I will put the question to you again, whether the absolute and unconditional repeal of the 10 per cent upon State banks would not greatly simplify the question of jurisdiction as

compared with the conditions which will exist under the bill which you propose?

Mr. WARNER. It would not.

Mr. JOHNSON, of Indiana. Do not you know just to the extent this bill makes extra provisions to that extent there will be room for a conflict of jurisdiction?

Mr. WARNER. Mr. Chairman, my belief is that the provisions of this bill are such as are likely to prevent a very much larger number of appeals to the Federal courts than would the simple repeal. I do not mean to say that upon certain points there might be cases carried into the Federal courts under this bill which would not be carried under unconditional repeal; but what I do believe is, under this bill there are not likely to be nearly as many carried as there would be under unconditional repeal.

Mr. JOHNSON, of Indiana. That is a remarkable proposition to me, and I confess it surpasses my understanding.

Mr. WARNER. Mr. Chairman, of course it is impossible to go into all contingencies; the gentleman, for example, would appreciate this.

Mr. JOHNSON, of Indiana. Allow me for a minute.

Mr. WARNER. I want to finish this. For example, if we have unconditional repeal there will arise under the varying conditions of our State constitutions and laws questions which will be very much more varied and numerous than if this act is passed. I am now glad to yield to the gentleman.

Mr. JOHNSON, of Indiana. I do not care to have you yield to me now, as the question I was about to ask was pertinent to what you were saying a minute ago. The point I wish to make was that where there was unconditional repeal of the State-bank tax then the whole subject of the currency system is remitted to the States, and the State courts would have exclusive jurisdiction; that under the existing system—the national-bank system, the whole matter is placed within the control of the U. S. courts and they practically have exclusive jurisdiction; but your system as laid down by your bill necessarily involves the exercise of jurisdiction in the U. S. courts for one purpose and jurisdiction in the State courts for another purpose, therefore creating a double jurisdiction, and in that respect it is lacking in simplicity both from what would result from unconditional repeal and what now results from under the present national-banking system.

Mr. WARNER. If the gentleman will pardon me, the last sentence I have answered perhaps in a weak way before, and I will not take up time further to discuss that. As to the first two propositions he makes in regard to a State bank under unconditional repeal, and a national bank system under unconditional repeal, not merely will I recall my own suggestion and those of my friends from Missouri and Tennessee; but his own experience as a lawyer will lead him to be most prompt in admitting that our State banks have now a great part of their litigation carried on in Federal courts, and that, under the national banking system, a great part is carried on—

Mr. JOHNSON, of Indiana. You are simply, I think, begging this question. I do not believe you have seen the point. All of that which exists now comes toward the general end of the law, whereas you are engraving by a specific provision in your bill—

Mr. WARNER. The gentleman is certainly entitled to his opinion. It is perhaps as much begging the question on his part as upon mine to assume in advance the correctness of what he believes the probabilities will be rather than what I believe they will be.

**Mr. BROSIUS.** Will you not accede to this proposition, that where you establish a money institution, or any other kind of an institution, and subject it to the control of both Federal jurisdiction and State jurisdiction, though it may be in separate and distinct direction, yet subjecting it in some respects to the control of both jurisdictions, you increase the complexity of that system?

**Mr. WARNER.** Not at all; it all depends upon the circumstances. You can conceive of State bank systems which would bring more litigation into the Federal courts than any national-bank acts we have ever had, and you can also conceive of a national-bank system—I do not think ours is peculiarly liable to objection in that regard, however—which would bring more litigation into State courts than almost any State system. The whole question depends upon whether the provisions of your bill are such as to encourage, or, on the other hand, to anticipate and obviate litigation in one or the other class of courts.

**Mr. BROSIUS.** Let me introduce this modification of my proposition: Other things being equal, joint jurisdiction, Federal and State, would increase the complexity?

**Mr. WARNER.** There is no such thing as "other things being equal," because the whole question is whether the bill is so drawn as to create and bring about litigation, or, rather, to avoid it.

**Mr. JOHNSON,** of Indiana. Where were the former litigations under our old State-bank system, in the State courts?

**Mr. WARNER.** In the State courts if the plaintiff happened to be a resident of the State, for there the State would have original jurisdiction. In the United States courts if it was anybody residing out of the State. As a matter of actual fact, suits against State banks were frequently entered through the Federal courts on behalf of people outside the States in order to avoid local jurisdiction. Not merely in those cases which were cognizable exclusively in the United States courts, but in other cases, whenever they can be removed from State courts, it is frequently done.

**Mr. JOHNSON,** of Indiana. The main litigation was in the State courts, however?

**Mr. WARNER.** I beg the gentleman's pardon. The litigation, as far as mere collection of ordinary debts against the institutions or questions of liability between two solvent institutions, was largely in the State courts, perhaps in a majority of the cases; although as a matter of fact in the latter class of cases the extension of commercial facilities has brought them more and more into the Federal courts, until now a large proportion are in the Federal courts. But in cases which bear upon the question of marshaling the assets of insolvent institutions and meeting liabilities for circulation, my limited experience is that proceedings are perhaps most frequently taken primarily in the name of some one who, being outside of the State, can carry it into the Federal courts and thereby lessen the risk of local influence.

**Mr. JOHNSON,** of Indiana. But all State litigation grew out of a general provision of law, and not, of course, out of the particular provision of the national law, for there was no such law.

**Mr. WARNER.** I accede to what I understand to be the gentlemen's contention in that regard, which, by the way, is precisely the point I made a half an hour ago.

**Mr. JOHNSON,** of Indiana. Let me ask you a little different question on that branch. Under the present national banking system the Comptroller may not only have an examination of the banks, report of circulation, etc., but immediately upon finding them insolvent or in

danger of insolvency he may proceed in behalf of all the creditors to put them into the process of liquidation?

Mr. WARNER. Precisely.

Mr. JOHNSON, of Indiana. Under the system you propose, when he discovers its insolvency he is utterly powerless to do anything except to give publicity to the facts?

Mr. WARNER. Precisely.

Mr. JOHNSON, of Indiana. And according to that statement the settling of the affairs of the bank is left to the individual act of the creditors; there is no concerted action?

Mr. WARNER. I beg the gentleman's pardon; he is too good a lawyer not to know that the inevitable turn of affairs is that one party would sue on behalf of all the others and——

Mr. JOHNSON, of Indiana. I understand that; but in place of having some central authority, like the Comptroller, coming in and acting for all parties, it is left to the individual creditors of the bank, Tom, Dick, and Harry, to act.

Mr. WARNER. We are getting back to the old question as to whether the moment a man becomes vested with a Federal office there is thereby added to his intellect, to his integrity, and to his leisure to attend to these things.

Mr. JOHNSON, of Indiana. The only question is whether a central authority is preferable to its being scattered all over the country?

Mr. WARNER. I have no question whatever but that a proper receiver, acting under the courts upon the ground, who represents in that particular community the creditors of that institution and stockholders, will be ordinarily the better man and the local courts the more convenient tribunals.

Mr. JOHNSON, of Indiana. A receiver on the ground is appointed by the Comptroller, as I understand it?

Mr. WARNER. Sometimes.

Mr. JOHNSON, of Indiana. With full knowledge——

Mr. WARNER. I am not suggesting that the Comptroller would not attend to it fairly well.

Mr. WALKER. And generally a man familiar with the bank and all of its operations?

Mr. WARNER. That depends upon the Comptroller's appointment.

Mr. JOHNSON, of Indiana. You speak of the provisions of your bill as far as contemplated national control is concerned as purely administrative?

Mr. WARNER. Not purely.

Mr. JOHNSON, of Indiana. Largely, then? Is not your whole bill constructed upon a total and entire mistrust of State banks?

Mr. WARNER. No, sir.

Mr. JOHNSON, of Indiana. This bill, while purporting to be in the interest of State banks, is constructed upon a mistrust of State banks?

Mr. WARNER. My bill is constructed largely in the way of a concession to the conservatism of gentlemen who have the opinions of my friend from Indiana.

Mr. COX. Will you yield to me for one question just in this connection of jurisdiction, as I regard it as a very important one? Let me call to your mind this proposition: Take the State of Missouri; say this law is passed and it goes into effect; the constitution of Missouri is such that she can not legislate at all in regard to it.

Mr. WARNER. Not until she changes her constitution, as I understand.

**Mr. COX.** Then all the relief that Missouri would get, if she got any at all, would be through the system of national banks?

**Mr. WARNER.** Yes, and I may add the fact that all other States having the same authority—

**Mr. COX.** That being so, that the State of Missouri could get no relief except through the operations of the national bank act, then as a matter of law the State courts of Missouri would have no jurisdiction whatever?

**Mr. WARNER.** In that particular case, no.

**Mr. COX.** Now, suppose we go from the State of Missouri to the State of Tennessee, which is not prohibited by the constitution of the State, and she avails herself of the benefits of this act, then in the State of Tennessee in the same business you have got the U. S. courts, having concurrent jurisdiction, whereas in Missouri you have the Federal court alone?

**Mr. WARNER.** You have a certain lot of institutions in Tennessee in regard to which in most cases initial action would be in the State courts. You have a certain lot of other institutions as to which in most cases initial action would be in the Federal courts, but as to neither one of those institutions is there any complexity arising from the fact of the other's existence in the State.

**Mr. COX.** One more question and I will not bother you any more in regard to this question of jurisdiction. Suppose a case is presented, and the case involves a construction of jurisdiction which is granted by the State, now I ask you what court would have jurisdiction in such a case as this?

**Mr. WARNER.** The Federal courts, if it arose under this act.

**Mr. COX.** The Federal court would be construing the charter of a State, granting powers, limitations, and restrictions?

**Mr. WARNER.** Certainly.

**Mr. COX.** A charter granted by a State is an act of its legislature. Is not that legislation by the State? Now, do you mean to concede before this committee you will transfer the jurisdiction of a State court upon its own statutes over to the Federal courts?

**Mr. WARNER.** The Federal courts would be compelled to accept as the law governing the construction of that charter the law, either legislative or judge-made, if we may so call it, of that State.

**Mr. BROSIOUS.** How could you mandamus through a Federal court unless there was a Federal question involved in it?

**Mr. WARNER.** The construction of its statutes and its laws, given by the courts of a State, would be conclusive upon the Federal courts; but it would be for the Federal courts to say whether or not the Comptroller had acted or had not acted as he was commanded to do by this act.

**Mr. BROSIOUS.** That was not the question asked you by Mr. Cox; that is not the point.

**Mr. COX.** Let me be understood. I will take my State, as that is easy for me to handle. Say she charters a bank under your law. A foreign note-holder comes to the conclusion that the bank is insolvent. Now he gets jurisdiction on account of his nonresidence in the Federal courts, but here is my question: The resident note-holder in the State of Tennessee brings a suit that involves the construction of the powers granted in that charter, or limitation of power. Now, I understood you to say a moment ago that the Federal courts—

**Mr. WARNER.** Not at all. My answer assumed your question to relate to what the Comptroller could be made to do.

Mr. COX. I see you misunderstood me.

Mr. WARNER. I said he could be mandamus'd.

Mr. COX. The resident note-holder brings suit over which the jurisdiction of the State court is complete?

Mr. WARNER. Certainly.

Mr. COX. Then the foreign note-holder brings his suit upon the very same question, that goes to the Federal courts?

Mr. WARNER. Yes, that quasi dual jurisdiction exists now as to the obligations of every institution or bank in the country.

Mr. COX. This is what I want to get at. If that law which you propose adopts a charter of the State of Tennessee as part of itself, as a part of the law, makes it a part of the law by act, does not that confer absolute jurisdiction as a part of an act of Congress in the Federal courts?

Mr. WARNER. It would if your supposition was true, but this act does not make this act a part of that law. It simply provides the State must have a certain law, but it does not make that law a part of this act any more than the provision of the Constitution providing for trial by jury makes every jury trial a matter for transaction in Federal courts.

Mr. COX. What courts decide whether the State has jurisdiction or not; where is the jurisdiction to determine that question?

Mr. WARNER. The particular matter, I suppose, that we were lately considering would be a question of fact to be proven in the Federal courts by the production of an authenticated copy of the law as the State has passed it.

Mr. JOHNSON, of Indiana. But it would not depend upon the construction of local courts, because——

Mr. WARNER. As far as concerns the mere fact that a statute has been passed and the wording of that statute, that would be simply a matter of proof in the ordinary manner. As to the construction of a statute, the law and decisions of the State would—unless I am mistaken, which of course is possible—be conclusive upon the courts of the United States.

Mr. JOHNSON, of Indiana. Unless there is something in conflict with the law of the United States?

Mr. WARNER. Of course.

Mr. JOHNSON, of Indiana. Suppose under your bill some State bank would apply for money to be issued to it by the Comptroller and would insist that the provision of your act requiring that the charter of a State bank shall provide for a first lien of the note-holder over the assets of the bank was provided for, and suppose the Comptroller of the Currency should deny the charter contained any such provision, the question would go before the Supreme Court of the United States?

Mr. WARNER. Precisely.

Mr. JOHNSON, of Indiana. Now, do you contend that the Supreme Court of the United States would be bound to follow the decision of the local courts, that the charter did contain that provision?

Mr. WARNER. Such is my understanding.

Mr. JOHNSON, of Indiana. If it was borne upon the face of the charter that it did not?

Mr. WARNER. The decisions of the court of last resort of a State, as I understand it, are conclusive upon the Supreme Court of the United States and upon all Federal courts as to what the statutes of that State mean.

Mr. JOHNSON, of Indiana. Right there a minute. You mean in construction of a law passed in accordance with the law of the United States?

Mr. WARNER. Yes, or any other.

The CHAIRMAN. I will say to the gentleman that the time is passing very rapidly, and I think we have heard a good deal on the question of jurisdiction.

Mr. BROSIUS. On that question of jurisdiction I was going to submit a question. You provide in your bill, if I remember it, for reports to be made to the Comptroller and examiners to be appointed by Federal authority, but it does not provide that any report is to be made to any State authority or any examination by a State authority, and from your argument I have learned that the Comptroller having had the examinations held and having received the reports—

Mr. WARNER. And published them.

Mr. BROSIUS (continuing). Can take no action predicated upon the results of these examinations?

Mr. WARNER. Except in one regard, a negative action.

Mr. BROSIUS. Why do you have reports made to the Comptroller and the examinations supervised by him when he can take no action whatever on the results?

Mr. WARNER. The gentleman asks a question which brings out a point I want to enforce as much as possible. It is not upon the arbitrary action of any Federal officer that I rely for the security of this system. It is rather upon the common sense of the American public, and the honesty of American financiers, especially when the affairs with which they have to deal are dragged out and held up in broad daylight, that we propose to rest. The object is to keep that lime light on them just the same as is done in Wall street. We do not rely there mainly upon policemen and private watchmen to keep vaults full of securities from being robbed. Every single vault stands where it can be seen from the street, and in front of it burns a bright light day and night; and any man will tell you that that is the most effectual protection you can have.

Mr. JOHNSON, of Indiana. But you do not object to a State passing laws prohibiting the robbery of these banks?

Mr. WARNER. Each State can have as many examinations as it please; it can make as many provisos as it please as to how they shall do business.

Mr. BROSIUS. Right on that point, you say the States can provide by statute; now can the State provide by statute for any examination upon which the right of that bank to circulation would depend?

Mr. WARNER. Unquestionably, it can provide for an examination, and that if the result of the examination is not such as contemplated by the State law, the authority of that bank to issue circulation shall be revoked. The Comptroller is not authorized by this act to issue currency to any institution not holding the authority of its State.

Mr. BROSIUS. I do not find anything in your bill which confers upon the State authority to make any conditions upon which that bank shall be entitled to its currency?

Mr. WARNER. The second section reads as follows:

That State banks, and State banking associations, "when thereto authorized by the laws of the States in which they are respectively situate," and also national banking associations, may issue circulating notes subject to the following regulation, etc.

That authorization may be conditioned in any way that the State may devise.

Mr. JOHNSON, of Indiana. The State may impose any other additional conditions as it sees fit, and which is not in conflict with the general provisions of this bill?

Mr. WARNER. Certainly.

Mr. BROSIUS. Let me get your statement in my mind there. Do you mean primarily the State authority shall name and enact into law the conditions upon which the State banks shall receive currency from the Comptroller?

Mr. WARNER. It must have done so before they can receive it.

Mr. JOHNSON, of Indiana. Or put any other provision which it sees fit to impose upon it?

Mr. WARNER. Certainly. It can go further than that; it can make the existence of the corporation as such dependent upon the fulfillment of any condition it pleases.

Mr. JOHNSON, of Indiana. You have no objection at all to the State legislature taking such control as it sees fit of these banks; it is simply a choice of jurisdiction with you?

Mr. WARNER. Largely.

Mr. BROSIUS. You say largely choice of jurisdiction, do you not mean wholly choice of jurisdiction?

Mr. WARNER. No, sir; I do not. There are a great many other points than mere jurisdiction. I referred to some in a former hearing. While the ground principles upon which banks should be permitted to issue their notes as circulating medium are applicable in the main to the case of any civilized nation, yet when it comes to the details, even more important details, there are certain provisions which may be desirable, though not necessary, which in some localities would lead to very little inconvenience, in other cases would lead to such inconvenience as, in comparison with the uses to be subserved, would make such provisions undesirable. There are a great many respects in which, —if it is desired, as I take it we all desire, a currency should be elastic and serve in the best manner possible the people of every locality—that end will be subserved by leaving to the State or the locality the power to adjust minor details in such a way as best serves its own condition.

Mr. JOHNSON, of Indiana. You have no provision in this bill for simplifying the currency by providing for the retirement of silver certificates, gold certificates, and greenbacks.

Mr. WARNER. There is nothing of that kind in this bill. I will anticipate, perhaps, a question of the gentleman, and I will say I think it is desirable that such legislation should be had; but it is a question between a complicated currency and a complicated bill, and I have believed it easier to get through this House a somewhat simple bill than a very complicated bill intended to bring about simplicity.

Mr. WALKER. It is better to have a simple currency than a simple bill.

Mr. WARNER. My friend is entirely right. If I should for a moment think it possible to assist rather than retard even the limited relief contemplated by this bill by securing an amendment to it providing for the retirement of the greenbacks, for the absolute inhibition of the gold certificates, or for the calling in or retirement of the Sherman notes, I would be glad to go further now and take the Government out of other people's business; I should be only too glad to favor it. I fear, however, it would dump the bill.

Mr. JOHNSON, of Indiana. Is it not your belief this bill will furnish a very safe and elastic currency if by its provisions it was entirely



under national control, without repealing the State bank circulation and allowing the national banks to issue under it?

Mr. WARNER. Perhaps. But I call the attention of the gentleman to the consideration which I mentioned a few moments ago, in which, without reference to the mere question of preference between Federal and State jurisdiction as such, I believe the bill, in the shape in which I have presented it, would be more useful in its operation than in the shape suggested by the gentleman from Indiana.

Mr. COX. Before you leave that (for we are all trying to get something that is valuable), if you were to confer jurisdiction upon the national banking system, and extend the basis of its currency to include State bonds, municipal bonds, etc., then have not you reached the question of elasticity more effectually by that than you have by this?

Mr. WARNER. You have not, Mr. Chairman. The very fact that you require special investments and special handling of investments as a prerequisite to issuing currency goes to destroy elasticity. The extent to which it destroys it, or would destroy it under conditions suggested by the gentleman from Tennessee, might be perhaps less than the extent to which that elasticity is destroyed now by the very stringent provision for a certain limited class of securities which the law provides; but I will say to the gentleman from Tennessee that I can not imagine a system which would lead to more endless and more complicated and more intolerable litigation than would a system which—either by a definite provision of the original act or by an indefinite discretion given any officer, State or national—should attempt to provide for a currency based upon all these kinds of security.

Mr. JOHNSON, of Indiana. I think your safety fund is a correct method of obtaining an elastic currency, but I am afraid it would be only a safe fund in the event the whole thing was referred to national control; that is where I differ with you.

Mr. WARNER. I see.

The next paragraph relates to the safety fund. Now, as to the phraseology of that paragraph, I will not go into it in detail. It is intended to provide a very simple system for a very complicated lot of possibilities, complicated not from their nature but from their number.

It is intended to provide, first, for expenses chargeable specially to any bank. It is intended, second, to provide for general expenses chargeable to no bank in particular but properly chargeable to them all in carrying out this act, and, third, it is intended to provide a guarantee fund for the circulation. And in order to avoid what has been the objection in some systems, where the same end is sought to be attained, it is provided that this provision shall be made through an assessment, which shall be so definite in character that there can not arise any question either as to its amount whenever it is levied, or as to its limit in any one year, or in any other direction which will seriously interfere with the business calculations of banking institutions.

To that end it is provided that upon taking out the notes, no matter if the bank intends to leave them in its vault indefinitely, an assessment shall be made calling for one-half of 1 per cent on their face. It is also provided that within a certain time after the first of January in any year an assessment of one-half per cent shall be paid upon any notes, which upon that first day of January shall have been outstanding more than one year. In view of the fact that the first assessment is calculated upon notes even if they are not put out at all, it is of course possible that the net may be a little more than one-half per cent on the circulation, but it is perfectly definite. When the banks take out notes they know just how much they pay; they know if they are assessed on the

first of January next it will be one-half of 1 per cent on their circulation, and that of itself is an inducement to get in circulation that which is then outstanding.

Now, it is provided that the money thus raised is to be used, to pay—first, the special expenses of the bank; second, the general expenses of the system; and third, to keep good a guarantee fund of 3 per cent upon the whole circulation. Whenever a bank is behindhand, that year it pays the one-half per cent assessment; and with that exception it is free from all assessments whatever. In other words, if there is a slight deficit in the guarantee fund, the bank pays a half per cent, then for one, two, or three years, it may be relieved from all assessments. This will amount probably to a net assessment of between a half and three-quarters per cent the first two years, and, say, about a half per cent the first six, or seven, or eight years, and after that, in my belief, the yearly average of assessment will be nominal.

Mr. BROSIUS. There is one difficulty which seems to be in the system, and I would like to get rid of it if I can; what justice is there in requiring honest banks to use their funds to protect the obligations of dishonest banks?

Mr. WARNER. If that was the main feature there would be no justification. But the object of this assessment is to float the circulation by holding before the people such a guaranty in connection with the publicity otherwise secured as shall give the notes unquestioned currency, and thereby profit the banks at the same time.

Mr. JOHNSON, of Indiana. That is one of the conditions upon which the bank can go into the banking business?

Mr. BROSIUS. If there are any better means of doing it, that is, if each bank can protect its own circulation, would not that be better?

Mr. WARNER. Precisely.

Mr. BROSIUS. Each bank protects its circulation now?

Mr. WARNER. I do not mean for one moment to suggest that any proviso, however repugnant to business principles or business convenience, by which a bank can protect its own circulation is better than any other proviso, however consonant with business principles and however proper to secure convenience—

Mr. BROSIUS. You want the United States Government to protect every bank instead of the bank protecting itself?

Mr. JOHNSON, of Indiana. As I have interrupted Mr. Warner a great deal during the discussion of this subject, I would ask that he be allowed to continue his remarks at our next meeting.

Thereupon the committee adjourned to meet on Tuesday, February 27, 1894.

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COMMITTEE ON BANKING AND CURRENCY,  
*Tuesday, February 27, 1894.*

The committee met at 10 a. m., Hon. William Springer in the chair.

Hon. JOHN DE WITT WARNER further addressed the committee on H. R. 5995, as follows:

Mr. Chairman and gentlemen of the committee: I think that at the last meeting we had practically concluded the discussion of the effect of the guaranty fund, its principle, its amount, and its sufficiency having been pretty well gone over.

The next paragraph simply provides that when for any reason, either because of misfortunes giving it no choice or because it prefers

to do so for reasons of its own, a bank shall go out of the business of issuing circulating notes, the bank itself, or its receiver or representatives, may deposit with the Treasurer of the United States an amount of lawful money equal to the amount of its then outstanding notes, and that thereupon that bank, or its representative, may do what it pleases with its assets, so far as the United States or its currency is concerned, and that the Treasurer of the United States will redeem upon presentation any notes for which such provision is made. The object is plain; the means by which it is to be obtained are simple; and the Government, being protected by an actual deposit of cash equal to the amount of the bonds registered as outstanding, is in a position to lose nothing, while the public is reassured and protected by knowing that in every such case the cash is there to meet the notes.

The next paragraphs, 9 and 10, prescribe penalties on the one hand against the officers or representatives of a bank in case they shall hypothecate its circulating notes, and on the other hand against those who shall accept such notes as collateral. The reason for these sections is this: Though I do not understand that it has of late been a common practice, it has been the case in former times, and might possibly be so again, that a bank whose credit was too poor to float notes might have such a business standing as would induce other people to advance it money on hypothecation of a greater amount of its own notes. This in itself would be an evil in bringing about conditions which would make it to the interest of those not connected in any legitimate way with the bank to put its notes into circulation at a point distant from the bank, and especially make it to their interest to keep just those notes in circulation which would be least worthy of being so kept.

Now, if the Government had no connection with these notes, it might be said that this would be an evil against which we should hardly undertake to provide by this act; but, inasmuch as this act provides for a guaranty fund to be kept in the custody of the U. S. Government, the law should provide not merely safely to keep this fund consecrated to the use for which it was intended, but should also prevent, as far as possible, illegitimate drafts upon it.

Mr. JOHNSON, of Indiana. When a bank goes out of existence, it loses the interest it had in the safety fund.

Mr. WARNER. It is thereafter not assessable.

Mr. JOHNSON, of Indiana. All that it paid in is gone?

Mr. WARNER. All it paid in is gone. It is expressly so provided.

The next paragraph is No. 11. That simply provides for the redemption of worn, mutilated, and defaced notes issued under this act. The only question is whether that object is attained by the wording of the paragraph. As to that, I have in large measure followed the corresponding legislation which has heretofore been effectual in connection with national-bank notes.

The twelfth paragraph provides that certain sections of the Revised Statutes of the United States—which I believe are in the main those referring to the counterfeiting of greenbacks, national-bank notes, etc., but which may include other and less material provisions—shall be applicable to the currency issued under this act in the same degree as to the currency to provide for the safety of which they were originally enacted.

In the thirteenth paragraph the Comptroller is given definitely expressed powers covering the greater part of the duties devolving upon him by this act, and is also directed to cooperate with the institutions

affected in carrying out this act according to its true intent, and for such purpose is directed, as to all matters contemplated in the act, but the procedure in regard to which is not specially outlined, to adopt and promulgate such rules and regulations as, with the approval of the Secretary of the Treasury, seem to him to be such as best to effectuate the spirit of the act.

In order to keep the attention of Congress constantly fixed upon the extent of the discretion which it has left to the Comptroller, in order that there may not merely be an opportunity, but an incitement, to perfect this act by further details, in case it shall seem proper, the Comptroller is directed to report to each session of Congress such rules and regulations as he shall have adopted. In other words, having provided for the essential features of the administration of the currency which is contemplated, this leaves the attending to the business details in the hands of the one who, under all the circumstances, can best attend to them, not merely leaving to Congress the right to alter or amend this act, but in addition to that providing for publicity of such regulations as shall have been adopted and regular report of the same, so as to insure the watchful care of Congress.

Section 13 simply provides that no provision of the national-bank act shall be considered as repealed, unless it is necessarily abrogated by the provisions of this statute. This is not so much an attempt to perfect this act in its operations upon institutions other than national banks as an attempt to guard against the possibility, in cases where the provisions of this act do affect national banks, that they shall be so construed as to relax anything of the strictness of the national-bank act, except as necessarily required.

Mr. JOHNSON, of Indiana. I want to ask you a question about the methods of procedure when a bank is insolvent. Your bill provides that the safety fund shall be invested in securities. A bank becomes insolvent and, as I understand it, there is nothing to protect the bill holder until the concerns of the bank have been settled up, and it is ascertained what balance is coming out of the safety fund.

Mr. WARNER. You are not entirely correct in that.

Mr. JOHNSON, of Indiana. There is no payment out of the safety fund until a long time after the bank has been forced into liquidation.

Mr. WARNER. In some cases the report of the examiner would show at once that the safety fund had to be relied upon.

Mr. JOHNSON, of Indiana. Every bill-holder would necessarily know that there would be quite a long delay between the time when the bank would go into insolvency and the payment of the notes, and the effect would be to destroy the bill-holders' security.

Mr. WARNER. I do not think it would.

Mr. JOHNSON, of Indiana. Would it not leave in doubt the real value of the notes, which would depend upon how much was to be paid?

Mr. WARNER. I do not think it would.

Mr. WALKER. That is practically what the present act does.

Mr. JOHNSON, of Indiana. Every bill-holder under the present law knows that he is to be paid in full?

Mr. WARNER. In case a large number of banks, having circulation outstanding, should fail at once, under such circumstances as regards the reported amount of their assets as compared with their circulation, as raised a question as to the ability of the guarantee fund to meet the deficit—after the application of those assets, and also the assessment upon the stockholders—In such a case as that, the contingency which the gentleman suggests might possibly happen.

Mr. JOHNSON, of Indiana. Under the present law the bills are paid at once?

Mr. WARNER. So they would be here.

Mr. JOHNSON, of Indiana. I asked you whether or not, under the national-bank law the bill-holder is not paid promptly by the Government?

Mr. WARNER. The Government has no business to do it.

Mr. JOHNSON, of Indiana. The Government does do it, and the law authorizes it.

Mr. WARNER. The law authorizes the application of the bonds in the custody of the Treasury.

Mr. JOHNSON, of Indiana. Brushing aside any uncertainties, the fact is that the Government promptly redeems notes in case a bank fails.

Mr. WARNER. The notes are not presented for redemption.

Mr. JOHNSON, of Indiana. The moment they are presented for redemption the Government pays them?

Mr. WARNER. The fact is that if they were so presented the Government could not pay them.

Mr. JOHNSON, of Indiana. Let us try to get at the real point of dissimilarity between your bill and the present law. There is never the least anxiety on the part of the bill-holder about his money, because the Government holds bonds and would promptly pay him; therefore there is no inconvenience arising to him.

Mr. WARNER. That was not true in 1866 and 1867.

Mr. JOHNSON, of Indiana. Now, it seems to me that between the existing system and the one you propose there is all the difference in the world, because under the present system the bill-holder gets his money promptly on the failure of the bank, and the knowledge on the part of the bill-holder under your act that he might be subjected to some delay would affect the question.

Mr. WARNER. If the gentleman means that, until the people had been accustomed somewhat to the working of this system, there might be uneasiness on the part of some gentlemen, like the gentleman from Indiana, who would worry, and therefore send to their banks these bank notes for deposit, or remittance, or for redemption, I am inclined to think that is so. I know it was so in case of national bank notes in 1866 and 1867.

I know that at that time, upon a rumor as to a national bank, we were ordered to carefully sort out its bills. For a long time after the national-bank bills were in circulation we were mighty careful about taking them, if we could help it; and whenever we had a lot of money for deposit, we sorted out the national-bank bills in preference to the state bank bills. I have no doubt that for a year or two there would at once arise, when a state bank failed, the question as to whether or not its notes were good. I have no doubt that some people might pass them in through their banks. I have no doubt that some banks might write letters of inquiry or watch the papers for reports of the condition of banks, or look at the amount of the guarantee fund; but after a reasonable length of experience under this act there would scarcely be a possibility of there happening such a case as has been suggested by the gentleman from Indiana; and my experience under the national-bank act is my reason for believing that the experience would be the same in this case.

Mr. JOHNSON, of Indiana. Inconveniences would arise, not so much on account of failures as on account of men's necessities. If a bank

fails and the bills will not be redeemed, the holders would be exposed to loss or deprivation, or discount until the time of payment.

Mr. WARNER. I know that for the first year or two of the workings of this, or any act which might be passed—even if it were based upon bullion—until a number of institutions had failed, and until their notes had been redeemed, there would be some people who would worry. They did worry, for example, in regard to the national-bank currency at the time when that currency first began to be put into circulation, but there was no resulting loss to anybody, or even inconvenience which was worth taking into account.

Mr. JOHNSON, of Indiana. A good note in hand is not so valuable to a man as a good note which is payable at once, for he can utilize the one and he can not utilize the other, and for the same reason a bank note in the hands of a man who needs money is not so valuable as one which is payable at once.

Mr. WARNER. The difference is that the inconvenience in reference to a good note of an individual would be much greater than any inconvenience which could possibly arise even under the contingency suggested by the gentleman as to the currency. The analogy is not one of commercial paper which circulates as money, but it is one of paper circulating as currency under the conditions suggested by the gentleman. To return to often-threshed straw, we had during the months of August, September, and part of October an extraordinary issue of illegal currency all over this country.

I have made inquiry in a great many cases (and I have no doubt that the gentleman's own experience has also extended to a great many cases) where the currency was issued, sometimes by municipal corporations, sometimes by business corporations, sometimes by individuals, and sometimes by trustees of securities, which those who accepted the currency did not know anything about; but I have yet to hear of a single case where doubt in regard to the payment of such currency has kept a single dollar from circulating. I do not mean to say that you might not have gotten up a currency so obviously bad that it would not have circulated, but—

Mr. BROSIUS. But that currency was not in general circulation throughout the country.

Mr. WARNER. No; and I am glad the gentleman has made that point. That currency circulated locally because of confidence in its soundness.

The knowledge, however, upon which this confidence was based was so imperfect as to bear no comparison to the knowledge that under this act every individual in the United States would have to justify his confidence in the currency now proposed.

The CHAIRMAN. As you have referred to last year's crisis, I will ask you whether the comparison you institute was a fair one as compared with the general circulating medium. These issues which you have spoken of were gotten up for that emergency and were adequate to it; but suppose the whole amount of circulation under your bill—supposing it had been in force, and the banks had one hundred millions of circulation out under it, and there was a reserve fund in their control of three million, or 3 per cent, and that 150 of the banks failed, as they did last year, with one hundred millions capital, and one billion five hundred millions of circulation, what would have been the effect?

Mr. WARNER. In the first place it is simply unimaginable that, with a limit so liberal as 75 per cent of the capital, it should be even approximated in practice.

The CHAIRMAN. What security would the bill-holder have in that case? Nobody would know what the banks had, and they could not pay depositors?

Mr. WARNER. In the first place, your supposition is an extreme one.

The CHAIRMAN. It occurred.

Mr. WARNER. No; I beg the gentleman's pardon. If those banks had failed, the outstanding notes would not in all probability have amounted to anything like the sum supposed. Again the gentleman's suggestion that banks failed with more circulation outstanding than the capital they had may indicate the reason why they failed. And this could not happen under this bill.

I believe it is hard to imagine the probability, or even the reasonable possibility, in which under this bill a community would not feel that it was abundantly protected. One hundred and fifty banks would not fail in any one day. By the time any considerable number had failed it would have become known that their assets were far more than the circulating notes, and therefore that there would be no draft upon the guarantee fund. But the question raised by the gentleman does not go to this bill, but rather to whether the Lloyds assurance plan adopted here provides a large enough capital, and whether the charge for annual premium is large enough to make the insurance secure. If, however, the question is raised, and I am asked what would become of the currency in case the banks of this country, generally speaking, turned out to be so rotten that, in any large proportion, their total assets would not amount to 75 per cent of their capital, so that this guarantee fund would be generally drawn upon, then I must answer that it would be absolutely immaterial what laws are passed. If any community is so thoroughly demoralized that its business is in that shape there is no salvation for it.

Mr. BROSIUS. Under the present law every dollar would be liable in that extreme case.

Mr. WARNER. The gentleman is mistaken; the value of the present system would depend upon the market for Government bonds. And if he will simply recur to August or September of last year, he will, I think, agree with me that in such a crisis as that suggested by our chairman, matters would be infinitely worse than that which we passed through a few months since. Government bonds would not be marketable any more than so much waste paper. The stringency last August occurred in the face of the fact that men were offering to put up Government bonds to secure currency. The first bill brought before this committee at this Congress was pressed upon the assumption that there was no market for Government bonds unless the Government itself should make one by issue of new currency to be paid out on their deposits. If you imagine such a cataclysm as our chairman suggests, the national-bank system would collapse like a slit balloon. No banking system can bring salvation to a community broken down by its own demoralization.

Mr. COX. You have under your bill for final redemption three features—first, the safety guaranty; then the first lien upon the assets of the bank; and lastly, the liability of the stockholders of the bank. Those are the three things which secure notes of issue.

Mr. WARNER. But in different order from that suggested by you.

Mr. COX. I am not after the order. Suppose ten banks should all close up the same day. In that event what would you take hold of first under your bill with which to redeem the notes?

Mr. WARNER. The assets of the banks would be available.

Mr. COX. You would undertake to enforce, first, the lien upon the assets of the banks, and until that was accomplished and the assets ascertained, it is utterly impossible to tell what the guaranty fund would be subjected to.

Mr. WARNER. Certainly.

Mr. COX. Then, having enforced the first lien upon the assets of the bank and having found that those assets were deficient, what fund would you next go to?

Mr. WARNER. Allow me to read the provision.

Mr. COX. I want to make it quite clear while we are on the point. We have settled one proposition, and that is that on the failure of a bank the first fund to be assessed is the assets. We then have left two sources—the liability of the stockholders, and the safety fund. After you have resorted to them and there is a deficiency what fund would you next assess? Because that question leads to the main one.

Mr. WARNER. Let me read you the clause. The phraseology of the clause we are now discussing is found on page 7, line 141, and following lines, and is such as to provide that this guarantee fund shall be held for the ultimate redemption after "all other reasonable available assets" shall have been exhausted, etc. In other words, while the gentleman is entirely correct in his assumption that the ordinary assets of the bank would be first resorted to, it is not true that these would necessarily be finally exhausted before any payment could be made out of the guarantee fund. While the gentleman is right in his assumption that the liability of the stockholders is another resource, it is not true that the guarantee fund could not be drawn upon until after that resource had been entirely exhausted. The question as to what are "reasonably available" assets is one concerning which, sitting around the table here, with the circumstances of any bank before us, I fancy we would have little difference of opinion.

Mr. COX. What would you take hold of next?

Mr. WARNER. Unquestionably, the order you suggest is the proper order. The only suggestion I have in modification of it is that this act does not provide or contemplate the exhaustion of all contingencies which may arise before courts, or the final settlement of litigation which may arise, but that guarantee fund is held there—subject to such rules as the Comptroller may make and promulgate, and such as Congress may approve or change, if it pleases—to provide for the ultimate redemption of the notes after "reasonably available" assets have been exhausted.

Perhaps I ought again to recall that I believe the use of this guarantee fund to be not so much for the actual payment of the notes of a broken bank, as to serve as security put up where all the world can see it, which will prevent such a doubt existing, as to the notes of a broken bank, as shall trouble minds like that of my friend from Indiana, or shall cause banks to worry or hesitate to receive the notes.

Mr. COX. This is the principal trouble in my mind: If a bank becomes insolvent, the law has the first lien upon the assets, and that being the primary fund to be taken, every man knows that that must become exhausted, because every interest comes in.

You as a lawyer know that, and in a case where a bank would not pay but 50 cents on the dollar there must be something else to help, and you must either resort to individual liability of the stockholders or to the safety fund. This primary fund must be first exhausted, which would probably take two to five years, and then you have got your notes outstanding, and you can not tell what amount of the individual liability clause or what amount of the safety fund you will



be compelled to intrench upon. When you have done that, would not the depositor, under your bill, have a perfect right to come in with his interest to be protected, and insist that you exhaust the safety fund before you call on him for a liability as an individual stockholder?

Mr. WARNER. No; this act provides against that, although I am frank to admit that there is one matter which should be considered and discussed, and which the remark of the gentleman has brought to my mind since he began speaking. This act provides that this guarantee fund shall be liable for ultimate redemption after all other reasonably available assets liable therefor shall have become exhausted. While the gentleman has been speaking there has occurred to me a point as to which, if amendment be desirable, it may be had. The point is this: If the Comptroller should see fit, as he might in case notes were presented, to pay them out of the guarantee fund even before the assets or liability of the stockholders had been exhausted, whether, standing in the place of the note-holder, he would be entitled to receive, to make good the guarantee fund, such dribbles as might come in, which he had not considered at first as reasonably available assets. It would be easy to provide for that, if necessary; but, in my opinion, as long as this act provides for no special cancellation of these notes so redeemed, the Comptroller holding them—he and not the bank having paid them—would be substituted in equity, so that, without special provision, the guarantee fund would be made good.

Mr. COX. The depositor would be substituted for the note-holder upon the fund which he might be entitled to first. It is simply working a substitution. If the depositor objects to that, and the noteholder says, "You have a lien on the assets of the bank, and you must first exhaust that, and then you must go to us if there is any liability existing in favor of the note-holder over and above that, he has no right to hold him there. Coming back to the original question, would it not be necessary, when you instituted that sort of proceeding, to buy the notes outstanding at a discount?"

Mr. WARNER. No; as I understand the gentleman, he refers to the power which is frequently exercised by courts of equity, in cases where one fund is equally available to pay either of two obligations, and another fund is available to pay only one obligation, so to marshal the assets so as to give neither fund such a priority as unnecessarily to prevent those dependent on either fund from getting its rights.

Mr. COX. It is not the law.

Mr. WARNER. Courts of equity go a great way.

Mr. COX. When there are two funds, and one is subject to two liabilities—that is, where two interests are concerned in it, and a second fund independent of that where there is only one interest—

Mr. WARNER. I have heard the statement of the gentleman. As I understand it, it does not differ materially from my own idea of the matter. But, in any case, the principle and the practice suggested are absolutely limited by the other principle, that by no administration of law can you take from any suitor before a court any jot or tittle to which he may be entitled as a matter of legal preference. It is possible that there might be a difference in opinion as to where that principle applied; but, in view of the fact that it is so generally applied, so uniformly acceded to, and even the details of carrying it out so well settled by long practice in all courts of equity, it seems to me, although the question is an interesting one, that it is academic, so far as any real trouble is concerned.

**Mr. COX.** If you have to go through litigation as to whether a certain fund is liable to redemption, I should say that the delay (of course it is a mere matter of opinion) would work the notes down to a discount.

**Mr. JOHNSON, of Indiana.** Do you concede that under your bill the safeguards are sufficient to protect the note-holder?

**Mr. WARNER.** You are making the suggestion I was about to make in answer to the gentleman from Tennessee. The question is as to the sufficiency of the "insurance" provided.

**Mr. JOHNSON, of Indiana.** Would it be possible to provide in your bill that in case of the insolvency of a bank the notes should be paid, leaving the Comptroller to reimburse the Government out of the assets?

**Mr. WARNER.** It would not violate the principle of the bill.

**Mr. JOHNSON, of Indiana.** I think if any hardship would come to the note-holder, that might be obviated by what I suggest.

**Mr. WARNER.** It would be subject to two objections. One objection, although wholly administrative, is this: I believe (and I think every one will concede as a matter of principle) that the current redemption should be in the hands of the banks; that the Government should be called in as little as possible, and that, as far as possible, even ultimate redemption should be left to be provided for by the banks.

The other objection is this: In case of any considerable number of banks failing, the probability of large drafts upon the guarantee fund would be so increased as to raise the question as to whether it was adequate; though it might be unquestionably sufficient as an insurance for ultimate payment under the provisions of this bill.

**Mr. BROSIUS.** Was it not the case under the New York safety system, that when banks failed it was found that the safety fund was small?

**Mr. WARNER.** That was the case about 1842, though it soon accrued sufficient to pay the notes of the banks that then failed. It must be remembered, however, that the New York fund was liable for note issues far beyond proper proportion to capital, and drawn upon at once without any attempt to realize on assets of the banks. Indeed, I believe that up to 1841, all amounts paid from the safety fund, from the time it was established before 1830, had been made good from the assets of the banks themselves. All in all, however, the safety fund was from the very beginning—right through the meanest lot of panics this country has ever suffered, at least in regard to bank-note currency—sufficient not merely for all notes legitimately outstanding, but also for all of the overissues, and for all of the vast mass of counterfeiters that under those conditions had been worked off. When they came to apply the act, it was so construed—and to my mind correctly, although its author vehemently objected and claimed that it was not so meant—that the guarantee was made to serve the depositor as well; and although later on I believe this was corrected, the great depletion of the fund provided under the New York law was neither to make good the legitimate circulation, nor even to make good the illegitimate or overissue circulation, nor yet even to make good the counterfeit circulation, but, to a greater extent than was caused by either of the three other sources, to make good the loss to depositors, including the state itself.

It must be remembered, too, that the one-half per cent per annum, constituting the 3 per cent safety fund, was assessed upon the capital only of a system of banks which were permitted a circulation of from 100 per cent to 150 per cent of their capitals, and which in general lived well up to their privileges.

Mr. JOHNSON, of Indiana. That was where the number of notes of failed banks was in excess of the safety fund.

Mr. WARNER. I concede to the gentleman from Indiana, as I did to the gentleman from Tennessee, that if any considerable portion of the banks of this country failed at the same time and without assets, I do not know any plan that would help them.

Mr. JOHNSON, of Indiana. When those banks failed the safety fund was not equal to the notes, to say nothing of the depositors.

Mr. WARNER. I am not sure that that was the case even in 1842. It must be understood, however, that the only pertinency of the gentleman's suggestion is in cases where assets are assumed to be absolutely nothing, and it must be remembered that the limitation of currency in proportion to paid-up capital was liberal in theory under the New York laws, and reckless in practice.

Mr. JOHNSON, of Indiana. I think there were bonds issued in those cases.

Mr. BROSIUS. A large amount of money was borrowed for the purpose.

Mr. WARNER. The safety fund finally replaced everything that had been so used.

Mr. JOHNSON, of Indiana. It seems to me, if you put all the banks under national control, and then provide that in case a bank fails the Government should apply, first, the safety fund promptly, by using that method to enforce the other provision, and I think that would be better than the one suggested in your bill. It would make it available at once.

Mr. WARNER. As regards the first suggestion, it involves a question of principle. As to the second question, it seems to me that that is a matter of expediency, and the disadvantages in the change would perhaps outweigh the advantages.

Mr. JOHNSON, of Indiana. I had in mind the note-holder. He knows the Government will promptly and immediately take hold of the assets and realize on those assets, enforce the double liability, compensate him, and replace the safety fund. The note-holder would feel that that could be done more expeditiously and certainly.

Mr. WARNER. In case it was proposed to wipe out all of our system and substitute another, there would be more force in what the gentleman suggests. If we had no currency outstanding, except such as came from this system proposed, the effect of a crisis within the first year or two after the operation of the system might exaggerate the probability of the contingency referred to by the gentleman; but, in the first place, the whole question, I think the gentleman will admit, is not that of actually redeeming the notes, but of making such provision for the redemption of the circulation as shall leave no inducement for their presentation. It, therefore, comes down to a question of apparent adequacy.

Mr. JOHNSON, of Indiana. And a question of belief upon the part of the note-holder?

Mr. WARNER. Exactly. And as the bill is not intended to displace the present currency of the national banks, and therefore leaves the currency to be provided by this bill to come gradually into use as communities shall need it, and the people shall have faith in it; and inasmuch as it is simply unthinkable that for the first three years the country will be in a large measure dependent upon this circulation, it seems to me that these circumstances minimize the gravity, if you should consider it grave at all, of the contingency against which the gentleman proposes so carefully to provide. I believe, therefore, that

we would not be justified in putting any additional obstructions upon the circulation by larger taxes upon circulation to provide a somewhat larger guaranty fund to start with—though the rate of the assessment and size of the guaranty fund to be provided thereby is one of detail rather than of principle.

Mr. JOHNSON, of Indiana. It is my opinion that this bill in its present form will not pass. If these banks were placed under the control of the National Government it would be a better way. I do not believe elasticity can be obtained with bonds; and the question, it seems to me, is whether it would not be better to compromise than to offer in this way a measure that would be defeated. I may be wrong. I have talked with a number of gentlemen about it.

Mr. WARNER. If I may make a suggestion, this matter should not be treated as a political question. We should draw bills, and I am certain—speaking for myself, and I think for the gentlemen on our side of the House—that we could so draw a bill that it would, through discussion, enable us to come to an agreement in the committee, and enable us to offer to the House a bill which would secure the support of a great portion of our colleagues of all parties. As to the details, it could be amended so as to be approved by the judgment of the House.

Mr. JOHNSON, of Indiana. A great deal of the opposition to the present national bank law is that it is claimed that the currency has no elasticity. Another objection was that we should not tax the people to pay interest upon bonds in order to have security. Your safety fund obviates this objection; but there is also a strong objection to remitting to State banks, or relaxing Government control in any way, and that would ultimately be antagonized. I would suggest whether the safety fund would not be an immense stride in curing existing evils. You admit that it would be?

Mr. WARNER. Unquestionably.

Mr. BROSIOUS. The idea is to make a leading modification of the present law by a safety fund, instead of security?

Mr. JOHNSON, of Indiana. That is my idea; but I do not believe any proposition letting the thing pass over to the States, instead of being retained in the hands of the General Government, will be met with favor. I would not say it would not be done at some future time; but for the present I am afraid of it.

COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C., June 15, 1894.*

The committee met at 10:30 a. m., Hon. William M. Springer (chairman) presiding.

The CHAIRMAN (to Mr. Coombs). Having introduced the bill under consideration, we will ask you to submit any views you may have.

Mr. COOMBS. Mr. Chairman, there seems to be a slight misunderstanding in relation to who are to talk here to-day. It is not my intention to spend any time on the bill, but to introduce Mr. Jordan, the subtreasurer of the New York subtreasury, and Mr. Trenholm, the Comptroller of the Currency under Mr. Cleveland's former administration, who are in favor of this bill.

The design of the bill is as far as possible to provide for the collection of practical and scientific information that will enable us to intelligently formulate a banking and currency system, doing away with the mixture of currency and providing a system that will be automatic as far as possible, and on a basis that will embrace the whole situation. The bill provides, as you will see, for parties to be selected from all portions of the country, so that the whole country may be represented as far as possible, all sections of it, and the peculiarities and wants of each section. It has been brought to my attention this morning that the National Board of Trade and Transportation has passed a resolution, at their last meeting, in which they indorse, virtually, this measure.

I would like to retire, Mr. Chairman, in favor of these two gentlemen who are here, if the committee will accept them in my place.

Mr. JORDAN. I would rather have Mr. Trenholm address the committee. I think he has something else to do; therefore, if he will speak first he will oblige me.

Mr. TRENHOLM. I would prefer that Mr. Jordan or Mr. Coombs would talk, because they have considered this measure more fully than I have done; the object to be attained, however, is one to which I have given a good deal of attention, and I think it is important at this time that some such plan as is proposed in this bill should be embodied in legislation or put in action by the Government, because the minds of the people of this country are by no means made up upon many fundamental, or at least underlying questions, as, for example, whether all the money of ordinary circulation should be supplied by the Government, or if not supplied by the Government, at least guaranteed by the Government, and the paper elements of the currency redeemed by the Treasury, or whether we shall separate the functions of the Treasury from the currency arrangements of the country, and leave all paper circulation to be supplied wholly by private effort, either corporate or otherwise.

If we are going to have all our paper money supplied by the Government, holding the Government responsible for it and looking to the Government to arrange about its volume, its character, keeping it in good condition, seeing that it is properly retired, providing proper centers of redemption, and all that sort of thing, then Congress must devise a totally different system from beginning to end from the system that we want if we are going to leave these matters to be done by private effort—that is, nongovernmental effort; and before Congress can be expected to decide these fundamental questions the people must be brought to understand them and what they involve.

We know that there is a very strong feeling in favor of the repeal of the 10 per cent tax on State-bank issues, which would be a step in the direction of leaving the field of currency supply open to everybody. It would be open to anybody if we simply repeal that tax, and the manifest objections to an ill-considered abandonment of that Government control of the currency, to which we have become habituated, creates opposition to the idea of naked repeal.

We have a system growing out of the exigencies of the war, a national banking system, including a national-bank currency, but the national-bank currency is really nothing but a governmental currency carried on in the name of the banks, with which, however, the bankers have nothing to do really except to draw profit from it. This profit seems very much greater in popular estimation than it actually is, and for this reason the national-bank system is exposed to an odium that is not founded in reason and that is a serious menace to the permanence of that system as one providing popular banks of deposit and discount, which alone it really is. As such a system it is too valuable to give up.

These two questions, the State bank note tax question and the national-bank currency question, are the most prominent just now, but there are behind these the legal tender, the silver dollar, and the Treasury note question not yet settled and likely at any moment to spring into activity.

Now, when we consider how wide a scope each one of these questions takes, and how important it is that whatever legislation is hereafter brought forward should be harmonized with what now exists, as well as with what we desire to come to, it seems to me that it would be impossible for us to reach a conclusion or to get public opinion to crystallize on any particular set of measures, unless these are carefully considered and are brought out with a sufficient degree of authority to attract general attention and excite general discussion. The debates that take place in Congress, and the reports of committees on the various measures heretofore proposed, do not reach the great mass of the people. The only channel through which they can reach the people is afforded by the newspapers, and the newspaper writers are not as yet themselves sufficiently educated in these matters to digest and deliver intelligibly to their readers the substance of such debates and reports. I do not speak of the great journals of the country; they are ably edited, and the men who conduct them have studied these questions and are well able to expound them, but I am speaking of the papers that are read by the great majority of the people—the voters of the country—those whose minds have to be satisfied in order that any legislation may go through Congress. Those editors generally are not sufficiently informed to feel the confidence and independence that they ought to feel in bringing their views forward in communities where opposite views prevail. It is not that they are afraid to contradict local sentiment, but they mistrust their own conclusions.

For example, we know that in some parts of the country there is a very strong prejudice against State bank notes, and as a consequence you will hardly find a newspaper there advocating any form of repeal of the tax on State bank issues, while on the other hand, in other parts of the country the feeling against national banks is very strong, and it has found definite expression in an agitation in favor of repealing the tax on State bank notes, hence in those parts you will find very few newspapers willing to oppose that repeal. And so it is all over the country. It is not in New York, Boston, Philadelphia, Chicago, or St. Louis that discussion is needed; it is among the great mass of the

people. To reach them we must use the instrumentality of the press, hence it is the local or rural press that we must keep in view.

To this end I think a commission composed of well-known men should be appointed who would command the general confidence of the people, first, on the score of their impartiality and patriotism; secondly, on the score of their knowledge of the subject and of the needs of different sections and classes; thirdly, on the score of their ability to present their findings and conclusions in a simple and intelligent manner.

If such a commission should be organized, and after proper consideration and deliberation its members should agree upon a report, I believe that report would be published in every corner of the land, and would be fairly and dispassionately discussed; and if the conclusions reached should be set forth in a brief and clear manner, the minds of the people would be enlightened, and although there might not be immediate universal concurrence with its conclusions, a basis for intelligent discussion would be afforded. There is a vast amount of discussion wasted at present because it is expended on subordinate questions. A great many plans are being discussed which in practice would be found to be more or less incompatible with each other, while if we are to have a uniform and suitable currency it must be through definite, consistent legislation, and such legislation can be devised or brought about only by just such means as this bill proposes. When this is done we may find public opinion sufficiently concentrated on one comprehensive measure to give us a hope of getting something practical accomplished.

It seems to me that the time allowed in the bill is not long enough. Considering that the commission is to be composed of men from different parts of the country, who probably have different ideas, and reckoning the time that will be necessary to discuss the various plans proposed, I do not think a report could be reached by next December. The 1st of December, 1895, would be the earliest time at which such a commission could report. Whether it takes one year or two, however, the obtaining of such a report must necessarily be the first in any series of practical steps that are to be taken to bring order out of the confusion of our banking and currency laws as they exist to-day, and to reduce into some sort of coherence and consistency the varying opinions that now prevail—

Mr. JORDAN. May I make a suggestion, that if Congress saw that the time was not sufficient, they would have control of it in December, and could extend the time for the commission to report.

Mr. TRENHOLM. Would it not be better, then, to make the time early in 1895?

Mr. JORDAN. February, 1895, then.

Mr. BLACK. Could you suggest anything, Mr. Trenholm, that we could do now outside this commission for relief, if you think any relief is necessary?

Mr. TRENHOLM. I would like to ask, what is it from which you think the country ought to be relieved? That is what I would like you to tell me.

Mr. BLACK. I think when a physician diagnoses a case he tells what the matter is. I come to you as a physician.

Mr. TRENHOLM. Even if I were a physician, I should inquire where the pain is before attempting to diagnose the case.

Mr. BLACK. I want to have your views on what I concede to be your superior knowledge of the subject.

Mr. TRENHOLM. I think it is a very important question, and I

that particularly appeals to members of Congress. There is a feeling throughout the country of unrest and dissatisfaction with the present condition of things. Business men are interfered with in their enterprises, and there is a good deal of anxiety among those dependent upon industrial operations. The people feel that this unsatisfactory condition is, in some sort of way, related to the currency or money question, yet few individuals see what the connection is between their own business and the general condition of the currency. Consequently, the people everywhere turn to Congress, just as you are now turning to me, saying, We do not know what is the matter, but we want you to give us some relief. Now, I think it is very difficult to say what is the matter. A great many persons think they know, but it would be impossible to get any considerable number of these to agree as to what is the matter.

My ideas on this subject run somewhat in this way: Confidence in the maintenance of any prevailing condition of things is essential to sustained industrial energy and productiveness, and of all things related to industry money is the most important, hence all industries are affected injuriously when confidence is shaken in the maintenance of our money in a condition of uniform and uninterrupted effectiveness for each and every purpose for which money is used in connection with industry.

This confidence was shaken in 1893, and our industries have not yet recovered from the shock. Industry depends upon confidence directly and, through its dependence upon money, indirectly, for all money, gold, silver, and paper, and all that passes as money, depends for its efficiency as money upon confidence. If there was a doubt in the minds of the people of the world at large, if there was a doubt even in the minds of the leading bankers of Europe as to the permanency of the value of gold, gold itself would not circulate as it does to-day—that is, it would not perform the many functions that it does to-day. What confusion in industry and in the minds of the people would be produced by that condition of things!

Now, this actually happened as to silver as long ago as 1878, but as there was no silver money to speak of in this country then, no effect could have been exerted upon our industries by the subsequent depreciation of that metal if we had not foolishly attempted, by legislation, to forestall and to arrest that depreciation. If our legislators had at that time recognized the force of the natural laws that govern these things, they would never have burdened us with silver coinage statutes. These statutes are at the bottom of all our monetary confusion, for by their operation they produced the strained and artificial condition which collapsed last year, and through that collapse gave occasion for this cry for relief that comes from the people to Congress and now from Mr. Black to me. What relief can be given? It is not possible to undo in a short time all that has been done by mistaken legislation and misdirected administration during a period of sixteen years; but a commencement can be made, and if I may be allowed to say so, I do not know of any better way of commencing than by showing to the people that the Congress of to-day is more sagacious than those which sat in 1878 and 1890.

To restore public confidence in the intelligence and courage of Congress on financial subjects would be a great gain. The appointment of a monetary commission is a good first step, and another thing that I think would give relief would be to establish an absolute conviction in the minds of the people that, never mind what comes, never mind what party prevails in the future, never mind what course the



politics of this country may take, we are going to maintain the convertibility of all kinds of our money into gold. If we had that fixed in the minds of the people I think one of the causes of anxiety would be dissipated.

Mr. COOMBS. May I ask you a question right there? Would not the investigation of this commission develop in a clear way the relation of coin, both gold and silver, to currency—the necessary relation; that is, there is a growing feeling in the country that coin is a commodity?

Mr. TRENHOLM. I suppose the commission, if it reaches any conclusion at all, would have to reach some conclusion on that subject as the basis for other conclusions of a more practical character.

Mr. COOMBS. Whether that coin related simply to the balance of our operations with foreign countries; I suppose that would be taken into consideration.

Mr. JORDAN. It is so stated in the bill.

Mr. COOMBS. Yes; we must recognize the fact that while it is perfectly good among ourselves, its position is constantly liable to change on account of our relations with foreign countries who use different currencies. In other words, the circulating currency among ourselves is one thing; its relation to the foreign demands that are made upon us is another. Do you suppose they could come to that point?

Mr. TRENHOLM. I think they would have to come to that point, because no system of currency circulation will answer for an industrial and commercial nation that does not take cognizance of the requirements of foreign trade and provide for them. Our surplus crops can be marketed abroad only through the instrumentality of foreign exchange operations, and the producers of these crops would suffer more than any other class if our currency arrangements should prove an obstacle to the easy and natural flow of bills of exchange payable in London, Paris, Berlin, etc. In setting up a water mill it is as important to provide a tailrace for the stream after it leaves the wheel as it is to conduct it to the wheel.

Mr. Springer said awhile ago that issuing bank notes is like turning fish loose in the sea—each one goes where it is carried by the forces bearing upon it, and no one can foretell whither they may be. This is true; but fish swim or float, while bank notes pass from hand to hand among persons more or less intelligent, and the force that sustains this circulation is not behind the bank note or in the substance of the note; it is a force extraneous to the note, it is confidence—confidence that the note is genuine, that it has been honestly issued, and, above all, that it will be redeemed on demand. It is the ultimate recourse to redemption that serves to render a bank note an acceptable vehicle of value. If we had a bank-note circulation in this country (which we have not at present), New York would necessarily be the place of general redemption, and funds would have to be kept on hand there to effect redemption, and these funds would have to be continually added to. Now, New York is also carrying on a trade with foreign countries by means of bills of exchange; hence New York is the point where bank currency and foreign exchange meet. Western banks issue their notes in the purchase of exchange on New York, drawn against grain, beef, etc., intended for shipment abroad; banks in the South use their notes to buy exchange drawn against cotton and other products, all intended to go abroad.

The banks of New York thus receive a great amount of exchange from these interior points payable in New York and in American money by foreign bankers. These bankers might like to pay in sterling

exchange, but the banks can not accept that because they can not cut that sterling exchange up and use it for currency. Therefore we must have in New York a stock of coins as a medium for converting sterling exchange into currency. Whenever the bills drawn on foreign countries exceed in amount the demand from importers there is a balance left over, which has generally been called the balance of trade. That balance has to be settled, because every bill drawn represents goods exported, and we do not send our goods abroad without getting full value in return.

If the demand for sterling bills exceeds the supply, the balance of trade is said to be against us, and then we have to settle for it. These settlements can be made only in gold, because that is the money of the world. Now, if we do not have our currency so related to gold as that its value will be fixed and, so far as can be foreseen by the most long-sighted business man, not liable to change, you can readily see how the element of uncertainty as to the value of our currency dollars would be introduced and how that uncertainty would be increased or diminished by fluctuations in the balance of trade.

Mr. COOMBS. Let me suggest, right there, that the balance of trade used to be considered in my early business experience as the difference between the value of exports and the value of imports; that is interfered with to-day by securities, American securities, held abroad.

Mr. TRENHOLM. But there is always a balance, even after allowing for the value of securities exported and imported?

Mr. COOMBS. Always a balance; yes, sir.

Mr. TRENHOLM. There is another matter, Mr. Combs. There are in this country a number of banking firms whose capital belongs nowhere, neither here, nor in England, nor in Germany, nor in France. It is tramp capital; is always on the road; employed in London to-day, to-morrow it may be transferred to New York by cable, and to Berlin the next day. Wherever the highest fraction is paid for its use, there it goes. This has been the case since the cable has been established, and it puts every country in the position of not being able to reckon upon the amount of capital that it can permanently command. Each country has to compete for the use of these masses of floating capital, and the highest bidder gets it unless the question of security arises. The Bank of England rate of discount determines the price of money throughout England—each change in the rate has an effect upon sterling exchange in New York immediately. If we had a system of currency in this country which was not so firmly fixed as even the present currency is, we would have a great deal of anxiety and confusion every time there was an abnormal condition of things abroad. The degree of that confusion and anxiety would be indicated by very high or low rate of exchange.

Mr. COOMBS. I suppose also the use of that capital is determined by the stability of the securities?

Mr. TRENHOLM. Yes, sir; one of our present troubles is that that capital was withdrawn from us last year, and will not come back until the bankers who control it have much more confidence than at present in the future of our legislation on currency matters.

One reason England is in the position she occupies to-day financially is because there has not been a shadow of a doubt in the mind of any human being as to the absolute permanency of the basis of values in that country. A capitalist would rather lend at 1 per cent a year and be perfectly sure that he will get back absolute value when his money is repaid, than at 10 per cent per annum with the risk of having to

accept in repayment currency of depreciated or even uncertain or fluctuating value.

**Mr. COOMBS.** In other words, a speculation.

**Mr. TRENHOLM.** A speculation—gambling. Now, the more you can eliminate gambling and the elements of chance from business operations the more you stimulate business; because you encourage every man to do the best he can, confident that he sees every element of the problem. But if there are uncertain elements to be taken into consideration, then he is cautious and sits still, and would rather sit still a year than to go into things when he doesn't know how they will turn out. And there are thousands of people in this country to-day leaving their money idle because they think it is better for their money to remain entirely idle than for them to run any risk with it. If it were absolutely certain that this Congress would not attempt any legislation on financial questions, but would appoint a commission like the one proposed in the bill, and decide not to do anything until the report of that commission had been made, I think it would give the country confidence.

**Mr. JORDAN.** The idea of this commission, then, is to find out the wishes and relations of each section of the country to the currency, and hopes the results of its inquiries will be to remedy the defects which it finds—in the present system—and that a general scheme can be devised by Congress which will do this; it would not be to build up any one theory or system, but to examine all the facts, and reach a conclusion from these and from experience?

**Mr. TRENHOLM.** Well, if the commission amounts to anything it would have to lay out a plan that is both scientific and practical—that is, based on knowledge, consistent with reason, in harmony with the habits and business methods of our people, and adapted to the widely varying conditions that prevail in different parts of the country. No one should be on that commission who could not fairly consider all facts and reasons and be open to conviction on any point.

**Mr. WARNER.** May I ask, Mr. Trenholm—I have been thinking over the results as proposed in the shape of this commission. As I understand you, if it took up a subject with reasonable thoroughness and proceeded with such deliberation as to gather in properly what ought to be included in the investigation, that a report from them might reasonably be expected, say January 1, 1895, so as to allow Congress, meeting the previous December, to consider such report in January or February, 1895. That means practically, I take it, even if legislation is proceeded with somewhat more promptly than usual, that it would be January, 1896, or later than that, before we would expect anything to be actually put in operation. Now, without suggesting whether that is desirable or undesirable, may I ask whether, from your knowledge of the present condition and probable trend of currency matters in this country—whether there would be apt to occur any trouble before then, or whether, in your opinion, it would be safe to let matters rest until then. In other words, the theory is one thing and the situation another.

**Mr. TRENHOLM.** As to whether we may have time enough to consider this matter of monetary trouble or apprehension of monetary trouble—

**Mr. WARNER.** Any necessity for immediate attention?

**Mr. TRENHOLM.** I think the condition of the Treasury of the United States affects all these questions. The Treasury balance now takes the place partly of those balances of trade calculations which I was referring to in answer to Mr. Coombs. I think the only danger of the

only anxiety that we need apprehend now would be that the Secretary of the Treasury should lose physical control of the situation. Next in importance to the people feeling absolutely confident as to the standard of value, is the ability of the Government to maintain that standard. There is a great difference between passing a law and being able to enforce that law or keep it in operation. Congress may resolve in the strongest terms that the basis of values should not be changed, and may pass acts to support the resolution, and yet the basis of values may become changed. It is beyond the power of any human agency or any government to prevent the operation of those natural laws which operate upon money and credit and confidence.

The only power that exists to-day by which our currency is maintained on a parity with gold whereby alone all its elements circulate with freedom and enjoy more or less confidence, is the ability of the Treasury to liquidate our paper money on demand by giving in redemption of it gold to the man who wants gold and silver to the man who wants silver. Our system demands as the price of its preservation that every citizen who has a demand on the Treasury shall receive the kind of money that he wants and not the kind that the Treasury wants to get rid of. Therefore the Treasury is banking against the public at large. Every man can take greenbacks then and get gold for them. The Government may pay him in greenbacks any amount that is due him, but he can take the greenbacks to the Treasury and get gold for them. Hence the Treasury must be strong enough to be able at all times to meet any such demands. The strain upon the Treasury will increase in proportion with each increase in the volume of those elements of the currency that people want to get rid of, i. e., those for which gold will be demanded at the Treasury. To relieve the Treasury, therefore, we must do two things: First, we must remove apprehension as to any elements of the currency, and thus we will not only diminish the demand on the Treasury for gold, but, as experience shows, we will cause gold to flow in as freely as it did before this stringency. On the other hand, we must make the Treasury strong enough in gold—that is, so strong that people will believe that if they want gold they can get it. If they know they can get it then they do not want it. Is not that so, Mr. Jordan?

Mr. JORDAN. Yes, sir.

Mr. TRENHOLM. Mr. Jordan found in the first administration of Mr. Cleveland, when there was great apprehension—there were negotiations with New York bankers for loans—\$15,000,000—and people were uncertain as to how the Treasury would get through. Now, what Mr. Jordan did was to cause immediately the subtreasuries to pay out gold. What was the effect? It was like a sucked pump, where you have to pour a little water down to begin with, and then you begin to pump the water up. Paying out gold had a like effect upon the currency of the country. It started little streams of gold from all over the country, until after while there was so much gold that the Secretary of the Treasury did not have to borrow. Is not that a fact?

Mr. JORDAN. Yes.

Mr. TRENHOLM. Therefore, in answer to your question, Mr. Warner, I think that if we can first of all satisfy the public as to the determination of the Government, through Congress, the Supreme Court, and everything else, to keep the standard of values absolutely fixed, and secondly, if we can satisfy the public that the Treasury is going to be made strong enough to put that resolution into practical effect, and maintain it, we need have no apprehension of any currency troubles for a long time to come. I do not see anything that can affect the currency, except what may result from one of these two causes, and

if we remove those two dangers I think we would have ample time for the commission to discuss the whole question and make this report and for the country to become educated on the subject.

Mr. WAENEER. I had in mind the particular matter to which you have just alluded, and I confess I appreciate your suggestions more than I realize any definite conclusion from them. Of course if we do not have any trouble we won't have any trouble. My inquiry was as to whether, under present conditions, which are so much better known to both Mr. Jordan and Mr. Trenholm than myself that I need not refer to them, it is safe now to undertake a plan which inevitably postpones—and I think we will all agree that the estimate is a very conservative one—any actual relief upon this matter until 1896 or 1897, probably longer, but I mean in the regular course, unless at the same time we have in mind expedients to meet troubles which may occur meanwhile.

And then in addition to the particular matter to which Mr. Trenholm has referred, and it is the first question, there is this other less important question, perhaps. We have been accustomed to having ever since I have been old enough to know anything about these matters an annual stringency in our currency, practically twice a year, and one big one along in August.

Mr. JORDAN. As Mr. Trenholm has just discussed the subject from a general point of view, I will merely give some of the details as to why it is desirable that this commission should be formed. It would ascertain from actual investigation at the different commercial or business centers the need for currency, when it is needed, and to what extent. At these different points can be learned the local wants—what amount of currency the banks ship and receive by express or other methods of transportation, the cost of the issue of currency to the banks, the length of time it stands out, and the amount of profit derived from its use, and what profit is made by its loss, though this latter point can only be ascertained at Washington. By making these and similar inquiries the commission can ascertain how much currency is needed and the points at which it should be supplied or redeemed. Abroad they have had a series of thorough examinations as to the gold and silver currency, and partially of paper, but this country can furnish the most complete information as to the subject of a paper currency, because we have passed through every phase of its use.

I do not believe that until such an investigation be had it would be safe to enter into any new scheme for the creation of a currency; such a step would affect too many interests to be taken lightly or without due examination and care. In order to provide for the interregnum which must take place before action can be had upon a bill to be devised by the commission, a temporary loan, or a series of such loans should be provided for, giving the Secretary power to borrow from time to time such sums as may be necessary, at a rate of interest not to exceed 3 per cent. If these loans were made with the condition that the certificates issued for the moneys borrowed could be used as a reserve by the banks, the money could be borrowed at  $1\frac{1}{2}$  to 2 per cent per annum, and the currency wants of the country be more thoroughly provided for than at present.

A temporary loan with a reserve-clause feature is not a new remedy; it has been used before and used successfully, and would enable the Government, by taking care of the excessive issues as they present themselves (taking them up and putting them in the Treasury vaults), to prevent a renewal of the present system of gold depletion which is going on in New York.

This depletion can not be stopped by any Government remedy, because it is a treatment of gold as a commodity. People can make a profit upon gold shipped in two methods: First, they can borrow at 1 or  $1\frac{1}{2}$  per cent, ship the gold, and sell the exchange at its highest price, say 4.39 $\frac{3}{4}$  to 4.90. If by any chance we should drop from a gold to a currency basis, the borrowers of this money would make a large profit from the resulting premium on gold. Another element of profit is that, using their credit in shipping gold, they sell the resulting exchange at the highest point, say 4.90; then sixty days or more thereafter they buy back that exchange at 4.83 or 4.85 or lower, and thus make a substantial profit. No Government legislation can reach such a condition of things if we are to remain upon a specie basis. Gold has two functions to fill—of a reserve currency here and as a means of settling our debit balances abroad.

The fact that the Bank of England pays a fixed price for all the gold presented to it is sufficient to establish the price of this gold as a commodity; and, necessarily, whenever money becomes too cheap here gold will flow abroad, because of the better price and wider use to be obtained in the markets of the world than in this country, where it has ceased to be used as a currency, though it is still the basis of all values, both of our paper currency and our exportable merchandise.

As to the matter of a temporary loan, if by reason of its operation money were to increase in value in New York City even to the low point of 3 per cent per annum, it would act as an immediate check upon exports of gold, by reason of the greater value of money here than in the existing condition of the London and continental money markets.

I should like to present a table showing the actual monthly movement of currency "in and out" of the city of New York.

*Statement showing approximately the monthly movement of currency to and from New York City banks.*

Month.	1890.		1891.		1892.		1893.		1894.	
	In.	Out.	In.	Out.	In.	Out.	In.	Out.	In.	Out.
January .....	12.9	5.5	25.4	7.1	24.3	7.7	30.7	9.2	47.0	13.7
February .....	7.0	8.8	11.0	10.1	14.4	15.5	22.1	15.2	27.5	12.1
March .....	4.9	9.9	7.8	16.0	10.8	16.5	24.2	26.1	23.5	16.6
April .....	8.6	7.8	15.9	11.3	13.6	9.8	25.1	9.7	31.8	17.1
May .....	15.7	8.0	23.1	4.9	19.7	8.0	26.2	11.2	36.0	18.6
June .....	12.3	6.6	22.5	6.6	17.7	8.5	16.0	40.0	29.7	15.7
July .....	14.3	9.1	21.9	11.9	22.1	14.2	15.4	26.7	* 13.4	7.8
	75.7	55.7	127.6	67.9	122.6	80.2	159.7	138.1	208.9	101.6
August .....	8.4	14.8	11.7	17.4	17.2	21.6	11.7	28.0	.....	.....
September .....	5.9	20.9	10.9	37.0	17.9	24.4	30.4	10.7	.....	.....
October .....	9.0	27.4	8.6	22.5	16.5	24.2	38.6	16.0	.....	.....
November .....	11.2	12.4	11.3	17.0	24.0	20.0	53.0	17.0	.....	.....
December .....	12.3	24.0	21.0	18.7	20.9	12.7	30.3	14.9	.....	.....
	46.8	99.5	63.5	107.6	96.5	102.9	163.0	88.6	.....	.....
	122.5	155.2	191.1	175.5	219.1	183.1	322.7	234.7	208.9	101.6

\* To July 14.

Statement showing approximately the monthly movement of currency, etc.—Continued.

## RECAPITULATION.

	In.	Out.	Increase.	Decrease.	Net gold.		Cash in banks.
					Export.	Import.	
1890, January 1.....							104.0
January to July.....	75.7	55.7	20.0		10.1		112.9
August to December.....	46.8	99.5		52.7		4.3	103.2
1891, January to July.....	127.6	67.9	59.7		72.3		120.7
August to December.....	63.5	107.6		44.1		28.2	133.3
1892, January to July.....	122.6	80.2	42.5		43.4		156.5
August to December.....	96.5	102.9		6.4		19.3	118.0
1893, January to July.....	159.7	138.1	21.6		57.7		91.2
August to December.....	163.0	86.6	76.4			47.0	207.4
1894, January to July.....	208.9	101.6	107.3		60.3		221.3
Total.....	1,064.3	840.1	327.5	103.2	243.8	98.8	
Total increase.....			224.3				

If you will examine the table recapitulating the movement it will be found that every large accumulation of currency at this point was followed by an equally large exportation of gold. The only instance in which this was not the case was at the time of the panic, when the banks associated themselves together and bought exchange for the purpose of importing gold.

You will also see from the table that the movement *into* New York is heaviest from January, including July, and *outward* from August to December, inclusive. When this movement changes it shows an abnormal state of things. The mass of this currency, which does not include the national-bank currency, passes through the United States Treasury.

The per cent of redemption of the Government currency and that of the national banks is about the same, say 25 per cent of the amount outstanding; thus the currency is renewed every four years, and the opportunity for its loss is very slight. With the exception of the currency in use during the war, the loss does not amount to over one-half of 1 per cent on the total issue, or say, allowing for the exceptional loss during the war, five or six millions of dollars. The cost of redemption of the national-bank currency is larger than it should be, owing to the place of redemption, Washington, though other reasons operate to the same end. The average cost is \$1.55. It is my opinion it can be done for \$1. The Bureau can not stand any extra strain when put upon it which results in slower redemptions than would otherwise be the case, and compels an advance by the Government to the banks, as the Treasury makes immediate payment for the notes when received.

It seems to me, if the proper testimony can be put before the proposed commission, both the national and Government systems of paper issue can be improved, though I do not believe in the Government doing a banking business; it never has done it well, and from ignorance of the laws which govern the movement of currency it is impossible for it to properly discharge the functions of a banker. If it is to continue the business, it should at once set to work to determine the proper reserve to carry upon its paper issues; and it seems to me the proposed commission would afford a powerful aid in this direction.

I have just been through an experience at New York in receiving the money for \$50,000,000 of bonds, producing, say, \$58,000,000. About \$43,000,000 of this was paid in in gold and gold certificates. That gold is all gone. Assuming that one hundred millions of reserve is to be carried upon legal tenders [and including the Treasury notes the

reserve should be at least thirty-five millions more than that sum], we have, say, the sum of \$250,000,000 legal tenders free of interest. Five such operations would compel the United States to pay 3 per cent per annum upon the entire issue in order to maintain it in circulation, but this redemption and re-redemption would go on *ad infinitum*. Would this be good sense? Such a course would bankrupt an individual. Is there not a direct relation between an individual and the Government?

It is clear that we should have some method by which we can protect our store of gold in this country, both in the Treasury and in the banks. We are powerless now to do this, but your proposed commission should make this subject a matter of special examination, as it is of the utmost importance to this country. It could be done as to the banks by a very simple remedy—abolish the usury laws—but that would not protect the Government so long as it issued a currency which it proposed to redeem in gold. If authority were given to the Secretary to issue temporary loan certificates bearing a low rate of interest, or a rate sufficing to keep capital here instead of its moving abroad (owing to the better returns received there), this would be of great service in controlling such movements. Another remedy is to put the Treasury on its feet so that its monthly income shall slightly exceed its monthly expenditures. Half our difficulties would cease by this remedy alone.

Our trouble in the Treasury comes from the fact that any kind of currency, whether legal tender, silver certificates, or Treasury notes, when in excess, excludes the others, and we are put, practically, for the time upon a paper basis exclusively. At this moment, if it is a part of the policy to maintain our public credit that our interest must be paid in gold, the Treasury would be a purchaser in the market for that purpose. This should not be so; the Secretary should be given the power to take up any excess in form of currency by the temporary loans I have spoken of before. To the objection that this would cause a contraction of the currency, I say no, because the certificates could be used as reserve, and as soon as a demand sufficient to take off the excess currency arose the Secretary could pay off the loans, and the market would be again supplied with all the currency it had use for.



COMMITTEE ON BANKING AND CURRENCY,  
June 15, 1894.

**STATEMENT OF MR. RODERICK H. SMITH OF NEW YORK.**

Mr. RODERICK H. SMITH, of New York, appeared before the committee in behalf of bill H. R. 4232, introduced by Mr Brosius. He said:

Mr. Chairman and gentlemen of the committee: Preliminary to entering upon an explanation of the "bill to establish a gold currency and a silver currency on a basis of interchangeable value," which my honorable friend, Mr. Brosius, has introduced and brought to the attention of your body, I desire to submit a few remarks calculated to assist such explanation. It seems to me that the causes of the present business depression can be clearly and specifically demonstrated; that these causes, through proper Congressional action, and by that alone, can be quickly mitigated and eventually removed, with this resultant effect, that the farmers and producers of the country, upon whom the social structure rests, shall shortly be enormously benefited; that the idle millions shall be set to work; that the wheels shall turn in the factories; that railroad earnings, now partially collapsed, shall be restored; that industry shall be vivified; that mobs, riots, and bloodshed, incident to the conflict between capital and labor, shall be averted, and that the Great Republic of the West shall shortly become the leading commercial nation of the world.

First, I desire to call your attention to the definition of one word. What is price?

*Price is the expression, in terms of the money unit, of the relation which exists between the thing which measures and the thing which is measured.*

"Price," said a friend to me the other day, "is what you can get for what you've got." Very well, what have you got? "Wheat." And what do you propose to get for your wheat? "Gold." You propose to measure your wheat by gold, do you? "Yes." Very well, I said, your definition of price is the same as mine. You have got wheat, you propose to get gold; the relation between them, expressed in terms of the money unit, is the price. "Yes, that is true." "Price," says another, "is the equivalent." Equivalent of what, I ask? "Equivalent of commodities or things that are for sale." Equivalent means equal to, and implies two things. Equivalent of commodities in what, I ask? "In money." Oh, you mean, then, that price is the relation which exists between the money and the commodities; between the thing which measures and things which are measured? "Yes, that is true." And when you speak of gold prices you mean the relation which exists between gold and the things which are measured in gold? "Yes." When you speak of silver prices you mean the relation which exists between silver and the things which are measured in silver? "Yes." And when you speak of copper prices you mean the relation which exists between copper and the things which are measured in copper? "Yes, that is so."

**Says Gen. W. S. Marriott (Grammar Political Economy):**

The price of anything is its value expressed in money. Prices represent the relative value of the commodity used as money and all other things, and are determined, like every other value, by the equation of supply and demand.

**Says MacLeod (Elements of Political Economy, p. 9226):**

Value consists in the relation of exchanges which take place between such and such a product, between such a quantity of one product and such a quantity of another product. Price is the expression of this value. Hence it is clear that value is a ratio.

And, he might have added, price is the expression of that ratio in terms of the money unit.

**Henry Fawcett says:**

The price of a commodity may, therefore, be defined as its value when estimated by comparison with those precious metals which by general consent have been adopted as money.

A definition well meant but turgid.

In the third century of the Christian Era, the Roman jurisconsult Paulus gave a description of the origin of price.

The origin of buying and selling [says Paulus], goes back to barter. Primarily there was no money. One thing was not called "merchandise" and the other "price," but every one, according to his needs and according to his circumstances, bartered things useless to him for those which would be useful to him; for it often happens that what one has too much of another lacks. But, as it would not always or easily happen that you had what I should have wished for, and that, conversely, I had what you wished to obtain, choice was made of a material which, being declared forever legal value, would obviate the difficulties of barter by means of a quantitative equation. And this material, stamped in the corner by the State, circulates with a power which it derives, not from the substance, but from the quantity. Since that time, of the things thus exchanged, one is called merchandise and the other is called price.

Three hundred years later this description was thought worthy to be incorporated in the Pandects of Justinian, compiled and promulgated in the sixth century.

The following illustration of price making is presented. Here is an inhabited island in the center of the sea. To those without it is inaccessible, to those upon its surface it is confining. Upon this island lead and tin is the standard money. One pound of tin or lead, called a dollar, is the unit of value. Upon this island there are, all told, but 5,000 pounds of lead and 5,000 pounds of tin. and, as the island is inaccessible, these metals can not be increased in amount. The products, quantities, and prices of same, measured in terms of the standard of value of this island, are shown in the following diagram:

*First year.*

The thing which measures.	The things which are measured.			
		Pounds.	Value ratio.	Price expression per pound.
Bimetallic standard of value:				
Lead.....	Pounds. 5,000			
Tin.....	5,000			
Total.....	10,000			
1 pound, the unit of value, is called a dollar.				
		Wheat.....	50,000 1 to 5	\$0.20
		Corn.....	80,000 1 to 8	.125
		Cotton.....	60,000 1 to 6	.166
		Oats.....	40,000 1 to 4	.25
		Cattle.....	80,000 1 to 3	.333
		Lumber.....	70,000 1 to 7	.142
		Sugar.....	20,000 1 to 2	.50
		Iron.....	120,000 1 to 12	.083
		Copper.....	20,000 1 to 2	.50
		Zinc.....	10,000 1 to 1	1.00

From this the islanders learned that price is the expression, in terms of the money unit, of the relation which exists between the thing which measures and the thing which is measured.

Political economists make the distinction, as shown above, between the meanings of the words "price" and "value." Price is the expression, in terms of the money unit, of the value ratio; value is the relation or ratio which exists between the thing that measures and the thing that is measured.

J. B. Howe says:

Value is an equation expressing the terms of exchange between two things. (Political economy in the use of money.)

Van Buren Denslow says:

Value is a sense of relation or equation between two things. (Economic Philosophy.)

Cairnes says:

Value is the ratio in which commodities in open market are exchanged against each other.

Jevons says:

Value is proportion in exchange.

If price is the expression in terms of the money unit of the value ratio—that is to say, if price hinges upon the relation which exists between the things compared—then to change the quantity of the thing that measures or to change the quantity of the thing that is measured necessarily changes the ratio, and this changes the price. For instance, returning to the illustration:

The following year the natives of this island found that production had largely increased; large crops had been raised, with the result that prices had declined, as follows:

*Second year.*

The thing which measures.	The things which are measured.				
		Pounds.	Value ratio.	Price expression per-pound.	
Bimetallic standard of value:					
	<i>Pounds.</i>				
Lead .....	5,000	Wheat.....	70,000	1 to 7	\$0.144
Tin.....	5,000	Corn.....	100,000	1 to 10	.10
		Cotton.....	80,000	1 to 8	.124
		Oats.....	50,000	1 to 5	.20
Total.....	10,000	Cattle.....	60,000	1 to 0	.164
		Lumber.....	120,000	1 to 12	.084
		Sugar.....	30,000	1 to 3	.334
1 pound, the unit of value, is called a dollar.		Iron.....	150,000	1 to 15	.064
		Copper.....	50,000	1 to 5	.20
		Zinc.....	25,000	1 to 2½	.40

The islanders thus learned that to increase the quantity of the things which are measured, that which measures remaining the same, decreases prices. But it may be said that prices are not made in this way, but that the money is first compared with the commodities in the aggregate and that each separate commodity shares pro rata. Even if this were true it would not change the principle here set forth.

The following year the natives found that production had largely fallen off, so that the production of each article on the island was even

less than during the first year here considered, with the following result on prices:

*Third year.*

The thing which measures.	The things which are measured.		
	Pounds.	Value ratio.	Price per pound expression.
<b>Bimetallic standard of value:</b>			
Lead .....	5,000		
Tin .....	5,000		
Total .....	10,000		
1 pound, the unit of value, is called a dollar.			
	Wheat.....	40,000	1 to 4
	Corn.....	50,000	1 to 5
	Cotton.....	40,000	1 to 4
	Oats.....	20,000	1 to 2
	Cattle.....	25,000	1 to 2½
	Lumber.....	50,000	1 to 6
	Sugar.....	10,000	1 to 1
	Iron.....	50,000	1 to 5
	Copper.....	10,000	1 to 1
	Zinc.....	5,000	½ to 1
			\$0.25
			.20
			.25
			.50
			.40
			.16½
			1.00
			.20
			1.00
			2.00

The islanders thus learned that, to decrease the quantity of the things which are measured, that which measures remaining the same, increases prices.

In the fourth year the natives of this island raised exactly the same quantity of commodities as they did the first year here considered, but in the meantime there had arisen a dispute concerning the money of the island. One party said that they did not want to use tin for money as it was too brittle and too light, and besides, as business was done on confidence, there was enough of lead to do all the business anyway, and "as we have time contracts payable in lead alone, we'll throw tin out." This they did, the producers of wheat, corn, and cotton acquiescing; "We, too," they said, "want to have a return of confidence." The business men of the island then went forth and made up the prices of their products with the following result:

*Fourth year.*

The thing which measures.	The things which are measured.		
	Pounds.	Ratio.	Price per pound.
<b>Monometallic standard of value:</b>			
Lead .....	5,000		
1 pound, the unit of value, is called a dollar.			
	Wheat.....	50,000	1 to 10
	Corn.....	80,000	1 to 16
	Cotton.....	60,000	1 to 12
	Oats.....	40,000	1 to 8
	Cattle.....	30,000	1 to 6
	Lumber.....	70,000	1 to 14
	Sugar.....	20,000	1 to 4
	Iron.....	120,000	1 to 24
	Copper.....	20,000	1 to 4
	Zinc.....	10,000	1 to 2
			\$0.10
			.66½
			.66½
			.12½
			.16½
			.67½
			.25
			.64½
			.25
			.50

The islanders thus found that "confidence" had cost them dearly, as the prices of all their commodities had depreciated one-half. One class of the islanders, however, those who held time contracts payable in lead "of the present standard of weight and fineness," found that they had gained, as their dollars now commanded twice as much of commodities as they formerly did. The intelligent portion of the community, however, drew the following conclusion from this state of affairs: That, the quantity of the things which are measured remaining the same, to reduce the quantity of the thing which measures reduces prices.

Having tried the confidence plan the people became dissatisfied with it and, as is usual in such cases, rushed to the other extreme. They decided that having thrown tin out as a measure of value they would next throw out lead and use copper, of which they had 20,000 pounds, as the standard. This they did with the following result:

The thing which measures.	The things which are measured.			
		Pounds.	Ratio.	Price per pound.
Standard of value:				
Copper .....	Pounds 20,000	50,000	1 to 2½	¢0.40
		80,000	1 to 4	.25
		60,000	1 to 3	.33½
		40,000	1 to 2	.50
		30,000	1 to 1½	.66½
		70,000	1 to 8½	.28½
		20,000	1 to 1	1.00
		120,000	1 to 6	.16½
		10,000	½ to 1	2.00
1 pound, the unit of value, is called a dollar.				

The islanders thus found that, the things measured remaining the same, to increase the quantity of the thing that measures increases prices.

This last situation, called inflation, while it was of great benefit to the producers, was a corresponding detriment to the money-lenders, for their time contracts when due would purchase but a small part of that which they were enabled to purchase when the loan was made. The command of dollars over commodities had greatly lessened. At last, however, it was decided that what the islanders really wanted was not a dollar which, by reason of its growing scarcity, was constantly increasing in its command over commodities, nor did they want a dollar which, by reason of its rapid increase in quantity, was constantly losing its command over commodities, but that, all things considered, they wanted an equitable dollar—or, as one of their great men put it, “a dollar unchanging in value through time.”

From these illustrations I deduce the following laws of price:

(1) That price is the expression in terms of the money unit of the relation which exists between the thing that measures and the thing that is measured.

(2) That to change the quantity of either changes the relation and thus the price.

(3) That to increase the quantity of the thing that is measured, the thing which measures remaining the same, decreases the price.

(4) That to decrease the quantity of the thing that is measured, the thing which measures remaining the same, increases the price.

(5) That to increase the quantity of the thing which measures, the things measured remaining the same, increases the price.

(6) That to decrease the quantity of the thing that measures, the thing that is measured remaining the same, decreases the price.

But the definition of price here given is not as complete as I desire. In the foregoing illustrations of price-making, it will be observed that the value relation between the thing which measures and the things which are measured has been treated as though it were a comparison of quantities only. I conceive that, in addition to this quantitative relation, there is also a qualitative relation which enters into the equation when things of human estimation are compared or valued. This qualitative relation, it is manifest, arises out of the human estimation put upon the things compared and is as diverse as the human beings

who make it. The same thing has different values to different men and in different places and under different circumstances, but the quality of the objects compared remaining the same at the same time and place; then to increase or diminish the quantity of either of the objects changes the relation, and therefore the price, as before stated.

True money, I think, is first of all a commodity limited in amount, and a commodity which contains value-giving factors which are recognized by mankind and for which they will exchange value-giving factors.

John Henry Norman, member of the London Chamber of Commerce, a man of masterly skill in bullion and coin, forcibly asks:

If true money does not effect the work it does by its value-giving factors, why not abolish gold and silver as intermediaries in effecting exchanges? Let anyone who understands something of the production of gold and silver, and has gone through a mint with intelligence whilst its works were in operation, ask himself the question: Why all this simply for a medium of exchange of substances and services, if these metals do not effect their work by their quality or value? Why should these nonproducing gold and silver islands part with their value-giving factors for these metals for the purposes of money, if they do not accomplish their work by their value-giving factors which they contain? If it can be demonstrated that true money does not accomplish its work by means of its contained value, and that a judiciously arranged currency system, consisting of bits of paper, could equally well facilitate individual and international interchanges of substances and services, does it not follow that the establishment and keeping up of a monetary system is a pure waste? This country had to part with and has to part with its value-giving factors in some form or other for such gold as it uses for currency purposes, which might have been retained here if interchange can be effected as well without gold.

And again he says:

Price is ordinarily determined by the value-giving factors contained in the standard substance, in comparison with the value-giving factors contained in the thing priced.

All trade arises out of barter, and the principle of barter is reciprocal advantage. You give so much of your services to me and I will give so much of my services to you, is the principle underlying all commercial transactions. This principle shows itself with brilliant clearness in international trade. Money between nations is always a commodity which passes by weight and fineness. No attention is paid to the superscription on the coin. Inconvertible paper is instinctively repelled from all such transactions. Of what possible use is inconvertible paper to a Hindoo, a Malay, or a Chinaman.

It is, therefore [says Berenger], neither by order, nor by agreement, nor by chance, that gold and silver are money, but by fitness; because no other commodity is as favorable to the multiplication of exchanges as are the precious metals. In a word, they are money by the force of events, which always and necessarily controls all efforts opposing it.

It is the expressed opinion of many Eastern business men that silver is worth nothing anyway, and should be banished from business life. As about 700,000,000 of the population of the globe are now using that metal as money and are willing to give up their labor and their products for it, one would naturally infer that something must be wrong with these business men, or else two-thirds of the population of the globe are mistaken, to put it mildly, in the estimation which they put upon their goods and services.

Ricardo put forth the idea that the value of the precious metals lay in their cost of production. If he had added to his formula, "and in the quantity produced as contrasted with the quantity of, and the value-giving factors contained in the commodities or objects which are compared with them," his idea would have been the same as that which is here set forth.

**Bonamy Price asks:**

How does money perform its work? The tool, knife, works by means of its sharp edge—it cuts; everyone sees this instantly; but how many can tell how it is that money buys? It works by means of its worth, its value, as a piece of metal. On this conditional fact all understanding of what money is hangs. To buy is to exchange one thing for another on the basis of the value of the one thing being equal to that of the other.

The late Dr. Soetteer held the same view.

In order to take into account, then, this qualitative relation which, I think, is part of the equation when things are compared or valued, the definition of price is amended as follows:

Price is the expression, in terms of the money unit, of the quantitative and qualitative relation which exists between the thing that measures and the thing that is measured; or, to put it in simpler form, price is the money expression of the value relation.

**THE QUANTITATIVE THEORY OF MONEY.**

The quantitative theory of money arises from the 4<sup>th</sup> and 5<sup>th</sup> laws of price which I have presented to you. If the quantitative theory of money is true then the laws of price as before referred to are correctly stated, and, conversely, if the laws of price are correctly stated then the quantitative theory of money is true.

The quantitative theory of money is this:

*That to increase the quantity of money in a country increases prices and to decrease the quantity of money in a country decreases prices.*

Senator John P. Jones, of Nevada, in his great speech in the Senate in October last covered this subject in an able manner. I quote from his remarks on that occasion:

John Locke, in his considerations relating to the value of money, said:

“Money, while the same quantity of it is passing up and down the kingdom in trade, is really a standing measure of the falling and rising value of other things in reference to one another, and the alteration in price is truly in them only. But if you increase or lessen the quantity of money current in traffic in any place, then the alteration of value is in the money.”

Locke further said:

“The value of money in any one country is the present quantity of the current money in that country in proportion to the present trade.”

David Hume, the historian, says:

“It is not difficult to perceive that it is the total quantity of the money in circulation in any country which determines what portion of that quantity shall exchange for a certain portion of the goods or commodities of that country. It is the proportion between the circulating money and the commodities in the market which determines the price.”

Ficthe says:

“If the quantity of purchasable articles increases, while the quantity of money remains the same, the value of the money increases in the same ratio; if the quantity of purchasable articles remains the same, the value of the money decreases in the same ratio.”

James Mill, in his treatise on Political Economy, says:

“And again, in whatever degree, therefore, the quantity of money is increased or diminished, other things remaining the same, in that same proportion the value of the whole and of every part is reciprocally diminished or increased.

John Stuart Mill (Political Economy) says:

“The value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value, and every diminution raising it in a ratio exactly equivalent.”

And again, as I have already quoted in connection with my remarks on cost of production, Mr. Mill says:

“Alterations in the cost of the production of the precious metals do not act upon the value of money, except just in proportion as they increase or diminish its quantity.”

Ricardo (Reply to Bosanquet) says:

"The value of money in any country is determined by the amount existing. That commodities would rise or fall in price in proportion to the increase or diminution of money I assume is a fact that is incontrovertible."

Ricardo further says:

"There can exist no depreciation in money but from excess; however debased a coinage may become it will preserve its mint value; that is to say, it will pass in circulation for the (so called) intrinsic value of the bullion which it ought to contain, provided it be not in too great abundance."

John Stuart Mill again says:

"We have seen, however, that even in the case of metallic currency the immediate agency in determining its value is its quantity." (Principles of Political Economy, vol. 2, p. 89.)

William Huskisson (The depreciation of the currency, 1819) says:

"If the quantity of gold in a country whose currency consists of gold should be increased in any given proportion, the quantity of other articles and the demand for them remaining the same, the value of any given commodity measured in the coin of that country would be increased in the same proportion."

Sir James Graham says:

"The value of money is in the inverse ratio of its quantity, the supply of commodities remaining the same."

Torrens, in his work on Political Economy, says:

"If the value of all other commodities, in relation to gold, rises and falls as their quantities diminish or increase, the value of gold in relation to commodities must rise and fall as its quantity is diminished or increased."

Prof. De Colange, in the American Cyclopaedia of Commerce, article "Money," says:

"The rate at which money exchanges for other things is determined by its quantity. \* \* \* Supposing the amount of trade and mode of circulation to remain stationary, if the quantity of money be increased its value will fall and the price of other commodities will proportionately rise, as the latter will then exchange against a greater amount of money; if, on the other hand, the quantity of money be reduced, its value will be raised, and prices in corresponding degree diminished, as commodities will then have to be exchanged for a less amount of money. \* \* \* In whatever degree, therefore, the quantity of money is increased or diminished, other things remaining the same, in that same proportion the value of the whole and of every part is reciprocally diminished or increased."

Says Prof. Sidgwick, of Cambridge University:

"The exchange value of any particular coin will vary in exactly inverse ratio to the variations in quantity of the aggregate."—(Principles of Political Economy, p. 251.)

So absolutely clear are the leading writers that the value of the money unit is, in every case, other things being equal, determined by the number of units out, and does not depend on the material of which the money may be composed, that they have not the slightest hesitation in asserting that the rule applies even to uncovered paper money, so that the value of every dollar of gold and silver in circulation is diminished or increased according as the quantity of paper money is increased or diminished; and reciprocally as to all of these, the increase in the number of dollars of either kind diminishing the value of each dollar of the others, while the decrease in the number of either increases the value of each of the others, without the slightest regard whatever to the material of which either of the dollars is composed.

Prof. Fawcett, in his work on Political Economy, says:

"In discussing the laws of price, the principle was established that general prices depend upon the quantity of money in circulation compared with the wealth which is bought and sold with money, and also upon the frequency with which this wealth is bought and sold before it is consumed. If more wealth is produced and an increased quantity of wealth is bought and sold for money, *general prices must decline unless a larger quantity of money is brought into circulation.*"

When Prof. Fawcett says that "general prices must decline unless a larger quantity of money is brought into circulation," he is but stating in another form of phrase that the value of money increases as its quantity diminishes. This is the quantitative theory. Prof. Fawcett further says:

"The amount of money required to be kept in circulation depends upon the amount of wealth which is exchanged for money. Hence, *ceteris paribus*, the amount of money ought to increase as the population and wealth of a country advance." (Political economy, p. 371.)

If the amount should be increased, surely the increase must be an increase of the quantity.

Mr. N. A. Nicholson, of Oxford, in his Science of Exchanges, says:

"Whatever substance may be used as currency, an excessive quantity of it (more than is required by the wants of the community) necessarily causes a diminution of its purchasing power."



## Continues Senator Jones:

There is one principle of monetary science that, if held steadfastly in view, will constitute an unerring guide through what would otherwise be a path of inextricable difficulty.

That principle is that the value of the unit of money in any country is determined by the number of units in circulation. In other words, the value of every dollar depends on the number of dollars out.

The greater the number of dollars out, other things being equal, the less will be the value of each dollar; the fewer the number out, other things remaining the same, the greater the value of each—and this without any regard whatever to the material of which the dollars are composed. This is the key to the financial situation in the United States. Much more, it is the key to the financial situation in every land. Without this key it is in vain the student attempts to unlock the door leading to the arcanum of monetary knowledge. Unlike many of the locks made by man, the lock on that door is unpickable. The household of science is one that thieves can not break through and steal. He who would enter must first find the key. With this key in hand, the most secret recesses may be explored with confidence. Without it, the student travels in a circle, returning, after much labor, to the point from which he started upon his journey. Like one in a maze, when most confidently expecting to find his way out, he but sees himself coming up against impassable barriers.

To the possessor of this theory and of an impartial mind, that is to say, a mind in search of truth for truth's sake, there is no phenomenon of industry, of commerce, or of finance that is not accounted for. With it all facts in the monetary world harmonize. All the teachings of history illustrate its force. It has, therefore, for support both reason and experience. It resolves all doubts, unriddles all enigmas, makes clear that which without it would be an insoluble problem of political economy. But in order to receive all the benefits of truth men must not approach the investigation with a predetermination to prove some special theory. The truth is always its own justification.

No Senator will rise in his place and deny that, other things being equal, the value of each unit of money in a country depends on the total number of units forming the monetary circulation of that country. No Senator will attempt to deny that, all other things remaining the same, the prices of property and commodities in a country are regulated by the number of units constituting the monetary circulation of the country.

## Gen. W. F. Marriot says:

The general standard of prices depends upon the quantity of the commodities used as money possessed by the intertrading world.

Froude, in his *History of England*, gives as the result of his investigations that a given quantity of gold or silver at the beginning of the sixteenth century would purchase twelve times as much as at present. In Nicholas's account of the privy purse of Elizabeth of York he shows, as examples of the value of money at that period (latter part of fifteenth century), that the highest salary of any of the Queen's ladies was £33 6s. 8d. per year and the lowest £5. For the support of two nephews and a niece of the Queen and two women servants and a man servant, in all five persons, only 13s. 4d. per week was allowed. A surgeon's fee for going from London to Richmond to attend the Queen was 13s. 4d. Workingmen's wages were 6d. per day. The evidence of prices having been lower when gold and silver were scarcer and of prices rising as those metals became more abundant might be multiplied indefinitely.

Regarding money as a desired commodity, the more plentiful it is the less must be its value and more of it must be given for a certain quantity of other produce, and when more money is given the higher is the price. It is evident that a general rise or fall of prices means a rise or fall in the value of the commodity used as money. Thus we can not escape the conclusion that the general standard of prices depends upon the *quantity* of gold in the intertrading world.

**Van Buren Denslow says (Economic Philosophy):**

The rise in the prices of commodities which results from an increase in the volume of money is due to a decline in the purchasing power of the money itself, and not to any actual increase in the value of commodities.

This is the quantitative theory.

MacLeod says (Elements of Political Economy, p. 68):

Changes in the value of money are produced by changes in the supply and demand of money as well as by changes in the demand and supply of commodities.

Said the late Prof. Emile de Laveleye:

In the Greek democracies the legislators, and notably Solon, reduced sometimes all debts by law, in order that the people might not be brought to misery by usurers. After the discovery of America and that of the placers of California and Australia, nature, not law, reduced the weight of debts by increasing the quantity of money.

Wolowski says:

The sum total of the precious metals is reckoned at fifty milliards, one-half gold and one-half silver. If, by a stroke of the pen, they suppress one of these metals in the monetary service [that is to say, reduce the quantity], they double the demand for the other metal, to the ruin of all debtors.

He evidently sees that the debtors will be ruined by reason of the fall in the prices of their commodities due to this reduction in the quantity of the money available for payment of their debts.

Prof. Shields Nicholson, of Edinburgh, in an article in the Nineteenth Century for December, 1889, states that every economist of repute since Ricardo's time has been an advocate of the quantitative theory of money.

Manifestly, if you add to the quantity of money in circulation in a country, you expect to get *some* effect, else why go to the trouble of increasing it? When you inquire what that effect is, you find that invariably it is to raise prices; the opposite is also found to be true, to decrease the quantity of money in a country invariably lowers prices. This latter effect may occur, however, not by an actual decrease in the number of dollars out, but by ceasing to supply money while population, commodities, and commerce are increasing in quantity, which is equivalent thereto.

In 1860 you increased the quantity of money in circulation—result, rising prices. In 1864 you began to decrease the quantity of money in circulation, first, by canceling greenbacks, and, second, by reason of the increased demand which at that time arose for money south of Mason and Dixon's line, a demand which was equivalent to a sudden increase in population—result, falling prices, which reached a limit in 1867 and 1868, when an upward reaction in prices resulted, which terminated in 1871 and 1872. In 1873 you passed an act for the resumption of specie payments, still continuing to retire greenbacks, while the population increased all the time—result, falling prices, which terminated in 1878, when you stopped retiring greenbacks and passed a bill which added to the circulation at the rate of two millions per month—result, rising prices, which terminated in 1881 and 1882. The vast increase in population and in the quantities of things to be measured during these periods stopped the advance in prices which was again started by the enactment of the Sherman act in 1890; and this act, having the effect to drive gold out of the country, as it had become saturated with money not worth par in the markets of the world, combined with European complications and the fear of a silver standard, brought on the present unfortunate situation.

THEORY OF FOREIGN EXCHANGES.

I desire now to call your attention to the theory of foreign exchanges, which flows from the laws of price and the quantitative theory of money, before set forth. If price is the expression of the value relation, and if you increase the quantity of the thing that measures, that is to say, if you increase the number of monetary units in circulation, then you are certain to get an advance in the prices of commodities and property in general. Continue this addition to the monetary volume for a sufficient length of time and you raise prices above the normal level existing for the same commodities in other countries, and this being the case, you attract imports, for I hold it to be an incontrovertible principle that commercial movements, like all physical movements, take place along the line of least resistance, or of greatest traction, or of their resultant.

Nowadays, the prices of goods and commodities in all markets are instantly known by reason of the telegraph, and a higher range of prices for the same goods in this country, the tariff wall being considered, is certain to start such goods toward this market, for products will always seek the best market as naturally and as certainly as the needle seeks the pole.

As I said before, continue this addition to the monetary volume for a sufficient length of time and prices rise, with the first resultant effect that importations are attracted, for you now have a good country in which to sell and a poor country in which to buy, and the second resultant effect from this constant addition to the currency is, shortly, an adverse balance of trade—that is to say, your purchases have been greater than your sales.

An adverse balance of trade requires to be settled, and this settlement must be made with gold, for that is the only metal at present recognized as international money. Allow me to present an illustration:

<i>United States.</i>	<i>Tr.</i>	<i>England.</i>
Quantity of money.....1,000 M.	Gold.	Quantity of money.....800 M.
Range of prices.....100%	←	Range of prices.....100%
Addition to volume.....500 M.	Goods	No addition to.
Resultant range of price.....1.33%	→	Volume of money.

As before remarked, you now have got a good country to sell in and a poor country to buy in, and the interchange of goods for gold goes steadily forward as long as additions are made to the volume of the currency, and nothing can prevent this outflow of gold under these conditions save to contract your currency here and put down prices at or below the international level. Now this was done in the summer of 1893 by the bankers of the country, who, while they could not contract the currency itself, contracted the credits which are reared upon the currency, so that an analagous effect was produced. Prices fell and the outflow of gold stopped.

This is the manner (i. e., through increasing the volume of currency), I think, in which the Sherman act worked, and had it been allowed to run on long enough all the gold of the country would, in time, have been abstracted.

We all remember the adverse balance of trade of 1893; the custom-houses filled with foreign goods, and here is the explanation of it.

is undoubtedly true that other influences were causing to some extent the outflow of gold, notably the Austrian demands, but yet, this influence, I think, had the greater effect.

Mr. Goschen says:

Sometimes Governments, simply for their own purposes, issue a quantity of paper money; the natural consequence will be overimportation; prices will rise in consequence of the increase in circulation, and accordingly attract commodities from other markets, while the prices of exports having risen also, these latter will be less easy of sale abroad. The efflux of specie shows that the balance of trade is against that country for the time; the equilibrium must be restored when the specie is exhausted by slackening importation and consumption. (Theory of the Foreign Exchanges.)

The theory of foreign exchanges, then, is as follows:

*That, as the quantity of money in a country is increased and resultantly as prices rise beyond the normal level existing in other countries, importations are attracted, and an adverse balance of trade is produced.*

If this theory of foreign exchange is true, then at the present time we can not add State bank notes or greenbacks, or, in fact, any kind of similar money, to that at present in circulation without menace to the gold reserve.

It is this theory of foreign exchange that forces us at this time to look to the *quality* of such future addition to our currency as we may propose to make, that is, if we propose to maintain the gold standard. If we are to further increase the quantity of money in the country, and this we must do if we desire to start prices moving upward instead of constantly trending downward, we must at the same time preserve and maintain the quality of such additions. Daniel Webster truly remarks:

The circulating medium of a commercial community must be that which is also the circulating medium of other commercial communities, or it must be capable of being converted into that medium without loss. It must be able not only to pass in payments and receipts among individuals of the same country and nation, but it must also be able to adjust and discharge the balance of exchanges between different nations.

Gen. F. A. Walker says:

If there is any one thing which political economy declares with an unflinching voice it is that the principal money circulating in the hands of the people of any country should be of full metallic value. The coinage of billon or token money is indeed admitted by political economists, but only as applied to what may legitimately and strictly be called the "small change" of trade.

What may be called the qualitative theory of money here referred to—that the money of a country should be of uniform commercial value—has at this point a most vital interest.

An intelligent appreciation of the theory of foreign exchanges, which I have endeavored to make clear, shows us the reason *why* the money of a country "must be able not only to pass in payments and receipts among people of the same society and nation, but that it also must be able to settle the balance of exchanges between different nations."

It is perfectly clear that, if we make a sufficient quantity of dollars which are not commercially worth par in the other markets of the world and put them in circulation in this country, the first resultant effect of such increase in the quantity of the currency will be a rise in general price, and the second resultant effect will be an adverse balance of trade, which balance must be settled with dollars that are commercially worth par in foreign markets, while the dollars which we make and which are not commercially worth par, stay in this country; and it can be clearly seen that if we only make enough of such inferior dollars we can drive out *all* the superior ones. It then seems clear to me that if we are to have a single gold standard we must then be

content with gold prices, and this means low prices, for if we raise prices above the level existing in other countries goods flow towards this country and gold flows out. Low prices or falling prices mean bad business for the merchants and farmers of this country, and this cuts down the earning power of the railroads, necessitating the reduction of wages of employes; who, nowadays being organized in labor unions, resist such attempts at reduction by strikes, and these latter breed mobs, riots, and bloodshed.

If, then, we are to add to the volume of money at present in circulation, we must see to it that such additional dollars shall be of such a character as that they will be able to be converted into the moneys of foreign countries without loss. If this result is practically achieved, then foreign balances can be paid with this money when such balances arise.

I will show later how this can be done.

What, then, is the point at which we have arrived? It is this:

First. That the commercial quality of the money of a country should be uniform.

Second. That the quantity of money in a country should be sufficient to maintain a normal level of prices. In the measure which I shall shortly bring to your attention the quantitative and qualitative theories of money are reconciled. In order to clear the ground, however, there are some topics which I first desire to consider.

#### HAS GOLD ADVANCED?

In speaking of price, the illustration was used of an island in the sea and certain laws of price were drawn from the experience of the peoples upon this island. The world is also an island, globular in form, ever whirling and vastly circling through the boundless depths of space. This island is inhabited. To those beyond it is inaccessible; to those upon its surface it is confining.

The peoples who live upon the surface of this flying island, after many ages of painful experience, which has cost the sacrifice of the lives of millions of brave men and noble women, at last have found that it is an island; have explored its surface; have mapped out its continents, its oceans, its mountain chains, and its rivers; have established governments of various characters; have overcome by invention the rude obstacles which nature presents to man's development; have drawn the metals from the earth and fashioned them into plows, reapers, and the numerous instruments which agriculture requires; have built steam railways and steamships; have overcome time by the telegraph and space by the telescope; have harnessed the winds, the lightning, the cataracts, and the tides, until at the present time it can be said that many of the inhabitants of this island are well started on the pathway of civilization.

The commercial history of the peoples upon this island naturally divides itself into ages of progress, as, first, the savage age; second, the barbarian age; third, the pastoral age; fourth, the agricultural age; fifth, the militant age; sixth, the industrial age; types of each of which may at present be found upon different parts of the earth's surface. Society appears to be a growth, a development; that is to say, each living person is the descendant of his parents and they of their parents, and so on back. If any of us will but follow his family tree back far enough he will doubtless find that he will soon discover himself among the Saxons, Danes, Celts, Norsemen, Angles, or farther back still

among barbarian tribes of northern Europe. In passing through these various stages of development we have retained traces of each; for instance, from our ancestors, the Norsemen, we get the names of the days of the week: Sonstag, the sun's day; Mondstag, the moon's day; Twigestag, Tuesday; Wodinstag, Wednesday; Thorstag, Thursday; Freyastag, Friday; names derived from their gods of war and of thunder and from their goddess of peace.

In the savage state there is no trade. Savages do not have that idea. Piracy and plunder take its place. Stanley found, after leaving the region of the trading negroes, in his voyage down the Congo, in 1876, that the savages had no use for a stranger but to eat him. In order to live he had to adopt the same tactics as they did and steal his rations as he went along, always leaving, however, some trinket which they would find when he was gone.

This savage age, however, in the course of time unfolds and develops into the barbarian age.

In the early period of barbarian life what there was of trade manifestly was carried on by means of barter: three bows are exchangeable for the carcass of a deer; one plaited mat for a hollow gourd; a copper necklace for a slave, etc.

Now, it can be seen that in this savage society some are by nature better adapted for bowmaking, fishing, hunting, and other pursuits than are others, and so are partly drawn, partly led into making the implements required for the chase, fishing, and warfare, and from this primary differentiation of abilities arises a diversity of trades and occupations.

Some are engaged in bow-making, some in hunting, some in fishing, others in building canoes and other work. This diversity of occupation and specialization of industry which becomes more complex as the society advances necessitates that the laborers, in order to supply their daily wants, shall interchange the products which each group of workers produce for the products produced by other groups, and in this manner barter arises. But it soon comes to be discovered that there are certain articles, limited in quantity and either useful or ornamental, and probably the latter, for the ornamental invariably precedes the useful, that are universally desired, and being universally desired are interchangeable for all other things in the community, and to these is thus given by common consent and daily usage the function of money, a medium of interchange and a measure of value. In such societies wampum, cowry shells, glass beads, copper and brass rods and a host of such like articles constitute the money medium.

But members of such communities living for the most part by hunting and fishing soon exhaust the wild animals on which they live and are forced to domesticate them and provide fields where they may feed and protect them. From these causes, slowly and by insensible gradations, extending over long periods of time, the barbarian changes into the pastoral and this again into the agricultural type.

Among peoples in this stage of development cattle and sheep constitute the principal money medium, although other articles are used in barter.

In the *Iliad* (VII, 468), when the vessels of Lemnos bring wine to the Greeks:

From Lemnos' Isle a numerous fleet had come freighted with wine.  
All the other Greeks hastened to purchase; some with brass and some with gleaming iron, some with hides, cattle, or slaves.

In the Rig-Veda and the Zend-Avesta and in Homer the objects are valued at so many head of cattle. The arms of Diomede are worth 9 oxen, and those of Glaukos 100. The prize to the wrestlers at the games given at the funeral of Patroclus are 12 oxen. Minerva's shield, the Ægis, had 100 tassels, each valued at 100 oxen. The tribute which the Frank conquerors imposed on the Saxons was reckoned in oxen. The word "pecuniary" comes from pecus—cattle. The English word "fee" comes from the Saxon word feoh—cattle; the Scandinavian "fa"—wealth, is identical with it. The Greek word κτήμα signifies both property and a flock. The Gothic word "skatts" signifies treasure and a flock; "schatz" in German is treasure; "sket" in Frisian is cattle. In Hebrew, "kassaph" means both sheep and money; "gamal" means camel and payment. The Sanskrit rupya, the rupee of the Indian coinage, is derived from rūpa—cattle. The ancient Greek pieces of money used to bear the design of an ox, and the same is true of the Roman os, a piece of bronze weighing about a pound.

I wish to state in passing that the laws of price, before set forth, apply with equal force to this cow money and wampum money, etc., as to all other kinds of money. It is easy to conceive that if the number of oxen in circulation in a country was largely increased they became relatively cheap and the prices of commodities rise; while to largely decrease the number of oxen in circulation would raise their exchange value and consequently lessen the prices of commodities measured in them.

The use of currency,

Says Aristotle,

was an indispensable device. People agreed mutually to give and receive some article which, while in itself a commodity, was easy to handle in the business of life, some such article as iron or silver, which was at first defined simply by size and weight, although finally they set a stamp upon every coin as a mark of its value, to relieve themselves from the trouble of weighing it.

Among all peoples and in all ages money has been first of all a commodity limited in amount and esteemed by man and utilized by him as a medium of interchange and a measure of value.

I shall give myself the pleasure, at some future time, to set forth with distinctness the story, here simply outlined, of the history of money from the early savage age to the beginning of the militant age, which I think may be set at the time of the introduction of gunpowder into Europe. It is sufficient to say that, to me, it seems that the development of money offers a most beautiful illustration of evolutionary political economy.

And, however blended and complicated with other social phenomena industrial evolution may be—

Says Charles S. Ashley,

no one who has ever fixed his eye on the cardinal principles of evolution will fail to see how strikingly they reveal themselves in economic history. As the yolk slowly divides and again divides until head and limbs and stomach and feathers faintly appear, and finally the chick steps forth, so industrial society, impelled by an indwelling force evolves from time to time, as conditions permit the organizations of men necessary for the better supply of social wants, and also the functions they perform, and the processes by which they work.

The human race during those many ages have tried all these articles as money, and many others; they have, from time to time, dropped those which proved to be unfit for the function of money, and have held to those which have proven themselves by trial to be best suited

for that function, whence it results that by a process of natural selection and elimination the leading nations of the world for many centuries prior to 1873 had discarded all material as money save two, gold and silver.

England, it is true, had discarded silver in 1816, but by reason of her isolated position and scant population in comparison to that of the then commercial world, this movement had no great effect upon the relative value between the metals. When, however, Germany closed her mints to silver in 1871 and 1873, thus forcing other continental nations to follow, the divergence began to be marked and has grown more marked as time progressed and as silver was dropped by one nation after another. This divergence of relative value between the metals by some is looked upon as a decline in the value of silver, by others as an advance in the value of gold.

It is perfectly clear that the gold price of silver has declined in the last twenty years, but it is also as clear that its value has not declined, as an ounce of that metal will exchange for as much wheat, cotton, minerals, etc., as ever it would, as will be shown later on. On the other hand, it is clear that the gold price of gold has not changed, because that would be impossible, but that, nevertheless, the value of gold has largely risen, for a dollar of it will now exchange for more cotton, wheat, meats, minerals, etc., than ever it would. The distinction between value and price, usually confused, is here clearly shown.

Senator John P. Jones, of Nevada, in his remarkable speech delivered in the Senate in October, 1893, says:

We are, however, able to show that at various times during the progress of the fall of prices, but prior to the looming up of the silver question, the change that was taking place was attributed, even by champions of the gold standard, to the insufficiency of the monetary supply. In fact, before the fall began it was by some writers foreseen as a danger lurking in monometallism.

Before any nation of Europe thought of imitating the example of Great Britain by going to the gold standard, Prof. Stanley Jevons expressed his sense of the danger of a rise in the value of money which would be incurred by such a movement. No man then living was better entitled to be heard on any subject relating to money, his researches having placed him in the first rank of investigators and economists. Writing to M. Wolowski, the eminent French economist, in acknowledgment of a tract on the subject of money on the 12th of January, 1868, Prof. Jevons said:

As regards the theory, I feel strongly in what an admirable manner you have set forth the principles of the so-called "double standard," and the danger we might run of a rise in the value of gold were silver entirely demonetized.

Knowing the hopelessness of any movement to induce the creditor classes among his own countrymen to replace the gold money of Great Britain by silver, yet seeing that if other nations should demonetize silver the value of gold would rise, Prof. Jevons in his communication to Wolowski added:

Yet, it is only by a more or less replacement of this kind (a replacement of silver for gold in Great Britain) that a rise in the value of gold would be prevented. (Investigations into Currency and Finance, p. 320.)

In an article in London Economist of May 8, 1869, Prof. Jevons said:

I think that the growth of population and trade tends to lower prices by increasing the use of gold.

Of course in the term "use of" Mr. Jevons included "demand for" as an increased use involves an increased demand.

In 1871, two years before the demonetization of silver, Ernest Seyd



made a prediction regarding the effects that would follow demonetization, which, in the light of subsequent facts, must be deemed nothing less than remarkable. He said:

It is a great mistake to suppose that the adoption of the gold valuation by other states besides England will be beneficial. It will only lead to the destruction of the monetary equilibrium hitherto existing, and cause a fall in the value of silver from which England's trade and the Indian silver valuation will suffer more than all other interests, grievous as the general decline of prosperity all over the world will be.

"The strong doctrinism existing in England as regards the gold valuation is so blind that, when the time of depression sets in, there will be this special feature: The economical authorities of the country will refuse to listen to the cause here foreshadowed; every possible attempt will be made to prove that the decline of commerce is due to all sorts of causes and irreconcilable matters. The workman and his strikes will be the first convenient target, then speculation and overtrading will have their turn. Later on, when foreign nations, unable to pay in silver, have recourse to protection, when a number of other secondary causes develop themselves, then many would-be wise men will have the opportunity of pointing to specific reasons which in their eyes account for the falling off in every branch of trade. Many other allegations will be made totally irrelevant to the real issue, but satisfactory to the moralizing tendency of financial writers. The great danger of the time will then be that, among all this confusion and strife, England's supremacy in commerce and manufactures may go backward to an extent which can not be redressed when the real cause becomes recognized and the natural remedy is applied." *Ernest Seyd.*

#### ADMISSIONS OF MR. GIFFEN ESPECIALLY.

Among the most doughty of the champions of the gold standard and most determined opponents of bimetallism stands Mr. Robert Giffen, statistician to the London Board of Trade. His writings constitute the very arsenal from which all the advocates of gold monometallism draw their ammunition. Hence I shall be pardoned for quoting him freely. Before the silver question became the burning question that it now is, Mr. Giffen put himself on record with reference to the cause of the baleful fall of prices. He declared that the cause was continuing and persistent, and one from the uninterrupted action of which a continued and progressive fall of prices was naturally to be expected. He shows that there was need for an increase, not a decrease, of money, if prices were to be maintained firm.

In a paper before the Statistical Society of London, in January, 1879, Mr. Giffen said:

There is a general agreement that during the last few years there has been a heavy fall in prices. It is usually a fall in price which cripples the weaker borrowers and causes bad debts, and this is a beginning of losses by which stronger borrowers are in turn crippled; further falls in prices ensue, and more bad debts and losses are produced. When we see so many failures as are now declared, therefore, we may be sure that they are preceded and accompanied by a heavy fall in prices.

In discussing in the same article the question of the insufficiency of the annual current gold yield to meet the monetary wants of the world, Mr. Giffen says:

It is a moderate calculation that if only the countries which used gold in 1848, including their colonies, were now using it, the requirements to correspond with the increased population and wealth would be at least three times what they were, assuming prices to remain in equilibrium.

Bnt, he adds:

While during the last thirty years the annual yield of gold has been falling away from its first superabundance, the current demands for the metal have certainly been growing with marvelous rapidity.

Now, observe his next statement. Speaking of the extraordinary demands made by the addition of Germany and the United States (upon resumption of specie payments) to the list of gold-standard countries, and the practical inclusion of France in the same list, he says of these new demands:

They have been supplied very largely by a continued pressure upon existing stocks till an adjustment has at length been made by a contraction of trade and fall in values.

Referring to the mode in which an insufficiency of money would express itself, Mr. Giffin proceeds:

The way a scarcity or abundance of gold would tell upon the money market would be by producing monetary stringencies and periods of temporary difficulty and discredit, by which, perhaps, the tendency to inflation in prices at one time would be checked and the tendency to depression at another would be aggravated. The average rates over the whole period when these stringencies were occurring might be lower than at times when they were fewer, but the mere fact of successive stringencies would help to produce the effect described on prices. Now, the course of the money market since 1871, when the German Government began to draw gold from London, has been full of such stringencies. The crises of 1873 and 1875 were no doubt precipitated by them; and since 1876, in almost every year except 1879 and 1880, there has been a stringency of greater or less severity directly traceable to or aggravated by the extraordinary demands for gold and the difficulty of supplying them.

Looking at all the facts, therefore, it appears impossible to avoid the conclusion that the recent course of prices, so different from what it was just after the Australian and Californian gold discoveries, is the result in part of the diminished production and the increased extraordinary demands upon the supply of gold.

In a paper of Mr. Giffen's, read before the Statistical Society of London in December, 1888, published in the journal of that society for that month, he said:

We can say positively that the recent change from a high to a low level of prices is due to a change in money, of the nature or in the direction of absolute contraction.

And after showing the extremely slight additions that had been recently made to the stock of gold, he said:

The stock with additions has had to do more work, and it has only been able to do so because prices have fallen.

In the same paper, speaking of the effects of this insufficiency of gold, he said:

It is obvious beyond all question that these effects may be important. The debtors pay more than they would otherwise pay, and the creditors receive more. The matter is thus not unimportant to the two large classes of people who make up the community. Appreciation is a most serious matter to those who have debts to pay. It prevents them gaining by the development of industry as they otherwise would.

PROF. JEVONS AND MR. GOSCHEN.

So well convinced was Prof. Jevons of the injustice of gold as a standard for deferred payments that in 1875 he wrote of it:

It should cease to be the permanent standard value because, as I have explained in chapter 25 (of Money and the Mechanism of Exchange), long enduring debts and transactions will be regulated by the tabular standard of value, the amounts of debts, although expressed in gold, being varied inversely as gold varies in terms of other commodities.

Discussing the effects on prices of an increased demand for gold the same writer in an article in the *Contemporary Review* for May, 1881, says:

It stands to reason, of course, that if several great nations suddenly decide that they will at all costs have gold currencies to be coined, in the next few years the annual production can not meet the demand which must be mainly supplied, if at all, out of stock. The result would doubtless be a tendency to a fall of prices.

And after referring to the gold stock in Great Britain, and considerable gold fields of the British colonies, he added:

If these foreign nations insist upon having gold currencies, they must pay our price for gold, and they must, in raising the price, benefit us and our colonies.

In 1883 Mr. Goschen, afterward chancellor of the exchequer of Great Britain, read a paper before the Bankers' Institute of London on the "Probable results of an increase in the purchasing power of gold." After showing that within ten years an enormously increased demand had arisen for gold, and that in that time Germany, the United States, Italy, and Holland had absorbed \$1,000,000,000 of it, Mr. Goschen said:

Economists will accordingly ask themselves what result, if any, is such a phenomenon likely to have produced? I think there is scarcely an economist but would answer at once, "It is probable, it is almost necessary, it is according to the laws and the principles of currency, that such a phenomenon must be followed by a fall in the prices of commodities generally." Just as a large amount of gold poured into Europe in 1852 and subsequent years created a rise in prices, so the counter phenomenon must produce a fall.

And at the same meeting of the Bankers' Institute at which Mr. Goschen's paper was read, Mr. Giffen stated that if the supply of new money were not sufficient to maintain the equilibrium between demand and supply—considering the increase of population and wealth—

then we may have a long-continued fall of prices from generation to generation, and this will probably have a very great effect as time goes on.

#### PROF. ROGERS AND GEN. WALKER.

The total insufficiency of gold for the monetary purposes of the world, considering the unequaled extension of industry and commerce, is emphasized by Prof. Thorold Rogers, in an article in the *Princeton Review* for January, 1879.

Speaking of the "rapid rise in the economic value of gold," he says:

The fact has been commented on with considerable but unequal force by M. Laveleye, in a recent number of the *Revue des Deux Mondes*, where he alleges, and on good grounds, that the annual produce of this metal is not more than sufficient to cover the annual wear and tear of the currencies.

And he adds:

Unless we are to assert that the values of gold and silver do not depend on the demand which exists for them and the means for supplying that demand, it must follow that a large demand brought to bear on a limited supply will affect the values of those precious metals, and through them lower prices.

Writing in 1879 of the effects of demonetization of silver, our leading American economist, Prof. A. Walker, now president of the Massachusetts Institute of Technology, said:

The second immediate consequence of the German demonetization has been an enhancement of the purchasing power of gold, now left throughout pretty much all Europe to perform the whole office of money which six years ago was performed by a money mass composed both of gold and silver. The latter having been thrown out of its use as full-valued money, and remitted to the purposes of small change or banished to the East, the value of the former has by a necessary consequence risen

greatly, even in the few years that have intervened since this disastrous act was accomplished.

The effect upon industry and trade of a diminishing money supply in enhancing the burden of debts and fixed charges, and in disparaging the profits of business and hence reducing the motives of production, have been discussed so much at length that we need only inquire here as to the fact.

Two notable pieces of testimony on this subject have been given to the public within the past few weeks. In an article in the January number of the Princeton Review, Prof. Thorold Rogers, of Oxford, in discussing the causes of the present general disturbance of commerce, writes as follows:

The first cause in importance, the most general, and in all probability the most enduring, is the rapid rise in the economical value of gold.

While the area of civilization is widening and, therefore, the demand for an adequate currency is being extended, the most populous state of Europe has abandoned a silver for a gold currency, and has had, as a fruit of a successful war with France, an exceptional power of attracting gold to itself, with singular success indeed, to the incredible misfortune of its people. Germany has effected a monetary revolution on the grandest scale, and has beggared its own industries.

Taking into account the growing intercourse of civilized nations, and particularly the sensitiveness which they feel at any event which may check the activity or derange the machinery of trade and production, it appears that at no time has the drain on the existing stock of gold been so sharp and rapid as at present.

On the 28th of December the London Economist, in a remarkable article on the causes of the present depression of prices, which that journal finds to be greater than after the panic of 1857 or that of 1866, gives as the principal causes the following:

First. There has been a diminution in the supply of gold.

Second. There has been a marked increase in the demand for gold. The effect of the adoption of a gold standard in Germany, as well as in some other European countries of minor importance, has been, as we have clearly seen, to depreciate the value of silver, measured by a gold standard, in an extraordinary manner. Large masses of silver have been demonetized and thrown upon the market. But, on the other hand, large masses of gold have been required to take their place, while, as has been shown, the supply has been actually diminishing.

Mr. Courtney says:

It is a dream to suppose that gold is stable in value. It has undergone a considerable appreciation in recent years, and industry and commerce have been more hampered by its movement than they would have been had silver been our standard. Whether the appreciation will be maintained undiminished is uncertain, but every step taken toward the further demonetization of silver must tend to the enhancement of the value of gold.

A comparison of the range of prices for wheat and cotton and the gold price of silver bullion for the past twenty years will demonstrate a much more than accidental relation between them. The following table gives the figures:

Year.	Wheat per bushel.	Cotton per pound.	Silver per ounce.	Year.	Wheat per bushel.	Cotton per pound.	Silver per ounce.
1872.....	\$1.47	<i>Cents.</i> 19.3	\$1.32	1883.....	\$1.13	10.8	\$1.11
1873.....	1.31	18.8	1.29	1884.....	1.07	10.5	1.01
1874.....	1.43	15.4	1.27	1885.....	.86	10.6	1.08
1875.....	1.12	15.9	1.24	1886.....	.87	9.9	.98
1876.....	1.24	12.9	1.15	1887.....	.89	9.5	.97
1877.....	1.17	11.8	1.20	1888.....	.85	9.8	.95
1878.....	1.34	11.1	1.15	1889.....	.90	9.9	.98
1879.....	1.07	9.9	1.12	1890.....	.82	10.1	1.04
1880.....	1.25	11.5	1.14	1891.....	.85	10.9	.99
1881.....	1.11	11.4	1.13	1892.....	.80	8.7	.86
1882.....	1.19	11.4	1.13	1893.....	.85	7.9	.75

*Index numbers showing the downward trend of wholesale prices, not in one class of commodities merely, but in all classes of commodities from the year in which silver was demonetised.*

Year.	Vegetable food (wheat, etc.).	Animal food (meat, etc.).	Sugar, coffee, and tea.	Total food.	Minerals.	Textiles.	Sundry materials.	Total materials.	Grand total.
1873	106	109	106	107	141	108	106	114	111
1874	105	103	105	104	116	92	96	100	102
1875	93	108	100	100	101	88	92	98	96
1876	92	108	98	99	90	85	95	91	95
1877	100	101	103	101	84	85	94	89	94
1878	95	101	90	96	74	78	88	81	87
1879	87	94	87	99	73	74	85	78	83
1880	89	101	88	94	79	81	89	84	88
1881	84	101	84	91	77	77	86	80	85
1882	84	104	76	89	79	73	85	80	84
1883	82	103	77	89	76	70	84	77	82
1884	71	97	63	79	68	68	81	73	76
1885	68	88	63	74	66	65	76	70	72
1886	65	87	60	72	67	63	69	67	69
1887	64	79	67	70	69	65	67	67	68
1888	67	82	65	72	78	64	67	69	70
1889	65	86	75	75	75	70	68	70	72
1890	65	82	70	73	80	66	69	71	72
1891	75	81	71	77	76	59	69	68	72

NOTE.—The foregoing are the figures of Mr. Augustus Sauerbeck, published by the Royal Statistical Society of London. The average prices of ten years (1868 to 1877) are taken as 100, and upon that basis the figures given above for the separate years result, showing a persistent decline of prices in every department of industry.

Adam Smith in his *Wealth of Nations* (book 1, chapter 5), says:

Gold and silver, like every other commodity, vary in their value. The discovery of the abundant mines in America in the sixteenth century reduced the value of gold and silver in Europe to about one-third what it had been before. This revolution in their value, though perhaps the greatest, is by no means the only one of which history gives some account.

And again he says:

Increase the scarcity of gold to a certain degree and the smallest bit of it may become more precious than a diamond.

Prof. Frances A. Walker (*Money*, p. 210) says:

Gold and silver do, over long periods, undergo great changes of value and become in a high degree deceptive as a measure of the obligation of the debtor and the claims of the creditor. Thus Prof. Jevons estimates that the value of gold fell between 1789 and 1809 46 per cent; that from 1809 to 1849 it rose 145 per cent, while in twenty years after it fell almost 20 per cent.

Jevons, in his *Money and Exchange*, says:

We are too much accustomed to look upon the value of gold as a fixed datum line in commerce, but in reality it is a very variable thing.

The effect which this advance in the value of gold is having upon the people of Ireland is well summed up by Archbishop Walsh, of Dublin. In an interview originally printed in the *Dublin Freeman's Journal*, and since published in a pamphlet entitled *Bimetallism and Monometallism*, Archbishop Walsh says:

Here is where the difficulty comes in. In all such cases the farmer is under the obligation of paying year after year an amount specified in pounds, shillings, and pence. But then this rent, or other annual payment which he has to make, although it is thus specified in amount, is really increasing—that is to say, becoming more burdensome from year to year.

To bring the matter to a point, it comes to this, that year after year more corn, more hay, more cattle, have to be sold by the farmer to enable him to get the gold which is required to meet that annual payment.

But, of course, if he has not more corn, more hay, more cattle to sell, he can not, out of what he has to sell, get enough to enable him to make that payment.

And, plainly, the longer the term for which his "fixed" annual payment has to be made, the more disastrous must be the results to him.

As for the tenant purchaser, he probably thinks that, after the extra pressure of the first few years, he may look back to easy times for the rest of his life. He little knows what is before him. If things go on as they are, it will be harder for him ten or twelve years hence to pay £40 a year than it would be for him to pay £50 a year now. But of all this he knows nothing. How could he? His only idea is that a pound is always a pound, a sovereign is always a sovereign. So in the belief that the yearly payment, when it is reduced to £40 will be well within his reach, he puts his head into the halter.

Again he says:

The adoption of bimetallic or some similar remedy, if there be a similar remedy, is, I am convinced, a matter of imperative necessity—that is, if the agricultural tenants of Ireland are not to be driven to inevitable ruin.

At the Brussels conference Mr. Alph Allard, delegate from Belgium, said:

The crisis, which has been carefully observed by you for so many years, shows itself more particularly in the fall of price, which acts on agriculture, manufactures, and the commerce of all nations. It is produced by the increase in the value of gold, by what it is agreed to call the appreciation of gold.

Mr. McCreary, delegate of the United States, said:

The annual production of gold in the world was, in the year 1890, \$120,000,000. If from the world's annual product there is deducted \$60,000,000, which, according to Mr. Burchard and Dr. Soetbeer, is the annual consumption of gold in the arts and manufactures, there remain but \$60,000,000 as the annual net product of gold for monetary purposes. I presume no candid and well-informed person will claim that this amount is sufficient to meet the increasing demands of the world.

Mr. Goschen asks:

If all States should resolve on the adoption of a gold standard, would there be sufficient gold for the purpose without a tremendous crisis?

Mr. Van Den Berg, delegate of the Netherlands, said:

I can not contemplate the future without terror if we persevere in the path which Europe has unfortunately entered, by abandoning and proscribing silver and by relying upon gold alone for international exchanges. Universal monometallism is an unattainable Utopia.

Sir William Houldsworth said:

I was a member of the Royal Commission on the Depression of Trade which sat in 1885 and the gold and silver commission which sat in 1887-'88. These five definite conclusions were arrived at in 1885:

- (1) That the depression dated from the year 1873 or thereabouts.
- (2) That it extended to every branch of industry, including agriculture, manufactures, and mining, and that it was not confined to England, but had been experienced to a greater or less degree in all the industrial countries of the world.
- (3) That it appeared to be closely connected with the serious fall in general prices, which even then was most observable, though it has since been more strongly marked, resulting in the diminution—in some cases even the total loss—of profit, and consequent irregularity of employment to the wage-earners.
- (4) The duration of the depression has been most unusual and abnormal.
- (5) That no adequate cause for this state of things was discoverable unless it could be found in some general dislocation of values caused by currency changes, and which would be capable of affecting an area equal to that which the depression of trade covered.

The second commission confirmed the findings of the first commission in every particular and in addition revealed—

the serious consequences which had resulted from the destruction of that par of exchange between gold and silver which had practically existed for seventy years before 1872, and the disruption of which had dislocated and embarrassed trade between gold and silver using countries and turned legitimate commerce into little better than gambling.

In conclusion he said :

Let us see if those are right who say there are no great evils impending upon the world from the disuse of silver as a standard of value? If in the next eighteen months we are not wise enough to adopt a scientific monetary system for the world's commerce the logic of events will, I believe, force that system upon us at later date.

Sir Guilford L. Molesworth, delegate of British India, said :

It is absurd to suppose that a revolution of the character could have affected gold prices so seriously and yet should have left silver prices unaffected. Silver is the standard of value of more than half the world, yet silver prices have remained stable, whilst gold prices have fallen from 40 to 50 per cent. Whilst shutting their eyes to these facts the advocates of such a theory (that improvements in machinery have caused the fall) are also blind to the following facts :

(1) That the depression which has occurred is a necessary consequence of the suspension of the free coinage in silver in France and was predicted (by Ernest Seyd), and the prediction has been fulfilled to the letter.

(2) That since 1871 the population demanding gold has quadrupled, and the foreign trade demanding gold has trebled.

(3) That the demonetization of silver for international monetary purposes in Europe has caused gold to perform single handed the work previously done by gold and silver combined.

(4) That the annual supply of gold scarcely exceeds the amount required for industrial purposes. It follows, as a necessary consequence of these facts, that with the increased demand for gold its value must rise, or, in other words, gold prices must fall. I repeat "it is gold that is sick, not silver." The honorable delegate submitted a chart showing the appreciation or depreciation of gold and silver measured by Soetbeer's index numbers since 1873. Soetbeer's index numbers give the average yearly wholesale price of 100 Hamburg articles and 14 articles from England, viz, agricultural produce, foreign fruits, colonial produce, mineral produce, textiles, and miscellaneous. These average prices are taken as the zero point through the several years, and the relative values of gold and silver are measured from this base line. The chart shows that, while the line representing the fluctuations of silver clings closely to this base line, the line representing the fluctuations of gold has rapidly risen during the period considered, 1873 to 1890, when it had reached the height of about 30 per cent above the base line.

Mr. Alph Allard, delegate of Belgium, also submitted charts showing the same features, using other index numbers.

Dr. Andrews, delegate of the United States, said :

The thoughtful people of the United States do not wish gold to be arbitrarily and unjustly appreciated. I maintain this fall of general prices has been an absolute and unmitigated curse to human civilization.

Mr. Boissevain, delegate of the Netherlands, said :

What is the state of things that we see at present? We see that in those countries which have a gold standard prices have fallen enormously; and that, on the contrary, in the countries which have a silver standard, in spite of the unfavorable treatment of silver in Europe, in spite of the diminution in its uses, the relation of value between money and goods has remained almost exactly what it was twenty years ago.

As nearly as I can ascertain, there are in sight in the world but \$1,500,000,000 gold, or 72,500,000 troy ounces. This sum is equaled by the wealth of one family—the Rothschilds. Now, no one doubts but that it is possible to measure all the products of the world with this 72,500,000 ounces of gold. If you care nothing for the prices of the things measured this can be done. But I fear that when you get through pricing your wheat, cotton, animals, etc., prices will be so low that they will hardly be worth consideration. So, too, it is possible to price all the commodities in the world with thallium (of which there is supposed to be but 24 pounds in the world) as the measuring instrument. With thallium as a price-measuring instrument we could expect to see railroads selling for 5 thallium cents apiece.

Any man of unprejudiced mind who carefully investigates this subject must, I think, conclude that the value of gold has risen.

Apply to this subject the common sense which people use in considering other subjects. Is it possible, for instance, to cut in half the yard measure and still have the 18-inch yard stick bear the same relation to lineal measurements as did the 36-inch one? Is it possible to cut in two the pound weight and still have the half pound bear the same weight relation to other things as it did before? All will agree that it is impossible to do these things without changing the relation. Neither can the pricing instrument of the world be cut in two without changing its relation to other things also. Has not this been done? Recall the illustration, before used, of the experience of the people upon the island who used tin and lead as a measure of the value of their commodities, and who demonetized tin, leaving the work theretofore done by two metals to one only. Their experience was that when this was done, the price of their commodities fell, or what is the same thing, the value of their lead rose. It seems to me that this question of the advance in the value of gold is beyond argument and that the advocates of monometallism, upon this point at least, should realize that they are defeated.

This advance in the value of gold, then, I consider to be the first great cause of the present business depression. To alleviate the depression the cause of it must be mitigated or removed. How this can be done will be shown later on.

#### MONETARY CONFERENCES.

But while gold monometallism for the world, as Mr. Goschen says, is a Utopia, so also is silver monometallism a Utopia. The amounts of gold and silver in the world doing work as money are about equal. The population of the world, using gold as a standard, numbers about 264,000,000; those using silver, over 700,000,000. To throw out silver and put the world on a gold basis is ruinous, and so, too, to throw out gold and put the world on a silver basis is equally ruinous, and for the same reason.

Now, it has been thought by many eminent men that bimetallicism could be achieved if the great commercial nations of the world should agree to set a fixed rate between gold and silver and open their mints to these metals at such rate, and a number of international conferences have been held whose object was to reach this agreement.

At the first monetary conference, however, which was held in Paris on June 17, 1867, at the invitation of the French Government and which was called "to consider the question of the uniformity of coinage and to seek for the basis of ulterior negotiations," there was developed, what Alexander Hamilton has called, "a fanciful predilection for gold." Mr. Samuel B. Ruggles, the sole representative of the United States, seemed to think that there was something the matter with the Constitution in regard to the use of both metals as money, for he said:

The original act of Congress, which was passed at a time when we were less enlightened than to-day, either by study or experience, sought to establish a double standard of giving to gold coin and silver coin equal legal currency in payments, whatever might be the amount of the debt.

When Mr. Ruggles said that in regard to the use of both gold and silver the fathers were less enlightened than he was, he evidently did not have in mind the statement of Alexander Hamilton that—

To annul the use of either of the metals as money is to abridge the quantity of circulating medium, and is liable to all the objections which arise from a comparison of the benefits of a full with the evils of a scanty circulation.



Or, if Mr. Ruggles intended to say that the framers of the Constitution were less enlightened than he as regards the point of the variability of the metals, he was again mistaken, for Secretary Hamilton declared—

that if the unit belong indiscriminately to both the metals it is subject to all the fluctuations that happen in the relative value which they bear to each other.

Thomas Jefferson declared the same thing. Robert Morris was equally explicit to the same effect, and followed up his declaration with the remarkable statement—

that if this (i. e., the variability) can not be overcome we must not allow it to preponderate, for it weighs alike against every other metal.

As I was saying, this conference of 1867 was distinctly a gold conference and unanimously declared itself as such. From this interchange of purely gold sentiments at this conference arose, I think, the causes of the demonetization of silver by Germany in 1871 and 1873, and by the United States in 1873. These events occurred and time, that test of truth, rolled on. Shortly it was discovered that a mistake had been made. The United States was the first to discover it. They found that they were not quite as enlightened as their representative had supposed, and that the Constitution of the United States after all was something more than a schoolboy's essay. This mistake was realized by the United States and the conference of 1878 was called on August 10 of that year. The governments of Europe were invited—

to join a conference to adopt a common ratio between gold and silver for the purpose of establishing internationally the use of bimetallic money and securing fixity of the relative value between those metals.

Twelve countries were represented. At the second session the United States presented the proposition—

that the use of both gold and silver as unlimited legal-tender money may be safely adopted; first, by equalizing them at a relation to be fixed by international agreement; and, secondly, by granting to each metal, at the relation fixed, equal terms of coinage.

Mr. Pirmez, delegate of Belgium, declared—

that the country which he had the honor to represent could not do otherwise than reject this proposition. To remove the restrictions to which silver was subjected in those countries of the Latin Union which have the metallic circulation would have for its immediate result to give enormous profits to speculators in the metals, by enabling them to withdraw gold and replace it with silver in the circulation.

Dr. Broch, delegate for Norway and Sweden, maintained that if a ratio between gold and silver should be adopted and fixed internationally, the oscillations which, in spite of this purely conventional relation, must take place in their real values, and the fluctuations of the metal in circulation, must cause frequent perturbation in foreign trade. If the bimetallic system by some impossible combination of circumstances should be extended in Europe it would bring about the disappearance of gold.

Mr. de Thoerner, delegate of Russia:

"In order to prove how difficult it was by means of laws and conventional action to produce an effect in opposition to natural forces," cited the experience of Russia in regard to the coincident circulation of gold and silver, illustrating the effect of the well-known law of Gresham, and said "these facts prove how opposed to the very nature of things it is to endeavor to establish a fixed relation between gold and silver."

Mr. Feer-Herzog, delegate of Switzerland, did not think that a fixed ratio could be advantageously established between the values of two metals which the chance of production and the accident of international commerce were constantly modifying. As to the political possibility of

establishing an international double-standard system he denied it entirely. Independent of these impossibilities of a political order were those of a commercial nature. The precious metals were used in the manufacture for jewelry, watchmaking, etc. This industrial demand, varying according to times and circumstances, would produce variations in the price of the merchandise, and this would affect the mint receipts. The fixity of value between gold and silver was therefore absolutely impossible. All the governments together, with their united efforts, could not struggle against the force of events.

Mr. Primez, delegate of Belgium, said :

Let me dwell upon the fundamental error which suggested the measure which has been proposed. The error is in the belief that it appertains to governments to call value into existence. Governments have an almost unlimited power in preventing the creation of values or in destroying them. They are powerless to create or preserve those which are disappearing. By measures which are restrictive of liberty, by clumsy interventions, they may arrest the development of wealth; they are without power to decree it. The law may factitiously bring nearer to each other the value of gold and that of silver by fixing an arbitrary relation between them, but the sum of the two values will remain the same.

Mr. Goschen has explained to us the position of India towards England, and the difficulties which have been caused by the fall of silver. If the ideas I am combating were sound, England would have a very simple means of putting everything right. Let her make the rupees a legal tender in England at the relation of 1 to 15½; they would immediately rise, and the exchange of London on Calcutta would approach par. Why does she not do it? Because she knows too well that she would be paying herself with a vain appearance and that what the rupee would gain the pound sterling would lose. The influx of rupees in England would drive out the sovereigns.

This suggestion of Mr. Primez, made in 1878, was tried by the India council in 1893, which tried to fix a minimum par of exchange at 15½, for council bills and failed, thus justifying this view set forth by Mr. Primez fifteen years prior to that time.

Mr. Primez continues :

If England fancied that the fixedness of exchange saved her the loss she now undergoes, she would be like the merchant who is handed a piece of cloth which is too short and who declares himself satisfied, because, having had the ingenious idea of shortening his yardstick, he fancies he has received what was due him.

Take other cases and you will always have the same result. Never will you arrive either at increasing a value or at preserving it contrary to economic facts, because from them alone is value derived.

But will the grand federation of governments at last have succeeded in substituting for the moving waves of natural relations of value the calm surface of an invariable artificial relation? It will have bound the two metals by the strongest link which laws can form, but will that link always keep them at the same distance? No, not even that. It will very soon be perceived that that link can contract or expand; that it is only, if I may venture to say so, of India rubber, and that it will leave them sufficient play to separate and break the dreamed-of harmony.

The two metals will not have the same value in different countries. The silver-producing countries, where silver consequently will be the most plentiful, will be the first where gold will disappear; these countries will have a silver currency before the others. The countries, on the other hand, where there is a considerable production of gold will be the last affected. Speculation will first withdraw the gold from all the countries where it is worth most. We shall then, for example, see the United States have only silver money and Australia have only gold money. The uniformity thus pursued will still escape.

This being the case, there will be no fixed par of exchange. If the discrepancy between the two metals be circumscribed within certain limits, it may be affirmed that, within those limits and by reason of the immense speculation which will arise from the option of substituting one for the other, thanks to the legal ratio, the fluctuation will be more frequent than ever. This substitution will be a long operation, but if the ratio be commercially false—and it will be false because it is this very falsity which is to rehabilitate one of the metals—the other metal will gradually withdraw from circulation; it will find greater use in industrial and artistic con-

sumption; it will be sought by those who make hoards, and will end by being at a premium.

This is what would happen: The grand alliance of all nations, after casting monetary relations into an unprecedented crisis, would lead only to a complete defeat, because it would have attempted to struggle against economic laws as invincible as the forces of nature.

Sir Thomas Seccombe, delegate of England, said:

As to the establishment by an international agreement of a fixed ratio between gold and silver, he thought the discussion had clearly demonstrated that this measure could not be classed among practical questions.

Mr. Goschen said:

I believe that it would be a great misfortune if a *propaganda* against silver should succeed, and I protest against the theory according to which this metal must be excluded from the monetary system of the world. As to the desire which has been expressed that the hope be left open that some day a fixed relation may be established between gold and silver and an international value given to them, the English delegate declared "that in his view it was impossible to realize this, impossible to maintain it in theory, and that it was contrary to the principles of science."

At the conclusion of the conference the delegates of the European states expressed their sincere thanks to the Government of the United States for having called the conference, and declared that while it was necessary to maintain in the world the monetary functions of both gold and silver, "that the differences of opinion which have appeared exclude the *discussion* of the adoption of a common ratio between the two metals."

The propositions of the United States were ably presented and defended by Gen. F. A. Walker and S. Dana Horton, to whom his countrymen will forever be indebted for his compilation of papers relating to monetary questions which were included in the report of the monetary conference of 1878.

Said Mr. Walker:

Whether the money supply of Europe and America would be reduced by the completion of the movement initiated in 1871 to the extent of 30 or 20 per cent, the consequences could not but be most disastrous. Suffocation, strangulation, are words hardly too strong to express the agony of the industrial body when embraced in the fatal coils of a contracting money supply.

Mr. S. Dana Horton contended that it was to the commercial interest of the several states that a fixed ratio with free mintage should be established, and that the welfare of mankind demanded it. These views, however, had no practical effect upon the conference, and it adjourned.

The third international monetary conference met in Paris on April 19, 1881. It was called by the governments of France and the United States "to examine and adopt, for the purpose of submitting the same to the governments represented, a plan and a system for the establishment, by means of an international agreement, of the use of gold and silver as bimetallic money, according to a settled relative value between those metals."

Dr. Broch, of Norway, again informed the conference that bimetallicism was a political impossibility.

Eduardo Primez, of Belgium, again stood up and told the conference that the proposition presented was illogical in principle. He said:

Even if this conference were given full powers of action in the names of the nations represented here; even if the nations not represented here were summoned; even if this conference were intrusted with the absolute right of punishing or in visiting with the severest penalties those infringing the bimetallic law, nevertheless, if it pretended to decree the respective value of gold and silver, it would be utterly powerless, for the arbitrary is not able to resist the nature of things.

Mr. de Thoemer, of Russia, said:

Bimetallists are right in desiring the circulation of the two metals, but they are wrong in desiring arbitrarily and by decree to give an immutable value to silver. Monometallists are wrong in desiring to drive silver altogether out of the monetary market, but they are right in exclaiming against the pretension of their opponents to regulate the mutual relation of gold and silver.

Said Count Rusconi, of Italy:

To sum up, gold is not sufficient. The monetary condition of the world causes serious disquietudes. To proscribe one of the two metals would be tantamount to abolishing money and turning the course of mankind three thousand years back.

Mr. Forssell, delegate of Sweden, asked:

Now, the bimetallic treaty once concluded between the principal states, standing back to back to bear the burden, what guaranty is to be offered to us that the practice would always, or ever, be in conformity with the stipulations of the treaty? What guaranty—to cite, among others, the most conclusive case—what guaranty against the sudden and forced adoption by two, three, or four of these states of the paper-money system? What guaranty against a recurrence of those political crises which these monetary cataclysms have already made them all successively undergo?

Count RUSCONI. Will Mr. Pirmez kindly answer one word—What is money?

Mr. PIRMEZ. It is merchandise, but merchandise weighed and verified by the state.

Count RUSCONI. If the conference makes that declaration all debate is certainly at an end, and the law of bimetalism and of the ratio becomes absurd and impossible.

After holding thirteen sessions the conference failed to come to any agreement as to the means of realizing the object for which it had been called, and adjourned to meet at a later date, but did not meet again.

The fourth international monetary conference met in Paris in October, 1889. It had no official character, and, its members failing to agree upon any solution of the silver question, adjourned.

The fifth annual international monetary conference met in Brussels on November 22, 1892. It was called by the President of the United States, who invited the governments of Europe to send delegates "to consider by what means, if any, the use of silver can be increased in the currency systems of the nations." Twenty countries were represented. After holding nine sessions it failed to come to any agreement as to the means of realizing the object for which it had been called, and adjourned to meet on May 30, 1893.

The Hon. Henry W. Cannon, delegate from the United States, presents his conclusions as to the results of the Brussels conference as follows:

While the declarations and statements made by the different delegates to the conference from the several countries represented are of the greatest importance and value to the people of the United States in their consideration of the silver question, nothing definite was accomplished, and we are forced to the conclusion, from what transpired, that an international bimetallic union can not be formed nor an international bimetallic agreement fixing the ratio between gold and silver entered into unless a great change occurs in the public sentiment of Great Britain, whose position in the conference is indicated by a statement of Sir Rivers Wilson, who declared: "Our faith is that of the school of monometallism, pure and simple. We do not admit that any other system than a single gold standard would be applicable to our country."

" This statement has recently been confirmed by the utterance of Mr. Gladstone in Parliament. Upon the action of England apparently depends the action of the majority of other countries.

" M. Tirard, delegate from France, who has since become the minister of finance of that country, declared himself opposed to any bimetallic agreement unless it included Great Britain, Germany, Austria, and Russia.

" Belgium, Italy, and Greece announced that they were of the same

mind. Germany, Denmark, Sweden, Norway, and Switzerland declared that they proposed to remain on a gold basis, and Austro-Hungary also stated their intention to abide by the gold standard, which they are in the course of adopting. The Netherlands, Spain, and Mexico were ready to join in a bimetallic union, provided Great Britain would unite. No declaration of policy was made by Russia or the Roumanian Government, although intimating that they did not consider bimetallic a practical policy, and Turkey and Portugal expressed no opinion.

Under these circumstances it is evident that unless our executive and the principal members of our national legislature are willing to agree to some proposal or policy looking to the purchase of silver bullion and the issue of notes against the same by the other nations in conjunction with our own country, nothing can be accomplished at the adjourned meeting of the international conference. As heretofore stated, it is evident that no agreement fixing a ratio between gold and silver can possibly be arrived at at the present time, and it is useless to continue to discuss bimetallicism."

*Henry W. Cannon,*

At this conference Alfred de Rothschild said:

Apart from other considerations, it seems to me impossible to come to an universal agreement in respect to a general currency question, as no two countries are alike as regards their individual wealth, resources, and expenditures.

Mr. Raffolovich, delegate of Russia, said:

I still indorse the opinion of Mr. de Thorner, that it is contrary to the nature of things to establish a fixed ratio between gold and silver. Nothing which has happened since 1878 has induced me to modify it.

Mr. Crâmer-Frey, delegate of Switzerland, said:

At present, as in 1878 and in 1881, Switzerland continues to consider it as a fixed principle of her monetary policy that there should not be two standards or two measures of value.

Mr. Weber, delegate of Belgium, said:

The losses which might result from the breaking up of the Latin Union, of which, however, at present, there is no indication, are calculable, whereas the losses which might accrue to the next generation from an international agreement such as we have in view are incalculable. Who dare prophesy the condition of international affairs, the condition of Europe and of the world, when the term of the international monetary conference runs out? After twenty or twenty-five years, the probable duration of such an agreement, who will be the creditors and who the debtors? No one knows.

Mr. Tirard, delegate of France, said:

This is in truth a difficult undertaking. Peoples already far advanced in civilization have habits, customs, and laws which are adapted to their traditions. They are not applied in an arbitrary fashion—they are bound up with the very conditions of the existence of these peoples.

Hans Forssell, delegate of Sweden, said:

I suppose, however, that men of practical statesmanship will aim at the most that is possible to obtain, namely, a union of all the American and European states having a metallic circulation. It would never be possible to include either states with paper standard or the silver standard states of the East. They console themselves in declaring that none of them would be able to draw gold away from the bimetallic union. But it is absolutely wrong not to reckon with that inevitable outside. It is forgotten that both Russia and the East would undoubtedly exercise a very considerable attraction for the depreciated gold of Europe. It is forgotten further that a disturbing element would arise the moment when one member or another of the bimetallic union, for one reason or another, denounced the treaty and left the union. It is forgotten that there will always be something not only beyond but underneath the reservoir—the industrial consumption—which will always demand gold and which will demand it more and more as it is depreciated by monetary law.

Assuming that an international agreement could be had for the asking, between England, Russia, France, Germany, and the United States, at the ratio of 16 to 1, how would it work?

England.....	1. 29
Russia.....	1. 29
France.....	1. 29
Germany.....	1. 29
United States.....	1. 29

The four first countries above mentioned are not large producers of silver. The United States and Mexico are large producers. As the freight charges on silver from the mines to the United States Mint would be less than to the mints of other countries, the silver, including Mexican silver, would naturally flow to it. This silver, after coinage, would be put in circulation and thus raise prices; these prices would attract imports and, after a time, an adverse balance of trade would result. Gold would go out to settle this balance because of the fact that the freight and insurance charges on gold are one-half those on the same value of silver. After the gold had all been abstracted then we would commence to send silver, which necessarily must be a legal tender in the receiving country.

Suppose the receiver demurs. Suppose that the rating, which the 156 countries of the world put upon silver is different from that put upon it by the 5 contracting nations. Suppose that the doors of, say, the English mint close to silver, which must necessarily affect its price; what then? A contract of this nature may be compared to those which railroad managers have lately made and which have all turned out failures—the presidents' agreement, the gentlemen's agreement, the Western Traffic Association—because the factor of personal interest could not be controlled after the agreement was made.

Look at this project as you would at any other business project. What are the conditions? What is the proposition? The conditions are these: There are 161 countries in the world in different stages of development. Twenty-nine of the countries have monetary systems, of which 15 are gold and 14 are silver. There are, at present, but 9 gold monetary systems in operation; the remaining 6 have degenerated into inconvertible paper currency systems. There are, at present, but 11 silver monetary systems; the rest are inconvertible paper currency systems. This is the situation.

The proposition is for an international agreement among several of the great trading nations. In view of the conditions and the well-known propensity of the metals to fluctuate, in making an international monetary agreement do we know what we are doing? Is not this proposition a leap in the dark? Is it not the most stupendous speculative scheme in which sane men have ever been asked to embark?

Back of these conditions, however, and far surpassing them in importance, is the consideration of the truth of the proposition upon which this idea of a fixed ratio is based. The logical assumption upon which the advocates of a fixed ratio between gold and silver base their belief is, that legislative bodies can, by enactment, make constantly varying values constantly equal to each other. Gold and silver are two separate commodities, and fixed quantities of each must necessarily vary in value the same as fixed quantities of any of the metals or other commodities, unless it be conceived that they shall be produced upon exactly parallel lines, and that the commercial and mint demands shall always be exactly parallel.

Any one who can conceive of such a state of affairs permanently

continuing among the world's population of over one thousand millions of human beings is welcome to hold that view. Let me present an illustration which, I think, is parallel in principle to the idea proposed. The United States *may* pass a law to the effect that the tide shall not rise or fall to-morrow. Would that stop the tide? And suppose all the great nations of the earth should pass a law to the same effect. The tide would rise just the same, would it not? There are some things that legislative bodies can not do. They have no control over the laws of nature. The days of fiat money have gone by; the rule now is to get in line with the laws of nature.

What is proposed is an arbitrary measure and not a natural one.

Mr. ~~Prime~~ says: *Pinner*

The object of law is not to enforce a legislator's arbitrary will, but to respond to the requirements of communities, and to satisfy them it should be the truth of facts, the truth of law.

Laying aside, then, this project of an international ratio, which after twenty-five years' trial appears to be politically impossible, impracticable, unbusinesslike, contrary to the laws of economic science, and illogical in principle, the question at once arises, what can be done that is practical, that is businesslike, that is in accord with the laws of economic science, and that is logical in principle?

The following bill to establish a gold currency and a silver currency on a basis of interchangeable value, together with the supplemental bill to fix the denominations of gold and silver coins to be issued by the United States, and to establish the free coinage thereof, are offered as a comprehensive and complete monetary plan suited to the exigencies of the present occasion. The bill first mentioned, which is the more important of the two, and which is before your body, will now be considered.

#### THE REMEDY.

The first great cause of the present business depression, as has been shown, lies in the advance in the value of gold, due to the demonetization of silver since 1873 by the great trading nations of Europe and by the United States. This cause has shown itself in the persistent decline in the prices of commodities, which was predicted, which came, and of which we have the explanation. In order to arrest this decline and start prices advancing again, the pricing instrument, that is, the thing which measures the prices of all commodities and which has been cut in two, must be restored. The quantity of standard money must be increased. Silver must therefore be rehabilitated. Since an international agreement to secure this end seems hopeless, impracticable, and illogical in principle, the proposition is presented that the United States shall move forth alone and increase the quantity of standard money in the world. By the term "standard money" I mean money that answers to Daniel Webster's definition of a perfect money, before referred to, a money that is worth par in every market. Manifestly, if the United States is to move forth alone and restore silver as money, or what is the same thing, solve the silver question, that can be done only through enactment by Congress of a measure that will solve it. The solution of the question then turns upon the words and the arrangement of the words in the bill in which it is proposed to use silver as money.

Mr. George S. Coe, of New York, says:

The only obvious and practical solution is the reunion in money of those ancient but temporarily dis severed elements.

M. Boissevain, delegate of the Netherlands at the Brussels conference, says:

To restore bimetallism in its integrity it would not suffice that gold and silver should be used concurrently, it is necessary that the two metals should be placed upon a perfectly equal footing; that they should both be considered the monetary standard; that both should have full legal tender and that both should have free coinage.

House bill 4232, now before your body, and which receives and treats gold and silver upon exactly equal terms, is offered as a solution of this question. I will take up the sections one by one.

H. R. 4232. FIFTY-THIRD CONGRESS, FIRST SESSION.

OCTOBER 24, 1893.—Referred to the Committee on Banking and Currency and ordered to be printed.

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Mr. Brosius (by request) introduced the following bill:

A BILL to establish a gold currency and a silver currency on a basis of interchangeable value.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, SECTION 1.* That twenty-three and twenty-two one-hundredths grains of pure gold, as established by law on February twelfth, eighteen hundred and seventy-three, is, and shall continue to be, the unit of value of the United States of America, and shall be termed a dollar.

This section fixes at once and for all time the question of the quality of the money of this country. The only reference to the quality of the country's money other than that referred to in this section, which I have here been able to find, is contained in the Sherman Act of 1890. It was there stated that "it is the established policy of the United States to maintain the two metals at a parity." It is pointed out that although it may be the policy of the United States to maintain the metals at a parity, that policy is not necessarily the law. In this section then, all doubt is at once removed—the quality is fixed.

William Graham Sumner, of Yale College, said in 1891, in a letter to John Henry Norman:

I hold firmly that the first point in the doctrine of money is the conception of the unit defined by a certain weight of one metal of a certain fineness.

Sections 2, 3, 4, and 5, providing for a representative gold currency based upon deposits of gold bullion in terms of the unit, are so simple as to need no explanation. I will read them:

SEC. 2. That gold bullion of the fineness of nine hundred one-thousandths or more, hereinafter called fine gold bullion, when presented in the amount of one hundred dollars or more, may be deposited in the Treasury of the United States or at any coinage mint or assay office that the Secretary of the Treasury may designate, and the depositor shall receive therefor registered Treasury notes of such denominations as he may desire, hereinafter called gold Treasury notes and hereinafter provided for, equal in amount to the number of dollars deposited.

SEC. 3. That the Secretary of the Treasury shall cause to be prepared gold Treasury notes of the following form, respectively, with such other formal additions thereto as the Secretary of the Treasury may prescribe, in such amounts as may be required for the purpose of section two, in twenty-dollar, fifty-dollar, one-hundred-dollar, five-hundred-dollar, one-thousand-dollar, five-thousand-dollar, ten-thousand dollar, twenty-thousand-dollar, fifty-thousand-dollar, and one-hundred-thousand-dollar denominations, to wit: This certifies that there has been deposited in the Treasury of the United States an amount of gold equal to twenty dollars. This note is redeemable in an amount of gold equal to twenty dollars on demand.

SEC. 4. That the gold Treasury notes issued under the provisions of this act shall be redeemed upon demand at the Treasury of the United States, or at any coinage



mint or assay office of the United States that the Secretary of the Treasury may designate, in an amount of fine gold bullion equal in value to the number of dollars demanded. All notes so redeemed shall be canceled, registered, and destroyed.

SEC. 5. That the gold bullion received under the provisions of this act, the total amount of which for the time being is hereinafter called the gold-redemption fund, shall be deposited and kept at such place or places as the Secretary of the Treasury may designate, and shall be used for no purpose other than the redemption of the gold Treasury notes arising under the provisions of this act.

Section 6 provides for the issue of a representative silver currency based on deposits of silver bullion, which currency when issued, is of the same commercial quality as the gold currency and of interchangeable value with it. Section 7 sets forth the method by means of which the world's gold price of silver is to be made from day to day.

SEC. 6. That silver bullion of the fineness of .999, hereinafter called fine silver bullion, when presented in the amount of one hundred ounces or more, may be deposited at the Treasury of the United States, or at any coinage mint or assay office in the United States that the Secretary of the Treasury may designate, and the depositor shall receive therefor registered Treasury notes of such denominations as he may desire, hereinafter called silver Treasury notes and hereinafter provided for, equal at the date of deposit to the net value of such silver at its market price, such price to be determined by the Secretary of the Treasury under rules and regulations prescribed in section seven of this act.

SEC. 7. That the Secretary of the Treasury is directed, on each business day, to inquire into and ascertain the market price of fine silver bullion in the several countries of the world with which we are principally connected in commerce. These various market prices he shall translate at the gold par of exchange into terms of the unit of value of the United States and shall take an average from them, which average shall be the price at which the Government of the United States shall receive or deliver fine silver bullion on the following business day in exchange for the silver Treasury notes arising under the provisions of this act. In determining the world's market price of silver, as aforesaid, no deductions, additions, or allowances for freight, insurance, or any other charge shall be made.

In section 7 I have used the language of Thomas Jefferson when considering the same subject, simply reversing the words "gold" and "silver," as silver, in his day, was the unit of value, while gold is now that unit. He says:

The proportion between the values of gold and silver is a mercantile problem altogether. Just principles will lead us to disregard legal proportions altogether, to inquire into the market price of gold in the several countries with which we shall be principally connected in commerce, and to take an average from them.

Alexander Hamilton also recommended this method. He says:

There can hardly be a better rule in any country for the legal than the market proportion, if this can be supposed to have been produced by the free and steady course of commercial principles. The presumption in such cases is, that each metal finds its true level, according to its intrinsic utility, in the general system of money operations.

The Secretary of the Treasury is directed to inquire into the price of silver in the several countries of the world with which we are principally connected in commerce. This, I think, is better than to limit him to inquiries in one country or one market, for he thus gets the advantage of that "true level" of which Hamilton speaks. He has this in his mind, "What I want is the world's price." Having obtained his quotations for fine silver in two or more markets, he is directed to translate the prices at the gold par of exchange into terms of the unit value of the United States. The par of exchange between countries having a gold unit of value is fixed by the proportion which the weight of pure gold contained in the unit of that country bears to the weight of pure gold contained in the unit which is compared with it. Thus the English pound, the unit of value in that country, contains 113.0016 grains of pure gold. The unit of value in the United States, \$11 con-

tains 23.22 grains of pure gold. The par of exchange is the quotient of 113.0016 divided by 23.22, or \$4,8665+ American gold, equals an English pound. It is evident that this par of exchange can not change unless the weights of either or both units are changed.

The Secretary of the Treasury inquires the price of silver in the English market, and he should, in ascertaining the price, base it upon the last sale of a considerable quantity. He finds that the price is 29½ pence for an ounce of ~~947.10~~ or 0.925 fine. This price is equivalent to 31.859 pence 0.999 fine; 31.859 pence translated at the par of exchange is equal of 64.578 cents, as follows: 240 pence or £1 is equal to \$4.8665; 1 pence is one two hundred and fortieths of \$4.8665 or 2.027 cents; 31.859 pence times 2.027 cents gives 64.578 cents.

To obtain the par of exchange with any other gold unit country it is only necessary to know the weight of pure gold contained in the unit of value of that country. Any schoolboy with this information and a knowledge of the system of weights prevailing in that country can readily ascertain the price of a fine ounce of silver at the par of exchange. Tables can be made which will show this at a glance.

Assuming that the price of silver in the German market is the equivalent of say 64.635 cents, and which is determined in the same way as the English price, the Secretary takes an average from them, which would be 64.606 cents, as the world's gold price of silver on that day. This is the price at which he receives and delivers silver on the following business day in exchange for the silver Treasury notes arising under this act. The reason why he makes the price to-day for to-morrow is because of the difference in time between Washington and London, Paris, Berlin, etc. The markets at these latter places close about four hours earlier than do ours. A price made here to-day based upon prices current in Europe and set for to-morrow thus becomes to-day's price there. The element of time is eliminated.

The reason why the Secretary makes the price at the par of exchange is because that is fixed and definite; the Secretary is making money, and this has nothing to do with the variable rates of exchange which are caused by the scarcity or plenty of commercial bills in the market.

SEC. 8. That the Secretary of the Treasury shall cause to be prepared silver Treasury notes of the following form, respectively, and with such other formal additions thereto as the Secretary of the Treasury may prescribe, in such amounts as may be required for the purpose of section six, in five-dollar, ten-dollar, twenty-dollar, fifty-dollar, one hundred-dollar, five hundred-dollar, one thousand-dollar, five thousand-dollar, ten thousand-dollar, twenty thousand-dollar, fifty thousand-dollar, and one hundred thousand-dollar denominations, to wit: This certifies that there has been deposited in the Treasury of the United States an amount of silver equal to five dollars. This note is redeemable in an amount of silver equal to five dollars, on demand.

This section provides for the denominations of the silver Treasury notes and for the inscription to be placed upon them, which is the same as that upon the gold Treasury notes. The \$1 and \$2 bills are dropped. This feature has met with the approval of everyone to whom I have spoken concerning it.

As Mr. Charles A. Otis, of Cleveland, Ohio, says: "We don't want any more of that smallpox money."

SEC. 9. That the silver Treasury notes issued under the provisions of this act shall be redeemed upon demand at the Treasury of the United States, or at any coinage mint or assay office in the United States that the Secretary of the Treasury may designate, in an amount of fine silver bullion equal in value, at the then prevailing market price, to the number of dollars demanded, such an amount of fine silver bullion to be determined as provided in section seven of this act. All notes so redeemed shall be canceled, registered, and destroyed.

This section provides for the redemption of the silver Treasury notes in terms of the unit at the then prevailing market price. As we have seen, when the note is issued it is worth par in gold, although it has silver behind it. When the note is redeemed it is worth par in gold, although it has silver behind it. The note itself, therefore, does not vary in value. The note is constantly of the same commercial quality as the unit. The element of variability is removed.

SEC. 10. That the silver bullion received under the provisions of this act, the total amount of which for the time being is hereinafter called the silver-redemption fund, shall be deposited and kept at such place or places as the Secretary of the Treasury may designate, and shall be used for no purpose other than the redemption of the silver Treasury notes arising under the provisions of this act.

The Government, acting as custodian and trustee, holds this treasure as collateral for notes outstanding.

SEC. 11. That when the market price of fine silver, as determined by the Secretary of the Treasury, shall exceed one dollar and thirty-five cents per fine ounce, it shall be the duty of the Secretary of the Treasury to refuse to receive deposits of silver bullion for the purposes of this act.

This limits the "up" price, to guard against any possibility of a "corner" in the price of silver.

SEC. 12. That whenever the total value of the silver-redemption fund, at the prevailing market price, as determined by the Secretary of the Treasury, under the provisions of section seven, shall be less than the total amount of the silver Treasury notes arising under the provisions of this act then outstanding, to the extent of two to ten, ten to twenty, twenty to thirty, thirty to forty, or forty to fifty millions of dollars or more, it shall be the duty of the Secretary of the Treasury to impose and collect a charge in each event at the rate of one-quarter, one-half, one, two, and five per centum, respectively, upon the face value of the silver and gold Treasury notes thereafter issued under the provisions of this act; and the Secretary of the Treasury shall from time to time invest the money so arising in the purchase of fine silver bullion at the then prevailing market price, which said silver bullion shall be deposited with the silver-redemption fund, and when so deposited shall be a part and applicable to the purpose thereof. Whenever the total value of the silver-redemption fund, as determined in this section, shall equal or exceed the total amount of the outstanding silver Treasury notes issued under the provisions of this act, no charge shall be made.

The effect of section 12 is twofold: First, to save the Government against loss in the event of a decline in the gold price of silver; and, second, which is by far the more important, to limit and regulate the quantity of money in circulation, so that a normal level of prices will prevail, or, to put it in another way, produce a dollar unchanging in value through time.

The first effect of this section will now be considered.

The objection has been raised by Mr. David M. Stone, editor of the Journal of Commerce, that in the event of this bill becoming a law, then, if silver should decline in price, the Government would lose, as it would not have enough silver in the redemption fund to redeem all the outstanding silver Treasury notes in silver at the low price.

Having first secured the note-holder, as is manifestly just, the next endeavor is to secure the Government. The Government is secured from loss upon its silver held as collateral, in case of a decline in the price of silver, in four ways:

First. The Government is partly secured from loss on its holdings of silver, in the event of a decline in price, through the operations of the natural law of supply and demand. There is some limit beyond which the price of silver can not fall, for it can not be produced without cost. Since the dawn of history silver has always had some value. Suppose that with silver at 90 cents per ounce there are 1,000 mines which can

be profitably worked; with silver at 80 cents per ounce, there are a less number of mines that can be profitably worked; with silver at 70 cents per ounce, there are a still less number of mines that can be profitably worked; with silver at 60 cents per ounce, there are but few mines that can be profitably worked, and with the price at 50 cents per ounce, only the unusual and phenomenal mine can show a profit. We have recently had an illustration, fresh in the minds of all, of how supply is shut off by reason of a decline in the price of silver.

On the other hand, with every decrease in the price of silver comes an increase in the demand for it. Many people who can not afford solid silver knives, forks, and spoons on the table, with silver selling at 90 cents per ounce, can afford to have them when silver is selling at 80 cents per ounce. Put the price to 70 cents and you again increase the number of people who can afford to use silver on the table. Put the price lower yet, and the electricians, watchmakers, silversmiths, and others, double and quadruple its consumption. The lower the price sinks the greater is the demand for silver for use in the arts. At the low price there are thousands of uses to which it can be put, where the high price before prohibited such use. The Government is, therefore, partly protected against loss on its silver held as collateral, by the natural law of demand and supply for the product, which demand increases as the price sinks, and which supply decreases with every lowering of the price.

Second. The Government is further protected against loss on its silver held as collateral by reason of the fact that some of the notes which are issued against it are certain to be lost, and therefore can never be presented for redemption. The Government thus makes a constant profit to its silver redemption fund from this source. To determine with any degree of accuracy what percentage of profit per annum would accrue to the silver redemption fund by reason of this constant loss of notes is difficult, as no experience parallel to that herein proposed has been recorded. The nearest approach to such an experience is found in the consideration of our fractional currency, the amount of which, when issued in 1863, was limited to \$50,000,000, and which had practically disappeared from circulation fifteen years later, in 1878, leaving about \$15,000,000 then and now outstanding, which represents a gain to the Government of about 3 per cent per annum on the yearly average amount (\$34,000,000) of fractional currency in circulation during the period of fifteen years. It is not claimed that the gain to the silver redemption fund by reason of the loss of notes will be anything near as large as 3 per cent per annum; but it is claimed, first, that the gain will be something; and, second, that the gain will be constant.

Third. The Government is further protected against loss on its silver held as collateral, in the event of a decline in price, by reason of the fact that it is proposed slowly to retire, through reorganization, all our \$1 and \$2 bills, and to replace them with fractional silver coins, as provided in the bill set forth in the chapter entitled "Gold and silver coinage" (Silver Question Settled); and it is there provided that the seigniorage profit arising from the production of these coins shall be placed to the credit of the silver redemption fund as fast as they are issued. The profit to the silver redemption fund from this source will be enormous, and that profit will be constant, because of the fact that as population increases more fractional silver coins will constantly be required. It is pointed out that the lower the price of silver sinks from \$1.03 per ounce, although the value of the silver redemption fund is correspond-

ingly diminished, the profit on all subsidiary silver coins taken out is correspondingly increased, while, should the price of silver rise toward \$1.03 per ounce, the profit on the coins taken out is diminished and the value of the redemption fund is increased. The ratio for these coins has been set at 20 to 1, which is equivalent to \$1.03 per ounce for silver. It may be necessary to change this and make the coins lighter.

Fourth. The Government is further, and, in connection with the foregoing, completely, protected from loss by reason of a decline in the price of silver by the provisions of section 12, which provides a method by means of which it is enabled to limit and eventually to recoup any loss which in the future may become apparent in the silver redemption fund by reason of a decline in the market value thereof. By reference to that section it will be seen that a graded charge is imposed upon all who take out notes after a deficiency appears in the market value of the silver redemption fund, and the money arising from this tax is used for the purchase of silver bullion, which is deposited with the silver redemption fund, thus building up its value. An illustration is presented: It is supposed that this bill is a law; that silver declines in price; that the following amounts of silver have been deposited at the dates and prices mentioned, and that silver Treasury notes to the amounts shown have been issued therefor:

Date.	Silver deposits.		Notes issued.
	Ounces.	Cents.	
November, 1894.....	5,000,000	75	\$3,750,000
December, 1894.....	5,000,000	72	3,600,000
January, 1895.....	5,000,000	70	3,500,000
February, 1895.....	5,000,000	68	3,400,000
March, 1895.....	5,000,000	65	3,250,000
April, 1895.....	5,000,000	60	3,000,000
Total.....	30,000,000		20,500,000

Value of silver redemption fund on May 1, 1895, 30,000,000 ounces at 60 cents.....	\$18,000,000
Amount of notes outstanding May 1, 1895.....	20,500,000
Deficiency in silver redemption fund.....	2,500,000

The Secretary of the Treasury is now directed to impose a charge of one-fourth per cent on all gold and silver notes taken out while the deficiency of the silver redemption fund stands over \$2,000,000 or under \$10,000,000. If the price further declines and the deficiency exceeds \$10,000,000, but is less than \$20,000,000, the charge is made of one-half per cent, and so on, as is provided in section 12. As the deficiency increases, the tax becomes greater until it practically becomes prohibitory. By means of this simple provision it is intended that the liability of the Government shall be limited, and that it shall be enabled, by investing the proceeds of such tax in silver, which is deposited with the silver redemption fund, constantly to keep a reasonable parity of value between that fund and the amount of silver Treasury notes outstanding.

"It seems to me," writes Congressman Brosius, "that when the contingency arises that will bring into operation the ~~eleventh~~ <sup>eleventh</sup> section of the bill, the man who exchanges silver bullion for currency will pay for a dollar note a dollar's worth of silver plus the charge—that is, he will pay more than a dollar's worth for a dollar. Would anybody do that? Would not the operation of exchanging bullion for currency cease at the very moment that the decline in the value of silver required the extra charge to effect the exchange?" Under certain conditions, yes; under certain other conditions, no. The question of the ratio

*Twelfth*

interest prevailing at the time of the tax arises here. Suppose the contingency of the one-fourth per cent tax present. This being the case, no one would present silver bullion in exchange for currency unless he could see a profit, beyond the amount of the tax, in loaning the money so taken out in the market.

When the rate of interest was extremely low no notes would be taken out, the currency would not be increased in amount, and the liability of the Government would be limited to the amount of notes then outstanding. The manufacture of money would cease. On the other hand, when the rate of interest was high, even though there was a tax on the notes, they would be taken out, for it now becomes profitable to deposit silver, pay the tax, get money and loan it in the market. A man is perfectly willing to pay 100½ per cent or 100¼ per cent for a dollar if he can turn around and sell that dollar for 101 per cent, 102 per cent, or more.

The prevailing rate of interest in Western States is from 6 to 12 per cent, while the rate in New York City varies from 2 to 200 per cent per annum. The rates for call loans in New York during the month of June, 1893, have frequently ranged as high as 75 per cent per annum.

During the month of August, 1893; currency was at a premium of from ½ to 5 per cent over certified checks. Under these conditions would not a man be willing and anxious to pay a tax of ½, 1, or 2 per cent on currency if he could turn about and sell it for more?

The second effect of section 12 is, I think, to produce a dollar unchanging in value through time. What all political economists desire is stability of the pricing instrument. It should not contract, it should not expand too rapidly. Contraction and inflation end in the same pit. As we have before seen, the money of a country should be of the same commercial quality, and the quantity of the money in a country should be sufficient to maintain a normal level of prices. Standard money, then, covers two ideas—quantity and quality. We have before fixed the quality, it now remains to regulate the quantity so that prices may be always normal. We don't want too much or too little money in circulation. We want an equitable pricing instrument.

Emile de Laveleye says:

There is not, therefore, a fixed standard of values in the same way as there is of length and weight. What is desirable is to adopt one as fixed as possible.

John Stuart Mill says:

But the desideratum sought by political economists is not a measure of the value of things at the same time and place, but a measure of the value of the same things at different times and places.

Montefiore Levi, president of the Brussels conference, says:

How would it be possible for the merchant or the manufacturer to make, with safety, contracts extending over a long period, as important business operations generally do, if the shrewdest judgments and the best founded calculations might at any moment be upset by a sudden movement of the money market?

Mr. Van den Berg, delegate of the Netherlands, said:

Of all the functions that money performs in the social organisms, the most important is that which it performs as the standard of value. It should preserve, not an absolute stability, for that would be contrary to the nature of things, but as great a relative stability as possible.

Sir William Houldsworth said:

But it is not the banking system which makes England prosperous. It is her industries and her commerce. What we want is a perfect system of currency, upon which those industries and this commerce may rest securely, and upon whose stability they can rely.

Senator John P. Jones, of Nevada, said :

In order to measure equitably the natural and inevitable mutations in the value of other things, money should be of unchanging value. That is to say, any given amount of money should, as far as human foresight can regulate it, require at all times an equal amount of sacrifice for its acquisition. No one will deny that the most important quality that money can possess is that it shall truthfully measure and state equities.

John White, of Baltimore, in a letter to S. D. Ingham in 1830, says :

But whatever performs a duty so important in its extent and consequences ought to be as invariable as possible.

Alexander Hamilton says :

There is scarcely any point in the economy of national affairs of greater moment than the uniform preservation of the intrinsic value of the money unit. *On this the security and steady value of property essentially depend.*

The second effect of this section, as I said before, is to limit and regulate the quantity of money to the demands of commerce.

Suppose this bill a law, the things of which we are certain are as follows :

- (1) That the quantity of money in the country would be increased.
- (2) That prices would rise.
- (3) That after a time imports would be attracted and an adverse balance of trade produced.
- (4) That silver Treasury notes would be sent forth to pay this balance at the foreign redemption agency, of which I shall shortly speak.
- (5) That if these notes were not used in circulation in the receiving country, they would be presented for redemption at such agency.
- (6) That in order to redeem them, silver must be sold in the market.
- (7) That when large quantities of silver were sold, the price of silver must necessarily decline.
- (8) That with this decline in the price of silver, the market value of the silver redemption fund would be impaired.
- (9) That when this occurred, the tax provided would be imposed upon all gold and silver Treasury notes thereafter issued, and if this tax was large enough no new notes would be taken out.
- (10) That no additions being made to the currency, prices must cease rising, and no additions would be made to the currency until the silver sent in payment of imports had been absorbed by commerce, and the price of silver had again advanced. It is thus intended to automatically regulate the quantity of money in such a manner that a normal level of prices will always prevail. The practical question which each one will ask is, Will it work satisfactorily? The answer is, that if the laws of price, the quantitative theory of money, and the theory of the foreign exchanges are correctly stated, it will work satisfactorily, for it is upon these natural laws that this regulative clause is based.

SEC. 13. That the gold and silver Treasury notes issued under the provisions of this act shall be a legal tender in payment of all debts and shall be receivable for customs, taxes, and all public dues, and when received into the Treasury from these sources may be paid out in accordance with law, and such notes, when held by any national banking association, shall be counted as part of its lawful reserve.

The legal-tender provision in this section is not a necessary feature, as the dollars provided are always commercially worth par, in representative and convertible value, in the markets of the world, and, by means of the foreign redemption agencies, are convertible into the circulating medium of other commercial communities without loss. The legal-tender feature is, however, a convenient one, as, without it, the creditor might demand the delivery of the coined gold or silver bars in

payment, and this might not always be convenient to the debtor who is distant from the Treasury.

SEC. 14. That the gold and silver Treasury notes issued under the provisions of this act may be exchanged on demand by the holder thereof at the Treasury of the United States, and at such other place or places as the Secretary of the Treasury may designate, for an equal amount of new notes of the same character and of such denominations as he may desire. The notes so presented for the purpose of exchange shall be cancelled, registered, and destroyed.

This note idea seems to have come to stay, and this provision is therefore important from a sanitary standpoint, as dirty notes are a channel by means of which infectious diseases are readily spread. The ease with which these notes, when soiled, can be exchanged for new ones, combined with the fact that the American women, let us hope, may soon set the fashion to have clean money, will do much to remedy the present disgraceful condition of our currency in this regard.

SEC. 15. That the President of the United States, upon the application of the Secretary of the Treasury, may, by proclamation, designate and appoint redemption agencies in any foreign empire, state, or country for the purpose of redeeming, by conversion or otherwise, as herein provided, the notes arising under the provisions of this act. Prior, however, to the issuance of any such proclamation by the President of the United States the Secretary of the Treasury shall be in receipt of a proper bond of indemnity, the provisions of which said bond shall be such as the Secretary of the Treasury may prescribe, from the firm, banking house, corporation, or other business institution with which such redemption agency is to be established, and who shall be citizens of, or, in case of corporations or companies, organized under and amenable to the laws of that country where such an agency is to be established. The notes arising under the provisions of this act shall be redeemed at such redemption agency so established in the same manner and under the same regulations as here prevail, or in such a manner and under such regulations as the Secretary of the Treasury shall prescribe as will enable them to be converted into the money of that country without loss, and when so redeemed or converted shall be canceled, registered, and destroyed. The Secretary of the Treasury, by requisition upon the Secretary of the Navy, who is directed to cooperate, shall utilize the vessels of the United States in establishing its various redemption agencies throughout the world and in supplying them from time to time with such coined gold and silver bullion, bars, or coins as may be necessary to redeem the notes arising under the provisions of this act: *Provided*, That, in the event of war with any country where such agency is established, the obligation of the United States to redeem the notes arising under the provisions of this act at that redemption agency ceases. The Postmaster-General of the United States is directed to devise and establish a special system of registry for the purpose of enabling the owners thereof to send to or bring from such countries where such redemption agencies have been established the notes arising under the provisions of this act without charge, other than a registry and mailing fee, which registry charge shall be fixed by the Secretary of the Treasury and may be changed by him from time to time, but which charge shall always be at a less rate per centum on the par value thereof than is the aggregate rate per centum of cost of shipping gold bullion of the same value to that country where such redemption agency is established. In the event of the loss of the notes while in transit, which have been duly registered as herein contemplated, the Secretary of the Treasury is directed, upon sufficient proof of loss, which shall be made by the Postmaster-General, and upon application of the owner thereof, to issue to the owner thereof new notes of the same character and amount, taking a satisfactory bond of indemnity from the owner thereof. A description of all notes which have been registered as herein contemplated and which have been lost while in transit shall be published at least once a year in the report of the Secretary of the Treasury. All silver or gold Treasury notes which have been registered as herein contemplated, and which have been lost while in transit, and for which new notes have been issued, shall be considered as canceled.

Section 15 provides for the establishment of redemption agencies in foreign countries. It may be urged against this section that the treasure of the United States in the hands of such agencies would be liable to seizure in time of war. These agencies, it will be noticed, are under proper bonds of indemnity and performance, and are amenable to the laws of that country where such agency is established. This would



have the result to make any injury done to such firm or corporation in its financial capacity by its own government an injury done by such government against its own citizens, and liable to make restitution through the judgment of its own courts. It is the opinion of Mr. George S. Coe, of New York, that this objection has no particular weight and is hardly worth consideration. There is one other objection, however, that has been urged by Mr. J. Harsen Rhoades, of New York, against this feature, and that is that should such agencies be established the foreign merchant might not be willing to take in payment of his debt these silver Treasury notes, redeemable in silver at the redemption agency—that is, that he would not want the silver, and the point has been made that you could not force him to take it.

This objection has been met in the provision, These notes must be able to be converted into the money of that country without loss. This can be accomplished in this way: Suppose this bill a law, and a redemption agency to have been established in London. After arrangements have been concluded and the necessary papers signed, our first move is to send to London on one of our warships say 10,000,000 ounces of silver, which we deposit in the redemption agency. Next we take say 2,000,000 ounces of silver from the agency vaults, sell it in the London market, and obtain therefor English money—pounds, shillings, and pence—which we return to the vaults of the agency. We are now in a position to redeem. The assets of the agency now consist partly of silver and partly of English money. An English merchant presents a silver Treasury note of the denomination of \$10,000, which has been sent him in payment of an American debt, and asks for redemption. Suppose the price of silver in the English market is equivalent to 80 cents per ounce, American money. "Very well," we say, "what do you want in redemption? An amount of silver at the present price, which is equal in value to \$10,000, which would be 12,500 ounces, or shall we give you the equivalent of \$10,000 in English money at the par of exchange?"

To redeem \$10,000 of silver Treasury notes, the price of silver being 80 cents per ounce, requires 12,500 ounces of silver. To redeem \$10,000 of silver Treasury notes by conversion into English money at the par of exchange (4.8665) requires 2,054 pounds, 17 shillings, and 3½ pence; 12,500 ounces of silver at 80 cents per ounce equals \$10,000; 12,500 ounces of silver at 39.4534 per ounce (which is equivalent to 80 cents at the par of exchange) equals 2,054 pounds, 17 shillings, and 3½ pence. Take any other price and you will have the same result. Tables can be made showing with accuracy the equivalents. If a \$10,000 note can be converted without loss, any other sum can also be converted in the same manner.

We stand ready to convert all silver Treasury notes presented for redemption into English money without loss to the holder. All American notes are, therefore, worth par in English money. It is immaterial to us whether the English merchant asks for silver in redemption of his Treasury notes and sells that silver in the market, obtaining English money therefor, or whether we sell the silver and get English money, which we use in redemption of the silver Treasury notes at the par of exchange. Both transactions are, as far as we are concerned, commercially identical in their results.

Nothing is lost on our part, neither is anything gained. The notes are simply converted without loss to anyone. The practical method of doing this, it seems to me, would be to have a constant supply of English money and of silver on hand at the agency. When the amount of

English money declined by reason of its use for redemption, more silver could be taken from the vaults, sold in the market, and the supply could thus be renewed as required. Thus this objection is answered, for he would be a strange Englishman who would refuse to take English money in payment of an English debt. It is thus that our silver can be allowed to easily, naturally, and equitably flow through the channels of commerce, and become absorbed in the world's great ocean of trade without undue pressure upon existing monetary systems.

Let us follow this out further and see what influence such agencies would have upon the future financial standing of the United States.

When the balance of trade is against the United States, these silver Treasury notes, should we so desire, could be sent to London to settle it, provided the cost of registering and mailing the notes was less than the cost of freight and insurance on the same value of gold. The freight and insurance charges on gold now aggregate about two-tenths per cent. The mailing and registering charges on silver Treasury notes could be made one-tenth per cent, or even a less per cent, in which event the silver Treasury notes would surely go forth to settle the balance. They arrive in London and are converted into English money at the par of exchange. The debt is settled with our silver. In a short time the balance of trade favors the United States. What happens then? One thing only. Having redeemed all the silver Treasury notes we had previously sent them, they, the Englishmen, are forced to pay *their* balance in gold, as they can not take out silver notes at our redemption agency, and as gold is cheaper to ship to us, because its weight and bulk are less than the same value of silver.

Would we not, in this way, get back the \$200,000,000 and more gold which has been drained from us during the past three years without going to the expedient of issuing bonds therefor, as has been suggested by some? The advantage of this solution as contrasted with a bond issue is that when we obtain the gold we own it, whereas should we issue bonds to get it, we would still owe for it. The proposition is simply this—when we pay our foreign balances we use silver; when the foreigners pay us their balances they use gold. Where would you find most of the gold of the world in ten years if we should adopt this policy? Under these circumstances the gold *must* come here and stay here, if we so elect. But suppose, when we send our silver Treasury notes abroad in payment of balances, the foreigner refuses to redeem or convert them into his money at the redemption agency, but holds the notes.

It is to be pointed out that he certainly would not hold the notes unless he could make some use of them, because, if he holds the notes in his safe, he would be losing the interest on them. If he refuses to convert his notes, the only use to which he can put them is to use them in circulation, pay them out to his countrymen in settlement of his debts, and this is the very thing we want him to do, and, if he does this, silver takes a larger part in the circulating medium of the world, and is to that extent consumed and removed from the market. So whichever way you may look at it, whether he converts his notes or not, the net result of either transaction is profit to the people of the United States. If the foreigners convert their notes, we eventually drain them of their gold; if they do not convert the notes we get a larger use for silver in the circulating medium of the world. In the above illustration but one agency has been referred to, that at London. The same illustration will apply with equal force to the agencies proposed to be established in Germany, France, and elsewhere.

When the idea set forth in this section is practically carried out, and there is, I think, nothing to hinder its execution, then the results achieved through this plan will be of the greatest importance to the foreign trade of the United States. It is a well-known business principle that increased facilities bring an increase of business, and therefore an increase of profits. The age of industry is drawing on, and to succeed in this industrial age we want good business facilities, good railroads, good telegraphs, good steamships, and most of all a good currency good everywhere. A good currency is the basis of all permanent business relations, and when that currency is made universally good, as is here proposed, the effect upon our business can not be other than beneficial. The denomination of some of the notes herein proposed has purposely been made large, so that foreign exchange may be paid with them when foreign redemption agencies are established. Instead of ferrying over and back vast sums of gold these notes would pass. The present system of paying balances is expensive, cumbersome, antiquated, and dangerous to the interests of mankind, for if a vessel goes down the treasure she carries is lost to the people of the world, while under the system proposed, a proper method of registry being devised (as provided in section 15), there need be no insurance charges, no freight charges, and, in case of the loss of a vessel, mankind would lose but a few pieces of paper; the treasure would lie in the vaults of the depository.

In settling this silver question a great many other questions are settled with it, and it is in this direction that the United States may now use its silver to gain and keep the trade of the world. An international agreement as arrived at by the protocols of a monetary conference is the weakest thing we can at present do, and is utterly impracticable, as the results of the Brussels and other conferences have shown. To make such an arrangement of *any* nature with foreign nations would be to throw away an opportunity for a far-reaching and tremendous profit which may never present itself again. The opportunity has presented itself and business prudence dictates that we avail ourselves of it. The invasion of Europe and the South American countries with American money, every dollar of which, at all times, is of standard value and convertible into their money without loss, will mark an era in the history of industrial progress.

"But," says Mr. George Gunton, of New York, "the duty of the Government vessels is purely for war, offensive and defensive; they were not intended for the purpose of carrying silver and gold to our various redemption agencies throughout the world." In the name of commerce the Government establishes light-houses on our ocean coasts, on the great lakes, and on our rivers, and employs a fleet of vessels to carry supplies to them. Why not, in the name of commerce, and for the interests of the people of the United States, employ the naval vessels to a small degree in establishing and supplying with gold and silver our foreign redemption agencies throughout the world? Think of the investment which the Navy represents. Think of the money (about \$25,000,000) it takes to maintain it from year to year. Why not turn it, in a small degree, to some productive purpose? If the Navy is not to be used as an auxiliary to commerce for what is it to be used? In a short time, let us hope, it will be much larger than now. What are we going to do with it then? Send it forth to conquer other lands? No one favors that idea. Are you going to let this great instrument, representing an enormous investment and costing millions annually to main-

tain, lie practically idle, only to cruise about from here to there and play war?

The only rational policy, aside from the protective idea involved in the creation of a navy, which can be suggested is to use the naval vessels as the auxiliaries to the national commerce, and it is in this direction that they can now be used. If the Treasury Department is required to keep at its various subtreasuries in this country sufficient gold and silver to meet the demands of the note-holders and to move it around from one subtreasury to the other without cost to the note-holders, then it should also redeem its notes at its foreign agency free of charge to the holder.

SEC. 16. That coincident, as nearly as may be, with the passage of this act, the Secretary of the Treasury, at his discretion as to duration and amount, may impose and collect a tax, not to exceed one per centum ad valorem, on all silver or silver Treasury notes imported to the United States.

Section 16 gives the Secretary of the Treasury power to place an import tax on silver. The object of this tax is not to "protect" the silver producer, but to protect the American people from losing their gold. Under present arrangements exchange balances in favor of this country can be paid in silver, while exchange balances against us are payable in gold. Balances are now paid in gold, because of the fact that the freight charges on gold are cheaper than those of the same value of silver; therefore, it is cheaper to send gold. The contingency may arise, however, when the ability to put a small tax on silver imports or silver notes would be beneficial to this country, and the Secretary of the Treasury should be given the power to protect the gold holdings or to increase them, if it is wise to do so, and this he may do by discriminating against the silver notes.

SEC. 17. That so much of the act of July fourteenth, eighteen hundred and ninety, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon," and so forth, as requires the monthly purchase by the Secretary of the Treasury of four million five hundred thousand ounces of silver, or any part thereof, at the market price, is hereby repealed.

This section repeals the purchasing clause of the Sherman act. As that has been done, it is necessary to eliminate this section.

Before considering section 18 allow me to call your attention to the present state of the national currency:

	Amount out- standing (millions).	Gold reserve (millions).
1. United States legal-tender notes.....	246	} 100
2. Silver dollars and certificates, Bland act.....	378	
3. Trade dollars received.....	5	
4. National bank notes.....	208	
5. Treasury notes 1890, Sherman act.....	153	

The straight lines represent those classes of the currency which are a direct, and the irregular lines those classes which are an indirect, demand upon the gold reserve.

Included in the first item are the currency certificates, which are practically legal-tender notes of large denominations and are obtainable by depositing legal-tender notes and taking out currency certificates therefor.

When the legal-tender notes or the Treasury notes of 1890 are pre-

sented for redemption and gold demanded, it is instantly paid and the notes reissued, leaving the amounts outstanding, as stated, constantly at the same figure. These are thus a direct demand upon the gold reserve.

The silver dollars, silver certificates, and national-bank notes are an indirect demand upon the gold reserve in this way: If a holder of any of these notes or dollars desires to obtain gold upon them he can deposit them at a bank and withdraw legal tenders or treasury notes, present these latter at the Treasury Department, and get gold. If the banks refuse to make the interchange the parity of the money is broken. It may be said that the demand is not liable to occur. This is true as long as the gold reserve is properly maintained, but there is a point somewhere below the one-hundred-million mark, and no man can exactly set it, where the holders of these notes would be certain to make a rush to cover to get their gold while they may. When the gold reserve is gone, when the Government refuses or is unable to redeem any of the above currency by conversion or otherwise, the parity between all the classes of the currency is broken, and that means a new standard of value, a new level of price adjusted to that standard, inextricable confusion, and a monetary tempest.

Guarding against this extreme situation, however, stand the banks of the city of New York, with gold holdings of about one hundred millions of dollars.

The situation then, thus far, is this: The Government has outstanding over one thousand millions of money, all of which is dependent for parity upon a gold reserve of about \$100,000,000. But this is not all, and even this situation, weak as it confessedly is, need not cause much apprehension but for the fact that we are a large debtor country. Europe, according to the best estimates obtainable, holds about three thousand million of American securities. Mr. Gladstone recently stated in the House of Commons that England held two thousand million sterling of foreign indebtedness. If 25 per cent of this sum is invested in America, the above estimate of \$3,000,000,000 would be nearly covered, to say nothing of the holdings of American securities in Germany, Holland, Spain, and elsewhere on the Continent.

Now, it is admitted by all that times are hard the world over, and it can be easily seen that, in the event of a monetary crisis in England, which is likely to arise through her monetary operations with India and the far East, owing to the constant fall in the price of silver, thus affecting her exchanges with those countries, or which crisis may happen on almost any day on the Continent, a portion of those who hold American securities will be forced to send them back for sale in our market to provide for their losses in other directions. Should such a condition arise and should but 2 per cent, or \$60,000,000, of the foreign-debt holdings be returned for sale in this market an extremely embarrassing situation would here result. (This appears to be going on now; nothing else will explain the shipments of gold from New York.) To meet this demand, should it be made, we could and would probably do two things: First, take some of their securities and send gold, and, second, put down the bid price for some so low that the foreigner would refuse to sell; whichever alternative we accept to meet this assumed demand, the net result of our action is further depression here.

The Baring failure of 1890 withdrew about \$75,000,000 of gold from New York. Repeat that experience to-day and the result would be perilous. A demand for gold equivalent to 10 per cent of the foreign-debt holdings would take out of the country every gold dollar in sight

in the 10,000 banks and the Treasury Department. As long as this state of affairs exists, so long must hesitancy mark the operations of the capitalist. New business enterprises are delayed, railroads are not built, canals are not dug, factories are not started, with the result that labor is idle, ill clothed, and hungry.

This vast mass of currency, over one thousand millions, not one dollar of which, of itself, is standard money, but which is all held at the gold line by the gold reserve, has it not produced among the people of this great country that disease of which Copernicus speaks, the *morbus numericus*—the malady of numbers, a disease more fatal to the people of a country than war, or pestilence, or famine. Consider its instability—an adverse balance of trade, or a crisis abroad, washes away the gold foundation and makes the superstructure totter.

In truth, the American house of business is now founded on the sands. It is here, in the weak and unfortunate situation of our national currency, that we find a second cause of the depression in trade. The greater portion of the national currency at present floats between matter and spirit. Has not the time arrived when men's minds should be brought back from metaphysics to matter; from that exile and abstract promise stamped upon most of the paper money of the country to the commercial fact; from the sign to the thing signified? In attempting the reorganization of our present currency those characters of money, I think, should be first reorganized which, by reason of their present commercial situation, lend themselves most readily to reorganization. The so-called Sherman notes of 1890 are clearly in this commercial position. Of these notes there are outstanding about 153,000,000. The silver purchased with these notes amounts to about 168,000,000 ounces and at present lies idle, useless, and unavailable for their redemption. The proposition is to reorganize these notes and render this silver available for their redemption, thus instantly relieving the Government of the gold liability now practically existing upon them.

Section 18 is drawn with this end in view.

SEC. 18. That, within two years and at the discretion of the Secretary of the Treasury, the Treasury notes arising under the provisions of the act of July fourteenth, eighteen hundred and ninety, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon," and so forth, may be exchanged upon demand, when presented in the amount of one hundred dollars or more, for equal amount of the silver Treasury notes arising under the provisions of the present act. An amount of fine silver bullion equal in value at the then prevailing market price, as determined in section seven, to the face value of the notes so exchanged, shall be transferred from the silver-bullion fund of eighteen hundred and ninety (which silver-bullion fund includes all the silver purchased under the act of July fourteenth, eighteen hundred and ninety, and the dollars coined therefrom, which dollars shall be parted, fined, cast into bars to be coined and stamped, and returned thereto) to the silver redemption fund, as contemplated in this act, and shall thereupon become a part, and shall be applicable to the purpose thereof. All notes so exchanged shall be destroyed. Any deficiency or surplus of said silver-bullion fund arising under the law of July fourteenth, eighteen hundred and ninety, in making the exchange as above contemplated, shall be carried to the general account of the Treasury. After July first, eighteen hundred and ninety-eight, the notes arising under the provisions of the act of July fourteenth, eighteen hundred and ninety, shall not be a legal tender.

Section 19 retires the currency certificates and thus leaves the legal-tender notes, upon which they are based, in such a position that they also can be retired or reorganized later on.

SEC. 19. That the act of July eighth, eighteen hundred and seventy-two, entitled, "An act for the better security of bank reserves and to facilitate bank clearing-house exchanges," is hereby repealed, which said repeal shall take effect on July first, eighteen hundred and ninety-five.

SEC. 20. That any gain or seigniorage, not elsewhere specified, arising under the provisions of this act, shall be accounted for and paid into the silver or gold redemption fund, as it respectively may arise.

SEC. 21. That the silver and gold bullion deposited under the provisions of this act shall be subject to the requirements of existing law and the regulations of the mint service governing the methods of receipt, determining the amount of pure silver or pure gold contained, and the amount of charges or deductions, if any, to be made.

SEC. 22. That nothing in this act shall be construed to prevent the purchase, from time to time, as may be required, of zinc, nickel, or other base alloy or bullion, for the purpose of the subsidiary and other coinage, nor to affect the legal-tender quality, except as specifically set forth in section eighteen, of any obligation heretofore issued by the United States.

Section 23 provides for an issue of bonds to provide for deficiencies of Government revenues due to the business depression.

SEC. 23. That the Secretary of the Treasury is authorized to prepare and to issue bonds of the United States, herein provided for, to the amount of fifty million dollars; said bonds to be payable, principal and interest, in standard money of the United States, in twenty years, with the option reserved to the United States to pay in ten years from date thereof, which said bonds shall be prepared in denominations of one hundred dollars and multiples thereof, and shall bear interest at the rate of two per centum per annum, payable quarterly, and shall consist of registered and coupon bonds, which shall be available as a basis for national-bank note circulation under existing law. The Secretary of the Treasury, at his discretion as to time and amount, may offer for sale said bonds herein provided for, at par, and when sold shall carry the proceeds thereof to the general account of the Treasury.

SEC. 24. That the term "standard money of the United States," used in section twenty-three of this act, shall be interpreted to mean gold coin of the present standard of weight and fineness, or an amount of fine silver bullion equivalent in value thereto, as determined by the Secretary of the Treasury under the provisions of section seven of this act

This term "standard money of the United States," as here interpreted, means the money arising under the provisions of this act. The words "standard money" thus means two things—quantity and quality; the quality being always uniform, the quantity being so regulated as to maintain a normal level of prices; thus the standard money of the United States is money unchanging in value through time. This term, so interpreted, is worth more to the business men of this country, in a business way, than any other six words ever written, for it can be incorporated in time contracts and deferred obligations. None but gamblers will thereafter endeavor to make time contracts payable in anything else.

Sections 25, 26, and 27 are necessary provisions. They are as follows:

SEC. 25. That a sum sufficient to carry out the provisions of this act, in all its parts, is hereby appropriated out of any money in the Treasury not otherwise appropriated.

SEC. 26. That all acts and parts of acts inconsistent with the provisions of this act are hereby repealed.

SEC. 27. That this act shall take effect thirty days from and after its passage.

#### CONSTITUTIONAL PROVISIONS.

This bill is founded upon specific constitutional provisions. Section VIII, clause 5, of the Constitution of the United States of America, grants to Congress the power "to coin money, regulate the value thereof and of foreign coin, and fix the standard of weights and measures." It is first pointed out that the Constitution does *not* grant Congress the power "to make coin, regulate the value thereof and of foreign coin;" the power granted is the power "to coin money, regulate the value thereof and of foreign coin, and fix the standard of weights and measures." While it would have been easy to have said the former, had they meant it, and this is the manner in which this clause is

generally interpreted, yet this is the very thing the fathers did not say. They well understood that fixed quantities of gold and silver can never long remain of equal commercial value.

Mr. Secretary Hamilton, in his proposition for the establishment of a mint, expressly declares "that if the unit belong indiscriminately to both the metals, it is subject to all the fluctuations that happen in the relative value which they bear to each other." Mr. Thomas Jefferson, in his report upon a money mint, declared the same thing. Mr. Robert Morris, financier to the Revolutionary government, in his proposal to establish a mint in 1782, was equally explicit to the same effect. This is not only clearly shown in the reports, letters, and writings of these great men, but it is specifically set forth in the words of the provision. Why else did the Constitution grant Congress the power to "regulate" the value of *money* and "fix" the *standard* of weights and measures? That which is *fixed* is stable. We *regulate* that which fluctuates.

It is assumed, and the assumption is a self-evident proposition, that the intent of the framers of the Constitution was to give to Congress the power to produce dollars of gold and silver which should always be of equal and interchangeable value at home and abroad. It cannot be seriously maintained, I think, that they intended to grant to Congress the power to produce dollars of gold and silver which should always be of *unequal* commercial value at home and abroad. The principle of good faith, "the decent respect to the opinions of mankind," with which these men were imbued, fortify, and the words of the provision verify, the former assumption.

Starting from this point, it can be seen that had Congress been granted the power "to make coins, regulate the value thereof, and of foreign coin," that would have been granted which Congress would have been absolutely unable to practically exercise. Suppose the Constitution read as above and Congress should pass a law to carry out this interpretation of its intent, viz, "to make coins, regulate the value hereof, and of foreign coin."

The first section of a bill to carry this interpretation into practical effect would fix a ratio between gold and silver granting free coinage.

The second section of the bill would provide that, upon every variation of value between the gold and silver coins, they should all be recoined at a new ratio, and so on, every variation of value meaning recoinage of the lot, which would mean, at the present time, that all our dollars must be recoined about once a day, for between fixed quantities of gold and silver there is about one variation in that time, and if Congress is to *make coins* and regulate the value thereof, why then they must make coins and change the ratio just as often as there is a fluctuation in value between them. It was never intended that Congress should be put into such an absurd position as this, and therefore it was said, wisely and understandingly, not that Congress shall have power to make coins, but that Congress shall have power "to coin money, regulate the value thereof and of foreign coin."

The expression "to coin" means to corner, to strike metal with a sharp instrument so as to leave an imprint. To coin money is to make money of metal by stamping it with certain marks converting it into money. The coin marks are a guaranty of the weight and fineness of the metal stamped or coined. Among the Welshmen the expression "to coin tin" means to take a bar of tin and stamp upon it marks indicative of its weight and purity; likewise the stamp of the silversmiths upon silver plate has been commonly known for hundreds of years as "the coin mark." Observe how closely this interpretation, when com-



pared with the provisions of this bill, fits not only the words of the Constitution, but also the manifest intent of its framers.

Under the power granted to Congress by the Constitution in the expression "to coin money," Congress enacts that the Government shall receive fine gold or silver bars and shall coin them into money.

Under the power granted to Congress by the Constitution in the expression "to regulate the value thereof," Congress enacts that the Government shall issue representatives of this coined money in par terms of the unit, redeemable in the same terms; thus the value of the representative is constantly regulated at par.

Under the power granted to Congress by the Constitution in the expression "to regulate the value thereof," Congress further enacts that under certain conditions a tax shall be imposed upon all notes issued. The effect of this tax is two-fold. First, to regulate the value of the coined money. Second, to regulate the quantity of money so that a normal level of prices will always prevail.

Under the power granted to Congress by the Constitution (Section VIII, clause 3), "to regulate commerce with foreign nations," and the additional power granted in the expression "to regulate the value of foreign coin," Congress enacts that the Government shall establish agencies at the only places where the value of foreign coins can be regulated, and it also enacts that the value thereof shall there be regulated so that the money of the United States can be converted into that foreign coin without loss, that is, at par.

So interpreted, the provisions of this bill exactly fit the constitutional requirements. Nothing more is needed, nothing less will do.

#### CONCLUSION.

The principles upon which this bill is based are as follows:

- (1) That the Government should issue representative money only on the best money collateral.
- (2) That gold and silver are the best money collateral.
- (3) That there can be but one unit of value.
- (4) That gold is now that unit.
- (5) That the amount of known gold in the world is insufficient for the necessities of commerce.
- (6) That gold, which is now the first money collateral, should be supplemented with silver, which is now the second money collateral.
- (7) That silver should be used in constant equal and interchangeable terms of the unit and not in temporary and unequal terms of the unit, as prevails when a fixed ratio is established. These principles, I consider, have been established by the argument.

It is well to note the correspondence which exists between the financial principles upon which this bill is based and the financial principles held by the fathers of the Government. This correspondence has already been shown as regards the Constitution. From the coinage scheme proposed by Robert Morris, superintendent of finance, January 15, 1782, the following pertinent sentences are culled:

It is not necessary to mention, what is in everybody's mouth, that the precious metals were first used as bullion, and that the inconvenience of weighing and the difficulty of assaying introduced the practice of coinage, in order that the weight and fineness might be known at the first view and of consequence the value be instantly ascertained. It is equally unnecessary to observe that the great privilege of declaring this value, by particular marks, has among all nations been vested exclusively in the sovereign. Although most nations have coined copper, yet that metal is so impure that it has never been considered as constituting the money standard. This is affixed to the two precious metals because they alone will admit of having their intrinsic value precisely ascertained.

(Compare principles 1 and 2, That the Government should issue money only on the best money collateral, and 2, That gold and silver are the best money collateral.)

But nations differ very much in the relation they have established between gold and silver. In some European countries an ounce of pure gold passes for 15 ounces of pure silver, in others for 14. In China it passes for much less. The standard, therefore, which is affixed to both metals is in reality affixed to neither. The demand which commerce might make for any one of the precious metals in preference to the other would vary this real standard from time to time. Arguments are unnecessary to show that the scale by which everything is to be measured ought to be as fixed as the nature of things will permit of. Since, therefore, a money standard affixed to both the precious metals will not give the certain scale, it is better to make use of one only. In the present moment it is by no means of such consequence to establish the relative value of different coins as to provide a standard of our own by which in future to estimate them.

(Compare principle 3, That there can be but one unit of value.)

There can be no doubt, therefore, that our money standard ought to be affixed to silver. But silver is liable, like everything else, to a change of value. If there is a demand for it to export, the value will rise; if the contrary, it will fall, and so far it can not be considered as a fixed measure of value. If this objection can not be removed we must not suffer it to preponderate, because it weighs alike against every other metal.

(Compare principles 4, 5, 6, and 7.)

And in Thomas Jefferson's notes on the establishment of a money unit and of a coinage for the United States, which it appears were communicated to Congress simultaneously with Mr. Morris's letter, we find not only did he recognize that fixed quantities of gold and silver can never long remain of the same commercial value, but that he gives a rule for equalizing their value from time to time, which rule, before quoted, is followed in the provisions of the bill before set forth.

The proportion between the values of gold and silver is a mercantile problem altogether. The legal proportion in Spain is 16 to 1; in England, 15½ for 1; in France, 15 for 1. The Spaniards and English are found in experience to retain an overproportion of gold coin and to lose their silver. The French have a greater proportion of silver. The difference at market has been on the decrease. Just principles will lead us to disregard legal proportions altogether, to inquire into the market price of gold in the several countries with which we shall be principally connected in commerce, and to take an average from them.

(Compare section 7.)

Alexander Hamilton also expressed the same view in his report upon the establishment of a mint (1791):

There can hardly be a better rule in any country for the legal than the market proportion, if this can be supposed to have been produced by the free and steady course of commercial principles. The presumption in such cases is that each metal finds its true level, according to its intrinsic utility, in the general system of money operations.

And William H. Crawford, in his report upon the currency, February 12, 1820, states these principles:

- (1) That the power of the Government over the currency be absolutely sovereign.
- (2) That its stability be above suspicion.
- (3) That its justice, morality, and intelligence be unquestioned.
- (4) That the issue of the currency be made not only to depend upon the demand for it, but that an equivalent be actually received.
- (5) That an equivalent can only be found in the delivery of an equal amount of gold and silver, or of public stock.

When the currency is metallic, no addition can be made to it without giving an equivalent. It is indispensable that this condition should be annexed to the acquisition of the paper currency, preliminary to its entering into circulation. By the exchange of specie for currency the active capital of the country will be increased to the amount of the currency, and the capacity of the nation to redeem it whenever it shall by any circumstances whatever become expedient, will be unquestionable.

The similarity of the financial principles upon which this proposed bill is based and the financial principles held by the fathers of the Republic and those who have succeeded them is apparent. Comment is unnecessary.

Consider now the practical and profitable results which would undoubtedly obtain upon the establishment of a sound money system. Consider, for a moment, a great railroad trunk-line system starting from New York City, intersecting many rich and populous towns and villages, throwing its feeders to the right and to the left, and extending over many States to its terminal point on the Mississippi. This property is represented by bonds and stocks which are held by thousands of investors. The interest and dividends which these bonds and stocks produce originated and take their source from the people who live along the route of this railway, who ship freight on and engage passenger traffic over its lines. The receipts of this road necessarily can come from no other source. The argument is this: Unless the people who live alongside this road and are tributary to it are doing a good business, then the road itself can not do a good business, the returns which it receives are necessarily small, and this unfavorably affects the dividend and the interest account of this road.

Now, it is a necessary requirement to a permanently good business condition that a good currency system shall precede and accompany it. This proposition is a self-evident one, because of the fact that its negative can not be true. A good money system, then, is what these people want. With it they are enabled to go forward and develop the resources of the land contiguous to the railway without fear or falling back, and when they are developing it they are not only making money for themselves, but, through the necessary use which they must make of this railway in conducting their business operations, they are coincidentally increasing its earnings and remotely the earnings of its bond and stock holders. And if this is true of one railroad, does not the illustration apply with equal force to all other railroads? Approximately the amount of bonds and stocks representative of the railroad interest in this country aggregates the enormous sum of \$7,000,000,000.

Coincident with the beneficial effects of a sound currency upon the railways, the holders of their stocks and bonds, and the people along their lines, comes corresponding benefits to all collateral interests—the manufacturers of bridges, rails, locomotives, cars, and the thousand other separate industries that radiate, like the spokes of a wheel, from each one of these latter interests. The locomotive works, for instance, is dependent for its market upon the demand of the railway. The men here employed are salesmen, bookkeepers, draftsmen, foremen, mechanics, carpenters, blacksmiths, boiler-makers, coppersmiths, foundrymen, electricians, engineers, furnacemen, hammermen, painters, and laborers. The single object of this industry is to take the crude materials of the earth and, by manufacture, fashion them into engines; and this again starts activities among the miners of coal and of iron, the makers of steel billets, the lumbermen, and the manufacturers of paints and of varnish, all dependent, mediately or immediately, upon the demand of the railway, and this in turn dependent upon the general state of business among the people who live alongside its lines.

The commercial development of America has not yet commenced. It is but a few years since the great transcontinental lines have been completed. These lines and systems, with their branches, tap and drain the country's mines of exhaustless mineral resources; traverse the forest and the plain, the productiveness of which, as yet, has been scarcely exploited; touch with their Briarean arms the region of the

prairie and the mountains, the Great Lakes and the Gulf, and are the instruments by means of which the commercial products of the future shall be collected, separated, mobilized, and distributed from our seaports in American ships and scattered over the whole surface of the globe.

The men who have built and largely own the railways of this country have never been accused heretofore of lacking that quality of business perspicacity, the aim of which is personal profit, yet, as regards the attitude of some of them towards this money question, they are pursuing the very course which is making themselves and everybody else the poorer; the course which cuts down the earning power of their roads; the course which requires the lowering of the wages or dismissal of their employes; the course which sets labor against capital; the course which breeds mobs, riot, and bloodshed, and renders the savings of capital insecure; the course which, if persisted in long enough, means the ruin of the Republic and the inauguration of a socialistic despotism.

In holding out firmly for gold and gold alone and in refusing to supplement the gold with silver, for they can supplement it with nothing else without driving the gold out of the country, the owners of these railways are putting themselves in a position, which, from the standpoint of a business man, is ridiculous, and that position is this: "We propose," they say, "to hold things exactly as they are; the volume of money shall not be increased, for if it were increased prices would rise, industry would awaken, the earnings of our railways would increase, and we might become too rich. Go to! we are looking for poverty and trouble, not for wealth and prosperity."

Said Senator Howe at the conference of 1881:

The demand for circulation grows with the world's increasing trade. We are in no danger of inundation from the precious metals. Enormous lines of railways being unrolled upon both hemispheres, great fleets of steam-driven ships traversing all our seas, reveal a commerce, gigantic to be sure, but it is young. It is substantially the growth of but little more than two decades. If statesmen of the present time do not strangle the future, this child of twenty years will prove the mother of a commerce which defies calculation and appalls prophecy. The retirement of silver means to double the weight of existing obligations and to compress the world's activities into half their existing scope. It means to consign the nineteenth century to a pauper's grave, and to lay the heavy hand of paralysis on the cradle of the twentieth.

Here is an opportunity offered to the American people—an opportunity unexcelled in its potentialities for profit. When a business man is about to embark in an industrial enterprise, he first carefully counts the prospects of gain and of loss. If the results of his investigations lead him to expect a profit, greatly in excess of the risks of the loss involved, he moves forward. Otherwise not. Let us look at this project from the standpoint of a business man. Suppose we adopt this project, what are the prospects of loss, where and how can we lose? In adopting this monetary plan we always know exactly what we are doing. In its execution there are some niceties but no difficulties and, above all, there is no guesswork. The gold and silver is received; it is assayed and weighed; in the case of silver a price is set, which price represents the world's valuation of that silver, notes being issued to that amount, which notes are redeemable in the same material and in the same manner as that in which they are issued, which notes when redeemed are destroyed.

At the various redemption agencies in this country the process of redemption is the same. At the various foreign redemption agencies

the process of redemption is the same or an equivalent thereof. If any man can point out any business defect in the bill presented, let him do so. Failing to do this, I command his assent to it. Look at the situation as it exists to-day, a great country filled and overflowing with natural resources; a country which embraces every variety of climate, from the arctic to the tropic zone, a country inhabited by over seventy millions of the most intelligent race on the face of the globe, and yet millions of workers are idle and underfed, and the ship of State is in irons.

Political government can not be carried on without some political system. We have such a system in the Constitution. Commerce can not be carried on without some sound and safe monetary system, upon which it can securely rest. It is this that is here offered.

Said William M. Evarts at the conference of 1881:

We occupy—quite as much in our geographical position in this aspect towards the different forms of wealth, production, and industry—an entirely catholic and free position, having no interest but the great interest that all nations, as far as money is concerned, should not be embarrassed in trading with us, and that we, as far as money is concerned, should not be obstructed in selling our raw products to the skilled nations of Europe or the products of our industry to the consumers in less developed nations. Besides this equilibrium of selfishness, which makes the general good our good, we are free from any bias in the matter of the production of the precious metals, trivial as that is in comparison with the immense and fervid march of commerce. We produce the two metals equally. Out of the same prolific silver mines, even, the same ore gives us 55 per cent of silver and 45 per cent of gold. How could you imagine a nation, in regard to its production of the precious metals, more indifferent as to which is made the master of the world? It is bad tyranny that we resist.

It is the possession of freedom and of power in the commerce of the world by the service of both these metals, in place of the mastery of either, that we advocate. What, then, are the functions and service of money, not in the abstract, but in reference to the actual development of the industries and commerce of the world? What in the present, and what in the near future, are the conditions under which this office and service of money are to be performed? What are the impediments that exist, either in the natural properties of the metals, or the habits, the associations, the repugnances, the preferences of mankind? What in its history—what in its institutions—are the embarrassments in regard to what, as an abstract idea, everyone must applaud and everyone must maintain to be a desideratum—a fixity of the unit of money all over the world? What, in a word, has already been done in the progress of affairs towards this desideratum? What remains to be done? What is there, within the resources of courage and wisdom, in the voluntary action of the nations? What is competent, within the courage and wisdom of this conference, for it to propose that shall accomplish this great result of placing the money of the world abreast with its burdens and responsibilities, and untrammelled in the discharge of them?

All this vast expanse of credit in the developed commerce of the world rests finally upon the intrinsic money of the world, and if you would have fixity, unity, and permanence in the credit operations of the world, there must be fixity, unity, and permanence in all the intrinsic money of the world, upon which that credit rests. This credit is, almost without a figure, a vast globe, and this service of the precious metals to sustain it is that of an Atlas, upon whom the whole fabric rests. The strength of both arms, nerved by a united impulse of heart and will, is indispensable; neither can be spared.

Said Mr. Pirmez, at the conference of 1881:

The monetary question is a question which raises numerous problems. They bear upon a situation which not only is not perfect, but which will not be so, unless at a very distant day. Perfection would evidently be the monetary unity of the whole world. How far are we from that—how many stages to be made before reaching it? But, just because we are far from the goal, and because it is difficult to attain it, we ought to try and approach it, and every difficulty overcome is a progress. It is, therefore, well not to abandon the examination of a matter in which there is so much to be done.

The measure proposed, while providing a world's money, is also practically a declaration of financial independence.

Washington has advised us that harmony and a liberal intercourse with all nations are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying, by gentle means, the streams of commerce, but forcing nothing; establishing, in order to give trade a stable course, conventional rules of intercourse, the best that present circumstances and mutual opinion will permit, but temporary, and liable to be from time to time abandoned or varied as experience and circumstances shall dictate; constantly keeping in view that it is folly in one nation to look for disinterested favors from another; that it must pay with a portion of its independence for whatever it may accept under that character; that, by such acceptance, it may place itself in the condition of having given equivalents for nominal favors, and yet of being reproached with ingratitude for not giving more. There can be no greater error than to expect or calculate upon real favors from nation to nation. It is an illusion which experience must cure, which a just pride ought to discard.

But, gentlemen, if you do not make a favorable report upon this bill, now before your body, what measure will you report favorably? Assuming that you desire to maintain gold as the unit of value in this country, will you make a favorable report upon a proposition to issue greenbacks or silver dollars or State bank notes? The effect of any one of these propositions, as you know, would be to drive out gold. Is the proposition to issue bonds, buy gold in Europe and put it in circulation here? Do this, and it will flow back again as soon as you get it here. You may as well try to change the level of the ocean by pumping water from Liverpool into New York Harbor. Is the proposition one for an international agreement at a fixed ratio? This, also, as you know, is a hopeless desire and, even if accomplished, is a purely speculative venture. Or is the proposition to do nothing? This proposition certainly would be a most remarkable one. Already the do-nothing policy has started ominous rumblings in the political body, which preface a coming storm.

Herbert Spencer, that great leader of the world's thought, has lately said:

My faith in free institutions, originally strong (though always joined with the belief that the maintenance and success of them is a question of popular character) has, in these later years, been greatly decreased by the conviction that the fit character is not possessed by any people, nor is likely to be possessed for ages to come. A nation in which the legislators vote as they are bid and in which the workers surrender their rights of selling their labor as they please, has neither the ideas nor the sentiments needed for the maintenance of liberty. Lacking them, we are on the way back to the will of the strong hand in the shape of the bureaucratic despotism of a socialistic organization and then of the military despotism which must follow it; if, indeed, some social crash does not bring this last upon us more quickly.

Given a money power controlling the railways, telegraphs, the public press—given a sufficient number of pliant legislators, a well-organized detective force, the control of the business agencies when credits are made—add to these a shrinking volume of money, so that the producers are kept poor, and therefore ignorant, and the death of liberty is certain. There is no instrument known to history, no poison known to science, that is so deadly to civilization and progress as a shrinking volume of money.

Macaulay appealed to the nineteenth century as a test of the success of the Republic. It is my opinion that the action which you may or may not take upon this money question will demonstrate whether he was right or wrong.

Once before reference has been made to a remarkable statement made

by Robert Morris, when considering this question of the variability of silver. He says:

If this can not be overcome, we must not allow it to preponderate, for it weighs alike against every other metal.

At times the fate of men and of nations hang on a single sentence. This is that sentence, and this is that time. The implication of this sentence is that if this variability of silver can be overcome, then it is our duty to overcome it. This variability can be overcome in the manner in which I have had the honor of presenting to you, and the time to overcome it has arrived. I firmly believe that if Robert Morris, Thomas Jefferson, Alexander Hamilton, and those others of glorious memory, were here present, their advice would be, proceed.

What we want is a return of prosperity. The great cause of the present business depression, as before stated, lies in the advance in the value of gold. It is proposed to overcome this by increasing the quantity of standard money in the world. When we do this we are certain, by reason of our knowledge of the laws of price and the quantitative theory of money, that prices will rise. When prices are rising business becomes active, industry is vivified, commerce is awakened.

Mr. Hume says:

In every kingdom into which money begins to flow in greater abundance than formerly, everything takes a new face; labor and industry gain life; the merchant becomes more enterprising, the manufacturers more diligent; and even the farmer follows the plow with more alacrity and attention.

Mr. Van Buren Denslow says:

It is claimed that a signal service was rendered by the Macedonian Empire to mankind in seizing the collected treasure stores of uncoined gold and silver, which, according to the barbarous customs of an earlier epoch, the monarchs of the eastern world had massed at Gaza, Peropolis, and other like points, coining it into money and issuing it to the world in payment for labor. The civilization and the emancipation of man under the Roman Empire were largely due to an increase in the volume of money. It is doubtful if, without money, it is possible to organize labor on any large scale, or bring about the association of men, except by force and slavery.

Sir Archibald Alison says:

The fall of the Roman Empire, so long ascribed in ignorance to slavery, heathenism, and moral corruption, was in reality, brought about by a decline in the gold and silver mines of Spain and Greece, from which the precious metals for the circulation of the world were drawn, at the very time when the victories of the legions and the wisdom of the Antonines had given peace and security, and with it increase in members and riches to the Roman Empire.

Commenting on this passage, Gen. F. A. Walker says:

Doubtless this claim is far too large; causes distinctly political and social had to do with the downfall of that mighty fabric of military enterprise, legislative wisdom, and administrative skill; but it seems to me that there can not be an intelligent doubt that the steady rise in the value of money, due to its increasing scarcity, contributed greatly to the impoverishment of the people, the decay of commercial enterprise, and the abandonment of agricultural labor, which sapped the foundation of the Roman Empire.

Contrariwise, witness the effect upon the condition of Europe upon the distribution of that vast accumulation of silver and gold which those bold soldiers of fortune, Cortez and Pizarro, wrested from the Aztecs and the Incas. When the sun's rays shone upon the treasures of Potosi, Europe awoke from the sleep of the dark ages. She roused herself, and the lethargy of a thousand years, "Like the dewdrop from a lion's mane, was shook to air." Then began the story of modern progress. Learning awoke and science stepped forth. The heavens began to reveal their secrets to the busy searches for truth. Vasco de Gama, Magellan, Hudson, Cook, Frobisher, and Davis showed to man-

kind the shape of the seas, the continents, and the islands. Inventions, which have liberated man from slavery, follow each other in an orderly and logical sequence. Reason lights her torch, progress unfolds her banner, and civilization marches forward with a firm and buoyant tread.

There can be no advancement but where opportunity precedes it. Opportunity fills the stomach with food; that is the first essential. Opportunity well conserved brings leisure, and thus the development of the mental part of man is made possible. There can be no opportunity where prices of products are constantly falling and when that fall is brought about by reason of a constantly shrinking volume of money.

Money frees men—without it they are slaves.

It is rumored that some of the citizens of the United States have taken advantage of this advance in the value of gold to go into the business of making money on their own account, and have started what are, by courtesy, called "private mints," where silver dollars, equal in fineness and of the same design as those manufactured by the Government, are turned out. With silver at 65 cents per ounce, a profit of 50 cents can be made on each of these dollars put in circulation. The temptation to start these private mints, it must be confessed, is a very strong one, and the effect of a large addition to the circulation of such dollars, which can not be distinguished by any means known to science from those of Government make, unquestionably will be to drive gold out of the country.

No one has yet pointed out the reason why any one who desires to do so may not have a private mint on his premises and, in a community favorable to silver money, such mints necessarily must be difficult of detection. Thus the spirit of injustice and disregard for the Constitution shown by that portion of the community who desire only gold for money awakens ingenious crime in another portion of the community. In pursuing the monetary policy which at present obtains in this country no one is permanently benefited. The public morals are corrupted, and the good name of the Republic is clouded with reproach.

The Democratic party in their platform have promised to the people of the United States a solution of the money problem. The Republican party in their platform have promised the same thing. The people of this country in their imperial will decided that this supreme honor should be bestowed upon their servants, the Democratic party, and it is manifestly the duty of Congress, or the Senate, and of the Executive, to now crystallize into law this tremendous desire.

"Where there's a will there's a way." I assume that the will is not lacking, and I trust that the way may soon be found; if not in the way which I have had the honor of presenting to you, still in some other way, which some other citizen may suggest. In presenting this bill to you, I offer it as the best product of my mind in this direction, and frankly say that I do not see how, under the existing circumstances, we can do anything else, assuming, of course, that gold is to remain the unit of value in this country. The merits of the bill are summarized as follows:

1. Each representative dollar produced, whether of gold or silver, is always the commercial equal of every other dollar at home and abroad.

2. The note-holder is always secure, because of the fact that behind each gold or silver note is a standard dollar's worth of gold or silver, payable on demand, and which said gold or silver is held by the Government of the United States of America, acting as custodian and trustee.



3. The Government of the United States can suffer no loss, because it is in a position, when necessary, to protect its trusteeship.

4. The notes arising under the provisions of this act are worth par throughout the business world because they are convertible into the money of foreign countries without loss.

5. This measure recognizes the unfortunate condition of our present currency, and strives, through reorganization, to remedy it as rapidly as possible, so that eventually it may be all simplified, brought up to, and maintained at the world's standard of value.

6. This bill provides the only means by which this country will be enabled to get back the large amounts of gold recently sent from our shores without issuing bonds therefor.

7. Provision is made in the supplemental bill for the free coinage of such gold and silver coins as experience has demonstrated the American people desire to use, and a reasonable and constitutional disposition is made of the profit therefrom.

8. The plan presented is simple, safe, and honorable, in accord with the financial provisions of the Constitution, the manifest intent of the fathers, the platforms of the Republican and Democratic parties, the rules of business practice, and the dictates of common sense.

Face to face with this money question as we now are, we must meet it and overcome it or be overcome by it. Gingerly compromises won't do. To compromise with a law of nature is impossible. She speaks and men and nations must obey. We solved the slavery question. Shall we shrink from this? Why not meet this question here and now, and put it out of the way? To let events drift along and to do nothing is dangerous to the life of the Republic and the honor of the glorious flag. Even now, owing in part to the imperfect financial situation, socialism insidiously and unseen creeps along and has gained a foothold. Anarchism raises its snake-like head and hisses.

This Government, I take it, is a Government for individualism and not for socialism; a Government for free men and not for slaves; not an anarchy, but a Government of written law founded upon the Constitution of the United States, that charter of human liberty. Every intelligent man who is acquainted with this matter will, I believe, admit that our present monetary system is not in accord with the constitutional provisions relating to that subject. Daniel Webster has truly said:

Congress has no power in this regard, but to coin money, regulate the value thereof, and of foreign coin. The constitutional, therefore the legal, standard of values is fixed and can not be changed. I am certainly of the opinion that gold and silver, at rates regulated by Congress, constitute the legal standard of values in this country and that neither Congress nor any State has authority to make any other standard or to displace this.

This opinion, so clearly and so forcibly expressed by the greatest constitutional authority which this country has ever produced, has now its application. Will Congress stand by the Constitution or will it depart from it? That is a question, big with fate, which Congress alone can answer.

In conclusion, I desire to say that I am not unmindful of the tremendous influences, commercial, political, and social, which the enactment into law of this bill will awaken, but those influences, such as they are and such as they will continue to be, are each and all beneficent ones, well fitted to arouse the noble genius of peace amongst the nations of the world. Lafayette said to his friend Washington, "In the future of America lies the hope of mankind." Prophetic words, to which we will do well to listen.

**COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C., July 2, 1894.**

The committee met at 10.30 a. m., Hon. William M. Springer, chairman, presiding.

The CHAIRMAN (to Mr. Caruth). You having introduced the bill under consideration, we will ask you to submit any views you may have.

Mr. CARUTH. I introduced this bill. It was prepared by Mr. W. T. Grant, of the city of Louisville, a prominent citizen, who has been for many years identified with that city, and who has made a study of this subject. I will be glad if the committee will hear his statement.

**STATEMENT OF MR. W. T. GRANT, OF LOUISVILLE, KY.**

Mr. GRANT. Mr. Chairman and gentlemen of the committee, I thank you for your courtesy in permitting me to appear before you, and I can assure you that I do not come with the intention of enlightening the committee on the subject of banking; but will simply confine my views to that of currency, and as to the necessity of something being done to make our present currency stable. I have no set speech, not even any notes, and would be, at any time during my remarks, glad to answer any questions which any member of the committee may choose to ask.

I will confine my remarks to one idea, and that is, how to make the present currency good. I do not allow the question of banking to cut any figure in my bill, but confine it to the question of currency. Our currency is being besmirched both at home and abroad. The other day I cut a little squib from one of the Cincinnati papers showing the doubt our people have in our currency, which I will read, as follows:

*CINCINNATI, June 20.*

The banks and capitalists on the Board of Trade are exercised over a circular letter from D. N. Morgan, U. S. Treasurer, directing the subtreasurer to secure all the gold possible here, and asking the banks and others to exchange gold in sums of \$1,000 and multiples for new paper currency.

The Ohio Valley Bank had promised the subtreasurer \$50,000 of gold to-day, but the prospects of a premium on gold renders it doubtful whether any coin will be released here. Thomas Emory, one of the largest investors here, has for some time made all his contracts payable in gold, and others to-day state they propose to adopt the same policy.

Our own people are in doubt as to the stability of our present currency, by making trade contracts payable in gold; the foreigners are taking our gold out of the country for the same reason, that they doubt the money policy of this country and fear that we are liable to go to a silver monometallic basis, except where contracts are made payable in gold. I think such a country as ours, one of the first in the world, should have a credit to compare with any other first-class nation. I think it is a shame and a disgrace to be in our present dubious financial condition. We would occupy a more manly position to even go to silver monometallism than to be doubtful as to what we have. I

think it is now pretty generally recognized by both gold and silver men that there can be only one standard of value. It was that way for two hundred years prior to 1873. We never had a fixed value for both metals, and if we had for a time it would not remain long.

My position in regard to the question of the standard of value is this: I do not care whether it is silver or gold. If we had adopted a silver standard after the greenback period, I would have been as much opposed to a transition from silver to a gold standard as I am now to a transition from gold to silver, for the reason that a transition from one to the other is injurious to our people. In one case it would be an injury to the debtor, and in the other case it would be an injury to the creditor. But now that we are on a gold basis the Government should by all means in its power prevent a transition from our gold basis to a silver standard, for the reason I have mentioned—the injury it would do to a large class of our people. The people who would be injured would not be the capitalists or the millionaires, because most of their investments are in gold contracts; but the people who would suffer most would be the workingmen and the depositors in savings banks and building and loan associations, who would have to take the new depreciated currency at 50 cents on the dollar for their present gold deposits. So that the question is, how can we maintain the present standard of gold and not have to adopt silver monometallism? We must do one or the other.

I have tried in this bill to meet that point, and to make and keep our present currency as solid and as good as gold in this country or anywhere in the world. The only way that any bank or individual, or any Government (for a government is simply an association of individuals) can make its notes as good as gold everywhere all over the world, is to put up collateral to make them good. In banking experience we observe that all firms in good standing are always ready to make good their collateral on loans when called upon; and it is only those of doubtful credit who are insulted when they are asked to put up additional collateral. We, as a Government, ought not to be insulted when called upon to put up collateral, but should do so, and save being classed as of doubtful credit.

The Bank of England puts up collateral, making its notes good everywhere, and our Government should put up sufficient collateral to make its currency as good as any in the world.

I claim that in order to accomplish this we ought to have created a currency commission, or trustees, if you choose to call them, who should have assets put into their hands by the Government sufficient to make good and finally redeem \$1,000,000,000, which, I believe, is about the amount which the Government is now floating. Those assets should consist of gold and silver at their commercial value and United States bonds to make up the difference; so that at all times these three assets are equal to the whole of the currency out, whether depreciated silver coin or gold and silver certificates, Treasury notes, or greenbacks. With these assets the commission could at any time retire the whole of the circulation, if necessary; but I claim that by the natural increase of circulation, instead of having to retire the whole circulation, the Government would by 1907 have little or no debt-bearing interest. This commission would be able in course of time to retire the interest-bearing bonds of the United States and substitute currency with bonds put up as collateral, which would be noninterest bearing. By the year 1907 we would have a floating debt of, say, the same amount as it is at the present day, but it would not be interest bearing.

At the present time we have about \$585,000,000 of interest-bearing debt, and by that time we would have it all taken up. These two points I want to elaborate more than any other. Give us a currency that is sound and substitute noninterest-bearing debt for interest bearing. This plan would make it sound, and it would not depreciate the value of our silver. It would put our silver into use and on its own merits.

By the various silver-purchasing acts of 1873-'75-'78 and '90 the Government bought silver to the amount of 500,000,000 ounces, the value of which to-day probably is 62½ cents per ounce. The price at which it was purchased averaged \$1.024 per ounce, and at the present value it would make a net loss to the Government of about 40 cents per ounce. I am not here to find fault with those purchases of silver. The Government has bought it, and has made a loss on it, the same as I might make a loss in the purchase of tobacco or grain. The Government's net loss at 40 cents per ounce would be about \$200,000,000. In place of carrying the silver in the Treasury at its cost of \$500,000,000, the Treasury should carry it on its books at its real or bullion value, which is only about \$300,000,000. Any firm or individual in good standing would not carry it at a greater valuation than it would sell for in the open market. I contend that the Government should acknowledge the loss it has made, and add that much loss to the public debt, by the issue of that amount of bonds.

I asked the U. S. Treasurer the other day if he would pay gold for silver certificates, and he told me no; that that was only done in one case, and that the Government did not feel bound to do it. If the Government should determine that it would pay only silver dollars for its currency notes and not receive them as dues, that would put us on a silver monometallic basis. The only thing that keeps the price of the silver dollar at par is that it is received as dues by the Government.

I do not pretend to be making any bill for banking, but only for good United States currency. I think the United States might as well have this interest as for the banks to have it. At the rate of 3 per cent, which the Government is now paying, it would result in a saving of about \$30,000,000 a year to the Government by not paying interest on that much of its debt by carrying the collateralized bonds in the shape of noninterest-bearing bonds. The Government is now paying 4 per cent on \$200,000,000 of bonds which the national banks now own and have deposited against their notes current. I have nothing to say against national-bank currency. I think it is the best currency system we have ever had. However, I think if the Government could save \$8,000,000 a year on those bonds it would be a very good thing to do, especially as national banks don't seem to care for their circulation. If it were to put up its own bonds in trust into the hands of a third party, the Government would pay no interest, and the security on its currency would be just as good as our national-bank currency. I think this theory should appeal to the idea advanced by the Populists, without being fiat money, viz, that the Government should not pay any interest on its debt.

The CHAIRMAN. How would you put it into circulation?

Mr. GRANT. The bill proposes, as a secondary proposition, to issue one kind of currency only, so that it would be less liable to be counterfeited. The people would become familiar with it, and would know good money when they saw it. It could be issued by degrees in lieu of the present circulation, which would be canceled. That would make as much circulation as we now have.

My proposition also contemplates an increase of the circulation by practically adopting the Tom Johnson plan. He tried to get a bill through, which was a good one, providing that all savings banks and other institutions which hold United States bonds, and wishing to increase their holding of currency, could deposit their United States bonds and receive notes in case of an emergency. If there is still further demand for currency, the commission could issue currency and retire its interest-bearing bonds, or it could issue notes and buy foreign gold, adding same to the bullion currency reserve. I think we have enough currency now. I do not think we are suffering from the want of currency, but we are suffering from the want of a sound currency. I do not think there would be any difficulty about issuing notes in other ways when needed.

Mr. HALL. What would be the proportion between the silver bullion, the gold, and the bonds under your scheme? What would be the amount of each?

Mr. GRANT. The amount of gold and silver held now in the Treasury would be sufficient, I believe, to begin with. As a bullion reserve that amount would be ample. This could include the silver that is up against the \$333,000,000 silver certificates, and all the silver bought with Treasury notes, and would take in also all the gold, which, I am sorry to say, is very little, but it probably amounts to \$64,000,000. The Government has used of currency gold about \$86,000,000, and paid its expenses with same, and it ought to reimburse this currency fund; but I am not here to discuss that question. There are \$64,000,000 in gold, and say about \$500,000,000 in silver, at cost, now on hand.

The CHAIRMAN. Silver certificates?

Mr. GRANT. There are about \$500,000,000 of silver in the Treasury, estimated at its cost value.

The CHAIRMAN. Bullion and coin together?

Mr. GRANT. Yes, sir. I put all that silver down, say, as worth \$300,000,000 actual value.

Mr. HENDERSON. I thought there were about six hundred and some odd millions of silver?

Mr. GRANT. I put it down at its market value, what the silver could be sold for in the market. It was bought at from 120 cents down to 70 cents per ounce. As soon as it gets inside the Treasury, silver men want it valued at 129 cents per ounce. I wish to get down to hardpan and to estimate it at its real value—what it can be sold for in the markets of the world, for otherwise it is not a true asset. I would issue sufficient bonds to make up the loss incurred in the purchase of silver, say about \$200,000,000.

Mr. HALL. Then you have a dollar in bonds or silver for every dollar outstanding?

Mr. GRANT. Yes, sir. Also include gold, or, in all, as much as would equal the whole amount of the currency and depreciated silver coin outstanding, which is, say, a thousand million dollars in round numbers.

Mr. HALL. To keep up the greenbacks and gold and silver certificates?

Mr. GRANT. Yes, sir. There are \$347,000,000 in greenbacks, which is now quoted as part of the public debt. By issuing bonds against these greenbacks it would not increase the public debt, but would merely change its form. In the case of the silver, it would increase the public debt by \$200,000,000, because of that much loss on silver, and that is why I say the Government ought to acknowledge that debt. The Government went into the business of buying silver, and has lost

**\$200,000,000.** This plan does not determine that it shall remain that much of a loss. Of course, taking this silver at \$300,000,000 as the real value of the silver as bullion, should silver appreciate in the hands of this commission it would return the amount of such appreciation to the Secretary of the Treasury, in bonds, to be credited to the former loss on silver. That might be done once a month or oftener.

I will call your attention to that point in the substitute for section 5, which shows that I do not wish to depreciate in any way the value of silver. I would like that this great product of this country could be brought up to \$1.29 per ounce, if by any act of legerdemain or otherwise it could be made worth that.

Please look at this substitute for section 5, in line 38, and it will show you what I mean. It reads:

Should silver appreciate in value in the hands of the commission, it shall return in United States bonds at par, the amount of such appreciation to the Secretary of the Treasury, once a month or oftener, to be credited to the currency redemption bond account.

In other words, the Secretary should issue to the commission \$200,000,000 of bonds, being the loss on silver purchased, and if silver appreciated in value to that extent the commission would hand him back the \$200,000,000 bonds. This lets silver take care of itself. Again, should silver depreciate in value, the commission would draw on the Secretary of the Treasury for more bonds at par to the amount of such depreciation, the purpose being to maintain an amount of assets in the hands of the commission, of equal value to the currency outstanding.

The commission are merely trustees to hold the bonds. In addition to its own commercial value, they would hold 50 cents in bonds to make each silver dollar good, it being worth intrinsically about 50 cents now.

Mr. HALL. Have you made an estimate as to how much that would increase the debt of the United States?

Mr. GRANT. I think it would be about \$200,000,000. I take it in this rough way, 500,000,000 ounces at 40 cents per ounce makes a loss of \$200,000,000. The United States has made that loss.

Mr. HALL. I agree with you. Are you going to retire greenbacks?

Mr. GRANT. Greenbacks would stand in the same relation as they do now, only they are now charged in the public debt statement as United States currency notes to the amount of \$347,000,000. In my plan this amount would be charged to bonded debt. There would be no change in the figures, but only in the description of the debt. This additional bonded debt does not bear any more interest than the old United States notes or greenbacks because the bonds are put up in the shape of collateral as a trust fund.

Mr. COX. You have got as a basis of circulation bonds, gold, and silver?

Mr. GRANT. That is the basis.

Mr. COX. That is what the currency is based on, and it is the very life of it?

Mr. GRANT. Yes, sir.

Mr. COX. Suppose you have got \$200,000,000 of bonds and the currency comes back for redemption and gold is issued, how are you going to keep the holders of the currency from demanding its redemption in gold?

Mr. GRANT. In the first place, I claim they would not demand it if

they knew they could get it; but if they should, then those bonds would have to be sold to provide the gold.

Mr. COX. In other words, the only way to do would be to create an interest-bearing debt?

Mr. GRANT. If it came to that, certainly; we could retire the whole currency we have to-day. But there is hardly such a possibility, because what the people want is a sound currency.

The CHAIRMAN. That is the system we have now.

Mr. COX. That is one of the serious troubles we are in now.

Mr. GRANT. I contend that if we put up bonds we will have a better security than the present greenback. By the act of May, 1878, the Treasurer is prohibited from canceling any greenbacks. The Government can only cancel and reissue them.

Mr. COX. Redeem and reissue?

Mr. GRANT. Yes, that is what I mean. I think that nobody can misapprehend the position I take. It is exceedingly simple, and any fourteen-year-old boy can understand it. It does not call for anything more than the security any other good currency requires. All good banking institutions either put up Government securities or coin and bullion to redeem their pledges, and such currency will circulate all over the world as gold. That is not the case with the United States currency, and the consequence is our currency is questioned and doubted.

The CHAIRMAN. If you should succeed in the accomplishment of your object, you would simply leave the bonds and bullion up as valuable security for the currency?

Mr. GRANT. Yes, sir.

The CHAIRMAN. Will you please state how we can enlarge or contract our volume of currency under your plan?

Mr. GRANT. That is provided for in section 4 of the bill. I am not wedded to this idea of a currency commission, composed only of Government officials. I simply took Mr. Springer's plan, as, following out the same idea in my original pamphlet, I made the President of the United States and Secretary of the Treasury the commission; but I approve the policy that some third party, or trustees, ought to be named who would be in touch with the community and who could be able to say when the country needed more or less currency.

The CHAIRMAN. Some more responsible agent than one individual?

Mr. GRANT. Yes, sir. I have had some correspondence on this subject with Mr. Warner, of the committee, who objected to putting so much power in the hands of Government officials. There is some reason in that. Probably, if we were to add to the commission the names of the chairman of this committee and the chairman of the Senate Committee on Finance it would answer better. I merely wish to present the idea as to the principle on which such a trust should be founded. I will read section 4, because it answers the chairman's question.

Mr. Grant read section 4 as follows:

SEC. 4. That to increase the circulation of the said United States currency notes, as the business of the country may demand, said currency commission may, in their discretion, issue, from time to time, additional United States currency notes by purchasing with said notes gold and silver bullion and United States bonds, also by lending said currency notes against deposits of equal amounts at par, of United States bonds, interest on said bonds to cease during the term of said deposits: *Provided*, that no more silver bullion shall be purchased until the chief nations of the world have agreed to accept it as legal tender, along with gold, in settlement of international trade balances at its market value, or at a fixed ratio in relation to gold.

Mr. GRANT (continuing). I hold that silver ought to take care of itself. I wish to see it a legal tender throughout the world; and if we can not get it in as such at a higher ratio, I would like to see it started at its commercial value. Every true friend of silver wishes it started as a legal tender on some basis; then the bankers of the world, by buying it, will make an increased demand for it, thus putting up the price. The silver men have tried to do that by getting the Government to buy silver, but in that they have utterly failed; it has gone down continually. When we create a demand for silver, it will advance in price. If we could fix a higher ratio, it would be so much the better. Even if we have to take the commercial ratio, and can get it started at that, it would be better than to leave it out altogether. If we could get the ratio fixed at 16 to 1, by this plan of mine all the bonds put up by the Government for depreciation would be returned. This is an automatic plan. If the silver men succeed in getting a high ratio, so much the better; but let us take things as we find them, and always keep on a commercial ratio. I am a better friend of silver than the silverite who wants to do the impossible.

Mr. SPERRY. Your plan contemplates an increase of the national debt in order to increase the circulation?

Mr. GRANT. It does not increase the debt, the debt already exists—its loss on silver—but not acknowledged by the Government.

Mr. SPERRY. You can not increase the circulation except by issuing bonds?

Mr. GRANT. Yes, sir. This section 4 does not increase the bonds. Suppose we wish to increase the currency \$100,000,000. Go into the market and with United States currency notes buy \$100,000,000 bonds, and that would cancel that much interest-bearing bonds; or, if we needed more gold, then with same currency buy foreign gold.

Mr. SPERRY. With what would you buy foreign gold, with bonds?

Mr. GRANT. No; with currency notes we would buy foreign exchange, and import gold.

Mr. SPERRY. Your collateral, as you call it, for the security of the notes, would be the issue of United States bonds?

Mr. GRANT. Yes, sir; along with gold and silver bullion.

Mr. SPERRY. Then you would be on a gold basis. Gold bullion is equal to gold coin. So far as that goes, there is no increase in the circulating medium.

Mr. GRANT. It is just the same.

Mr. SPERRY. So that all that is left as circulation is predicated on national bonds?

Mr. GRANT. On national bonds, and silver and gold.

Mr. SPERRY. Silver on a gold basis?

Mr. GRANT. Yes, silver on a gold basis.

Mr. SPERRY. There is no increase in the circulating medium beyond that part predicated on national bonds?

Mr. GRANT. The national bonds merely make up the loss on the silver. For instance, that which would be predicated on silver alone would reduce the currency \$200,000,000. I do not wish to reduce the currency. What I desire to do is to make the Government put up United States bonds for its loss so as to make the silver good and not reduce the volume of currency.

Mr. SPERRY. You would not have any national bonds as collateral, except enough to make up the depreciation in silver?

Mr. GRANT. I would also have put up bonds in lieu of the greenbacks.



The CHAIRMAN. Assuming that we are not to increase the currency, you would have the Government put up United States bonds equal in value to the outstanding currency obligations of the Government along with gold and silver at its market value?

Mr. GRANT. Exactly. My plan does not increase or decrease the present volume of circulation at all. The part which provides for an increase is done only to satisfy the demand of business in case it is necessary.

Mr. SPERRY. Suppose you have your currency system in active operation, and this Commission thinks the country needs \$50,000,000 more circulation. How are you going to get that increased circulation?

Mr. GRANT. By buying United States bonds and foreign gold to that amount.

Mr. SPERRY. What do you mean?

Mr. GRANT. Buy bonds in the open market.

Mr. SPERRY. You have already suggested that the bonds would be out of existence in 1907?

Mr. GRANT. When that time comes we will find something else; but that is a long way off, about thirteen years. Then Mr. Springer's plan of putting up municipal and State bonds could be used.

Mr. COX. In reference to circulation, you have silver bullion, gold coin, and gold bullion, and you have got out under your plan \$200,000,000 in bonds for the depreciated silver. Now there comes a crisis, and these commissioners think they want to increase the circulation, say \$50,000,000. Now what do they do? What steps do they take?

Mr. GRANT. They could buy United States bonds and foreign gold.

Mr. COX. What would the commissioners give for those bonds?

Mr. GRANT. Say they had to pay a small premium. In that case the U. S. Treasury would have to provide the difference above par for canceling the bonds; but it could afford to do that when interest was stopped.

Mr. COX. But if the bonds were above par, the commissioners would have to add the difference between the currency and the bonds.

Mr. GRANT. The Treasury would, and could they not afford to do that when interest is stopped?

Mr. COX. So that every time they increased the circulation of the country, they would increase the bonded indebtedness of the country.

Mr. GRANT. The bonded indebtedness of the country would remain the same. My plan would be that the Secretary of the Treasury would issue to the commission United States bonds, which would be 3 per cent bonds, to be exchanged for the other United States bonds bought and canceled. There would be no increase of the bonded debt, but a saving of interest.

Mr. COX. In other words, the Secretary of the Treasury would take up \$50,000,000 of 4 percents? He would take the 4 percents in and cancel them, and then would issue \$50,000,000 of 3 per cent bonds, which would be noninterest bearing. What would become of that \$50,000,000 of bonds which would be reissued? Would they now bear interest?

Mr. GRANT. No; those bonds would be placed in the hands of the commission. They would not bear interest until they were sold. They are merely trust funds in the hands of the commissioners to protect and finally redeem the same amount of currency notes.

Mr. SPERRY. Does that constitute the redemption fund?

Mr. GRANT. Yes, sir; that is a redemption fund.

Mr. SPERRY. When you wanted to redeem you would have to go on the market and sell those bonds?

Mr. GRANT. Yes.

Mr. SPERRY. Suppose you get \$50,000,000 of those bonds up as collateral security, how do you go to work to redeem them?

Mr. GRANT. To finally redeem the currency the bonds would have to be sold.

Mr. SPERRY. The existence of your system depends on a national debt?

Mr. GRANT. Yes, along with coin and bullion. The Government could afford to carry a national debt noninterest bearing, if only to provide stable currency to its people; but if it declined, then Mr. Springer's plan of issuing municipal and State bonds could be adopted as substitutes for United States bonds.

Mr. WARNER. Then, as long as the present system of Government exists, it would practically make every bondholder his own banker, and confine the control of the currency to the holders of Government bonds?

Mr. GRANT. I do not understand you.

Mr. WARNER. You have explained that in a time of stringency the way to add to the currency would be to exchange Government bonds?

Mr. GRANT. To buy with currency or lend currency on Government bonds is one way.

Mr. WARNER. Whether you bought them, or in whatever way you got them, it makes no difference. The party who owns the Government bonds is the one who controls the Government supply, whoever he is. That is one serious objection.

Mr. GRANT. To a certain extent it would depend on the premium demanded. There are other ways to do it. The plan proposes to loan currency on deposits of United States bonds.

Mr. WARNER. The bondholder could get it, but nobody else could.

Mr. GRANT. Of course the bankers are generally the bondholders.

Mr. WARNER. I would say any bondholder, whether he is a banker or not. I am not opposed to that. I represent more bondholders perhaps than any man in the room; but we do not want any plan to give them control.

Mr. GRANT. I would like to be able to get assistance on that line by the substitution of other bonds, till the maturity in 1907 of United States bonds. Of course, the bondholders could advance the premium and make it prohibitory to purchase United States bonds.

Mr. WARNER. If there was an attempt by the Government to purchase, under circumstances of any urgency, \$100,000,000 or \$50,000,000 of Government bonds to-day, would not the price go up? Is not the amount of bonds available small as compared with the amount outstanding?

Mr. GRANT. There is yet another way. We can buy foreign gold.

Mr. SPERRY. With what?

Mr. GRANT. With United States notes.

Mr. COX. With the notes which would be issued?

Mr. GRANT. Yes; if we want \$50,000,000 increase of currency to-day, I could go to New York and buy \$50,000,000 worth of foreign exchange with these notes and import gold. Such increase ought to be done monthly or periodically. In place of buying \$50,000,000 at one time, we might buy \$3,000,000 or so a month.

Mr. SPERRY. Then, if those trustees wanted \$50,000,000 increase in circulation they would go and buy gold?

Mr. GRANT. They would buy foreign gold.

Mr. SPERRY. That \$50,000,000 of bonds is noninterest-bearing?

Mr. GRANT. All the United States bonds deposited with the commission in trust are noninterest-bearing.

Mr. SPERRY. Do you think you could go to London or anywhere else and negotiate them?

Mr. GRANT. United States bonds can be negotiated anywhere, but I would go to New York with currency notes.

Mr. SPERRY. You would buy foreign gold in New York?

Mr. GRANT. I would buy foreign exchange.

Mr. WARNER. As a matter of fact, what you would actually buy would be gold bars instead of franc pieces, or anything of that sort, so that when the gold came here it would be in the same shape it was when bought?

Mr. GRANT. I am treating gold and silver both as bullion.

Mr. WARNER. Gold bullion, as I understand, is now actually counted and used as currency in all large transactions in the United States to-day?

Mr. GRANT. I suppose so.

Mr. SPERRY. Your commission would issue \$50,000,000 in circulating notes?

Mr. GRANT. Yes, sir.

Mr. SPERRY. You would go to New York and buy \$50,000,000 worth of gold, and that gold I suppose would come in bars.

Mr. GRANT. Yes; foreign gold in bars or coin.

Mr. SPERRY. After you got \$50,000,000 in gold, would you keep that gold?

Mr. GRANT. The commission would hold it to redeem those notes going out, or buy with it United States bonds, as under section 5 of my bill.

Mr. COX. Suppose you were to purchase from \$3,000,000 to \$5,000,000 a month for the Government. Don't you think it would put a premium on gold in less than twenty-four hours?

Mr. GRANT. No, sir; European nations could not afford to have gold go to a premium. Austria has been buying gold and so has Germany, and neither of those countries could afford to have gold go to a premium; their purchases have not put a premium on gold.

Mr. WARNER. Is not Austria the only nation to-day interested in that in a commercial way, and has not her influence proven powerless to affect the price of bullion?

Mr. GRANT. That is what I believe. She is buying at the market price.

Mr. COX. Some of us silver men think that gold is at an enormous premium now.

Mr. GRANT. I am a good deal of that opinion myself. This plan takes into consideration our present position. I am not trying to make any new position, but I am considering the position as it exists to-day. If silver should become a legal tender in Europe, as gold is—which I hope will soon happen at some ratio—that would prevent any further appreciation in the value of gold. I have been reading late news from England and find that the feeling is changing there in favor of bimetalism on some basis, even if they have to take silver at its commercial value, or at a higher ratio, as a legal tender.

Mr. COX. I recognize that fact.

Mr. GRANT. While I am in favor of placing silver as a legal tender on some basis, I prohibit in my bill the further purchase of silver until it becomes a legal tender; and when that is done, the commission can

again buy silver bullion as well as gold when increase of currency is needed.

Mr. COX. Suppose you have your system in operation, but the volume of currency put out is completely under the control of the United States through these commissioners?

Mr. GRANT. Certainly. This commission is supposed to feel the pulse of the country. It is not too much power, when closely analyzed, for it to have. If this commission should issue too much currency they would have to redeem and take it back; and if too little they would hear a clamor from the banks asking why they did not issue more currency. They would feel the pulse of the country at once.

Mr. COX. It seems to me you are putting the United States Government right into the banking business.

Mr. GRANT. No, sir; I am keeping clear of banking. That can come in afterward. What we want to do now is to make good our present currency and let the future take care of all banking schemes.

The CHAIRMAN. In the event of the success of your measure, what becomes of the present silver dollar which is now coined?

Mr. GRANT. It would circulate as at present and be treated as bullion by this plan. The amount, also, which is in the Treasury would be bullion.

The CHAIRMAN. How about that which is in circulation?

Mr. GRANT. The commission holds as part of its collateral 50 cents on each dollar in circulation to make it good as gold.

The CHAIRMAN. Part of it is in the hands of the people, and part of it is in the Treasury, and by means of your bill that currency may be redeemed in gold coin, or in silver bullion at its market value?

Mr. GRANT. Yes, sir.

The CHAIRMAN. Now, suppose a man should come and ask for a silver dollar?

Mr. GRANT. Let him have it, as that silver dollar is secured to its full value. He would not be apt to ask for it, however, if he knew he could get the weight of two for one, in getting a note calling for the full market value in silver bullion or gold.

The CHAIRMAN. What becomes of the amount which is out?

Mr. GRANT. That is considered by the commission as worth only its bullion value, say 50 cents on the dollar.

The CHAIRMAN. It would cease to have a purchasing power after this measure became a law?

Mr. GRANT. Oh, no; it would be made as good as gold, by the deposit of 50 cents additional collateral on each silver dollar. It is worth 50 cents as bullion, and these two together would make it worth a dollar in gold.

The CHAIRMAN. You have got two values, the bullion value and the dollar, which is legal tender under the present law for its full value.

Mr. GRANT. I do not disturb it. It circulates among the people just as it did before.

Mr. COX. It is secured to the extent of 50 cents more.

Mr. GRANT. It gets 50 cents additional security put up in the hands of the commission under my plan.

The CHAIRMAN. The dollar which is out would circulate for a dollar just as it does now?

Mr. GRANT. Yes, sir; and it would be made worth a gold dollar. The commission has 50 cents in their drawer to redeem each dollar which is now out, and only worth in itself 50 cents as bullion.

Mr. COX. The Government having another 50 cents against that dollar, guarantees it to the full amount and makes it good.

Mr. GRANT. Under my plan that is what makes it good. There are 58,000,000 of those dollars current to-day, and there are \$66,000,000 of subsidiary silver coin. That makes a total of \$124,000,000 now in circulation. I take it that \$62,000,000 is their bullion worth and there is put up \$62,000,000 in bonds to make up the difference.

The CHAIRMAN. Not on that which is outstanding?

Mr. GRANT. Yes, sir. There is put up collateral also for that which is outstanding, to make up the depreciation of the current silver dollar.

Mr. WARNER. As I understand you, you propose to apply that to all subsidiary coinage so as to include coins of the denomination of half a dollar. That is practically your plan?

Mr. GRANT. Yes, sir.

Mr. WARNER. Why is there any more reason for a special deposit to make good that part of the subsidiary currency which consists of small pieces of the denomination of half a dollar than there is to make good any other part of less than one dollar?

Mr. GRANT. I treat them all exactly alike.

Mr. WARNER. In other words, we can rely upon our country using a certain percentage of subsidiary currency, without reference to its intrinsic value.

Mr. GRANT. Yes, the same as we do now. I want to make it better than it is. For every quarter that is out now, I would have put up another quarter. The dollar is worth only 50 cents to the Government and some day the Government will have to redeem them, and it is my plan to provide for this so as to enable the Government to finally redeem them.

Mr. WARNER. A quarter of a dollar is not worth by any means 12½ cents.

Mr. GRANT. I leave it to the Treasury to say what is its bullion value, whether at the rate of 50 cents or 40 cents on the dollar.

Mr. WARNER. You abolish the subsidiary coin, so far as that goes?

Mr. GRANT. Except as token money.

Mr. WARNER. You even abolish it to that extent?

Mr. GRANT. No, sir.

Mr. WARNER. That is to say, you put behind it the full amount in worth of bullion?

Mr. GRANT. I put up the amount that is lacking.

Mr. WARNER. Including the money itself?

Mr. GRANT. Yes, sir. If a dollar is worth 50 cents in bullion, I put up 50 cents more. If it is worth 40 cents in bullion, I put up 60 cents more. Whenever it is found how much the bullion value is, my plan supplies the difference in United States bonds and bullion.

Mr. WARNER. Do you apply the same principle to the nickels and copper cents?

Mr. GRANT. I do not apply it to the minor coinage, only to the subsidiary.

Mr. WARNER. I understood you to say you applied it to the half dollar?

Mr. GRANT. It is included in the subsidiary coin.

Mr. HENDERSON (to Mr. Warner). He is not talking about the minor coinage.

Mr. WARNER. I understand it. When you come to add to the dollar the subsidiary coins, and to extend the principle of the subsidiary currency so as to include coin of the denomination of half a dollar, you

would have three times the coinage of one silver dollar, which, although it is full weight, is to-day worth only about 50 cents. Then you will have another series of coins—the halves and quarters and dimes—which are worth, say, only about 35 cents on the dollar; and then you will have another denomination, or a sort of subsidiary coinage, namely, the nickels and cents, the value of which is so small in comparison with the amount they represent as to be practically token money, considering their actual value. As I understand Mr. Grant, he proposes to increase the value of the dollar enough to make it worth its bullion value; and I also understand that he proposes to include the 50 cents and 25 cents.

Mr. GRANT. And dimes; I do not go further. The other is known as minor coin.

Mr. COX. Suppose you take 100 silver dollars now in the hands of the people, and you want to make them more valuable. The Government executes its bonds for 50 cents more on each dollar, which is put back of these 100 dollars. It is put up to make the full value one dollar?

Mr. GRANT. Yes, sir.

Mr. COX. Now we have got to a definite understanding. Suppose I go to the Treasury and say that I have \$100, and I want to settle with the Treasury. I say that the silver is worth \$50, and the Government has got \$50 behind that as a protection.

Mr. GRANT. Then the representative of the Government will hand you over \$100 in gold or its equivalent in silver bullion for your silver dollars, which are worth only \$50 intrinsically.

Mr. COX. Then in that case silver would be redeemable with gold?

Mr. GRANT. Yes, or its equivalent in silver bullion.

Mr. COX. That is there only as a collateral, or promise of the Government to pay.

Mr. GRANT. I do not want any promises to pay as the basis of our currency. I have got collateral put up in the shape of bullion and United States bonds as the only sound basis.

Mr. COX. You could take the bond and sell it.

Mr. GRANT. If I have the bullion, I will give you the bullion. There will be a bullion reserve of probably 40 per cent.

Mr. COX. Then it must result that the man who holds the silver dollar, worth intrinsically 50 cents, has the other 50 cents protected either in silver bullion, gold, or bonds?

Mr. GRANT. Yes, sir.

I am very much obliged to the gentlemen of this committee for their kindness in granting me this respectful hearing, and appeal to you to hasten forward the legislation needed to remove the stigma resting on our good name, and make good our currency at home and abroad. Our people are now looking to your committee for a speedy solution of this much vexed currency question.

Thereupon the committee rose.

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## ERRATUM.

On page 194, near bottom, caption of bill, for 1591 read 1951.

