

NELSON ALDRICH

Monetary Commission

MISCELLANY

From Alden Anderson (formerly Superintendent of Banks of California)
President ~~the~~ Redding National Bank, Redding, California. 16717
Oct 17
~~October 10, 1911.~~

Double Lead

2. ~~(A)~~ Believe that the percentage should be different for different localities to take care of the business of the particular section in which the bank is located.

Enclosed find the list of questions asked national banks with reference to savings accounts in national banks, duly answered. All of the answers meet with my approval.

I have had considerable experience as first Superintendent of Banks under the recently enacted California Bank Act which permits departmental banking. I would say that the plan in practical and actual operation, is to my mind entirely successful and I can, without reservation, recommend it for the national system. In fact, I hope that it will be put into effect.

If there is any information on any special point that I can give any time, I am yours to command.

Very truly yours,

Alden Anderson.

~~Formerly Superintendent of Banks~~
~~California~~

From

Double Lead

16717 18

The Bank of California N. A., San Francisco, California.

#

2. We would favor an amendment to the National Laws, making it possible for banks under national supervision to do all kinds of legitimate banking business (commercial, trust and savings) to the end that there might be but one uniform system of banking and that under national laws. The savings and trust departments could make the real estate loans - the commercial departments should be kept liquid. We get "lock-ups" without hunting for them.

#

State banks and State Savings banks and Trust Companies are now competing with national banks for commercial business. National banks now have \$650,000,000 savings deposits. National banks now doing trust and savings business through State institutions - next door or down stairs, by stock ownership tied up in such a way as to make the two banks virtually one - except that only one is under national supervision, - national bank laws not fitted to banks outside of cities of say 50,000, - ideal bank in smaller cities and country one that can do commercial, savings, trust and safe deposit business, in fact banks in larger cities find it necessary to do all these classes of business.

We lose our commercial customers when we have to send them to our rivals, because we cannot do the particular financial business that they want done. We lose the many years spent in building up a commercial customer, when he dies, as his will is found lodged at a Trust Company, who from that time on has his heirs as clients.

Departments should be kept separate > cash separate > statements should be published showing condition of all departments and combined totals. The national system would double in a few years if this were done, it should be done, the business is legitimate and we should be able to give our clients financial aids of all kinds and character - in one institution under one set of laws instead of having to beat the devil around the stump and form several institutions under several laws.

F. B. Anderson,
President,

[Ham] ↑
Double Lead

16717

19

~~The~~ First National Bank of Auburn,

P. O. East Auburn, California.] St. L. C. C. W. T.

~~October 18, 1911.~~

Referring to the enclosed circular, I would say that it does not quite show the real condition as it exists here and some of our reasons for thinking as we do on the subject. A short letter of explanation may be of service.

When the First National opened for business we had a savings department, but there was very small demand for commercial loans and a large demand for real estate loans. The savings accounts grew faster than the commercial, two to one. They grew so fast that on account of the big demand for real estate loans we were forced to put in an entirely separate bank to handle that branch as nationals were forbidden to loan on real estate. At the present writing after three years of business in a country bank, our commercial deposits are \$85,000 and the deposits of the savings bank are \$163,000. The commercial loans are \$40,000 as against \$160,000 in the savings bank, all of which are real estate loans, made in accordance with the present strict law of this state. Had the national law permitted the loaning of savings deposits on real estate, it would have been unnecessary to have organized the savings bank and we could have helped our community more.

Yours very truly,

G. W. Brundage,

Cashier,

Fraser

Double Lead

16717

20

First National Bank, Boulder, Colorado.

St. Louis
center

No. 2

This would allow national banks to accommodate first a borrower who is their customer or otherwise upon a basis of 33% or 50% of a conservative valuation, secondly accommodate your customers or otherwise who seeks an investment by selling the same to him. In troublous times they would be better, in my opinion, than bonds, for the reason that a timid customer would more likely accept a good real estate loan on local property for his deposits than he would a bond.

Real-estate mortgages are in demand here, while bonds are hard to sell, because of low rate of interest, and running for a long time. The investor can immediately acquaint himself with the security behind a loan, while it is hard to satisfy him on the bond.

No. 5.

I would keep the savings deposits separate and in other books, and not be restricted in investments, as are the mutual savings banks of certain states. Make these loans of the greatest use to the community where located, and subject only to conditions locally.

I think if we keep our money close at home, we do the country more good than to put it elsewhere, and when conditions are disturbed to further aggravate the situation by withdrawing the funds, where they have been counted upon for use, and probably where they are most needed.

Chas. H. Cheney,
Cashier,

[Him]

Double Lead

16717

21

The Torrington National Bank, Torrington, Connecticut.

8 pt cents

October 10, 1911.

I herewith take pleasure in enclosing to you answers to questions submitted to our savings department.

This department was established soon after the organization of the bank over 10 years ago and has proved very satisfactory. It has helped the town in encouraging people to open savings accounts and has made a bank, which otherwise might have had hard work to earn dividends, pay good returns to its stockholders. While we have a provision in the deposit book that the directors may demand 30 days notice upon the withdrawal of any sum less than \$500 and 60 days notice on any sum exceeding \$500.00, it has never been necessary to enforce this condition, all deposits having been paid upon demand and check or deposit signed by the depositor or payee of depositor's order with deposit book attached.

With nearly half of the national banks of the country already having established savings departments without any legal objection having been discovered against it, it would seem peculiar to me, at this late date, to enact a law authorizing such departments. As it seems to me, a national bank with a savings department, required as it is to carry 15% or more reserve against these savings deposits which can be, in case of panic, put upon time, is much safer than a bank whose entire deposits are subject to check. ~~If I can be of any service in giving you any further information in regard to our savings department, I shall be very glad to do so.~~

I would like very much to get a list of the banks which have savings departments especially in the New England and Middle States and, if it is not asking too much, I wish you might, at your convenience, have such a list compiled and forwarded to me and any expenses attending it, I will be pleased to pay.

~~Very truly yours,~~

Hosea Mann,
Cashier,

Brown

Double Lead

16717

22

The North Georgia National Bank, Blue Ridge, Georgia.

Conley

~~October 26, 1911~~

#

Referring to enclosed inquiry and answer thereto beg to say we would favor a law authorizing national banks to loan a certain per centage - say fifteen to twenty of their deposits on real estate security. They should however be restricted to short time loans, making regular commercial loans you might say with real estate liens as ultimate security.

If national banks should maintain savings departments they should be separate and should provide for notice of withdrawal and such notice should be enforced. Then they might be allowed to loan the bigger per centage of such deposits on real estate security, but such national banks should not be allowed to loan any part of their regular commercial deposits on real estate security.

National banks, in our opinion, should be allowed to make a conservative amount of real estate loans on short time, but they should not enter too much into the savings-bank field with the attendant long time real estate loans. National banks should be commercial banks pure and simple, but should be allowed a little latitude on real estate loans to enable them to take care of the legitimate business of the community that can hardly be handled outside of real estate security.

~~Yours very truly,~~

F. E. Conley,

Vice President,

From

Double Lead

16717

23

The Ayers National Bank of Jacksonville, Illinois. } cont

It is of vital importance that national banks situated in agricultural districts be permitted to make real estate loans, otherwise they are unable to compete with State Banks and Private Banks in the community. For illustration we will say that a customer of a national bank calls for a loan. He is a farmer and owns 160 acres of good land. Joining him on one side is an 80-acre farm for sale which he wishes to buy. In order to do so he will have to borrow the money and says that it will take about three years for him to pay it back. He offers real estate as security, putting in the mortgage the 160 acres which he already owns and the 80 acres he wishes to buy, thereby securing the loan by 240 acres making it perfectly satisfactory. The loan is refused on the ground that it is a National Bank and not permitted by the government to make real estate loans. The customer is surprised, likely indignant. He goes to a State or Private Bank and is immediately accommodated, the national bank losing a very desirable customer.

From 11

Double Lead

16717

24

First National Bank of Hamilton, Hamilton, Illinois.

Leuter

November 4, 1911.

Herewith I am pleased to return your circular of October 9th, stating our opinion of the proposition of allowing national banks to invest a part of their funds in farm mortgage securities. In my opinion federal supervision of national bank investments should deal primarily with ~~two~~ things:

First - and always, the safety of the investment, and by that I mean the certainty of its final payment.

Second - Availability, which is properly divided into two heads:

- (a) Date of maturity.
 - (b) Convertibility.
- (real estate mortgage)*

It can safely be taken for granted that no reasonable person will question the final security of a farm mortgage conservatively taken, and no other one thing would add more to the convertibility of this particular security than their admission to the note file of national banks.

For many years it has been the established policy of the government to encourage and support agriculture, the farmer, and to my way of thinking, nothing would do the debt burdened farmer more good than a federal law, or a ruling of your department, that would give the dignity and prestige to his farm mortgages that the real intrinsic value of his farm mortgage merits, and no other one thing would more strengthen the position of the rural national banks.

Yours very truly,

R. R. Wallace,
Cashier,

[Fraser]

Double Lead

16717

25

First National Bank of Kankakee, Kankakee, Illinois. } center

October 25, 1911.

In rich agricultural localities like our own, real estate mortgages are the safest security available. State banks make such loans, result, loan up close at all times on gilt-edge home paper, at good interest rate, while national banks when money is plentiful, must hunt for commercial paper from all parts of the country, at low rate of interest or funds remain idle.

If any question exists in your mind on this point, note increase in new state banks in Illinois as compared to national banks. A careful investigation throughout Illinois by your office will substantiate every work of this letter.

~~Yours very truly,~~

C. R. Miller,
Cashier,

From Homer A. Miller, President, 16717

26

Iowa National Bank, Des Moines, Iowa. *cut* November 7, 1911.

Double Lead

Your letter of November 3rd received, which is the first letter of the kind that has come to my notice, and I am pleased indeed to answer.

To your question No. 1 -- Does your bank receive savings deposits -- I have had to answer no, as we do not have any time or savings deposits of any nature in our national bank, but following that I have changed the word "department" to "bank", and have answered the balance of the questions along these lines, as we have a savings bank in the same room with our national bank, and you will find correspondence in the neighborhood of two years ago that advised you along these lines, in fact, we advised with you as to whether we would be able to do this.

Our national bank has a capital of \$1,000,000, and surplus and profits of over \$400,000. This is called the Iowa National Bank. We have a savings bank, which is called the Des Moines Savings Bank, and we have a capital of \$200,000, with nearly \$100,000 surplus and profits in that bank.

These two banks are located in the same room, one on one side of the house and one on the other side of the room, but are kept entirely separate, with separate books, and are accounting to your department for the Iowa National Bank, and to the State authorities here for our Savings Bank. I have always given your bank examiners the privilege, and requested them to make any examinations they wished of the savings bank at the time they were looking through our national bank, and they have always felt free to make any inquiries or any personal investigation at all times, and they have tried at times to get the State Department to work here at the same time with them, and succeeded some of the time in making an arrangement of this kind.

I have been in the banking business in Iowa for thirty years, have passed through two panics, have had splendid experience with time deposits, losing a very small amount of time deposits under panic conditions. My experience with farm mortgages has been fine always, and especially during the two panics, finding people who wanted to invest at those times in first mortgages on farms, and increased our available during both panics by the sale of five-year farm loans.

Mr. Aldrich in his latest addition, in the way of suggestions to the Monetary Committee, under date of October 14, 1911, has advised that national banks be allowed a savings department, in which they shall keep a reserve of 40% of that required of demand deposits in the same locality, and that they shall be allowed to loan 40% of their savings deposits upon productive real estate, the loans not to exceed 50% of the actual value of the property.

I think these are two excellent suggestions and will aid the business interests of the United States materially, and is a very safe feature, but my experience would warrant me in increasing the per cent. of savings deposits allowed to be loaned on real estate to 60 or 70% because:--

First, the savings deposits are very seldom and almost never called upon, the average deposits for the year running along in the usual way;

Second, 30% of cash and short time notes would be ample to cover any shrinkage which it seems to me could possibly occur;

Third, if my experience of thirty years is of value, farm loan paper in times of trouble one is able to realize on better even than short time demand paper held by the commercial department of our banks.

I very much hope the suggestions of Mr. Aldrich on real estate loans, the savings department in national banks, the reserve requirement, and the thirty days notice privilege on time and savings deposits, may be adopted as they would be of great help. ~~In that case we would handle our business as follows:~~

[From
x
3

Double Lead

16717

27

The First National Bank, Waterloo, Iowa.]

cut

~~November 6, 1911.~~

~~I have yours of the 3rd inst. returning to me questions and answers propounded in your circular of the 9th inst.~~

~~I did not answer question No. 5, for the reason that I did not know what the several laws of different states was governing deposits in mutual savings banks.~~

It would not be my idea to segregate more than ⁵⁰ fifty per cent of the deposits and invest them in real estate mortgages. In other words I would think that ⁵⁰ fifty per cent should be a sufficient amount to invest in this way, and the balance invested in short time commercial paper.

~~Trusting this will answer the question to your satisfaction, I am,~~

~~Yours respectfully,~~

F. J. Eighmey,

Cashier,

From

Double Lead

16717

28

First National Bank, Dyersville, Iowa.

center

~~October 16, 1911.~~

~~Answering question 2 more fully, will say: Dyersville has perhaps more deposits than any other town of its size in Iowa. The deposits as they are represent farmers' money or at least 4/5 of the deposits, and this being strictly a community of German farmers, it naturally follows that the farmer thinks and knows that there is no better security than a first mortgage farm loan. Up till two years ago Dyersville had no national bank. When this bank started, the talk was and got general that we could not loan on real estate (no doubt originating and being furthered from our competitors), had to invest and take on as loans outside commercial paper, which latter is in the eyes of our farmer depositors exceedingly bad and dangerous. We have therefore been and are now handicapped in not being able to loan on first farm mortgages, and feel and know that we always will be and will not be able to get and command our share of deposits and insure and bring confidence to our people unless we are allowed to loan at least a certain percentage of our deposits on real estate. While we are surely anxious to have the national banking law amended as to the above, we know it is important that this is done and earnestly hope that good results are forthcoming and will thank you for your efforts in this way.~~

~~Your truly,~~

H. B. Willenborg,
 Cashier,

[From 7]

16717

29

Double Lead

First National Bank of Sheldon, Iowa.] center

real estate mortgages

I 2, (X) I think it is a great injustice to national banks in farming communities that they are unable to take R. E. mtgs. on farm lands at least. The business of the Iowa banks is almost entirely with farmers and there is no better paper offered any place than the Iowa farmers notes. I know several State and private banks in this locality that carry a lot of real estate mortgages and when close times come, they have placed new loans with the insurance companies, and paid the bank up. These banks have had paper that was more available than a lot of the commercial loans that were floated during 1907.

A There are a good many country banks that have hard time getting all the good loans they need, and they would be glad to take a certain amount of real estate paper on their customers. Many times they have to sell off the No. 1 real estate secured paper and then look for paper away from home which they don't like nearly as well, and which they have to take on recommend of some other bank. I think in some instances the assets of the banks would be better. A farmer may owe the bank a good sized note that the banker would really prefer to get secured on the farm but it seems to be contrary to law, so he keeps the note without the security or takes mortgage and fails to show it to the examiner. The country bank ought to have privilege of taking the loans without regard to savings deposits as savings accounts are small in rural communities.

From

Double Lead

16717

30

~~The~~ First National Bank, Marengo, Iowa.

Curtis

October 20, 1911.

We enclose herein information requested in your favor of 9th instant; and for further explanation, we can advise that we have The Iowas County Loan & Savings Bank, in connection with our national bank and the same being conducted in the national banking room. Our savings bank is a corporation with a capital of \$15,000 and the stock is held entirely independent of that of our national bank, however it is conducted by the same office force, but under a different directory.

Our savings bank carries deposits of nearly \$340,000, the same being represented by time certificates issued for three months or longer periods, aggregating nearly \$300.00 and we have a special savings department with nearly \$40,000 of savings accounts. This savings department represents nearly 350 accounts. The combined deposits of our banks will run from \$525,000 to \$600,000.

The deposits of our savings bank are invested mostly in farm mortgages, the loans being secured by first mortgage on lands within our own state.

It is our opinion that if there could be some amendment to the National Bank Law permitting national banks to loan a portion of their deposits on real estate that it would broaden the field of the national banks and thereby discourage the operating or organization of savings banks in connection with national banks. From our own experience we find that the national bank business is stimulated and made more profitable where it is in a position to handle farm loans conveniently and with the law as it is, our national banks in this section of the country are more or less handicapped unless they possess the facility of a savings bank, such as we have in our building.

~~Yours truly,~~

Frank Cook,

President,

[From]

Double Lead

16717

31

Second National Bank, Dubuque, Iowa.

Center

Dec. 1, 1910.

It is my recollection that a recommendation was made to Congress, by you or your predecessor, regarding the investment in farm or real estate loans, of a portion of the savings deposits of national banks. My interest in the proposition prompts me to express my views and I trust you will pardon the liberty I take in presenting them to you.

Whatever may have been the objection to real estate loans, as a means of investment of the funds of national banks, in the minds of the original framers of the National Bank Act, it is certain that conditions have changed so radically in the past twenty years, as to warrant a reconsideration of the subject. There has been a large investment of funds in Western lands, creating in some localities a basis of credit resting upon real estate security only. National banks operating in such localities must either evade or violate the law prohibiting real estate loans, or else must loan upon open credit, without security. In either case the credit is based upon the ownership of real property, but in one case security is absolute by transfer of title, and in the other case the payment of the debt is subject to interventions and hazards over which the bank has no control. And these conditions do not prevail in strictly agricultural communities alone, but effect banking operations in the small cities to which such communities are tributary.

To meet the situation, national banks which desire to conform strictly to the law and yet supply the requirements of those to whom they look for business support, have found it necessary to organize institutions under State laws, such as Savings Banks and Trust Companies, to operate in connection with the national bank under the same management and control, thereby providing a channel for the investment in farm loans of funds which would otherwise be forced into more hazardous lines. It seems clear that the efficiency of the national bank suffers by this division of its deposits in separate organizations, and that the business could be handled more safely, more profitably, and more advantageously in the one institution.

Under the provision of the National Bank Act permitting savings departments in national banks, a way is opened for uniting in one institution the privileges granted both in a national and a State charter, which would largely increase the value and efficiency of the national banking system. It would seem to be a reasonable and safe proposition that a national bank should be permitted to loan upon real estate security (upon the usual basis of one-half of the appraised value) one-half of its savings deposits, and that the remaining (outside of the required cash reserve) might be invested in listed bonds or securities approved by the Comptroller of the Currency or other officers of the Treasury Department. Should a law be enacted embodying these provisions, it would result in the coalition of banks now practically operating under two charters, would materially increase the deposits under national bank control, would enlarge the scope and efficiency of the national banking system, would provide more substantial security for bank assets, and would furnish a more liquid form of investment for savings deposits. Furthermore, it would do away with a restriction which is openly violated or evaded by many national banks at the expense of their more conscientious competitors.

I trust that you will continue to urge legislation along this line, in which I am sure you will have the support and approval of a large majority of national bankers.

[From]

Double Lead

16717

32

Union Stock Yards National Bank, Wichita, Kansas.

Center

~~October 14, 1911.~~

Referring to the attached, I beg to advise that the answers are the personal opinion of the writer as the matter has not been discussed with the other officers and directors.

We have received practically the same inquiry from other sources and it seems there is an attempt being made to gather statistics of this kind and we understand that there is a plan on foot to have the National Banking Act amended so as to permit national banks to make real estate loans.

This is a proposition to which I am emphatically opposed as I believe that national banks should be commercial banks in the stricted sense of the word. Their loans should be commercial loans in the real meaning of the term and all forms of capital investment, underwriting, bonds, stocks, and such investments, as representing fixed, as opposed to liquid, should be prohibited. In other words, we have properly three fields for banking institutions. First; State and savings banks; second, Trust Companies and third, national banks. Each has it's separate and distinct field of usefulness and should be organized and equipped to handle it's own particular line of business and should not be permitted to encroach upon the functions of either of the others.

National banks should be prohibited from paying interest on any form of deposits whatsoever, especially on the balances of other banks. While we are offenders in this sense, as we accept time certificates of deposits, savings accounts, and pay interest on bank balances, it is because of competition and not through any desire on our part.

I beg to remain

~~Very truly yours,~~

F. T. Ransom,
President,

[From]

Double Lead

16717

33

Citizens National Bank of Monticello, Kentucky.

October 14, 1911.

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2. ~~14~~ 20 per cent. I think this safe and conservative. In country banks we lose, not only desirable and advantageous loans because not allowed to loan on mortgages on real estate, but as a consequence of this inability, lose also some good deposits. Depositors go where they can get loans when needed.

A

If question 4 means that loans on real estate mortgages are to be restricted to the savings department, and that such loans cannot be made with other deposits, I say, no; but if it means that such loans by the savings department are to be limited in amount, as is the case with other deposits, I say: yes.

I think it will be very helpful to country national banks to be allowed to lend on real estate mortgages, say to 20 per cent. of their deposits.

~~Very respectfully,~~

J. P. Harrison,
Cashier,

Shoup

16717

34

Double Lead

National Shoe & Leather Bank of Auburn, Maine.

Curt

2. (A) Not exceeding 10%. Experience has shown that banks should have the privilege of accepting a mortgage on real estate.

4. (A) If restricted to deposits in savings departments, national banks not operating savings departments are at disadvantage.

5. By so doing it will seriously interfere with the ability of a national bank to accommodate its customers as ^{it is} now doing. A savings department would lose much of its value and to make it profitable would necessitate a larger investment in bonds with less resources with which to care for commercial customers. No. 5 is favored by bond dealers. Commercial paper is a more liquid asset than bonds. Why lockup assets in non-liquid securities.

C. L. Smith,
Cashier.

Fraser

Double Lead

16717

35

The City National Bank of Belfast, Maine.

Center

~~October 14, 1911~~

In connection with your circular inquiry of October 9 herewith attached, I wish to add in relation to question five:

There should be no segregation of savings deposits from commercial deposits other than a separate system of bookkeeping which is already universally practiced. There certainly should be no distinction made in the loaning or investing. The savings dollar is no more sacred than the commercial dollar; both are sacred, equally so, and should stand on the same footing.

The present national banking laws as applied to the handling of deposits of the national banks, in our opinion, cannot be improved upon. The moment you begin to hedge about the investing possibilities of banks with abstract, unnatural and inflexible laws, that moment you begin to weaken the banking situation. The safety of every bank depends principally on the judgment, ability and integrity of the management thereof. To our minds, the weakest points of our strictly savings institutions today, are the laws by which they are supposed to be safeguarded; their safeguards are their weaknesses.

The infinitesimal percentage of failures of national banks and losses to depositors thereof, as compared with the failures and losses in savings banks and other state institutions, verifies the above statement.

~~As suggested in your inquiry,~~ we believe that national banks should be permitted to loan a proper percentage of their capital and surplus on real estate security. We further believe that the reserve required on deposits can be safely reduced to the extent of one-half of the present reserve on the amount of savings accounts, that the required reserve should be so reduced.

~~Yours truly,~~

C. W. Westcott,

Cashier,

[From Wm Ingle, Cashier,

16717

35

Merchants National Bank, Baltimore, Maryland.

October 10, 1911.

Double Lead
Double Lead

Acknowledging the receipt of your circular letter of October 9th, which we are returning herein after noting thereon a direct reply to its several inquiries, I beg to suggest that in view of the importance of the subject to which it has reference and the nature of the questions, it is hardly possible in my judgment to give such direct and short answer and respond to the purpose you had in mind in issuing the circular. The answer "no" to your first question relieves us of the necessity of making comment upon its subdivisions. To your second question my answer would be "yes", but here it is necessary to make qualifications. In practice and notwithstanding the law to the contrary, many national banks, particularly those located away from the centres, have in their assets a very material mass of loans, many times with mortgages attached but possibly more commonly holding only a principal note, the mortgage security being held in escrow and out of the bank. In other words the country bank is almost obliged to loan some of its money on the security afforded in the ownership of the land. In their situation there is no good reason why they should be denied the privilege of protecting themselves in such transactions by accepting security of record if for no other reason than to permit them to the limit of prudence to compete with State chartered institutions. I, therefore, feel that the banks in communities numbering less than say a population of 100,000 people should by law be permitted to invest 25% of their assets in mortgage loans on property within a radius of an agreed number of miles of such town and further provided that the aggregate amount of such mortgage loan should in no case exceed the sum of the capital stock and surplus of the bank in question.

In cities having a population of 100,000 or more, by which I particularly mean the reserve cities of both classes, I think it would be most unwise to permit national banks to accept or hold mortgage loans except as now provided by law. While conditions in the country banks are apt to be more or less fixed in their nature, the prime duty of a reserve city bank should be to have as great a proportion of its assets in liquid form as is possible and we all know that even without the presence of mortgage loans it is extremely difficult to avoid the accumulation of paper secured or otherwise perfectly good at bottom but upon which it will be next to impossible to realize promptly enough to serve any practical purpose. While approving of an amendment to the law specifically authorizing national banks to establish savings departments, I feel that in their regulation the same general principles should apply as those above suggested. In a city large enough to own 100,000 inhabitants or more there can always be found savings banks, building associations, etc., which can comfortably care for all mortgage loans offered.

A national bank in such a city in its savings department should if carefully managed prefer to have its savings assets invested in "quick" directions, although I recognize the fact that many very handsomely engraved bonds are more unsaleable and less secure than many mortgages on land payable five years after any given date.

-2-
Double Lead

Answering question 5, I possibly am disposed to take what may be the unpopular view and suggest that it would be unwise to attempt segregation of savings deposits. While I think the law should require that all national banks in investing their funds whether current or from their savings department should be made to closely adhere to the rules laid down in the law of certain States governing the conduct of mutual savings banks, it might be unwise to attempt to differentiate too widely between the two classes of institutions, both under the same roof and management. The opportunity and temptation to juggle bookkeeping would be great. There is no reason in my mind why a savings depositor in a particular bank should have afforded him better security than a current depositor in the same institution but they both alike should on equal terms be given the security afforded by the bank's capital, surplus and the personnel of its management.

When all is said such a savings department is merely intended to be a feeder for the main body of the bank's business, and while I think the law should recognize the propriety of owning such a feeder it should not make it easy for the management of any bank at their pleasure to discriminate between them as far as security is concerned.

~~Very truly,~~

~~Wm. Ingle,~~

~~Cashier.~~

[From]

Double Lead

16717

30

[First National Bank of Petoskey, Petoskey, Michigan.]

October 12, 1911.

Referring to the information asked for in your circular regarding "savings deposits" and "real estate loans in national banks", would say that we are very much interested in this.

We strongly feel that national banks, particularly outside of the large cities, must be allowed to take real estate loans; safely guarded as to values and total amounts, if they are to compete with the State banks.

In Michigan I think it is regarded that we have a good State Bank Law and I do not see how a national bank, where the competition is strong, can compete today, and hold our volume of business against the State Bank, with its equipment to do business.

Some way and some how the national bank must be allowed to take the best security that can be had, which is, a real estate mortgage.

We would particularly urge the department to assist all they can along this line.

The reports from your examiners must certainly show the condition, all over the country, bearing on this subject.

Respectfully submitted,

Chalmers Curtis,

Vice President,

[From]

Double Lead

16717

39

~~The~~ First National Bank, Hancock, Maryland.] - 8 pt

October 16, 1911

In reply to your question 2 (A) would call your attention to the fact that the country banks at present are as a rule unable to loan their money in their own locality but must buy railroad bonds and commercial paper, the value of which they have no definite knowledge and from which the community from which the money is drawn derives no direct benefit, the banks receiving in most cases a low rate of interest.

~~The city banks are permitted to own these bonds which are nothing more than a mortgage and retail same out to the country banks and are in a position, if they so desire to load the country banks up with undesirable securities.~~

Should the country banks be allowed to loan on mortgage they could invest their money at home where it would be helpful to them and the community, they would be entirely independent of any city bank, which is clearly the intent of the National Banking Laws and in time of panic or depression would have something which they could readily dispose of in their own locality, when the best foreign security they might have must be sold at a sacrifice.

~~Respectfully,~~

R. J. McCandlish,

Cashier,

Banks
of
France



All practical political economists being agreed on an asset bank note currency, the question for us to consider is the instrumentality for carrying it into effect. That may be done in two ways: by ONE BANK OF ISSUE or by MANY BANKS OF ISSUE. Under the MANY bank plan we would have the old state banking system under Federal supervision, and consequently no system. The ONE BANK OF ISSUE plan is ONE BANK OF ISSUE-A SYSTEM; MANY BANKS OF ISSUE- NO SYSTEM. the only one which will give system to our banking business and effect its thorough reform. This ONE BANK OF ISSUE plan may be accomplished in two ways, ONE bank for the whole country, or SEVERAL DISTRICT BANKS for the different sections. ONE BANK OF ISSUE for a country doing 25% of the commerce of the world would be too large. Therefore we contend that the only logical solution would be SEVERAL DISTRICT BANKS OF ISSUE. Granting the correctness of this position the only remaining questions are, the CAPITAL required and MANNER of their CONTROL, but on these two questions there is plenty of food for economic thought.

No people should have had less trouble on finances than we (but few have had less), for the framers of our Constitution made it so plain that the blind could see. Those delegates knew that one of the predisposing causes of the Revolutionary war was the insistence by the Colonies for the right to issue paper money,- a right never exercised by the British Government up to that time. So when they FINANCIAL POLICY WHICH assembled in Philadelphia in 1788 to begin their THE FRAMERS OF OUR CON- great work there was well nigh a unanimous sentiment for the destruction of the Colonial financial STITUTION CONTEMPLATED. ment for the destruction of the Colonial financial policy of paternalism and fiat money and adoption of that of the mother country, for the people were sick and tired of what they had, the delegates from Maryland being detained at home for three weeks on account of the financial conditions then existing in that Colony. To accomplish that they empowered Congress only,

"To COIN money, regulate the value thereof, and of foreign COIN".

They did not stop with such limitation on the power of Congress, but added this prohibition against the States:

"No State shall ~~emit~~ COIN money, ~~emit~~ bills of credit, (or) make anything but ~~emit~~ COIN a legal tender in the payment of debts".

The committee on detail added a provision empowering Congress "to ~~emit~~ bills on the credit of the United States". A motion to strike out that provision carried by the votes of nine states against New Jersey and Maryland. James Wilson, the great lawyer of the Convention, speaking on that motion said:

"If you clothe Congress with that power it will be exercised during the first great war in which we engage, and the government's resources for borrowing money will be destroyed".

Exactly what happened in 1862 when we issued the first batch of greenbacks. Our financial advisers having been taught that value could not be created by fiat of law, though at the enormous expense to the public and private credit, many other expedients were resorted to, notably our National Banking system, the principal object of which was to CREATE a MARKET for government securities.

THE FINANCIAL ADVICE OF OUR FATHERS VERIFIED SOON AFTER BY COSTLY FOLLIES IN EUROPE. We have paid dearly for the violation of the natural law of sound finance, but we are not alone in that. In 1797 the British government was in dire financial distress and forced the Bank of England to loan it \$5,000,000 gold. In order to compensate the Bank for that forced loan the Pitt ministry had Parliament make the bank of England's unprotected notes a legal tender in the payment of debts. As a result of that act its notes went below par and remained below par during the Napoleonic wars which were conducted on a paper basis. Such paternalistic aid was tendered the Scotch banks but declined, and their notes remained at par with gold during the whole period. This paternalistic act of the British Parliament was not repealed until 1825, during a greater portion of which period the Bank of England's notes were at a discount. That act caused the discontent which culminated in the celebrated Bank Act of 1844 making that great institution a mere store house for gold. But such is the penalty imposed for violating a natural law.

still another case we might cite is the history of France for the same period. In 1793, all French bank notes were prohibited and the government began issuing the celebrated ASSIGNAT. Laws were enacted fixing the maximum values for all commodities payable in ASSIGNATS with severe penalties for withholding them from the market. Specie exportations were prohibited and it was a crime to discredit an ASSIGNAT in private conversation. At the end of the third year a \$10 ASSIGNAT was worth but 1ct in specie. In August 1796 the French government saw the folly of such laws and repealed them, thus enabling the people to transact business according to the dictates of their individual consciences. Immediately gold began to flow into France. Banks were organized and their notes began circulating throughout the country and the whole of Napoleon's wars were conducted on a specie basis.

This brings us to a consideration of the financial policy of the mother country at the time of the adoption of our Constitution. As we have said before, up to that time the British government was content with COINING money, all CURRENT CREDITS (currency) being issued by banks, principally DISTRICT BANKS, especially chartered, for the several sections. The Bank of England was the largest,

MANNER OF CONTROL OF
THE BANK OF ENGLAND.

though Scotland, for nearly a century before, had had her independent banking system. In the first place the Bank of England is a monopoly, but such monopoly extends only sixty-five miles from London. It is controlled by a governor, deputy Governor and twenty-four Directors, elected annually by the Bank's ELECTORS. All are required to be subjects of England and make affidavit they own, in good faith and for their own use and benefit, the Bank's stock in the following sums, respectively:

The Governor	\$20,000	The deputy Governor	\$15,000.
Each Director	10,000	Each ELECTOR	2,500.

Each ELECTOR is entitled to but ONE vote, whether he owns \$2,500 or \$25,000,000 of the stock. Foreigners and corporations may own that stock and draw dividends thereon, but they can never use it to con-

trol that great public service corporation. Thus we have a RESPONSIBLE RESIDENT CITIZEN suffrage qualified in two ways, viz: (1) By the ownership of enough stock to mean a personal FINANCIAL loss to each ELECTOR in case of bad management, thereby preventing the DUMMYISM and INCAPACITY so frequent under socialistic and paternalistic control. (2) By CITIZENSHIP to make each generally interested in the clean and efficient SERVICE to be rendered by the corporation, but of the two his CITIZENSHIP interest out weighs his FINANCIAL interest.

We shall now compare the Bank of England's control with one of the modern "TRUSTS". Lets first define a "TRUST". Recent writers on corporation law claim the word, as now meant, derived its name from the practice of Mr. Ruckerfeller in procuring "trust certificates" from the owners of stock of corporations absorbed by the Standard Oil Company, thereby enabling him to vote the stock carried by such certificates in the election of the directorate who control the Standard. We may derine a "TRUST" to be,

DEFINITION

OF A "TRUST"

A mass of corporate wealth CONTROLLED BY ONE MAN (or a very few men) whose interests are OPPOSED to these who furnish it PATRONAGE.

A "TRUST" may be just as effectual by making the VOTING UNITS infinitesimally small as by making them abnormally large. The "mutual" life insurance company is a case in point. The NEW YORK LIFE INSURANCE COMPANY has 1,000,000 policy holders scattered all over the world, each entitled to one vote for the directorate which controls more than half a billion of wealth. The numerical value of each UNIT is $1/1,000,000$ of 1, but when we consider that few of them care little about their policies each is so small that it is a waste of postage to attempt to record them individually. Hence the elections go by default, there being but 62 votes cast at the election on April 12th 1908. But the "ins" in CONTROL make them most valuable through their well organized and highly paid agency force. Here is an example of SOCIALISM, pure and simple.

We shall now apply the foregoing definition of a "TRUST" to the CONTROL of the STANDARD OIL COMPANY and BANK OF ENGLAND. In the first place we find thirteen individuals owning a majority of the Standard's stock, their personal consumption of refined oil amounting to nothing, thus making them always interested in the HIGHEST price for that product, while their PATRONS are always interested in the LOWEST. Hence the political conflict between the masses who contribute and the few shareholders who are the recipients of that corporation's \$80,000,000 of annual profits. In the first place the VOTING UNITS are far more numerous with the Bank of England than with the Standard Oil Company and comprise the resident merchants and bankers of England who are more interested in the SERVICE of that institution than the dividends on their individual stock. If the question should arise as to whether the Bank of England should pay an 8% or 10% dividend and it were questionable whether the financial conditions would justify the larger, then the smaller amount would be declared, for the difference, 2%, would mean but \$50 to the average ELECTOR. But suppose it were a

ANTI-TRUST
 PRINCIPLE
 ILLUSTRATED

stock controlled institution and two individuals owned \$25,000,000 each, then 2% would mean an income of \$500,000 to each. In that case GREED

would control instead of SELF-INTEREST (selfishness) as at present. The directors of a corporation are business politicians who may be relied on to execute the will of those electing them to office. The ANTI-TRUST principle of the charter of the Bank of England is the death knell to CZARISM of CONTROL of that great public service corporation. No set of capitalists has ever been so daring as to attempt to secure control by fraud, for that would require the outlay of too much capital in the first place and the chance of losing it in such a fraudulent scheme has been a bar to any such attempt.

Am apt illustration of the ANTI-TRUST principle in corporate control is the FACTORY MUTUAL FIRE INSURANCE COMPANY of Boston, organized by the late Edward Atkinson, a most practical and sound political economist. That company has reduced the cost of fire insurance to its patrons 90%!!! Such feat has been accomplished by virtually eliminating the "fire waste" of property insured by it and reducing the expense of management to a minimum. Its risks are limited to its own membership. No new member is admitted unless its factory is equipped according to plans and specifications furnished by the officers of the FACTORY MUTUAL; and no old one can obtain insurance unless precaution is exercised to prevent fire, and its officers see to it that such precaution is actually exercised, for they believe in the motto that, "An ounce of prevention is worth a pound of cure". This is a marvelous record when we consider that the

COMMON SENSE SELFISHNESS	"fire waste" in America is \$2.80 per capita, as
vs.	against only 48 cts for Europe. Add to our "fire
SENTIMENTAL SOCIALISM	waste" \$1.39 per capita, the expense rate of conducting our fire insurance business and we have a total waste of

\$4.19!!!! Yet but 60% of our "fire waste" is insured. No country but ours could stand such a terrible drain. The FACTORY MUTUAL is controlled by responsible residents INTERESTED S O L E L Y in the S E R V I C E . Instead of wasting its members funds in a mad scramble for new business wise expenditures are made in preventing fires. A potent factor in that success is that those in CONTROL enjoy the unbounded confidence of the patrons they serve so well. In the beginning some there were who refused to incur the expense of equipping their plants to meet the views of its management, but when the management demonstrated, by actual experience, that such expenditures were necessary and would mean large savings to them in the course of time, they, too, came to their terms. Had there been many such companies, each fighting the other in bitter and unfair competition for business, such reform would never have been accomplished. O N E H E A D - A S Y S T E M; M A N Y H E A D S - N O S Y S - T E M .

In contrast with the marvelous record of the FACTORY MUTUAL we have narrated we refer to that of a SOCIALISTIC TRUST. Again we take the NEW YORK LIFE INSURANCE COMPANY, the largest of the "mutuals". During the year 1902 it made the following investments:

1. Atlantic Coast Line Company (Holding Co.) 4% T/C	\$5,000,000
2. International Navigation Bond Syndicate 4-1/2%	3,200,000
3. L & N - So Ry ("Monon Route") 4% T/C	2,535,000
4. No Pac- Gt No - C , B & Q 4% Coll	12,500,000
Total	<u>\$23,035,000</u>

All those securities were the creations and property of the promoting firm of J. Pierpont Morgan and company, and new flotations when sold to the life company. In those transactions one man, Mr. Perkins, acted as both buyer and seller, being chairman of the finance committee of the life company and co-partner of the promoting firm, in acting for the former he represented a million persons widely scattered who looked to him alone to protect their interests, whereas the

ILLUSTRATION SHOWING promoting firm had able financiers present to see
 SOCIALISM PRACTICED to it that their interests were protected, and
 RESULTS IN GREED they were well protected, for the life company

paid right at par for securities which private investors accured at a discount of one-third, a difference amounting to nearly \$8,000,000, a profit nearly twice that paid that year to its policy holders who contributed more than \$65,000,000 in premiums. The loss to that one life company's policy holders was not all the harm done by those four transactions, for they were the means of enabling the promoting firm to secure control of several important transportation lines without incurring any risk themselves, placing that on the life companies and loading down the railroads with large additional indebtednesses. The most pernicious TRUST in the country is the railroad HOLDING COMPANY, controlled by those INTERESTED SOLELY in the HIGHEST transportation rate commerce will bear, when the PATRONS seek the LOWEST. Hence the conflict, resulting in hostile legislation which is harmful to every class of business. R E M E D Y ; Rid the life companies of SOCIALISM by providing for their CONTROL by RESPONSIBLE and INTERESTED RESIDENTS who furnish them with premiums.

We shall cite an instance of the evils of PATERNALISM. It has long been the policy of New York for the Legislature to designate the identical securities in which the funds of their savings banks shall be invested. When Mr. E.H.Harriman was a dominant political factor the Chicago & Alton's bonds were, by such decree, so designated. Mr.Roosevelt, as governor, approving the act. After its passage \$68,000,000, 3% and 3-1/2%, new bonds of that road were issued and sold to the savings banks and life insurance companies right at par. Since then they have been quoted at prices which meant a loss to the original investors of more than \$20,000,000. In reply to a criticism of his act approving that bill, Mr. Roosevelt has said he did not know Mr. Harriman was interested in that railroad at the time. The public officials on whom such grave responsibility rests are not bond experts and are forced to seek advice second hand. The ablest expert could not give a reliable opinion without being in possession

ILLUSTRATION
OF THE EVIL OF
PATERNALISM

of all the facts. If the opinion relates to the future status and value of a bond he must know the maximum amount of possible future issues, an important fact not considered in that instance. But reliable financial advice costs something, and even when it is for sale the state is not always ready to pay the price. Therefore the representatives must resort to guess work and seek advice from whom they can, frequently from the willing members of the "Third House" in disguise. This principle of mixing business and politics is altogether wrong, and if persisted in will cause universal distrust in representative government. Because of the unbounded public confidence in the integrity of the executive who approved that act the harm extended only to those directly in interest, but the same thing is liable to happen to an absolutely honest executive who does not enjoy public confidence to that degree when the trouble will come. If the most ignorant man has sense enough to make and save money and select the bank in which to deposit it, certainly his FINANCIAL REPRESENTATIVES should be relied on in preference to his LEGISLATIVE REPRESENTATIVES to perform that duty, for if they err their FINANCIAL REPUTATIONS must suffer.

The true secret of the success of the Bank of England as well as the Bank of France is largely due to these five important facts:

THE TRUE SECRET OF THE	(1)	CONTROL by RESPONSIBLE RESIDENTS.
SUCCESS OF THE WORLD'S	(2)	CONFIDENCE in ACCURACY of statements.
GREATEST BANKS OF ISSUE	(3)	PERMANENT deposit of PUBLIC FUNDS.
	(4)	AMPLE, but not excessive, CAPITAL.
	(5)	And the fact they are MONOPOLIES.

We have heretofore discussed the MANNER OF CONTROL of the BANK OF ENGLAND and shall therefore confine our remarks to the other four propositions.

The BANK OF ENGLAND issues a weekly statement which is verified by CHARTERED ACCOUNTANTS of established reputations not in its regular employ. Concealment by them might mean their ruin, for they live by the work they receive from the business institutions of that locality, while publicity of the truth would enhance their reputations. In this they differ materially from accountants in the regular employ of such an institution to whose head they are responsible for their positions, for no one is free to criticise the acts of a man furnishing him meat and bread. The Scotch banks, by employing a similar self imposed inspection, have rendered obsolete the inspection provided by Parliament. Napoleon looked on this practice of the banks of England and Scotland with such favor that he made it a part of the organic law of the BANK OF FRANCE, its charter providing for the election of three CENSORS by its ELECTORS.

The BANK OF ENGLAND is the sole depository for the British government and agent for keeping those funds active, for without it they would be idle at certain seasons. Those funds range from \$5,000,000 to \$25,000,000, a small amount compared to the deposits belonging to the state, county and municipal governments of the United States which are now without fiscal agents. The phrase, "capital is timid", is so familiar that we regard it as axiomatic, but one notable exception is public funds.

There are two objects of bank CAPITAL, first to afford security to its creditors and second to furnish a reserve. But there are two classes of CAPITAL required by a BANK OF ISSUE, PERMANENT and TEMPORARY, or the CAPITAL proper and DEPOSITS, the object of the latter being to afford E C O N O M Y. If the PERMANENT CAPITAL be

CAPITAL CLASSIFIED;
OBJECT OF EACH CLASS

excessive it means a waste to the business interests of the territory for which the particular BANK OF ISSUE is created to serve. The CAPITAL of the world's great BANKS OF ISSUE is as follows: That of the BANK OF ENGLAND \$85,000,000, BANK OF FRANCE \$35,200,000 and that of the BANK OF GERMANY until recently only \$37,500,000. The second UNITED STATES BANK had \$35,000,000. The BANK OF ENGLAND'S capital is excessive in view of the restrictions imposed by the Bank act of 1844.

To demonstrate our proposition, THAT BANK NOTES SHOULD BE ISSUED BY A MONOPOLY, we have but to refer to the practices of the European BANKS OF ISSUE. For instance, when gold is too cheap and exchange runs against London the BANK OF ENGLAND steps into the market as purchaser, and vice versa when that commodity is too high, in which way that financial balance wheel keeps fairly stable their

WHY A BANK OF ISSUE
SHOULD BE A MONOPOLY

MEASURE OF VALUE- G O L D . If there were many of such banks there, each in bitter competition with the others for business, then no one of them could afford to buy or sell gold at a loss, but enjoying a MONOPOLY it can afford to lose by such transactions for a day or so, for such losses will be equalized by small profits extending over many months. Unless one bank be given a MONOPOLY for a certain district there can be no SYSTEM to the bank note credits therein, nor system in the banking business there. Again, where there are innumerable BANKS OF ISSUE for the same territory, good, bad and indifferent, the failure of one will bring distrust among the note holders of all.

THE BANK OF FRANCE'S CONTROL is modeled after that of the BANK OF ENGLAND, as it was in 1803, when Napoleon drafted the charter, with this exception, viz: That the Governor is selected by the French government from French citizens owning \$20,000 stock, this HEAD is vested with a VETO power only; the power to INITIATE or incur a liability is vested in the DIRECTORS; and the power to INSPECT is vested in the CENSORS elected by the ELECTORS. Here we have three separate powers in control, each independent of the others, the duties of no two conflicting. While the principal factors constituting this ARRANGEMENT of power were taken from the charters and practices of the ENGLISH and SCOTCH banks, yet the credit for thus ARRANGING and making them a part and parcel of the organic law of the corporate body, so as not to be abrogated or annulled by a by-law, is due to the wonderful constructive ingenuity of Napoleon. There is neither SOCIALISM nor PATERNALISM in it. The State is granted

MANNER OF THE CONTROL
OF THE BANK OF FRANCE

the privilege of electing the VETO power, not so much for lack of confidence in the capitalists but as a matter of RIGHT to give representation in control to the TEMPORARY CAPITAL, but to prevent dummyism and incapacity so frequent in socialistic and paternalistic control the State's selection is limited to those citizens owning \$20,000 stock. As the TEMPORARY CAPITAL is protected by the PERMANENT CAPITAL the latter is given the sole power to incur a liability. The MINORITY in interest but not in control of PERMANENT CAPITAL is represented by the INSPECTION- CENSORS. A corporation, per se, is both harmless and soulless. All harm results from those in control. The statesmen of France with one accord contend that the fact that their BANK OF BANKS has been made a P R I V A T E M O N O P O L Y has been the salvation of the State. And that is the truth, for when the Germans had possession of the Capital that great public service corporation negotiated a loan for \$250,000,000 and freed the government of her enemy.

THE FRENCH AND AMERICAN FINANCIAL SYSTEM COMPARED.

FRENCH.

ONE BANK OF ISSUE. ONE HEAD- A SYSTEM; MANY HEADS- NO SYSTEM.

AMERICAN.

ANY NUMBER OF BANKS OF ISSUE. MANY HEADS- NO SYSTEM.

R E S E R V E S .

RESERVE responsibility placed on CENTRAL BANK, and in case of financial flurry all banks come to its rescue with deposits. It is merely required to A N N O U N C E the status of its reserves, which vary from day to day to meet the varying laws of trade, as well as the fitful demands of caprice.

Each bank required to maintain its own reserve, and in panics each fights all others. The statute law FIXES reserve AS TEST OF SOLVENCY. Such political edict in reducing to an actual science that which is governed by a law as variable as the wind, is a monstrosity unknown to any country but our own. To meet the natural laws the statute laws are violated with impunity, and that with the consent of high officers sworn to enforce them.

B A N K N O T E S .

Maximum amount of notes virtually unlimited, - \$1,450,000,000. Each note is secured by BANK'S assets and issued immediately to meet the demands of trade.

Each note secured by bond worth but 70% as dividend payer; limited to each bank's capital and issued without reference to the demands of trade but only on the assumption that there will be a profit on each bond purchase.

M A N N E R O F P R O C U R I N G C H A R T E R S .

All charters granted by ONE government under a special act of Parliament, only to persons of good character where a necessity exists for additional banking facilities. If the political power should err in granting charter to bad characters, their power to harm the public may be destroyed by the refusal of the BANK OF BANKS to do business with them.

Charters granted under the general laws of 50 governments, two in each state. Each class is subject to the laws and regulations of different governments. Many persons procure charters from both, so they may do business under one which is prohibited by government creating the other class, and vice vers.

C O N T R O L O F E A C H .

The power of CONTROL vested in three SEPARATE classes; INATIVE (Directors); VETO (Governor) and INSPECTION (Censors). Each class being independent of the others, with clearly defined duties to perform which do not conflict with those imposed on the other two.

No attempt at SYSTEM in CONTROL. Frequently ONE MAN owns majority of the stock and elects himself as president and director and his friends as co-directors. If the ONE MAN be honest, as is usually the case, and he be a safe and experienced banker all goes well; if not, and scandal ensues, public distrust extends to all financial institutions because the public is taught to rely on the law and government supervision.

COMPARISON OF FRENCH AND AMERICAN FINANCIAL SYSTEMS (continued).

(FRENCH)

H E A D .

(AMERICAN).

The HEAD (Governor) is selected from limited number of RESPONSIBLE and INTERESTED residents owning \$20,000 of stock by the Minister of Finance, not so selected as much for distrust in capitalists as a right to government, the BANKS' largest despositor. The HEAD'S SOLE duty is the BANK'S affairs.

The HEAD (Secy of Treasury) is required to possess neither experience nor capital in banking or any other business. His time is occupied with momentous affairs of State; hedged about with law; responsibilities out of all proportion to the authority vested in him and is a constant target for political attack.

I N S P E C T O R S .

The CENSORS are PUBLIC EXPERT accountants, selected by the BANK'S ELECTORS- Minority in interest out of CONTROL. Changed frequently to prevent possibility of collusion. They accept the position more to aid their profession THEN applied than the salary it pays, but their reputations are enhanced most by strict attention to duty THERE imposed. Hence the INCENTIVE is not to conceal but give publicity to errors and "business politics" discovered by them.

EXAMINERS are not required to possess any knowledge of the science of accounting, and are frequently selected solely by reason of their "political pulls" Their AMBITION is either a continuance in public service (invariably in a line entirely different from duties THEN engaging them) or graduate into a lucrative bank office, to accomplish either the INCENTIVE. is to conceal important facts. That flagrant violations of plain statute law is frequently concealed is too well known for comment.

THE LESSONS TAUGHT BY EACH SYSTEM.

The French system teaches the public the TRUTH,- that a BANK note is a CREDIT to be destroyed when the necessity for its issuance ceases to exist and not remain in circulation to play thief in robbing labor of its reward.

The American system teaches the public a FALLACY,- that a BANK NOTE is MONEY. Therefore it remains in circulation until it wears out, thus inflating credit and creating panic.

CONFIDENCE OF THOSE GOVERNMENTS IN THEIR RESPECTIVE CREATIONS.

The French government deposits all its funds with its "BANK OF BANKS" on sole security of its capital setting an example to the public of its own confidence in its financial creation.

Our government sets ensnaring trap baited "legal reserve", "government supervision", etc. to entice the public to deposit their funds but exacts ample collateral security for its own.

THE BASIC PRINCIPLE OF EACH SYSTEM.

That RESPONSIBLE AND INTERESTED residents, operating under a charter clearly safe guarding the rights of the MINORITY IN INTEREST OUT OF CONTROL (a class always interested in clean and efficient corporate management) may be trusted to manufacture CURRENT CREDITS necessary to expedite the business of the country and protect all interests,- STATE, INDIVIDUAL and CORPORATE.

Under our free banking system the political power has attempted to appease every class by allowing all to engage in the business, but in putting it in execution distrust is manifested everywhere, for all are hedged about with law from start to finish.

The charter of the first UNITED STATES BANK reflected no credit on its intelligent author. It provided that the stock should be divided into 25,000 shares of \$400 each, of which 18,000 were owned by foreigners. Each shareholder was entitled to vote for the directors, in person and by proxy, one vote for the first share, one vote for next two shares, and so on, no one being entitled to more than thirty votes. Foreigners were entitled to vote on the same basis as residents in person only. No provision was made for the inspection by public expert accountants elected by the MINORITY IN INTEREST OUT OF CONTROL, and the secretary of the TREASURY was expressly denied the right to inspect its private accounts, though the government was the largest shareholder and deposited three-fourths of its funds with the bank on the sole security of its capital. A more ideal TRUST would be difficult to frame. Not only did the UNITS vary in value, thirty to one,- thus making it stock controlled instead of employing the stock to qualify the

SOME OF THE WORST
 FAULTS OF THE FIRST
 UNITED STATES BANK

RESPONSIBLE MAN,- but all the UNITS were required to vote for the same candidates, instead of dividing them into districts. Even now the best bankers of one state are not acquainted with the same class in an adjoining state, but with these of their own state it is otherwise, for there is a bankers association in each state. The mere ownership of bank stock carries with it no acquaintanceship of persons fit for such a position. Hence the HEAD OFFICE-CLIQUE CONTROL of that bank. Directors were elected in a manner unknown to the "provincials", similar to the "out of town" directors of the large life insurance companies at present who are given a few crumbs for the use of their names. The leading statesmen of the day charged it with practicing favoritism and its control being dominated by foreigners. This was denied by its defenders who pointed to the charter permitting them to vote only in person, but every experienced man knows that where one possesses the power to do a thing it is not necessary to actually exercise the same in order to enjoy the fruits of its force. Pass word down the line that such and such must be done and it is usually done.

The charter of the second UNITED STATES BANK was drafted in 1816 and contained all the imperfections of the first, except that it prohibited foreigners from voting and did not deny the right of the Secretary of the Treasury to inspect its business. It contained no provision for the election of PUBLIC EXPERT ACCOUNTANTS, the lack of which nearly caused its ruin before it had been in business three years, it then being involvent, owing ot its lax business methods and practices of favoritism, and would have gone into the hands of a receiver had it not been for the \$8,000,000 of government deposits. It also got into politics. All its directors resided in six states, all bordering the North Atlantic ocean, yet the west and south contributed largely towards its support. Business politicians who refused to do business on business principles resorted to politics for favors they were not entitled to on their merit. Its not our pur-

SOME OF THE WORST
 FAULTS OF SECOND
 UNITED STATES BANK

pose to discuss the great political "BANK war" which paralysed business in this country for a decade, its enough to say that the bank engaged in the presidential campaign of 1836 with all its wealth and influence and lost out, President Jackson being re-elected by a large majority. Feeling that the people had vindicated his act in vetoing the bill renewing the bank's charter, the President next had the government's deposits removed which proved the undoing of that financial institution. After such removal the bank continued several years under its Federal charter and when it expired it operated under a State charter, but the act of removing the government deposits so destroyed public confidence in it that it never afterwards prospered and had to liquidate at a great loss to its shareholders. Here we have two valuable lessons: FIRST, the INFLUENCE OF PUBLIC DEPOSITS;

SECOND, That a FEDERAL charter, per se, though it grants a M O N O P O L Y is no better than a STATE charter.

The faults of our old STATE SYSTEM are too numerous to mention, if that epoch in American financial history may be referred to as a SYSTEM. However, we shall direct attention to three of the principal faults. FIRST: The fault of faults was in its lack of a HEAD or directing force. Every one, so to speak, was in the banking business, and each bank was issuing CURRENT CREDITS. If a person of doubtful financial ability failed to secure notes from a responsible and conservatively managed bank, he could secure accommodations from a "wild cat" concern. So the failure of the "wild cats" to redeem their notes in gold brought discredit on the sound institutions. SECOND: The next fault was that most of them had insufficient capital, and the notes of the weak ones drove from circulation those of the best banks, thus illustrating the force of "Gresham's law". THIRD: The next greatest fault was that a large majority of

SOME OF THE WORST
FAULTS OF OUR OLD
STATE BANK SYSTEM

them issued notes altogether on commercial and individual deposits as reserves. Such deposits are entirely too timid to form the sole basis of a bank note circulation. The individual deposits his money with a bank confidently believing he can get it any moment on demand, and he is not going to wait until actual danger arises before making demand, for if there be a slight rumor that he may not get it on demand he is going to call for it. But with PUBLIC DEPOSITS this is not the case, for their custodians will investigate rumors, and in doing so are not crazy like individual depositors, and finding the bank to be solvent they are contented. Furthermore, PUBLIC DEPOSITS such as state, county and municipal taxes, are usually collected for ten to twelve months in advance to run those governments for that period, so that one may calculate with a degree of certainty as to their stage at all seasons. The bulk of such taxes in the farming sections are collected at the season the principal crop is marketed, that season when the bank's reserves should be largest and its most difficult to maintain them.

The advocates of our present NATIONAL BANKING SYSTEM made no claim that it would reform our currency or banking business. Their only object being to furnish a market for government bonds during a most devastating war. The bank notes have been made less secure by each amendment to the original act, beginning with a 90% issue of 5% bonds it is now a 100% issue of 2% bonds, and the only reason the latter are at par is because they may be converted into CURRENT CREDITS. Let us engage in a great war or meet with a few years hard times, thus necessitating a billion dollar bond issue and those bonds would fall to a dividend bearing basis and entail a tremendous loss to the banks and create a panic which would ruin the country. The scope of this paper will not permit of a full discussion of the many defects of our present financial system which is almost identical with that of the Colonies when the Constitution was adopted. We shall confine our criticism to two of the most important defects:

- (1) To the LACK OF ELASTICITY OF OUR BANK NOTES, and
- (2) TO the INFLEXIBILITY OF OUR BANK RESERVES.

PRINCIPAL FAULTS OF OUR
NATIONAL BANKING SYSTEM

(1) This LACK OF ELASTICITY is due to the fact that our bank notes are bond secured, the banks issuing and retiring them being actuated solely by the stage of the bond market instead of the demand for current credits. Hence they perform every office of fiat money by remaining in circulation until they wear out. They inflate credit by their use as reserve money. Some of the states have no reserve laws and those that have make distinction between bank notes and real money. Mr. Fowler, former chairman of the House committee on Banking and Currency publicly declared, in December 1907, that no less than \$200,000,000 of bank notes were then used as reserve money. Its much easier to criticise than suggest a remedy, but we can see but two ways of curing this defect; First, Either by annihilating the state banks and trust companies and placing government inspectors in each National bank. (An impossible remedy because Congress lacks such power, and if it possessed the power the remedy would be too expensive) Second, Or by organizing ONE CENTRAL BANK OF ISSUE or SEVERAL DISTRICT BANKS clothed with exclusive reserve responsibilities.

To demonstrate the disastrous effect of the INFLEXIBILITY OF OUR BANK RESERVE LAW, we give below the status of the reserves and reserve deficit of the New York House banks the first nine weeks of the 1907 panic:

Week ending:	Reserve deficit:	Reserve per cent.
October 26	\$1,233,300	24.68%
November 2	38,838,825	21.30%
" 9	51,924,625	20.20%
" 16	53,666,950	20.27%
" 23	54,103,600	19.98%
" 30	52,989,425	20.11%
December 7	46,210,350	20.70%
" 14	40,101,175	21.24%
" 21	31,751,000	22.00%

The report of the Comptroller's report shows that while the reserves of those New York banks were only 5% below the legal test, those of the banks of one city were 200% above, and those of several cities ranged from 30% to 100% above the test. Yet those New York banks were exerting every effort within their power to secure gold, succeeding finally in getting \$100,000,000 from the Bank of England. The people were frightened out of their wits. So were the banks throughout the country, and as the law imposed an individual responsibility on them, each looked after its individual interest. It was a "hold tight to every thing you get" policy all the way round to the detriment of each and the public as well. The mistake was in allowing gold exportations during the summer of 1907 amounting to \$145,000,000. Such mistake can not be laid to the door of any one bank or the banks of any one city. It was the duty of all and, "what's everybody's business is nobody's". It was unquestionably good banking for those banks to suspend specie payments while the public was so frightened, but it was barbarism to compel them to do so after the fifth week, and nothing but our monstrous reserve law forced them to do so. The breaking down of our bank reserves disarranged our whole credit system, paralyzed business in every branch, closed our factories and depressed the markets for our crops to a frightful extent. No other country has such a legal bugaboo to frighten the public into a panic.

Lets make another illustration of that RESERVE LAW. Say that the reserves of ten National banks located in the state of Kansas are \$1,000,000. If they care for their own reserves then the law would require them to hold in their own vaults lawful money amounting to \$1,000,000. But the law provides that they may send $\frac{3}{5}$ (\$600,000) to some authorized bank in a RESERVE CITY. Suppose that bank be located in Kansas City. The law provides it must maintain a reserve of 25%, of which $\frac{1}{2}$ must be in its own vaults and the balance it may keep in a CENTRAL RESERVE CITY. Suppose it sends all of that deposit permitted by law (\$525,000) to a bank in New York City. The latter would be required to keep in lawful money 25% of that deposit, or \$131,250, in its own vaults. By this device the original \$1,000,000 of deposits of the ten Kansas banks have been expanded 112% (\$600,000 in Kansas City and \$525,000 in New York City) and the lawful money behind them has been reduced nearly 40% (\$400,000 in the Kansas banks; \$75,000 in the Kansas City bank and \$131,250 in the New York City bank). Henry Dunning McLeod, in his

HISTORY OF ECONOMICS, page 400, says,

INFLATION OF CREDIT BY BANK

DEPOSITS IS FAR MORE DANGEROUS

THAN THROUGH BANK NOTES

"A sudden increase of deposits is, therefore, nothing more than inflation of credit, exactly similar to a sudden increase of bank notes. Deposits are nothing but bank notes in disguise".

The NEW YORK EVENING POST, in a well considered article on this subject, says:

"Inflation through excessive expansion of deposits is far more dangerous in its immediate results than inflation through excessive expansion of bank notes; because bank notes will inevitably be widely distributed, so that it will take time to accumulate them for a run by the public, whereas a run of depositors may begin on an hours notice".

As credit is inflated by bank deposits it is contracted by their withdrawal. The inflation beginning at the beginning of the dull season and closing at the end thereof when the reverse action takes place. Of course, this is due to a large extent because the banks of the reserve cities pay from 3% to 4% for bank deposits. Then how can any well informed person doubt that we NEED B A N K R E - F O R M FAR MORE THAN C U R R E N C Y R E F O R M ?

The SUFFOLK BANKING SYSTEM of New England was the nearest approach to a sound system this country has ever had. The SUFFOLK BANK of Boston was organized in 1818 and operated until 1863, when annihilated by our National system. When it began the seven strong banks of Boston had 50% of New England banking capital, though but 4% of the bank note circulation. The reason for such disparity was that notes of the weak country banks had put "Gresham's Law" in operation which drove those of the strong ones out, for those unsound banks were discounting commercial paper right in Boston and other commercial centers of New England. So it will be seen that the SUFFOLK reformed the CURRENCY as well as the BANKING BUSINESS of New England. Of this Horace White, in his CURRENCY and BANKING, says:

NEAREST APPROACH TO
CONSTITUTIONAL SYSTEM
IN OUR WHOLE HISTORY

"Under such circumstances the SUFFOLK took upon itself the office of a comptroller of the currency. It did not admit a new bank to the membership of the system merely because it had procured a charter, perhaps by favoritism, perhaps by fraud. It first satisfied itself the shareholders were men of good character and that the institution had been started in good faith. Of course, the SUFFOLK could not prevent the newcomer from issuing notes, but it could withhold its passport and thus prevent it from getting an extensive circulation. The precautions which it took in admitting newcomers were taken for the credit and good name of New England banking".

The object of the SUFFOLK was to enable the New England banks to redeem their notes in specie. At the start it had limited capital and its officers and directors were without financial prestige, and had the opposition of all the Boston banks who later on when they saw it was for their benefit, came to its rescue with all the capital necessary to make it the great success it was. Here we have another illustration of the DISTRICT SYSTEM directed by ONE HEAD. Had such attempt been made for the whole country it would have failed, just as did the two UNITED STATES BANKS, for it would have incurred the enmity of the "business politician" who would have played on the prejudices of the people in the country districts, by telling that the SUFFOLK was an attempt of the "bloat-ed bond holder of State street" to make them "financial serfs". Such attempts were tried and it was called the "seven tailed Bashaw" etc., but they failed, as those men were personally acquainted throughout New England and known to be real human beings.

The CANADIAN bank note CURRENCY is sound and ideal, being a pure asset currency, but the instrumentalities are thirty-four strong and conservatively managed banks, and no new one can organize with less than \$500,000 capital. It would be disastrous to us to ongraft their CURRENCY PRINCIPLE on our weak banking system, where the banks number more than 25,000 and new ones organizing daily by 50 different governments. While the CANADIAN BANKING SYSTEM is much stronger than ours it is not an ideal one by any means and not at all suited to the conditions of our country. Their bank capital is owned principally in the commercial centers of CANADA, England and Scotland and a large majority of the business of those banks is done by branches managed by clerks whose authority is limited in a manner similar to the local railroad agents in America, agents who can't put in one hundred feet of side track without going through a lot of red tape. Under our banking system the capital is owned locally and

THE CANADIAN AND AMERICAN
BANKING SYSTEM COMPARED

those in control possess absolute authority to grant credit without consulting outside parties. This is just as it should be and our wonderful progress is more attributable to that than any other one fact. No one is in a better position to grant credit to another than the very person who knows all the conditions and factors forming the basis for that credit. Therefore clothe him with authority to act, and that can best be done by letting him back his judgment with his individual capital. Therefore the conscientious practical political economist will attempt to REFORM and STRENGTHEN our banking system rather than ANNIHILATE it. The CANADIAN BANKING SYSTEM is the Scotch system planted in a large territory. The area of Scotland is less than one-eighth of just one of the American states and their financiers are known personally by a large majority of the people of that country, whereas a majority of the people of a county here do not know the financiers of the adjoining county. Therefore to CANADIANIZE our BANKING SYSTEM will never do.

The R E M E D Y is for CONGRESS to divide the country into four I N T E R - S T A T E BANKING DISTRICTS, by amending the act of July 13, 1866, imposing a 10% tax on all bank note circulation except those of National Banks, and include in such exception the notes of those INTER-STATE BANKS. Let the amended act define an INTER-STATE BANK by requiring that the charter of each shall be granted by some one of the states comprising the DISTRICT in which its notes are to circulate free from such tax and provide that such charters contain these express provisions:

R E M E D Y:	(1) That each bank shall possess AMPLE CAPITAL.
	(2) Be Controlled by RESPONSIBLE RESIDENTS.
<u>I N T E R S T A T E</u>	(3) Elect CENSORS by RESPONSIBLE MINORITY.
	(4) Elect RESPONSIBLE HEAD with VETO power.
BANKING SYSTEM.	(5) Let states make them fiscal agents.

Lets take up those five prerequisites, in the order stated above.

(1) CAPITAL. Let the CAPITAL of each be \$35,000,000 of which \$25,000,000 should be represented by its 8% preferred stock and \$10,000,000 by its 10% common stock. Let the preferred be paid as follows, \$5,000,000 each and \$1,000,000 annually until the whole of the preferred is paid. Create the common out of the profits and issue it when all the preferred is paid. Let the profits after defraying expenses, payment of authorized dividends and creating common stock be divided among the states comprising each BANKING DISTRICT in proportion to their deposits, less any taxes imposed on the bank or its circulation.

CAPITAL SHOULD BE AMPLE,- NOT EXCESSIVE.

(2) CONTROL BY RESPONSIBLE RESIDENTS. Let the charter provide that the power to INITIATE (incur an obligation) be vested in the BOARD OF DIRECTORS the members of which shall be elected by the ELECTORS of their respective States. Define an ELECTOR, as does the Bank of England's charter, a resident citizen owning in good faith \$2,500 of the bank's stock. Give each DIRECTOR a REPRESENTATION

COMMON SENSE METHOD OF CONTROL NECESSARY FOR GOOD MANAGEMENT.

on the Board in proportion to the STOCK owned in his state and PUBLIC DEPOSITS furnished by his state and its subsidiary governments, thus giving the TEMPORARY CAPITAL REPRESENTATION with the PERMANENT CAPITAL IN CONTROL.

(3) CENSORS. Designate each city of 50,000 inhabitants in each BANKING DISTRICT as a separate CENSOR'S DISTRICT and provide for the election of one CENSOR every four months by the ballots of the ELECTORS residing in the CENSOR'S DISTRICT in which such election is held. Let there be three CENSORS, serving the BANK one year each, elected four months apart, so there will be two old ones in service when the new one takes office. Define a CENSOR to be a PUBLIC EXPERT ACCOUNTANT residing in the CENSOR'S DISTRICT from which he is elected. Let the charter empower the CENSORS to supervise all EXPERT CENSORS SELECTED BY elections, verify the statements, audit the accounts and inspect the transactions and prepare SUPERIOR TO BANK EXAMINERS ties of the BANK. Let no two of them serving the BANK at one time be residents of the same state. Prohibit any officer or director from voting for or using his influence for or against the election of a candidate for CENSOR. The science of accounting is a simple one, and in our large cities may be found as competent ones as there are in London or Paris. All we have to do is to provide a simple and practical method for their election by the RESPONSIBLE MINORITY OUT OF CONTROL. Such CENSORS would not be rushed for time as are our government examiners. Coming from the cities all over the BANKING DISTRICT they would advance to the officers the latest and best methods of checks. They would prevent the formation of cliques on the "inside" and destroy "business politics" in its control. Three would leave the BANK annually going into separate sections of the BANKING DISTRICT acquainting the public as to the actual manner in which the BANK'S affairs were being conducted, and in that way gain for it the confidence of the public.

(4) THE HEAD SHOULD POSSESS A VETO POWER, the same as the Governor of the BANK OF FRANCE. Require him to own \$20,000 stock, as required by the Governors of the banks of France and England. Let him be elected by the BANK COMMISSIONERS of the states comprising the BANKING DISTRICT, to correspond with the election of the HEAD RESPONSIBLE H E A D of the BANK OF FRANCE. There will be little or ELECTED LIKE GOVERNOR no politics in this selection, for the reason OF THE BANK OF FRANCE that there will be, on an average, twelve BANK COMMISSIONERS for each BANKING DISTRICT, thus necessitating eleven to vote for a candidate living entirely beyond his own political zone.

(5) THAT STATES MAY MAKE THEM THEIR FISCAL AGENTS for aiding our local governments in issuing and marketing their bonds, also to become responsible for the funds belonging to these local govern- THESE INTERSTATE BANKS ments by designating the local banks to collect WOULD GIVE STATE GOVERN- and care for them, the local bank acting as the MENTS GOOD FISCAL AGENTS agent of the BANK OF BANKS. Instead of having 25,000 banks now in a political scramble for the some \$400,000,000 funds belonging to our state and subsidiary state governments, as at present, those local banks would seek such deposits from the CENTRAL BANK on their individual merit. Of course, the CENTRAL BANK would have no earthly use for them in its own vaults but would have them in the local banks or channels of trade, except when its reserves should need replenishing it could make demand for such an amount as the occasion demands.

It will be observed, therefore, that each BANK OF BANKS will be INTERSTATE IN CONTROL as well as in OPERATION. It would be impractical to expect the best bankers of Texas to vote intelligently for residents of Florida, for there is little business intercourse between the bankers of those two states. Therefore, the ELECTORS of each state should vote only for the DIRECTOR of that state. As the business of the states will differ in amount give each DIRECTOR

a vote on the BOARD in proportion to the stock owned in and deposits furnished by his state, and as some DIRECTORS will reside further from the executive office than others each should be required to retain his residence in the state from which he is elected. In this INTERSTATE IN CONTROL AS WELL AS IN THEIR OPERATION WITH EQUAL REPRESENTATION way the CORPORATE (supreme) power will reside in the several states forming the BANKING DISTRICT, just reversing the present order of such corporation control in this country. As the DIRECTORATE of a corporation is its legislative body it could, by by-law, create a BOARD OF CONTROL to remain at the executive office and perform such duties as the by-laws impose. The BOARD OF CONTROL would be the agents of the DIRECTORS. With four such banks operating in this country and an act of Congress providing for the retirement of our present bond secured bank note currency, it would be but a short time until that would be replaced by a sound scientific currency which would expand and contract to meet the demands of trade. Such BANK OF BANKS would reform the banking business of its district far more effectually than all the laws which Congress and the Legislatures might enact in a century.

SIMPLICITY, ECONOMY AND SECURITY OF THIS SYSTEM

Lets see the economy and simplicity with which this system could be operated. The CENTRAL BANK of each district would form CLEARING HOUSES in each city with \$1,000,000 banking capital and surplus sending them its CURRENCY to be countersigned by them and circulated as the demands of trade required, just as is being done at present by the fire insurance companies. Acting as the agent for the CENTRAL BANK the CLEARING HOUSE would discount paper for the banks of that CLEARING HOUSE DISTRICT. The CENTRAL BANK would keep accountants at each CLEARING HOUSE to report to it daily as to the status of the business and that its instructions were being carried out. This would be far less expensive than for the CENTRAL BANK to have branches, as that would be a reduplication of the work done by the local banks by mere clerks and an unnecessary expense in

equipping and maintaining banking houses, and it will be far better for the public interest, as the capital of the banks forming the CLEARING HOUSES would be additional security behind its note issues. In other words, the CENTRAL BANK would be farming out to the CLEARING HOUSES its monopolistic privilege to issue currency and control of public deposits. If a local bank should fall in the hands of speculators the local CLEARING HOUSE would refuse to do business with it, thus so limiting its business operation as to make business unprofitable.

There are five reasons why these CENTRAL BANKS should be INTERSTATE rather than FEDERAL corporations:

(1) Because the states would not make them their fiscal agents unless they possess the sole power of their supervision, and until WHY AN INTERSTATE BANKING SYSTEM IS PREFERABLE TO A NATIONAL OR STATE SYSTEM the \$400,000,000 of public funds belonging to our state and subsidiary state governments are controlled by ONE CENTRAL BANK for each district it is out of the question to thoroughly reform our banking business and take our twenty-five thousand banks out of politics.

(2) Because it is out of the question to hope to reform our banking business so long as two legislative bodies possess concurrent authority to enact laws on precisely the same subject matter, in the same territory, and at the same time, as is the case at present. As ANOTHER REASON IN FAVOR OF THIS BANKING SYSTEM it would be unconstitutional for Congress to annihilate the state banking system or prevent those governments creating banks, the only way out of the dilemma is for Congress to conditionally surrender to the states the authority which rightfully belonged to them under the Constitution, but usurped by it to meet the exigencies of a terrible war.

(3) Because under this plan the public can be better taught the T R U T H , - THAT A BANK NOTE IS A CREDIT AND NOT MONEY, - and that it is no more the duty of the government, - Federal or State, - to issue or become responsible for CURRENT CREDIT than any other species of credit, whether it be evidenced by a bill of exchange, a check, or a promissory note. We can also under this plan better teach the public that inasmuch as a corporation is the creature of

ANOTHER REASON
IN FAVOR OF THIS
BANKING SYSTEM

the state, that its control may be just what its creators will, and that special business duties imposed upon their CORPORATE REPRESENTATIVES may be done in a manner far more satisfactory to the public interest than by their GOVERNMENT REPRESENTATIVES whose duties are far more multifarious and who are frequently elected without regard for their special fitness for such business, and that by divorcing the government from this business we remove the temptation of the evil minded to corrupt our public officials.

(4) Because this (INTERSTATE) plan is the Constitutional method, being in perfect harmony with our system of government, which means that the states shall do for themselves everything within their power, with a Federal government holding them in check. Congress can apply this corrective indirectly by amending, from time to time, its definition of an INTERSTATE BANK when it becomes convinced that the public interest requires it, for unless the charters be amended

ANOTHER REASON
IN FAVOR OF THIS
BANKING SYSTEM

to meet the requirements of the Congressional definition the Federal tax would make it impractical for such banks to operate and employ the amount of capital required. The charter is to a corporation just what the constitution is to a state, and for such a public service corporation serving several millions of people widely scattered, the same care should be exercised in its drafting as that of a great government.

(5) Because under the INTERSTATE system we could more effect-
ually eliminate politics from the banking business than under either
a FEDERAL or STATE system. There are but four political zones in
this country,- National, State, County and Municipal. As we have
said, there would be about twelve states in each banking district,
thus giving us twelve VOTING UNITS in each for the election of the
HEAD. If it were a FEDERAL BANK then there would be a chance for

THE FINAL REASON
IN FAVOR OF THIS
BANKING SYSTEM

the political power selecting the HEAD to reward
some politician who aided him in getting his own
position. The same thing would be true if it
were a STATE BANK, but being an INTERSTATE corporation a large
majority of the BANK COMMISSIONERS would have to vote for persons
residing entirely beyond their political zones. It is certain
that it would not have as much politics in it as exists to day in
either our Federal or State system.

ENDORSEMENT OF READERS.

I, the undersigned, have read the foregoing prospectus for an
INTERSTATE BANK OF ISSUE, but have not had the time to give it the
careful consideration the subject deserves, yet on the whole it
appears to be the best solution for our perplexing financial problem
to which my attention has been directed.

Respectfully signed,

NAME.

ADDRESS.

OFFICE OR VOCATION.

Greenbacks
Bryan
Reserve

The Adaptors of Plans of Sort
The Sum of Sort notes as currency
was never advocated
prior to its advocacy
to the storm point
when Mr Bryan
was a candidate

The injustice
to small ^{National} banks
hardest of ^{that banks in} the country
Capital

Note issues

Exempt from Federal taxes (Corporation tax)

Nat banks

Sec 9
+ 10 May be granted all the rights and privileges granted by the Act? what does this mean?²²

Note

Does the privilege granted to State banks and Insts. by section 10 include power to issue notes,

1/ Salary entirely

Reserve bank
July 1. 1907

Capital

\$43,200,000

Invested

in first class Securities
Government bonds

\$43,100,000

Bank of England

70,500,000

Govt Securities 79,000,000

Other " 130,000,000

Bank of France
July 1. 1906

\$3,500,000

Govt Securities

\$5,750,000

Canadian Banks
July 30. 1907

96,000,000

- Canadian

Municipal securities 20,239,000

Do. " 8,824,000

Railway bonds 41,575,307

70,678,307

Canadian banks are also required
to hold 40 per cent of their reserves
in Dominion notes to the
amount of 49,188,610

certificates, what ti
 loan certificates g Clearing
 balances in New has now been
 done.

Loan certificates have been in actual ser-
 vice on this occasion for fourteen weeks,
 though it is altogether probable the actual
 life of the certificates this season may,
 owing to the insolvency of the four banks
 referred to, before taking up such issues,
 be prolonged beyond the eighteen-week
 limit, observed during the panic of 1893.
 The issues of this and previous years, with
 the duration and maximum amount, have
 been as follows:

	When issued.	When cancelled.	Total issue	Maximum issue.
1907..	Oct. 26	*Jan. 23	\$100,000,000	\$34,000,000
1898..	June 21	Nov. 1	41,490,000	33,280,000
1890..	Nov. 12	Feb. 7	16,645,000	15,205,000
1884..	May 15	June 6	24,915,000	21,885,000
1873..	Sept. 22	Jan. 14	26,505,000	22,410,000
1864..	Feb. 20	June 13	17,728,000	16,418,000
1863..	Sept. 15	Feb. 1	11,471,000	9,608,000
1861..	Sept. 16	April 28	22,585,000	21,960,000
1860..	Nov. 23	Mar. 9	7,375,000	6,860,000

*\$5,520,000 certificates taken out by failed banks
 still outstanding.

ough
 the
 ensions throw
 for the guaran-
 government or
 oined. It is not
 mous advantage
 ave conferred on
 one serious ob-
 ended in their
 in the New York
 the distrust of
 rs in their banks.
 been guaranteed
 the "chain bank-
 have been in the
 their personal
 noney.

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 however, that it
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 should in any way
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 solidation
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 tutions goir
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 ing into clo
 banks and

From Geo. E. Hume, Cashier, 16717 16

The First National Bank of Oxnard, Oxnard, California.

October 19, 1911.

2. (A) Local conditions would warrant the loaning of 25% of deposits on real estate mortgages, and would aid very materially in our giving credit. Our savings bank cannot take care of all good mortgage offerings and we would be better protected if loans could be made on real estate.

4. (A) Would prefer that national banks be allowed to invest 85% of savings deposits in real estate loans and say 25% of commercial deposits, if condition, locally, warranted it.

Herewith our answers regarding the establishment of savings departments in national banks and the proposed amendment to the National Banking Laws permitting national banks to loan on real estate mortgages.

Supplementing this we would say that we have in connection with this bank a State Savings Bank whose business is transacted in the same offices, which we find a very desirable adjunct to the national bank. It provides a place for our customers who have idle funds and who wish to draw reasonable interest thereon, and it places us in a position to take care of mortgage business offering and thereby not compelling patrons to go to other banks. We consider a savings department or the amendment of the National Bank Laws permitting loans on real estate a very important and necessary matter for country banks, where the refusal of a loan on real estate would drive a good customer for the present as well as for the future to another institution. We consider real estate our best security and heartily favor the amendment, loans to be limited of course to 50% or 60% of conservative actual market valuation.

Yours truly,

Geo. E. Hume,

Cashier.

Double Lead

From R. C. Williams, Double Lead

Cashier, Third National Bank, Dothan, Alabama.

16717

8th Census 11

~~October 11, 1911.~~

2. (A) 15% on deposits, plus the entire amount of surplus specially accumulated above the required 20% under present law; provided the Board of Directors (as a whole and without dissenting vote) approve the policy of accumulating a surplus for such purpose.

We beg to acknowledge receipt of your favor of the 9th, and answer herewith your questions as nearly and briefly as possible. Judging from the enclosed form, we suppose that some other form should have accompanied it, but we did not receive it, and therefore are interested in giving such data as desired. If there should have been another form relative to our books of the 14th, please forward us one so that we may comply with your request.

We are deeply interested in the questions asked, and hope that the laws, through the influence of the Commission, may be amended to meet the requirements of a great, growing country, such as is ours, with wonderful and varied conditions. We are somewhat "jubilant" about the advisability of handling real estate promiscuously as security for a national or commercial bank, except under proper conditions; but are equally firm in our belief that local conditions are best conserved by local management as nearly as possible, when consistent with sound and conservative methods.

We doubt the advisability, however, of allowing national banks to loan more than 15% of their commercial deposits on real estate in any community, agricultural or otherwise. But on savings deposits, the limit of 30% would not appear excessive possibly. We favor at the same time allowing a national bank to accumulate a surplus account, over and above the required 20% and if the local board of directors - who ought to be familiar with local conditions - meet and agree to allow the finance committee to loan that fund on realty securities, we believe the law should allow it so handled.

Possibly these opinions are of no value in the great field of financial economy, but they are based on experience and local conditions. There is no use calling a spade something else to make it sound good, and the national banking law at present is not meeting the requirements of the times, because the banks, we believe, as a whole are now either violating the realty law openly or indirectly, and doing so because they feel that they must meet conditions in their territory. Some sections seem to call their realty bonds, and buy them; some banks make small loans, and later by reason of the demands of customers for more money, are forced to take realty to permit them sleep at nights; others call it "additional security" to reasonable amount of personality; while some put them down in black and white, and take their "jacking up" as often as the department sees fit to administer it. At any rate, the law seems to be evaded or violated in spite of the efforts made to enforce it. No law is a good one that meets with such measures in nearly every community, and it seems to us that it would be far better both for the depositors and the banks (not to mention the Banking Department) to amend the law with due and reasonable provisions, and with penalties or fines sufficient to check those who go beyond the bounds of conservatism.

Yours very truly, R. C. Williams, Cashier.

From M Lane Tilton, Jr.,
Secretary, Alabama Bankers Association,
~~First National Bank, Pell City, Alabama.~~

16717

8 file center 10
Double Lead

~~In connection with subject of real estate loans for national banks:~~

At ^{the} time prohibition against such loans was written in the act, over a large area of the nation real estate was largely speculative in value, and therefore loans upon same were either hazardous or nonliquid in character.

Conditions since then have changed. Real estate, except in spots easily avoided, has every element that goes to make up first class security and in many instances loans upon it can be collected with greater ease than mercantile or manufacturing paper and at the same time the calling of such loans is not marked by the business disturbances incident to the two latter classes of paper, when called.

A limit to real estate loans with national banks which does not exceed capital or say 25% of total deposits would vastly benefit national banks now organized and would ultimately result in the conversion into nationals of the great majority of state institutions save those with trust company features. Even here a division of the business into two concerns, a national bank with separate trust company, would be frequently witnessed.

In my judgment this privilege must be extended national banks if order is to be brought out of existing chaos due to the dual system and before the problem of currency reform can be tackled with any show of success.

~~M Lane Tilton, Jr.~~

~~Secretary, Alabama Bankers Association.~~