

NELSON ALDRICH

Monetary Commission

MISCELLANY

THE BANKING SYSTEM OF JAPAN.

BY

MARQUIS KATSURA.

Premier and Finance Minister of Japan.

The following brief historic and comprehensive statement of the past and present banking systems of Japan is furnished exclusively for the purposes of this article by the courtesy of His Excellency Marquis Katsura, the Premier and Finance Minister of Japan. It brings the history up to the present year and will be found a valuable addition to the records and information hitherto published.

Marquis Katsura writes:

With the introduction of the new régime, following the restoration of the Throne to actual rulership of Japan, in 1868, extensive developments occurred and advances were made in various branches of industry. National finance formed no exception; in fact it showed remarkable progress. But to place the entire system of national finance on a perfect basis involved difficulties of very great magnitude, and could only be achieved by gradual progress, allowing each phase its full time to develop.

During the early portion of the Meiji era (dating from A. D. 1868) the financial system of Japan was primitive, and such as then existed was local and limited. The amount of capital was insufficient, and the rate of interest always upward. Private loans were handicapped, and the balance of trade was always unfavorable. After the establishment of the national banks and of the Specie Bank some improvement was made in the financial system of the country, but this was only a beginning when judged by the national standard. The improvements and developments were only collateral, and with the growth of the branches the necessity of a trunk powerful and strong enough to support them came to be felt. In other words, an urgent necessity arose, it was thought, for the establishment of a great central banking institution. What follows gives more fully the reasons for the establishment of the Central Bank in Japan.

The banking business in Japan dates from the eleventh month of the fifth year of Meiji (1872). (The Gregorian calendar came into use the following year.) The bank regulations were promulgated at that time, and in August of the next year (1875) amendments were introduced to those regulations and the number of the banks increased to over 150. But the actual state of the financial system during the first ten years, when over 150 banks existed, showed that united operations were wanted and that the banks with small capital stood apart and alone without cooperative facilities.

As a remedy for some of the existing evils, the public favor strongly increased in favor of a central bank which might bring about smoother cooperation among the financial institutions by having in its hand the essential

those regulations and the number of the banks increased to over 150. But the actual state of the financial system during the first ten years, when over 150 banks existed, showed that united operations were wanted and that the banks with small capital stood apart and alone without cooperative facilities.

As a remedy for some of the existing evils, the public favor strongly increased in favor of a central bank which might bring about smoother cooperation among the financial institutions by having in its hand the essential machinery of the finance of this nation. By establishing a central bank, it was expected that the evils of the financial system in vogue, and which might be termed the feudal system, would be removed, and it was also expected that by converting the national banks into agencies or branches of the Central Banking Institution, having a complete system of communication, a smooth operation would be attained, and the working of the entire machinery facilitated throughout the whole Empire. It was further believed that the small banks would come to rely upon the Central Bank and realize the advantage of cooperation with it.

The capital of most of the banks in those days was very limited, and they were totally unable to cope with any sudden demand for any large amount of money, and when, on the occasion of a flurry in the money market, the demand for the discounting of bills assumed unusual proportions, or when deposits were withdrawn to a large extent, suspension of payment was not infrequent. Credit consequently was lowered, or at least was uncertain, the result being an individual custody of cash. As a consequence, it was impossible to expect any financial system to work smoothly. As long as this condition of things prevailed it was impossible to inspire confidence or to draw out into circulation the volume of money individually hoarded.

It was expected that with the establishment of a Central Bank, with power to make adequate advances, the danger of a serious crisis or panic following financial stress would be averted, and the development and advancement of commercial interests, which would call increased capital, would be amply provided for. It was believed that as a result of the aid extended by the Central Bank to the smaller banks the suspension of industrial or commercial development on account of lack of necessary capital would be avoided.

2 Q M—MONO.

RED

In early days in Japan the issue and volume of currency, when compared with the standard of living and the state of commerce and industry, was rather excessive, but the circulation of that currency was far from being even and ample. The rate of interest was ever on the increase, due to the withdrawal of capital from circulation and the fact that the banks were advancing large sums on long-term loans.

A Central Bank, being exclusively engaged in discounting bills and in making advances for short periods on the best bills, capital would be active and interest low. The Central Bank would, in fact, regulate the rate of discount and largely that of interest.

In European countries the Government extends protection and assistance to a Central Bank, and Government money is deposited in that bank, which devotes the surplus to the Government's credit to the purchasing of foreign drafts or bullion. No effort is spared looking to the importation of specie.

In Japan also it was seen that should a Central Bank be firmly established the monetary transactions of the Treasury and the redemption of Government bonds would be transferred to such a bank, and in case of a surplus it would be devoted to the purchase of national and foreign coins and bullion, which would be ultimately employed in converting the Government notes. This accomplished, a way would surely be opened for concentrating specie, and in years to come the system of placing notes on convertible basis would be realized. The money paid in local districts in the form of taxes being mostly brought to the Central Government, leaving only such a portion of it as is required for local governmental expenses and other small items, a deficiency in currency in circulation was felt severely each year at the tax-paying period, and the interest on money always rose. But it was felt that if the monetary transaction of the Treasury should be intrusted to a Central Bank the volume of currency temporarily in the one bank would be more speedily reduced by the discounting of bills and other processes, and the money market would be relieved promptly. Thus it was expected that the bank's operations would be adjusted to the actual needs of the market.

Financial troubles in those days were generally attributable to the overflow of gold abroad, caused by the unfavorable state of the balance of foreign trade. But the experience of excess of imports over exports is not limited to Japan. There are times when European countries have a like experience, and the reason why, in those countries, the deficiency of specie is not severely felt, even under an unfavorable balance, may be found in the fact that there exists a financial institution for importing specie from abroad. Japan, in those days, had no such institution. There was an exit for specie, but no inlet for it; in other words, foreign goods were paid for in Japanese specie alone, and no other means were available for making the payment. It was realized that the establishment of a Central Bank would open the way for bringing in foreign money. In Europe the banks, by holding correspondence

unfavorable balance, may be found in the fact that there exists a financial institution for importing specie from abroad. Japan, in those days, had no such institution. There was an exit for specie, but no inlet for it; in other words, foreign goods were paid for in Japanese specie alone, and no other means were available for making the payment. It was realized that the establishment of a Central Bank would open the way for bringing in foreign money. In Europe the banks, by holding correspondence with other banks, are in close touch as to the volume of specie in different countries and are constantly adjusting the balance by rate of discount. Such work can only be undertaken by a central banking institution, and such a bank once established, a financial organ would be brought into existence which could keep continual surveillance of the financial and commercial conditions of the world and would be able on the one hand to help smaller banks, and on the other hand open a gate for the incoming of foreign specie, so that even in case of import exceeding export, causing the outflow of the specie, no apprehension need be entertained.

II.

WHY THE BELGIAN SYSTEM WAS ADOPTED IN JAPAN.

After careful study and comparison of the central banking systems of Europe we found that, although in extent of business, power, and influence in the financial world, the Bank of France and the Bank of England were unrivaled institutions, yet in point of perfection in the organization of the system the Bank of Belgium was peerless. With the exception of the Imperial Bank of Germany, the Bank of Belgium is the most modern creation. It was organized after careful comparison of the banking systems of England, France, Austria, America, and other countries, and the best in all those systems was adopted, while the weak points were carefully avoided; consequently it was decided by Japan to adopt the Belgian system.

The Imperial Bank of Germany, being an institution adapted to the needs of a federation of States, it was found unsuitable for Japanese purposes, while the Bank of England and the Bank of France had all the characteristics born of long usages and history, and consequently it was not possible to adopt their system in a country like Japan where no similar conditions exist.

Though adopting the Belgian system, yet in note-issuing capacity and the rate of reserve a system resembling the German one was adopted.

3 Q M—MONO.

RED

THE BANKING SYSTEM IN GENERAL AND WHY THE SYSTEM WAS ADOPTED.

With the establishment of the Meiji Government, one of the policies followed was to perfect as far as possible the financial system of the country and to promote and encourage production throughout the Empire.

As early as the first year of Meiji (1868) a commercial office was established with the object of encouraging commercial and industrial development. The organization of the office was afterwards placed on a more efficient basis. Under the jurisdiction of that office were placed the mercantile companies and the exchanges, which were the banks in those days.

The *Kawase* or exchanges were the first real bankers in this country. The capital was supplied by wealthy merchants by subscription, while the Government also advanced funds. The exchange received deposits, advanced loans, and issued drafts. It was also authorized to issue notes against the reserves.

The object sought in the establishment of these exchanges was good, but the organization and the regulations being very deficient, and moreover it being a combination of the Government and private interests, the system was soon found to be unsuitable at a time when the country was undergoing a rapid transformation on account of the new régime. After several failures among the exchanges, hope of success was abandoned, and the Government saw the necessity for establishing a more perfect system. This was about 1870.

In the fifth year of Meiji (1872) the regulations for national banks were promulgated. The American system had been adopted, and in March of the following year the regulations for national bonds convertible into gold were promulgated. With the establishment of the national bank system the exchanges were dissolved, except one in Yokohama, which was allowed to continue business after having been converted into a national bank; thus was the Second National Bank established. This bank, besides the privilege of issuing ordinary notes, was clothed with authority to issue foreign silver notes, which, however, was forfeited when the Bank of Japan was established and issued convertible notes.

Four banks were established at the time of the promulgation of the banking regulations of 1872, the First National Bank being one. The amount of capital was 3,450,000 yen, with right to issue notes to the extent of 2,070,000 yen.

The volume of inconvertible government notes steadily increased, specie began to command a premium, and showed a tendency to leave the country. In those days bank notes were immediately brought to the issuing bank for conversion, and there was no prospect of a smooth or general circulation of the notes issued by the banks. Consequently the note-issuing privilege granted to the banks proved useless; on the contrary it was a detriment to the business of banking. Thus the first object of the

showed a tendency to leave the country. In those days bank notes were immediately brought to the issuing bank for conversion, and there was no prospect of a smooth or general circulation of the notes issued by the banks. Consequently the note-issuing privilege granted to the banks proved useless; on the contrary it was a detriment to the business of banking. Thus the first object of the Government in promulgating the banking regulations in order to effect adjustment of the inconvertible notes was completely frustrated.

In 1876 the Government introduced important amendments in the banking regulations, and instead of requiring the conversion of the bank notes into gold, made it possible to convert them with currency. In other words, the banks could convert their notes with those of the Government, and the result was the introduction of inconvertible notes. The banks were also authorized to deposit eight-tenths of their capital in the form of government bonds valued at the market price and to issue notes equal to the amount of their deposits, while the remaining two-tenths of the capital was to be reserved in the form of currency to meet the demand for conversion. These amendments proved to be of great advantage, and the number of banks suddenly increased to 152, representing capital of 42,110,000 yen, and the note issuing reached the sum of 34,390,000 yen.

The Satsuma rebellion of 1877 caused the Government to increase the issue of its inconvertible notes, and the new notes thus issued amounted to over 27,000,000 yen. Besides the Government also issued reserve notes to the amount of over 20,000,000 yen. The bank notes, as already stated, also increased, and reached the amount of over 34,000,000 yen. The total of inconvertible notes came up to 160,000,000 yen. Specie began to command a premium, and with the depreciation of the value of the notes, uneasiness spread on every side. It was immediately and forcefully apparent that there was an urgent necessity for changing this state of affairs by reforming the note-issuing system. This brought about the introduction of further fundamental reforms in the banking system of Japan.

With the increase in the volume of the bank notes the Government became apprehensive and saw the necessity for limiting the right of establishing banks. In 1877 the bank regulations underwent fresh amendment. The Minister of Finance was invested with authority to place restrictions on the establishment of banks, to limit the amount of capital, and to lower the note-issuing capacity. This was followed by the policy of redeeming the inconvertible notes, which was carried out with great determination, nor were the bank notes left unredeemed.

4 Q M—MONO.

In 1883 the bank regulations were again amended, and a clause was introduced whereby it was made impossible for a bank to continue existence as a national bank after the term of its charter expired, and it was also provided that no bank should have power to issue notes. Simultaneously measures were taken whereby the bank notes should be redeemed gradually. With the expiration of the terms of charter of the national banks an attempt was made to have the charters made renewable, but, this proving futile, the national banks very smoothly changed into private banks, so that by February, 1899, the national banks completely went out of existence. The disappearance of the national banks, however, did not mean complete withdrawal from circulation of the notes issued by the national banks, but by placing a limit for the period of their circulation they were completely withdrawn by December, 1904, after which the government and bank notes totally ceased to circulate, and the unification of the paper currency was thus effected.

THE YOKOHAMA SPECIE BANK.

The Yokohama Specie Bank was established in 1880, and the Bank of Japan came into existence in 1882. The former was organized on the joint-stock principle for the purpose of facilitating foreign trade and also for the purpose of issuing convertible notes as the circulation of specie increased. But as there were signs of the depreciation of the notes the note-issuing license was not granted to the Specie Bank. From the time of its establishment the Specie Bank was exclusively engaged in foreign exchange and issuing drafts on commercial commodities. The history of the bank has not been a smooth one, but with foresight as to developments it increased its capital in 1887 to 6,000,000 yen. The Government extended special protection to the bank under its Yokohama Specie Bank regulations, and since that time the bank made steady progress and developed without a hitch until by 1896 its capital was doubled and made 12,000,000 yen. With this increase of its capital, necessity was felt for extending the sphere of its operations, and this called for further increase of its capital by 2,000,000 yen, making a total of 14,000,000 yen. The business of the bank is now in a thriving condition.

The present regulations for the Yokohama Specie Bank limit the kinds of its business as follows:

- (1) Foreign exchange and issuing of drafts on commercial commodities.
- (2) Inland exchange and issuing of drafts on commercial commodities.
- (3) Advancing loans.
- (4) Deposits of money and custody of articles of value.
- (5) Discount and collection of bills of exchange, promissory notes, and other securities.
- (6) Exchange of coins.

THE BANK OF JAPAN.

The Bank of Japan is organized and modeled after the Central Bank of Belgium. The purpose of the bank was to withdraw from circulation inconvertible notes, thereby unifying the paper currency of the country, to facilitate

(6) Exchange of coins.

THE BANK OF JAPAN.

The Bank of Japan is organized and modeled after the Central Bank of Belgium. The purpose of the bank was to withdraw from circulation inconvertible notes, thereby unifying the paper currency of the country, to facilitate the handling and disposition of money belonging to the treasury and of the National Bonds, to adjust the monetary conditions prevailing at home and abroad, and regulate the rate of interest. The bank was established in 1882 by virtue of Imperial Ordinance No. 32. Its authorized capital now stands at 30,000,000 yen and the bank is privileged to issue convertible bank notes. The maximum of the notes to be issued against the reserve was at first 70,000,000 yen, which was afterwards increased to 85,000,000 yen, and now further increased to 120,000,000. The governor and vice-governor of the bank are appointed by the Government. The bank is placed under several restrictions. The Government reserves the right to attach supervising officials to the bank, thus bringing the institution under the strictest governmental supervision.

As already stated, the first Exchange Company ended in failure, while the national banks did not achieve what had been expected of them. The amendments to the bank regulations resulted in the increase of inconvertible notes, and this called for further amendments of the regulations. The Yokohama Specie Bank was confronted with difficulties almost immediately after its establishment, and when the financial condition of the country was in such a state the establishment of the Bank of Japan was epoch making: It not only placed the fiscal policy of the Government on an entirely new footing, but it also exercised a wholesome and beneficial influence on the economics and finance of the entire country.

The business now transacted by the Bank of Japan is as follows:

- (1) To discount or purchase government bills, bills of exchange, and commercial bills.
- (2) To buy or sell gold or silver bullion.
- (3) To make loans on security of gold and silver coins and bullion.
- (4) To collect bills for banks, companies, and merchants who are its regular customers.
- (5) To receive deposits in current account and to accept the custody of articles of value, such as gold, silver, and precious metals, and documents.
- (6) To make advances in current accounts or loans for fixed period on security of government bonds, treasury bills, and other bonds and shares guaranteed by the Government. The amount of such loans and the rate of interest are to be decided from time to time by the conference of governors, vice-governors, directors, and supervisors, subject to the approval of the Minister of Finance.

5 Q M—MONO.

RED.

The Bank of Japan, besides engaging in the above-stated business, is disqualified from engaging in the following transactions:

- (1) To make loans on the security of real estate or shares of banks or corporations.
- (2) To make loans on the security of shares of the Bank of Japan, or to purchase the same.
- (3) To become a shareholder of industrial corporations, or to engage, either directly or indirectly, in industrial enterprises of any kind.
- (4) To become the owner of real estate, except so far as is necessary for establishing the head office and branches of the bank.

In 1890 ordinary bank regulations were promulgated by law No. 72, which was followed by savings banks regulations law No. 73. The promulgation of these regulations opened a new epoch in the history of banking business in Japan. By the new regulations the banking business was clearly defined, and all those engaged in that and similar business were brought under special contract by those regulations. . . . Before the law came into force there existed no instrument for the control of private banks. Only special institutions, such as the Bank of Japan, the Yokohama Specie Bank, and national banks were under the control of the Government. When the national banks became private banks, after the expiration of their charters, they went out of the control of the Government. The new regulations promulgated put a stop to this.

The necessity of creating a banking center in order to facilitate the manipulation of national finance, and the importance of government control and supervision and insuring a wholesome development, was what prompted the Government to put the new regulations into force, for it was feared that the national banks which were formerly under government control and supervision would, when they passed beyond that supervision, prove blocks to a wholesome development.

THE SAVINGS BANKS.

The savings bank, above all other banks, is the one that requires most careful supervision by the Government. In Japan the Government has a Postal Savings department and also a deposit section in the Department of Finance. But the amount of the deposit being found too small when compared with the population and the standard of economics in general, the Government followed the policy of increasing the amount of the deposit by initiating a method for supervising, controlling, and improving the business of the private savings banks, and the new regulations for savings banks were promulgated. According to these regulations, banks that receive deposits on the principle of compound interest are classed as savings banks, and their organization must be on the joint-stock principle. It is also made obligatory on those banks to keep a reserve as security for repayment amounting to not less than one-

policy of increasing the amount of the deposit by initiating a method for supervising, controlling, and improving the business of the private savings banks, and the new regulations for savings banks were promulgated. According to these regulations, banks that receive deposits on the principle of compound interest are classed as savings banks, and their organization must be on the joint-stock principle. It is also made obligatory on those banks to keep a reserve as security for repayment amounting to not less than one-quarter of the whole amount of the deposit in the form of interest-bearing national or local bonds, and to have them deposited in the place authorized to receive them. In other respects the provisions of the ordinary Bank Regulations apply to the savings banks.

In 1896 the Hypothec Bank of Japan was created by Law No. 82, and in the same year the Agricultural and Industrial Bank was also established under the Law No. 83. These laws opened another epoch in the Banking Administration. The banks so far were engaged in making loans and receiving deposits for short terms, and also in discounting commercial bills, so that they were principally organs for commercial transactions. But the credit system not being fully developed in the country, strong necessity was felt for an institution where long-term loans could be obtained on security of movable and immovable property. Such a loan being incompatible with the practical working of ordinary banks, there were instances where some difficulties were experienced by some of the banks.

Of recent years, however, the commercial credit system having considerably developed and the necessity of establishing a special institution for making long-term loans for the benefit of agricultural and industrial interests being felt, the Government made the necessary investigations to meet this requirement. Then the war with China broke out, with the result that a very large sum of money was scattered among the people. On the other hand, the post-bellum measures called for a large amount of capital to be devoted to unproductive works, and it was thought most timely and necessary to open a way for absorbing small funds widely scattered throughout the country, and devote them to developing agricultural and industrial interests. It was on that account the Hypothec Bank and the Agricultural and Industrial Bank were organized and established by the law issued in 1895.

6 Q M—MONO.

RED.

The Hypothec Bank of Japan, created by the law relating thereto, has for its object the advancing of funds for the purpose of improving and developing agricultural and industrial enterprises, and the Bank is organized on joint-stock principles, with the president and vice-president appointed by the Government. Its principal business is to advance loans on mortgage of immovable property which shall be redeemable by annual installments, and in other businesses the Bank is placed under severe restrictions. The Bank is authorized to issue mortgage debentures bearing premiums to an amount not exceeding ten times its paid-up capital, provided the amount of such debentures does not exceed the total amount of outstanding loans redeemable by annual installments. The Bank has the privilege of the government subsidy to the extent of guaranteeing 5 per cent dividend for ten years after its establishment, in case the Bank's profits fail to realize that standard of dividend.

The Agricultural and Industrial Bank is a joint stock company established in every prefecture. These banks have for their object the advancing of loans for the purpose of improving and developing agricultural and industrial interests. Their business is similar to that of the Hypothec Bank, only on a small scale. The banks are also placed under the same restrictions and government supervision as the Hypothec Bank. The banks are authorized to issue agricultural and industrial debentures to an amount not exceeding five times the paid-up capital. The Government delivered a sum of about 10,000,000 yen to the prefectural authorities for taking up the shares of the agricultural and industrial banks of their localities, and on this amount the bank is exempted from paying a dividend.

The two banks above described being exclusively engaged in making long-term loans on the security of immovable property, the need arose for a financial organ which could advance long-term loans on the security of government bonds, shares, and movable property. It was also deemed advisable to combine in that financial organ the business of a trust company. The institution born of these requirements is the Industrial Bank of Japan, organized under the law relating thereto and issued in March, 1900, as Law No. 70.

The Industrial Bank is a joint stock company, and the governor and deputy governor of the Bank are appointed by the Government. The capital of the bank is 17,500,000 yen, and foreigners own no small portion of the shares of the Bank. It is acting as a medium for the introduction of foreign capital, and thus is engaged in adjusting and facilitating circulation of capital at home and abroad. The Bank is authorized to issue debentures to an amount not exceeding ten times its paid-up capital, provided the amount of such debentures does not exceed the total amount of outstanding loans and negotiable instruments actually in hand.

The Bank has a government subsidy to the extent of guaranteeing 5 per cent dividend for five years after its establishment, in case the Bank's profits fail to come up

of foreign capital, and
facilitating circulation of capital at home and abroad. The Bank is authorized to issue debentures to an amount not exceeding ten times its paid-up capital, provided the amount of such debentures does not exceed the total amount of outstanding loans and negotiable instruments actually in hand.

The Bank has a government subsidy to the extent of guaranteeing 5 per cent dividend for five years after its establishment in case the bank's profit fails to come up to that dividend.

THE BANK OF FORMOSA.

The Bank of Taiwan (or Formosa) was established under the law relating thereto and promulgated in 1900, as the law No. 38. The bank is a private stock company with a capital of 5,000,000 yen, and its president is appointed by the Government. The Bank is placed under several restrictions, and the Government exercises strict supervision over the management. The privileges granted to the Bank consist in the Government taking up 1,000,000 yen of its capital, for which no dividend is claimed for five years; the authorization to issue notes against the guaranteed reserve to the amount of 5,000,000 yen free of tax, and in the loan from the Government of 2,000,000 yen without interest for five years, to be used as a reserve against the issuing of notes. The purpose of the establishment of the Bank was to reform the currency system of Formosa, to facilitate the receipts and disbursements of the treasury, to develop the working of the process of exchange, and to facilitate the investment and subscription for the Formosa public-works bonds.

In the colonial policy of Japan the adjustment of finance is of prime importance, and it was at first thought that it could be carried out by intrusting the work to the Bank of Japan or to the Yokohama Specie Bank, but Formosa being a new territory, where special conditions prevail, it was thought better to establish a special institution. The result was the establishment of the Bank of Taiwan.

The Hokkaido Colonial Bank was established as a joint-stock company, with a capital of 5,000,000 yen, in 1899. The Government has an official attached to the bank, and exercises strict supervision. The object of the bank is to supply the capital necessary for colonizing and developing the Hokkaido, by making long-term loans on the security of immovable property, payable in annual instal-

RED.

ments. The bank can also make other loans and issue drafts on commercial commodities. The Hokkaido being still undeveloped in agriculture and other industries, and being placed under conditions different from other parts of the Empire, it had been deemed necessary to establish this bank in place of the Agricultural and Industrial Bank, in order to meet the special requirements of the island.

The system and working of different kinds of banks in Japan, and reasons for adopting the systems, are as briefly stated above. The appended table shows the number, the amount of capital, etc., of those banks. It is based on actual conditions prevailing in December, 1907:

Kinds of bank.	Authorized capital. Yen.	Capital paid up. Yen.	Reserve. Yen.	Number of offices.		When established.
				Head.	Branch.	
Bank of Japan.....	30,000,000	30,000,000	21,500,000	1	8	October, 1882.
Yokohama Specie Bank.....	24,000,000	24,000,000	14,591,707	1	24	February, 1880.
Hypotheec Bank of Japan.....	10,000,000	4,250,000	1,503,481	1	0	June, 1897.
Agricultural and Industrial Bank.....	29,320,000	28,620,000	4,596,310	46	1	November, 1897. ^a
Bank of Taiwan or Formosa.....	5,000,000	3,500,000	830,000	1	9	August, 1900. ^b
Hokkaido Colonial Bank.....	5,000,000	3,750,000	381,000	1	5	June, 1899.
Industrial Bank of Japan.....	17,500,000	16,250,000	623,200	1	1	March, 1900.
Ordinary banks.....	416,687,230	291,599,745	84,182,982	1,658	162	February, 1902.
Savings banks.....	69,688,600	42,234,296	-----	484	711	March, 1876. ^a
Same, combining ordinary banking.....	6,595,000	5,285,719	11,421,423	192	281	
Total.....	607,195,830	444,204,041	139,630,103	2,194	2,370	

^a Earliest estimated.^b Latest.

RED.

8 Q M—MONO.

BARON SAKATANI,

Ex-Minister of Finance,

ON THE

BANKING SYSTEM OF JAPAN.

Baron Sakatani, who was for years Vice-Minister and Minister of Finance in Japan, and who possibly knows more of the detail of Japanese high finance than any other man in the country, regards the Central Banking System of Japan as at least approaching perfection. He admits, however, that there are some faults that might be eradicated and is anxious to see the result of the consideration of the question by the Monetary Commission in America. Baron Sakatani during his recent visit to America, England, and Europe went closely into this question of central banking systems. He believes that such a system is absolutely essential to America, and has been watching with deep interest the various phases of the controversy within the last six or seven years.

One of the faults found by Baron Sakatani in the present system of Japan is that of the method of taxation of the bank. Of course the Bank of Japan is essentially a bank of issue, and at times is called upon to issue large sums of money in paper. The present system of taxation calls for a payment upon the entire amount of issue. This, Baron Sakatani thinks, is a serious drawback and is not a fair treatment of the bank itself. He points out that the Government being as a matter of fact a partner in the bank it is only entitled to a tax upon the profits made by the bank and not to impose a tax upon the bulk issue. Baron Sakatani says that this being in vogue in Germany and generally on the Continent, it is the first change that ought to be made in the present system of the Bank of Japan.

There are, he says, a number of other amendments to be made, but in a general way he believes the present system of central banking in Japan is above all things excellent, and he is not advocating any immediate changes except that of taxation.

In discussing the Yokohama Specie Bank, Baron Sakatani points out that this bank, while being a tremendously useful organization, is now getting away from its original object and is becoming somewhat an object of wrath on the part of other bankers, who claim that the Yokohama Specie Bank, originally established for the purpose of dealing only with foreign business, is now doing business in the interior, and so interfering (with the government support) with the legitimate business of other banks. On the other hand, foreign banks in Japan charge that it is not equal opportunity for the banking business if the Government enters into partnership practically with a

Yokohama Specie Bank, originally established for the purpose of dealing only with foreign business, is now doing business in the interior, and so interfering (with the government support) with the legitimate business of other banks. On the other hand, foreign banks in Japan charge that it is not equal opportunity for the banking business if the Government enters into partnership practically with a bank of enormous power, doing business among foreigners as well as among Japanese. Baron Sakatani believes that the time has come when the Yokohama Specie Bank and the Bank of Japan should become one and the same bank, although he believes that there will be great difficulty in bringing such a thing about in view of the tradition surrounding the Yokohama Specie Bank, which is, as it were, a landmark in the history of Japan, standing at the point where Japan opened her doors to foreign business when the necessity for a bank to handle those interests arose.

Baron Sakatani submits the following paper on the general subject of banking in Japan:

BARON SAKATANI'S VIEWS.

The banking system in Japan was at first modeled after the national-bank system of the United States. The banking regulations promulgated in 1872 very faithfully followed the American system, so that the regulations were almost a translation into Japanese of the American regulations. As it was found, however, that the above system did not work well on account of its being unsuitable to national conditions, the regulations were amended in 1876 and in 1882, when the central-bank system was adopted. The Bank of Japan was then established, and the national banks, at the expiration of their charter of twenty years, were not allowed to exist as national banks, but such as wished to carry on a banking business became ordinary banks.

In 1890 the regulations for ordinary banks and the savings banks were promulgated, but the Bank of Japan, the Yokohama Specie Bank, the Hypothec Bank, the Agricultural and Industrial Banks, the Industrial Bank of Japan, the Bank of Formosa, and the Hokkaido Colonial Bank are placed under special laws, promulgated in accordance with their respective characters.

The Bank of Japan is modeled after the Central Bank of Belgium, and the regulations concerning the issue of convertible notes were copied from the German system in order to create sufficient elasticity in its practical operation.

9 Q M—MONO.

RED.

RELATION OF THE BANK OF JAPAN TO OTHER BANKS.

The relations of the Government to the ordinary banks are very simple. The Government for the purpose of protecting the interests of the creditors exercises supervision over the business of those banks. The Minister of Finance is invested with the authority to give official recognition to their establishment and to inspect at any time the actual state of the Banks' business. The banks are also obliged to publish periodical balance sheets.

The relations between the Government and the Bank of Japan are of a very close character. When the Bank was first established, the Government was a very large shareholder, but the shares were afterwards completely transferred to the Imperial Household Department. The Bank of Japan is responsible for the custody of the Government's cash and negotiable instruments. It is intrusted with the management of the treasury receipts and disbursements; the investment of the treasury funds and the management of national bonds are also intrusted to the Bank of Japan. In this respect the Bank is almost a portion of the Department of Finance, and consequently the work of this department is considerably simplified and facilitated. In consideration of the privilege of being intrusted with the receipts and disbursements of the treasury the Bank is obliged to transact that business without remuneration, except in special instances. The business of the Bank of Japan is placed under very strict limitations by law, in order to insure the stability of its business and also to prevent the misuse of its influence. The Government exercises strict supervision over this bank. The governor and the deputy governor of the Bank are appointed by the Government; the directors are also appointed by the Government from among candidates elected by the shareholders; the Government appoints official inspectors from among the officials of the Department of Finance; these official inspectors have a voice in the directors' meetings and also in the meetings of the shareholders, but they have no vote in either of those meetings.

The Bank of Japan has the privilege of issuing convertible notes. This is considered the most important function of the Bank. The mode of issuing such notes and the duty to be paid thereon are governed by very strict laws.

■] THE YOKOHAMA SPECIE BANK.

The Yokohama Specie Bank was established. Count Okuma, then Minister of Finance, advocated the establishment of the Bank. Japan's national finances were at that time in a very bad shape. The inconvertible government notes had depreciated, and specie was withdrawn from the market. In order to remedy this state of the money market a bank for transacting business in specie was established, so as to absorb the specie of the country. But this attempt being fundamentally erroneous, and its

Okuma, then Minister of Finance, advocated the establishment of the Bank. Japan's national finances were at that time in a very bad shape. The inconvertible government notes had depreciated, and specie was withdrawn from the market. In order to remedy this state of the money market a bank for transacting business in specie was established, so as to absorb the specie of the country. But this attempt being fundamentally erroneous, and its method of operation being faulty, the Specie Bank suffered a great loss and was reduced to very great straits. Afterwards, however, great improvements were introduced in the Bank's business methods by the efforts of Count Matsukata, when Minister of Finance, and since that time the Bank has recovered from the losses then sustained and is at present in a prosperous state.

The directors of the Yokohama Specie Bank are elected by the shareholders and are subject to approval by the Government. The Government appoints official inspectors for the Bank's business.

The Government was at first a large shareholder of the Bank, but the shares have since been transferred to the Imperial Household Department.

The Yokohama Specie Bank has very close relations with the Bank of Japan. The latter therefore exercises very strict supervision over the business of the former. The law directs the Government to make the deputy governor of the Bank of Japan act as governor of the Yokohama Specie Bank and to make the latter act as director of the Bank of Japan. At present the deputy governor of the Bank of Japan is also the governor of the Yokohama Specie Bank.

The Yokohama Specie Bank is exclusively engaged in foreign exchange for the purpose of facilitating foreign trade and for absorbing specie from abroad. For that purpose the Bank of Japan advances funds to the Yokohama Specie Bank at a specially low rate, and also rediscounts bills at the request of the Specie Bank. The Bank of Japan never engages directly in foreign exchange or in sending money abroad. Government bonds abroad and receipts and disbursements of the treasury funds abroad are managed by the Yokohama Specie Bank under the supervision of the Bank of Japan. Such funds of the latter as are kept abroad are placed under the management of the Specie Bank.

RED

The Yokohama Specie Bank has not the privilege of issuing notes at home, but its agencies in China and Manchuria are authorized by the Japanese Government to issue silver notes payable on demand.

The entire banking system of Japan has the Bank of Japan for its center, with ordinary banks and savings banks, as well as the Yokohama Specie Bank, for foreign exchange. For mortgaging immovable property, and especially for the benefit of agricultural interests, the Industrial Bank of Japan and the Banks for Agriculture and Industry were established. For the issue of shares and debentures and for trust business, and especially for introducing foreign capital into this country, the Hypothec Bank is established. Besides those banks, there are the Bank of Formosa and Hokkaido Bank, which act as financial organs for the colonies. Financial negotiations between Japan and Korea will be transacted by the newly established Central Bank of Korea. Another system, developed to a very high degree of perfection, is that of Postal Savings, distributed throughout the country, for transacting small exchanges, and also for receiving small deposits.

The banking system of Japan may be considered perfect at present and adequate to meet the prevailing condition of the country, and the efficiency of the Bank of Japan as the center of the banks of the whole country is very conspicuous.

As a matter of fact, however, in spite of the power and authority absolutely vested in the Government to inspect the banks' business the system for exercising that authority is still imperfect and leaves much to be desired in the way of enforcing that power vested in the authorities.

There is another point which calls for improvement, namely, the imperfect and undeveloped condition of the stock exchange of this country. The system is liable to abuse, and consequently a considerable degree of inconvenience is felt in mercantile transactions of negotiable instruments, which are so closely related to financial business in general.

AMENDMENTS PROPOSED BY BARON SAKATANI.

Regarding the present system of the Bank of Japan as the central bank, I propose the following three amendments:

1. The augmentation of its capital. The present capital of the bank is 30,000,000 yen. This capital was decided on fourteen years ago. Japan's commerce and industry have since developed very rapidly, and the financial expansion has been correspondingly great. Government bonds and treasury funds have increased several times over. Moreover, by the alteration of the currency system the original 1 yen now corresponds to 2 yen, so that this fact necessitates at least the doubling of the amount of the capital of the bank.
2. The extension of the limit placed on the note-issuing

and industry have since developed very rapidly, and the financial expansion has been correspondingly great. Government bonds and treasury funds have increased several times over. Moreover, by the alteration of the currency system the original 1 yen now corresponds to 2 yen, so that this fact necessitates at least the doubling of the amount of the capital of the bank.

2. The extension of the limit placed on the note-issuing capacity of the bank against the security reserve.

According to the present law, the amount of notes to be issued by the Bank of Japan without specie reserve, but against commercial bills and national bonds (which are classed as security reserve), is limited to 120,000,000 yen. This regulation is ten years old, and the present condition calls for an extension on the same grounds as stated in the preceding paragraph. It would be proper to increase the sum to 150,000,000 yen.

3. Alteration of the amount of the tax to be paid by the bank for the notes issued.

According to the present law, the bank has to pay a tax corresponding to $12/1,000$ per annum of the average amount of the notes issued every month against the security reserve, and in the case of being permitted by the Government to issue notes beyond the maximum amount, the bank has to pay a tax at the rate of not less than 5 per cent per annum. Of the above two kinds of taxes to be paid by the bank that one which is levied on account of the issue of notes beyond the maximum amount requires no alteration, for this provision induces the bank to withdraw the issue as soon as possible, but with respect to the other the obligation of paying the tax is apt to more or less obstruct the efficiency of the bank's operations. It would be better to rescind this regulation and replace it with an arrangement whereby the bank on realizing an excess of profit over a certain fixed rate should be made to pay a certain amount to the Government. Such a method would be quite a proper one in taxing a privileged juridical person like the Bank of Japan.

RED

11 Q M—MONO.

CERTAIN COMPARISONS MADE.

The system followed in the Bank of Japan having been modeled after the system in vogue on the European continent, as already stated, there is no very great difference from the European system in its operation concerning the issue of convertible notes, the maintenance of specie reserve, the method of absorbing bullion and the adjustment of the rate of interest. There are, however, minor differences, according to the peculiar conditions prevalent in each of the countries where a similar system is followed.

The Yokohama Specie Bank is an institution peculiar to Japan. When the country was, after a long exclusion, suddenly opened to foreign intercourse fifty years ago, there existed no financial organ for the newly opened foreign trade, and it was for the purpose of creating the necessary medium that the bank was established. Consequently there is no bank in any other country that could be compared with it.

In conclusion, I venture to say that without a central bank I do not see any way whereby national finances and the economic system can be smoothly developed. I have studied American finance for some years, and have come to the conclusion that the last solution of the problem can best be sought in the unification of the system by the issue of convertible notes and the establishment of a central bank.

A GENERAL SUMMARY

PREPARED ON A CONSENSUS OF OPINION AMONG PROGRESSIVE BANKERS.

A summary of the history of banking in Japan, coupled with what might be considered a consensus of opinion of the most progressive and best informed bankers of Japan, has been prepared especially for this paper by Mr. S. Naruse, who may be classed as among the best financiers of this country. In preparing this paper he brought to his aid the very best practical talent available. The paper he so carefully prepared and so courteously submits is a valuable contribution. It is absolutely free from all possible taint of officialdom, and follows the lines suggested by myself in a number of prepared questions calculated to bring out the points most useful in a study of the efficiency of the existing banking system of Japan.

Mr. Naruse wrote as follows:

In giving an explanation of our present banking system in Japan, we will begin with the origin and history of the banking business in this country, and elucidate the original laws forming the bases for the present system.

There were in operation in feudal days some organs resembling banks, under the names of "Kwase-Gumi" (Exchange Company), "Kwase Goyotashi" (Exchange Contractors), "Kake-ya" (Credit House), etc., conducting business connected with the receipts and disbursements of the Feudal Government, or acting as financial agents for feudal lords, as well as giving pecuniary assistance to business men. But the advent of real banking business in Japan is with the promulgation of the national-bank regulation in November, the 5th year of Meiji (1872).

The National Bank Regulations were based mainly upon the National Bank Act of the United States of America. The regulations, in their original form, provided that the national banks should deposit with the Government paper equal to 60 per cent of their capital, for which amount the Government gave the Kinsatsu (paper money, or, literally, gold notes) exchange bonds, on the security of which bank notes to the same amount were to be issued. A specie reserve equal in amount to 40 per cent of their capital was to be, on the other hand, provided for the conversion of these bank notes. By this means the Government aimed at a speedy withdrawal of inconvertible notes and at giving satisfaction to the monetary world. In those days there was no difference in value between paper and specie, and the system worked well and smoothly.

The conditions, however, became changed, when with the 7th year of Meiji (1874) the evil effects of the over-issue of government paper money began to be noticeable, and as a natural result of the increase of the imports of the country there began to take place a greatly increased export of specie. In consequence of this the price of

inconvertible notes and at giving satisfaction to the monetary world. In those days there was no difference in value between paper and specie, and the system worked well and smoothly.

The conditions, however, became changed, when with the 7th year of Meiji (1874) the evil effects of the over-issue of government paper money began to be noticeable, and as a natural result of the increase of the imports of the country there began to take place a greatly increased export of specie. In consequence of this the price of gold coins daily rose, and the depreciation of paper money rapidly set in.

Government paper money, in June of the 8th year of Meiji (1875), showed an exchange rate of yen 1,017-1,018 for gold yen 1,000. The national banks, having specie reserve for the conversion of paper money according to Regulations, the demand made upon them for the conversion of notes became exceedingly great. The notes issued were directly returned for conversion, having no time for circulation, and the banks sustained considerable losses because of the necessity for continuing a supply of specie on hand for the purposes of exchange. They were obliged to uselessly heap up in their vaults the notes that were to be issued for circulation, and one of the four banks then existing had not been able to issue a note since its opening of business. Such being the case, the specie reserves in the banks almost disappeared and paper money was gradually decreasing in circulation and losing its utility. The business of the banks became difficult, and no one dared to apply for the establishment of a national bank. What the Government at first hoped for was not realized, and it was apparent to everybody that the system of bank notes, convertible with specie, could not permanently be maintained.

At this time the Government determined to apply the Hereditary Pension Bonds (by way of reforming the Han (Clan) system as a result of the restoration) to the Kwazoku (Noble) and the Shizoku (Gentry or Samurai) for their hereditary pensions or their pensions for merit. In consequence, the issue of government loan bonds amounting to yen 174,000,000 was necessitated. In order, therefore, to create a demand for these bonds, and also to stimulate the establishment of the national banks, the National Bank Regulations were revised in August, the 9th year of Meiji (1876), chiefly to the effect that bank notes should be issued by the banks to the same amount

RED.

of and on the security of government loan bonds of over 4 per cent interest, deposited to an amount equal to 80 per cent of their capital, and that a currency reserve for the conversion should be provided to the extent of 20 per cent of the capital, or a quarter of the actual amount of issue. But this currency reserve meant in reality the government paper money, to which the bank notes became convertible. By this revision the convertibility of the bank notes with gold was changed to their convertibility with currency. The bank notes thus becoming inconvertible notes, and the conditions of things being thus changed, the establishment of the national banks was greatly encouraged, and in a few years their number increased to 150. There was still a tendency to a further increase of the number, but the Government, seeing that if further establishments were granted the inevitable result would be the expansion of inconvertible notes and the evils thereanent would be disastrous, issued special Regulations, by which the Government was enabled to refuse the establishment of or restrict the number of national banks, and when they numbered in all 153 no more establishments were granted.

On the other hand, there remained in circulation government paper money to the amount of over 100,000,000 yen, besides the national-bank notes of inconvertible character issued recently owing to the revision of the national-bank regulations. The difference between paper and specie became greater and greater. Prices rose and bonds depreciated in consequence of the depreciation of paper. Both the Government and the people began to criticise the circulation of the inconvertible notes, as well as the bank notes. The Government now realized that there was nothing of greater importance in the country's financial policy than the adjustment of paper currency, and felt the necessity of establishing a central bank, which should have the sole privilege of issuing convertible bank notes for the unification of the currency system. Consequently the Bank of Japan was created.

Central banks in other countries vary one from another in their organization, but they are all alike in the point of serving as supreme organs for the regulation of the monetary circulation of the countries in which they are established. In introducing into this country the central-bank system the Government studied the systems in Europe and America, and finally decided to adopt the system of the Central Bank of Belgium. It is needless to say that at the same time the Government fully considered the particular conditions prevailing in this country in framing the new central bank system in Japan after the system prevailing in western lands. Thus in June, the 15th year of Meiji (1882), the regulations concerning the Bank of Japan were issued, and the foundation of the Bank of Japan followed immediately. In May, the 17th year of Meiji (1884), the convertible bank-note regulations were also issued.

The circulation of the Bank of Japan convertible notes gradually increased, and the withdrawal of the government paper money and the national-bank notes was simultaneously carried out. Although in July, the 21st

try in framing the new central bank system in Japan after the system prevailing in western lands. Thus in June, the 15th year of Meiji (1882), the regulations concerning the Bank of Japan were issued, and the foundation of the Bank of Japan followed immediately. In May, the 17th year of Meiji (1884), the convertible bank-note regulations were also issued.

The circulation of the Bank of Japan convertible notes gradually increased, and the withdrawal of the government paper money and the national-bank notes was simultaneously carried out. Although in July, the 21st year of Meiji (1888), some amendments were introduced into the convertible bank-note regulations, and other revisions followed several times afterwards, it must be noted that at this time the foundation of the present currency system of Japan was fixed.

The following is a gist of the present Bank of Japan convertible note regulations:

The Bank of Japan shall keep gold or silver coins, or bullion of those metals, as a conversion reserve, equal in amount to the convertible bank notes issued. The amount of silver coin and silver bullion shall not exceed one-quarter of the whole amount of conversion reserve.

The Bank of Japan may, outside the provisions of the preceding paragraph, further issue convertible bank notes, on the security of government bonds or treasury bills, or other bonds and commercial bills of a reliable nature, within the limit of 120,000,000 yen; of this amount, however, 27,000,000 yen shall be set apart to be issued after the first day of January, the 22d year of Meiji (1889), in installments, from time to time, in proportion to the amount of the national bank-notes redeemed.

The Bank of Japan may, outside the provisions of the two preceding paragraphs, make still further an increase of convertible bank notes, in order to meet special emergencies of the market, and with the special permission of the Minister of Finance, on the security of government bonds or treasury bills, or other bonds or commercial bills of a reliable nature. The notes shall be subject to a special tax of not less than 5 per cent per annum, the rate of interest to be fixed in each case by the Minister of Finance.

14 Q M—MONO.

RED

The Bank of Japan shall supply by way of loan not more than 22,000,000 yen to the Government, without interest, for the purpose of redeeming the government paper money. The period of time within which this loan shall be repaid by the Government and the rate of annual installment shall be fixed by the Minister of Finance.

Now that the business organization of the Bank of Japan was complete, the national-bank regulations were revised to the effect that their term of business should expire at the end of twenty years, and that if they desired to continue their business thereafter they might only do so by becoming private banks. At the same time the rules for redeeming the national-bank notes were laid down and put into operation. At the expiration of their term of business most of the national banks were reorganized and have continued their business till this day purely as private commercial banks, acting as organs of general trade, in accordance with the bank regulations promulgated in August, the 23d year of Meiji (1890).

The revision of the National Bank Regulations in the ninth year of Meiji (1876), side by side with the issue of the hereditary pension bonds, gave an impetus to the establishment of banks, and in about the twelfth year of Meiji (1879) the financial organs of the country for domestic purposes were nearly complete, but for foreign trade purposes there existed only two or three branches or agencies of foreign banks. At this time the paper money increased in circulation, the difference in value between paper and silver became considerable, and it resulted in the outflow of specie abroad, which brought about a scarcity of gold and silver coins and a consequent distress in commercial and financial circles.

In order, therefore, to lay the foundations of the financial welfare of the country, the establishment of an organ for facilitating the monetary market was of paramount importance at this time, and in November, the twelfth year of Meiji (1879) the Yokohama Specie Bank was established. It was after the promulgation of the National Bank Regulations that this bank was created, and it was for the time being controlled by the same Regulations. But, with the gradual expansion of its business, and in order to distinguish it in connection with foreign commercial intercourse from the ordinary banks, the Government issued the Yokohama Specie Bank Regulations in the twentieth year of Meiji (1887), and made the Bank assume a special position of its own. The Bank has since come under government control under the new regulations, and its chief object is to act as a financial organ for foreign trade. It is now one of the most important figures in the financial world of the country.

Seeing that the Central Bank was already founded, with numerous ordinary banks under it scattered all over the country, and that a foreign trade organ, the Yokohama Specie Bank, was also established, it seemed likely that the mechanism for commercial purposes was nearly complete. These provisions, however, viewed from the point of scarcity of capital, were found to be still insufficient, as similar organs were lacking in respect of agriculture and industry. The Government then set

trade. It is now one of the most important figures in the financial world of the country.

Seeing that the Central Bank was already founded, with numerous ordinary banks under it scattered all over the country, and that a foreign trade organ, the Yokohama Specie Bank, was also established, it seemed likely that the mechanism for commercial purposes was nearly complete. These provisions, however, viewed from the point of scarcity of capital, were found to be still insufficient, as similar organs were lacking in respect of agriculture and industry. The Government then set about establishing the Hypothec Bank of Japan and the Agricultural and Industrial Banks as monetary organs for agriculture, and of the Industrial Bank of Japan as a monetary organ for industry. These institutions were finally created.

The Hypothec Bank of Japan mainly acts as financial medium for agriculture, and was founded after the system of the Credit Foncier de France. Its principal business consists in making long-period loans at low rates of interest on the security of real estate for the purpose of the improvement and development of agriculture and industry. It has as its local organs the Agricultural and Industrial Banks established for the same purpose, and they cooperate to provide financial facilities for agriculture and industry, and by this means to enhance the national wealth. To get the funds for loans, these banks are authorized to issue debentures and conduct business under the Government's special supervision.

The Industrial Bank of Japan was founded (its organization being chiefly based on that of the Credit Mobilier of France) as a financial organ for industry just as the Hypothec Bank is for agriculture. According to law the limits of its principal business are to make loans on the security of national loan bonds, local loan bonds, or shares of companies, to receive deposits of money and keep custody of goods intrusted for safe-keeping, to undertake a trust business in relation to local loan bonds or the debentures and shares of companies, and to make loans to public bodies organized by law. The bank is thus unable to a certain extent to carry on business similar to that of ordinary banks, but it is endowed with the privilege of issuing debentures to an amount of ten times its capital. The business management of this bank is also under the direct control of the Government.

RED

Besides the above-named banks there are the Colonial Bank of Hokkaido and the Bank of Taiwan (Formosa), but as these are special organs of colonial nature having little relation to the general economic situation we have omitted to deal with them.

To explain first the relation of the Government with the Bank of Japan, we would say that its difference from that of ordinary banks lies in the bank having the privilege of issuing currency notes, and it is by this privilege that the bank has various dealings with the Government. As already stated, the Bank of Japan was originally created for the purpose of withdrawing government paper money and national-bank notes, changing and unifying these into paper notes having specie reserve. The bank is therefore legally bound to make loans without interest to the Government to a limit of 22,000,000 yen for the purpose of redeeming the government paper money. It manages without any charge the receipts and the expenditures of the national treasury and transacts all business concerning the national loans. Formerly the receiving of moneys of the national treasury and their disbursement were intrusted to the so-called exchange dealers. These exchange dealers, however, were a group of private individuals, private banks, and national banks, and were considered doubtful as to their capabilities and credit. As the volume of cash receipts and disbursements increased the control of these exchange dealers became objectionable, and in the Bank of Japan act it was specified, in article 13, that the Government might intrust to the Bank of Japan the function of receiving and disbursing state funds. According to the government treasury regulations there are the central, the main, and the branch treasuries. The central treasury is located in Tokyo, the main treasury in each of the municipalities and prefectures and in Sapporo, Hakodate, and Nemuro, and the branch treasury in various places where the minister of finance deems its location necessary. The branch treasuries are supervised by the main treasuries; the minister of finance exercises superintendence over all the treasuries, and as occasion may require he dispatches officials to any treasury office for the inspection of treasury books. Now this treasury business is managed by the Bank of Japan, and the bank is solely responsible for the custody, receipts, and disbursements of cash. The affairs of the main and branch treasuries in various places are dealt with at the branches or agencies of the Bank of Japan in the respective places. The governor of the Bank of Japan is the cashier of the government treasury, and the heads of the bank's branches or agencies are his proxies.

On the convertible notes issued by the Bank of Japan on security reserve the Government imposed a tax at the annual rate of 1.25 per cent for the total issue, less the amounts lent to the Government or others without interest or at any annual rate of interest not exceeding 1 per cent. As for the issues in excess of the limits specified by law, a tax is levied at a rate of not less than 5 per cent per annum, fixed by the Minister of Finance at each time of such issue.

of the government treasury, and the heads of the bank's branches or agencies are his proxies.

On the convertible notes issued by the Bank of Japan on security reserve the Government imposed a tax at the annual rate of 1.25 per cent for the total issue, less the amounts lent to the Government or others without interest or at any annual rate of interest not exceeding 1 per cent. As for the issues in excess of the limits specified by law, a tax is levied at a rate of not less than 5 per cent per annum, fixed by the Minister of Finance at each time of such issue.

Among the relations of the Government with the Bank of Japan, those specified by the Bank's act are as follows:

- (1) Any person desiring to become a shareholder of the Bank of Japan shall obtain the permission of the Minister of Finance. (Art. 6 of the act.)
- (2) For the purpose of buying or selling government bonds the Bank shall obtain the permission of the Minister of Finance. (Art. 16 of the act.)
- (3) The governor and vice-governor of the Bank of Japan shall be appointed by the Government. The directors of the Bank shall be selected by the shareholders of the Bank at their general meeting and shall be approved and appointed by the Minister of Finance. (Arts. 18 and 19 of the act.)
- (4) In making advances in current accounts or loans for a fixed period the Bank of Japan shall obtain the sanction of the Minister of Finance as to the amount of such advances and loans and the rates of interest to be charged. (Item C of Art. II of the act.)
- (5) The Government superintends all the business of the Bank of Japan and restricts or forbids the acts of the Bank not conforming to the Bank's act or articles of association or contrary to the interests of the Government. (Art. 24 of the act.)

The Yokohama Specie Bank is not directly endowed with any privilege by the Government, but has the concession of getting a loan of 20,000,000 yen at the low interest of 2 per cent from the Bank of Japan and utilizing the same for the foreign exchange funds. Although this is a connection of the Bank with the Bank of Japan, it should properly be noted that this special arrangement was brought about by the Government's aid only. The Bank is charged, on the other hand, with the duty of handling, by the Government's order, matters concerning the government loans and moneys in connection with foreign

16 Q M—MONO.

RED.

countries. Thus the Yokohama Specie Bank's connection with the Government is less than that of the Bank of Japan, but it is under the control of the Minister of Finance, whose approval or supervision is necessary in all the business matters of the Bank, as well as in the appointment of its directors.

Let us now dwell upon the relations between the Bank of Japan and the ordinary banks. It goes without saying that the business of ordinary banks consists principally in handling their own capital and the deposits of the public, but in case of further need of capital they approach the Bank of Japan for the discounting of commercial bills or loans on security. The Bank of Japan has made it a principle since its establishment to aid the ordinary banks, and there exists a considerable gulf between the rate of interest of the Bank and that of ordinary banks—that is, the discount rate of the Bank of Japan is, as a rule, much lower than that of the ordinary banks. The unavoidable result of it was that some banks, taking advantage of this difference, made it their chief business to earn the amount of difference for themselves by becoming intermediaries between private individuals and the Bank of Japan. We must here observe that the relations between our Central Bank and our ordinary banks differ greatly from those in foreign countries, especially from those in England, Germany, or France. This difference lies in the special circumstances under which the Bank of Japan was first established, and this state of things has influenced the general banking system of this country not a little. The business methods of the Bank of Japan always tend to affect those of the ordinary banks. For instance, if, under Government's financial condition, the capital of the Bank of Japan becomes tight, the money market will soon be affected thereby. Thanks, however, to the steady growth of this country's economic conditions, the system adopted at the earlier stages by ordinary banks of making profit by the difference of interest is gradually disappearing.

In considering the advantages and disadvantages of the banking system in this country, we shall study the two following questions:

- (1) Whether there should be special banks respectively for agriculture, industry, and commerce, or whether one bank should act for all three lines.
- (2) Whether the banks should be separately and independently established, or whether the branch system should be adopted.

In England and America one bank performs the financial functions for agriculture, industry, and commerce, but on the Continent of Europe there are special monetary organs for each of the three branches. To arrive at a conclusion as to which of the two systems is superior to the other, we shall discuss the different ways in which the capital is utilized in the three cases. The following are the three points in which the nature of the capital varies

In England and America one bank performs the financial functions for agriculture, industry, and commerce, but on the Continent of Europe there are special monetary organs for each of the three branches. To arrive at a conclusion as to which of the two systems is superior to the other, we shall discuss the different ways in which the capital is utilized in the three cases. The following are the three points in which the nature of the capital varies in the three lines:

- (1) In the period of redemption, capital has the quickest return in commerce. The money invested is brought back immediately by the disposal of the merchandise, and again used for other goods, the term of credit not being in consequence necessarily long. In industry the capital becomes fixed in machineries, factories, etc., but the money invested in raw materials is restored as soon as the materials are manufactured and sold. On the other hand, the capital for agricultural purposes is all spent on land, implements, etc., and becomes fixed, except a small portion spent on fertilizers, seeds, labor, etc. The return of capital is slowest in agriculture, it being effected only little by little annually.
- (2) Regarding the certainty of redemption, the capital invested in commerce is only influenced by artificial market fluctuations, which govern the business profits, while agricultural pursuits are affected by natural causes, uncontrollable by human energies, and the return of capital in agriculture can not be insured.
- (3) As regards the renewal of capital, agricultural pursuits, unlike the other two lines, require little, the period in which the capital becomes fixed being long, unless the land purchased meets with some catastrophe. In industry, renewal is necessary to a certain extent on account of the wearing out of plants and buildings and of the sale of the articles of manufacture. In commerce the capital fixing term is shortest, and with the sale of goods the renewal will be necessitated.

As the operations of capital thus vary in the three pursuits, there should accordingly be various kinds of banks for supplying the capital.

In Japan we have as mercantile banks the ordinary banks with the Bank of Japan as their center; as industrial bank, the Industrial Bank of Japan; as agricultural bank, the Hypothec Bank of Japan. We believe in this respect that our system of monetary organs is perfect.

17 Q M—MONO.

With regard to the single and branch system of banks there are different circumstances in different countries under which the banks have grown. In some countries there are numerous independent banks, and in others a few large banks have branches under them. For instance, the United States of America belong to the former and Scotland to the latter. The advantages and disadvantages of both systems can not be easily ascertained, but, endeavoring to reach an unbiased judgment, we may say that in the branch system the advantages are more numerous than the disadvantages.

Let us try to enumerate the advantages of the branch system:

- (1) By the branch system the efficiency of capital may be augmented; the kinds of capital may be augmented and also may be easily altered. Hasty change in the rate of interest may consequently be avoided and elasticity in business management may be secured.
- (2) The utility of the banking system may be extended to remote parts of the country.
- (3) Rash competition among banks does not take place.
- (4) Reliable and timely reports on economic conditions are obtainable from various districts.
- (5) Economization of business expenses is made possible.

The above are the advantageous points of the branch system, and the following may be stated as the disadvantages in adopting the same system:

- (1) The controlling of the branches is a matter of great difficulty.
- (2) The failure of one branch may work a change on the main bank as well as in the other branches.

The advantages of the branch system as above pointed out are mainly those that are positively beneficial to the public interests, and the disadvantages are rather evils that may be avoided if proper care is exercised.

In the banking system of this country, independent banks of small means are spread over the country, owing to circumstances special to the country, many of them being bequeathed by the old national-bank system. Men of experience in the country early urged the necessity of amalgamating banks, and a special law known as the Law for the Amalgamation of Banks has been issued. The number of the branches of banks has recently increased, but we are not yet at the stage of the perfect branch system.

We have so far gone over the general features in our banking system, and we shall now go on to treat of our central bank system.

Our Central Bank, the Bank of Japan, is the only organ in the country for issuing paper notes, and is based on the so-called centralization system of issue.

In the note-issuing bank system there are two systems—centralization and separation. To see which is superior to the other, we will here enumerate the different points in the former that are positively beneficial to the interests of the financial as well as to the political world.

Viewed from the financial point, the centralization system is superior in the following respects:

- (1) A country has at times to make large payments in specie to foreign countries in connection with trade

in the country for issuing paper notes, and is based on the so-called centralization system of issue.

In the note-issuing bank system there are two systems—centralization and separation. To see which is superior to the other, we will here enumerate the different points in the former that are positively beneficial to the interests of the financial as well as to the political world.

Viewed from the financial point, the centralization system is superior in the following respects:

- (1) A country has at times to make large payments in specie to foreign countries in connection with trade or loans raised. In such cases, if the separation system is adopted, the specie reserves in different banks are collected, thereby affecting the money market in the same way as an outflow of specie would affect it. If the Central Bank system is adopted, and the specie reserve remains concentrated from time to time to provide for such emergencies, the effects will be minimized.
- (2) In the centralization system, the Central Bank has the power of influencing the other banks, and can readily accumulate the specie reserve by means of discounts, the elasticity of currencies being thus amply secured.
- (3) As the Central Bank handles immense capital, it has real power to supply capital, and its responsibility for the money market is unique, as it clearly stands as a public organ. If a panic sets in, the Central Bank will be able to restore order much more easily and more firmly than in the case where banks with little credit abound.

Viewed from political and economic points, the centralization system is also superior in the following respects:

- (4) If the Central Bank carries on its business as the central organ in the market and continues to receive the public credit, the Government will be enabled in time of serious emergencies to meet its own requirements by borrowing the funds the Central Bank collects on its own credit.
- (5) As a country's finances expand the receipts and disbursements of the national treasury will surely have a most important effect on the monetary circle of the country, and if the Government makes the national treasury the custodian of taxes collected and all the other revenue and continues to do so without moving them till their due dates of disbursements, it will, as a matter of course, greatly hinder the circulation of capital. In the separation system of banks, the above course of things may become unavoidable, but under the centralization system there is the reliable Central Bank, to whom the Government intrusts the national treasury receipts and disbursements, and the bank may utilize in the market the receipts till their due dates of disbursements, and the bad effects on the markets of the accumulation of receipts in the national treasury will be thereby minimized.

18 Q M—MONO.

RED.

The above are the general advantages attending the bank centralization system, and as our Bank of Japan is endowed under this system with the privilege of issuing paper notes, it may be said that our authorities have also left no stone unturned in this direction.

As the Central Bank is the only bank privileged to issue notes, it is but natural that the Government should intervene in the business management and the appointment of the governor, directors, etc., of the bank.

Loans and discounts are the two lines to which the Central Bank attaches special importance, as ordinary banks do. These form the chief source of profit for the Bank, and although if the Government interferes with the Bank's business it may inconvenience the bank, still it must be noted that it is only proper for the Government to do so, as the bills, bonds, etc., received by the Bank in making loans and discounts constitute a part of the reserve fund for convertible notes. As the credit of convertible notes is secured and established by the regulations for issuing bank notes, the Government must control the selection of bills, bonds, etc., to be received, and direct the business of the bank and control the nomination of its staff.

We shall now further touch upon our methods of issuing convertible bank notes. In the convertible note regulations of our Central Bank the principle followed is to provide the full amount of specie reserve, a fixed amount of issue being also allowed against securities, and in case of further necessity of issue, an excess issue is allowed on the condition of paying a tax at a rate of not less than 5 per cent per annum. This is what is called the elastic limitation mode of issuing, and much resembles the German mode, on which it was originally modeled. But the point in which our mode excels over all others is that the percentage of the tax imposed for excess issue is on each occasion fixed by the Minister of Finance according to the circumstances then prevailing. The object of taxing excess issue is to check the over-issue in meeting the urgent requirements of the time when the money market becomes tight and the rate of interest tends to rise. If, therefore, a fixed rate is levied, and if the rate is too low, the excess issue will even be made at ordinary times, and if the rate is too high the excess issue will only be made after the abnormal rise of interest, and the proper time of making excess issue will be missed. The rate of the tax should not therefore be a fixed one, but should be, as in our own case, buoyant and changeable according to the needs of the time.

In the German system commercial bills only are available for the reserve, but in our system the government bonds, treasury bonds, or other bonds of reliable nature are used for the purpose, besides commercial bills. Experience having shown the uncertainty of refunding public loans in critical moments, the exclusive adoption of commercial bills may be the proper measure to be taken; but here in this country, where commercial transactions are not yet fully developed and the supply of bills is insufficient, the use of public bonds as reserves can not for the time

In the German system commercial bills only are available for the reserve, but in our system the government bonds, treasury bonds, or other bonds of reliable nature are used for the purpose, besides commercial bills. Experience having shown the uncertainty of refunding public loans in critical moments, the exclusive adoption of commercial bills may be the proper measure to be taken; but here in this country, where commercial transactions are not yet fully developed and the supply of bills is insufficient, the use of public bonds as reserves can not for the time being be totally excluded.

Considering all points here explained, our banking system may be said to be nearly perfect in the main, though in its details there is room for revision. However, we are still backward in our banking achievements as compared with those of Europe and America. This is to be attributed to the fact that our banking system is only a little over thirty years old, and the time is not ripe yet for its development, and that our commerce and industry in general, though they have made gigantic strides, can not yet vie with those in western lands.

We shall now recapitulate the system, administration, and business of our Central Bank, comparing them with those of the central banks in foreign countries, especially in England, France, and Germany.

In issuing notes the Bank of Japan may do so on the security of government bonds, treasury bills, commercial bills, etc., to a limited amount, besides issuing convertible notes with specie reserve; further, if the market wants more currency for circulation, the Bank is also enabled to issue notes with securities, provided the Government permits it, and a tax of 5 per cent or over per annum is paid. In the case of the Bank of England the issue with specie reserve and the limited issue with security reserve only are permissible, and the excess issue as in our system is not allowed. It is customary in the Bank of England for its issuing department to have always the security reserve to its full amount, and the notes are issued to their full amount, which always remains without any increase or decrease, and the elasticity of notes is maintained by virtue of the deposit reserve in its business department. If a large amount of specie is required owing to a special market condition, the influx of specie is invited by means of a movement in the interest rates.

RED

The system of our Central Bank is very much like that of the Imperial Bank of Germany. While in our system the providing of full amount specie reserve is the principle, the proportional reserve system of providing specie to the minimum amount of one-third of the amount of convertible notes issued is to a certain extent adopted in the case of the German bank; and whereas the minimum rate of tax on excess issue is 5 per cent in ours, the rate being fixed by our Minister of Finance on each occasion, the same is fixed at 5 per cent per annum all around in the German bank.

The Bank of France differs totally in principle from the Central Bank of Japan, Germany, or England. In France the maximum emission system of notes is followed, and the maximum amount of notes to be emitted is fixed. The kinds and amounts of conversion reserve are left entirely to the discretion of the note-emitting bank, there being no legal restrictions on same.

As to the administration of central banks, they are in every country under the strict and careful supervision of the respective governments. In the scheme of electing and appointing the principal officials, the Bank of Japan closely resembles the Bank of France. In both cases the nomination of the governor and vice-governor is made by the Government, the directors and officials under them being elected by the shareholders, and the discount committee for examining the bills to be discounted is elected from among the stockholders. The points of detail in which they differ from each other are that where there are one governor and two vice-governors in the Bank of France, the former being elected from among the stockholders holding 100 shares or over, and the latter from among those holding 50 shares or over, there are in our Bank one governor and one vice-governor, nominated exclusively by the Government, and only the directors and the officials under them are chosen from among the shareholders and appointed by the Government. In our system there is also a special provision for making the members of the discount committee discharge the duties of the comptrollers. In the Imperial Bank of Germany the organization is like that of a government office, the organization being very rigorously drawn up. Its business management is supervised by the inspection board, the chairman of which is the state premier, and has four councillors, one of which is appointed by Imperial nomination, the other three being nominated by the Bundesrat, or Federal Council. The administrative board, under the control of the state premier, manages the business of the Bank, the state premier directing the business, and the Bank in dealing with the public is represented by this board, consisting of a president and a few directors, whose decisions, made by a majority and approved by the state premier, are carried into practice. The president and directors of the administrative board are chosen by the Bundesrat and appointed by Imperial nomination. In the Imperial Bank of Germany the shareholders have only to elect a committee consisting of fifteen shareholders, who express the opinions of the shareholders

control of the state premier, manages the business of the Bank, the state premier directing the business, and the Bank in dealing with the public is represented by this board, consisting of a president and a few directors, whose decisions, made by a majority and approved by the state premier, are carried into practice. The president and directors of the administrative board are chosen by the Bundesrat and appointed by Imperial nomination. In the Imperial Bank of Germany the shareholders have only to elect a committee consisting of fifteen shareholders, who express the opinions of the shareholders regarding the Bank's business for the administrators' reference. In the Bank of England a court of directors consists of the governor, deputy governor, and twenty-four directors, all being elected from among the stockholders, but the governors from among the directors. According to the custom of the Bank of England, the governor consults with the cashiers of the bank regarding the management of the affairs of the bank. The cashiers are appointed and organized by one who was formerly the governor or deputy governor, or who is in position to succeed to either of the two positions.

As regards the particulars of the management of the affairs of the central bank in this country and that in foreign countries, we can not here make detailed comparisons; still in all countries the central bank serves as the supreme organ in the money market and the center of the financial operations of the country, also as a medium for developing the country's commerce and industry, and thus the principal object of a central bank is the same in every country. The kinds of business transacted by the central banks in different countries are as follows:

THE BANK OF JAPAN.

Discounting or purchasing of bills; buying and selling of gold and silver bullion; receiving deposits of all kinds; accepting the custody of coins and documents; making advances in current account or loans for a fixed period on the security of government bonds, treasury bills, or other bonds guaranteed by the Government. The bills discounted by the Bank of Japan shall be such as are indorsed by two or more persons and payable within one hundred days; provided that goods or warehouse certificates for the goods have been surrendered as security, the bank may discount bills carrying only one indorsement.

20 Q M—MONO.

THE BANK OF ENGLAND.

Buying and selling of specie, bullion, and bills of exchange; discounting of bills; receiving deposits; and making loans on securities.

THE BANK OF FRANCE.

Discounting of bills payable within three months; receiving deposits; accepting the custody of coins, precious metals, and documents; making loans on the security of government bonds and company debentures; issuing of short-term bills.

THE IMPERIAL BANK OF GERMANY.

Buying and selling of gold and silver bullion and coins; discounting, buying, and selling of bills payable within three months and carrying two or more reliable indorsements, and of the debentures issued by juridical persons in the realm or states of Germany and redeemable for face value within three months; making loans with interest for not more than three months and on the security of movables; receiving of deposits.

Besides the above, the receipts and disbursements of the national treasury funds and the handling of principal and interest of the national loans are the affairs intrusted to the Central Bank in every country. The kinds of business transacted by the Bank of Japan are as already mentioned, but twenty years ago, when the money market was under straitened circumstances, the discounting of bills with security of company shares was opened in order to facilitate the supply of capital for the company shares; and as the shares of companies of reliable standing are now accepted as securities for bills discounted, the restriction of rejecting the company shares as securities has been practically done away with.

With reference to the discount tariff, the Central Banks in England, France, and Germany generally put the official rate at a higher point than the rate of ordinary banks, and if the market becomes tight and the rate of ordinary banks rises above that of the Central Bank owing to the scarcity of funds in the market, then the Central Banks, in these countries, come to the rescue of ordinary banks; but on the contrary, the Bank of Japan keeps the rate at a low point even in ordinary days, and makes it her constant object to prop up the ordinary bank. In regulating the influx and outflow of specie consequent upon international relations the Bank of Japan, the Bank of England, and the Imperial Bank of Germany all take the same steps in fluctuating the discount rate—a measure which is evidently effectual. The Bank of France alone does not follow the same course and strives to keep a fixed rate. To control the outflow of specie, therefore, the Bank of France charges a certain rate of commission on the conversion of notes to gold. Although this conversion premium seldom exceeds seven or eight thousandths of the amount of conversion, it has

Germany all take the same steps in fluctuating the discount rate—a measure which is evidently effectual. The Bank of France alone does not follow the same course and strives to keep a fixed rate. To control the outflow of specie, therefore, the Bank of France charges a certain rate of commission on the conversion of notes to gold. Although this conversion premium seldom exceeds seven or eight thousandths of the amount of conversion, it has effectually controlled the specie outflow and protected the specie reserve of the Bank of France. The measure seems to be one that is necessitated in France owing to the coinage system of that country.

The Yokohama Specie Bank is a special bank in this country carrying on business under regulations differing from those for ordinary banks. But the business done by the bank is similar to that of an ordinary bank, except that the bank has as its main object to aid foreign trade. The reason of its being under the Government control under special regulations is only because the bank is privileged to borrow funds from the Bank of Japan at a low rate of interest for the purpose of facilitating foreign trade, and also because it deals with the government moneys abroad. The Yokohama Specie Bank is not the only bank in Japan engaged in foreign transactions. It transacts business as an ordinary bank as well, and we can not here see our way to specially compare this bank with the large financial organs in foreign countries. It may be sufficient, therefore, to give the essential points of the regulations and the articles of association of the Yokohama Specie Bank, as follows:

“The Yokohama Specie Bank shall be a limited association. The capital of the bank shall be 24,000,000 yen. The shareholders of the bank shall be Japanese subjects only.

“The number of directors shall not be less than five, the number of inspectors shall not be more than three, and they shall be elected at an ordinary general meeting of shareholders from among the shareholders. The election of the directors shall be sanctioned by the Minister of Finance.

“The president and vice-president shall be chosen by the directors from among themselves. Their election shall be sanctioned by the Minister of Finance.”

The business of the bank is: The purchase and sale of foreign bills of exchange, credits and documentary; the purchase and sale of inland bills of exchange, credits and documentary; loans; deposits of all kinds, and custodies; discounting and collecting bills of exchange, promissory notes, and other negotiable paper; exchange of coins or moneys; purchase and sale of public bonds, gold and silver bullion, and foreign coin. The bank shall, when so ordered by the Government, act in all matters connected with public loans or government moneys in foreign countries.

*Those who actually attended the
Conference were as follows —*

LIST OF GENTLEMEN PRESENT AT CONFERENCE
HELD AT THE MARLBOROUGH-BLENHEIM HOTEL, ATLANTIC
CITY, NEW JERSEY, FEBRUARY 10-12, 1911.

-
- Hon. E. B. Vreeland, Vice-Chairman National Monetary Commission.
Dr. A. P. Andrew, Assistant Secretary of the Treasury.
Mr. H. P. Davison, of New York City.
Mr. Luther Drake, Merchants National Bank, Omaha, Neb.
Mr. James B. Fergan, First National Bank, Chicago, Ill.
Mr. A. Barton Hepburn, Chase Natl. Bank, New York City.
Mr. Clifford Hubbell, Buffalo, New York.
Mr. C. H. Huttig, Third National Bank, St. Louis, Mo.
Mr. Stoddard Jess, First National Bank, Los Angeles, Cal.
Judge J. W. Lusk, National German-American Bank, St. Paul, Minnesota.
Mr. Joseph A. McCord, Third Natl. Bank, Atlanta, Ga.
Mr. C. Stewart Patterson, Philadelphia, Penna.
Mr. F. M. Prince, First Natl. Bank, Minneapolis, Minn.
Mr. William Porter, of New York City.
Mr. George M. Reynolds, Continental and Commercial National Bank, Chicago, Ill.
Mr. W. S. Rowe, First National Bank, Cincinnati, O.
Mr. J. T. Scott, First National Bank, Houston, Texas.
Mr. Francis B. Sears, National Shawmut Bank, Boston, Mass.
Mr. Benjamin Strong, Jr., Vice-Prest. Bankers Trust Co., New York City.
Mr. E. P. Swinney, First National Bank, Kansas City, Missouri.
Mr. F. A. Vanderlip, President National City Bank, New York City.
Mr. Festus J. Wade, Mercantile National Bank, St. Louis, Mo.
Mr. Paul M. Warburg, New York City.
Mr. F. O. Watts, First National Bank, Nashville, Tenn.
Mr. S. Wexler, Whitney-Central National Bank, New Orleans, La.
Mr. D. G. Wing, First National Bank, Boston, Mass.

Arthur B. Shelton, Secy Natl Monetary Commission

THE HISTORY AND THE PROPOSED RETIREMENT OF THE UNITED STATES NOTES.

At the beginning of the civil war, all the dollars in the loyal States consisted of about \$250,000,000 of gold, and about \$120,000,000 of State bank notes; and more than half of that gold was the property of the banks, and was in their possession. At its extra session of July, 1861, Congress passed laws which authorized the Secretary of the Treasury to borrow \$200,000,000, upon interest-bearing bonds; and also to issue \$50,000,000 in treasury notes, of less denominations than \$50, and not less than \$10, payable on demand, without interest, and not legal tender. In pursuance of those laws, and prior to February, 1862, the Secretary of the Treasury issued all those treasury notes; and he also borrowed \$100,000,000 in gold from the banks in the principal cities upon that amount of bonds, bearing seven and three-tenths per cent interest; and he also tried to borrow \$50,000,000 in gold, on bonds bearing six per cent interest. He did negotiate the last mentioned bonds, at a discount of over ten per cent; but the banks which agreed to take them, did not have gold enough, in addition to the \$100,000,000 which they had given for the first bonds, to pay the \$44,661,230, which they agreed to give for the second bonds; and therefore those banks had to make up the deficiency with treasury notes, which had come into their possession in the course of their business, after being issued by the Secretary of the Treasury, in payment of government obligations. But as soon as the banks had thus made up the \$44,661,230, they refused to receive any more treasury notes on deposit or in payments of debts due to them.

The Secretary of the Treasury also tried, prior to February, 1862, to borrow another \$50,000,000 on interest-bearing bonds; but he failed to get any of those bonds taken, because neither the banks nor the people in the loyal States, had any such amount of gold or treasury

notes left to lend. Half of the gold in the country had already been loaned to the Secretary of the Treasury, by the banks which had owned it; and that gold had been scattered throughout the loyal States, in payments for services and supplies; and those who had received it, like those who owned the other half of the gold in the United States, needed it in their business, or to pay for their living, and therefore could not afford to loan it to the Secretary of the Treasury. The treasury notes had also been dispersed through the country; and though some of them had passed to the possession of the banks, most of them had already been loaned to the Secretary of the Treasury toward making up the \$44,661,230, and had nearly all been scattered again, before February 1 1862, in payment for supplies and services. At this time, there was a statute of long standing, which prohibited the Secretary of the Treasury from receiving State bank notes in payment for bonds, or in any other way. And even if that statute had been repealed, it would have taken nearly half of all the State bank notes in the loyal States, to pay for \$50,000,000 in bonds; and nearly all those State bank notes were much below par, because nearly all the banks issuing them, had suspended specie payments, in December, 1861.

At the beginning of February, 1862, the \$144,661,230, which the Secretary of the Treasury had borrowed on interest-bearing bonds, together with the \$50,000,000 in treasury notes, which the law of July, 1861 authorized him to issue, had nearly all been used in paying the expenses of the war and of the government up to that time; and \$180,000,000 of accrued expenses were still unpaid; and the government and war expenses were continuing to accrue, at the rate of nearly \$2,000,000 each day. It was well understood at that time, that no large amount of money could be obtained in less than six months by increased taxes; and that no gold could be borrowed in Europe, by the United States, with which to prosecute the war for the suppression of the rebellion. The

loaning power of the loyal States having already been exhausted, it was plain that the suppression of the rebellion would have to stop, without having made any material progress; unless a large amount of new paper money could be provided, to be paid by the government to the people for services and supplies, and to be paid back by the people to the government for taxes and for bonds. The existing State bank notes could not answer this purpose; because there were not enough of them to do this work, in addition to acting as instruments of exchange among the people themselves; and because they were not legal tender, and did not possess nor much deserve, the confidence of the people. And the prosecution of the war could not wait the year or more, which it would have taken to establish new or additional bank currency, to an amount sufficient to do the necessary exchanging between the government and the people, at the enormous rate of nearly \$2,000,000 a day. Under these circumstances, there was evidently no way to save the union of the States, at the beginning of February, 1862, without the issuance of a large amount of new paper money by the United States government. The only debatable question was whether that paper money should be made legal tender. That question was a two-fold subject, in that it involved the constitutional power of Congress to authorize the issuance of United States legal tender notes, and involved also the necessity, or at least the economic legitimacy and expediency, of making such notes legal tender.

The question of necessity was readily answerable in the affirmative; because the United States had, within six months, tried the experiment of issuing United States notes, payable on demand, which were not legal tender; and that experiment had shown that such notes would not circulate as money, except among the more patriotic portions of the people. Accordingly, on January 29, 1862, Secretary Chase wrote to Mr. Stevens, Chairman of the Committee on Ways and Means, saying that his reflections had made him conclude in favor of making the proposed notes

legal tender; because there were some persons and some institutions which refused to receive and pay out the treasury notes of July, 1861; and because to omit to make the new notes a legal tender, would therefore operate to depreciate them unnecessarily, and to discriminate against those giving a cordial support to the government, and in favor of those who did not. And the views of Secretary Chase on this question of necessity were further enforced upon Congress, by the advice of the principal financial authorities in the loyal North. Among these were the Committee of Public Safety of the City of New York; the Chambers of Commerce of New York, Boston, and Philadelphia; and the Boards of Trade of Chicago, St. Louis, Cincinnati, Louisville, and Milwaukee. And no cogent argument against the necessity of making the proposed United States notes legal tender, was made by any of those, in either House of Congress, who opposed that measure.

The question of constitutionality was elaborately debated in the House and in the Senate, when the bill for issuing the United States legal tender notes was under consideration in Congress, about the beginning of February, 1862. And Attorney General Bates gave to Mr. Spaulding of New York, who was the author of that bill, an unofficial opinion in favor of that constitutionality. The Attorney General said that the constitution does not expressly permit or prohibit, either the issuance of United States notes, or making them legal tender, but that everybody agreed that the constitution impliedly permits the issuance of United States notes; and that, in his opinion, it also impliedly permits making those notes legal tender. The leading speech in the House against the constitutionality of the bill was made by Mr. Pendleton of Ohio. He based his argument upon the absence of an express grant in the constitution; and upon the fact that the constitutional convention of 1787 voted down a proposition to insert in the constitution, an express grant of power to emit bills of credit; and upon the

fact that Daniel Webster said in a speech in 1832, that Congress has no power to make anything but gold and silver a legal tender; and upon the fact that no American statesman had ever contended, at any time since the constitution was adopted, to the contrary of Webster's opinion.

And the other opponents of the constitutionality of the bill, in both Houses of Congress, took substantially the same grounds.

Those who argued in favor of the constitutionality of the bill were mainly its author, Mr. Spaulding of New York, Mr. Bingham of Ohio, and Mr. Stevens of Pennsylvania, in the House; and Mr. Sherman of Ohio, Mr. Sumner of Massachusetts, and Mr. Howard of Michigan in the Senate. Those gentlemen took the ground, that the absence of an express grant in the constitution is not conclusive, nor even weighty, because of the universally admitted doctrine of implied powers; and that the fact that the constitutional convention voted down a proposition to insert in the constitution, an express grant of power to emit bills of credit, is immaterial, because it also refused to insert a prohibition of that power, and because an implied power to emit bills of credit, had repeatedly been exercised by Congress, and was admitted by everybody; and that Webster's opinion in 1832 was not particularly weighty, because it did not appear to be the result of any particular deliberation; and that the fact that no statesman had ever proposed, since the constitution was adopted, to issue United States legal tender notes, was unimportant, for the reason that no emergency had arisen, prior to the civil war, to make such notes necessary.

Having thus answered the objections to the constitutionality of the measure; its advocates affirmatively sustained that constitutionality, by arguing that the power to emit United States notes, and make them a legal tender, is incidental to several express powers conferred upon Congress by the constitution. Mr. Sherman held that the power to issue legal tender notes resulted by implication from the express power to

borrow money, to maintain armies and support a navy. Mr. Sumner said "The constitutional power of Congress to make treasury notes a legal tender was settled, as long ago as when it was settled, that Congress might authorize the issue of treasury notes; for from time immemorial the two have gone together." Mr. Howard argued that having the express power to borrow money, Congress has the right to place in the hands of the lender, a paper promise to repay the amount borrowed, and that the power to make that paper a legal tender, is necessary to the practical exercise of the power to borrow money; and therefore that Congress has the constitutional power, under the clause authorizing it to borrow money, to declare this species of paper a legal tender in the payment of debts between individuals. Mr. Spaulding said "It is plainly within the scope of the constitution that the government should maintain itself; that the army should be supported; that the navy should be maintained. The ways and means of doing this are left to Congress to provide. It may issue treasury notes payable on demand, and make them a legal tender in payment of debts." Mr. Bingham said "Congress has, by express grant in the constitution, power to regulate commerce, and resultant from that power, it has also the power to declare what shall be received in payment of debts." And Mr. Stevens said "If nothing could be done by Congress except what is enumerated in the constitution, the government could not live. Whenever any law is necessary to carry into execution any enumerated power, such law is valid. Whether such necessity exists, is solely for the decision of Congress. It is for Congress to determine, whether this bill is necessary to raise and support armies and navies, to borrow money, and to provide for the general welfare. The right to emit bills of credit, which the convention expressly refused to grant as a substantive power, has, for fifty years, by the common consent of the nation, been practiced, and is now conceded by every opponent of this bill. With what grace can the concomitant

power to make them a legal tender, be objected to."

These arguments in favor of the constitutionality of the measure prevailed; and Mr. Spaulding's bill passed the House by a vote of 93 to 59, February 6, 1862, and passed the Senate by a vote of 30 to 7, February 13, 1862; and was approved and signed by President Lincoln, February 25, 1862. The statutory law thus inaugurated, in respect of the legal tender quality of United States notes, has never been repealed, and is now represented by Section 3588 of the Revised Statutes of the United States, which reads: "United States notes shall be lawful money, and a legal tender in payment of all debts, public and private, within the United States; except for duties on imports, and interest on the public debt."

The act of February 25, 1862, provided for the issuance of these United States legal tender notes, to the amount of \$150,000,000; and in preparing those notes, a plan which had not been used on the State bank notes to avoid counterfeiting was adopted. That plan consisted in printing elaborate designs upon their backs, as well as upon their faces; and those designs, being printed with green ink, distinguished the notes so obviously from the State bank notes then in circulation, that the people gave them the name of greenbacks.

In June, 1862, the United States notes which had been issued in pursuance of the Act of February 25, 1862, were six per cent below par in gold; but that depreciation was much less than the depreciation of State bank notes which had occurred after the suspension of specie payments in December, 1861, and before the passage of the Act of February 25, 1862. In all other respects, the issuance of the United States notes under that Act, had worked so well as a means of borrowing money without interest, and at the same time furnishing a reliable currency for the people, that Secretary Chase, early in June, 1862, asked Congress to authorize him to issue \$150,000,000 more of such notes, and to

permit him to put them out in denominations of five dollars and less, as well as ten dollars and more. Accordingly, Mr. Stevens reported a bill for that purpose from the Ways and Means Committee; and Mr. Lovejoy of Illinois, who had strongly opposed the passage of the Act of February 25, 1862, said in debate on that bill, "I do know that the people have great confidence in these green-backed treasury notes; and that they do not generally have it in the bank note issues. I want a law to be passed to exclude the bank note circulation, which is of much less value than the United States treasury notes." Harmoniously with this speech, Mr. Lovejoy now voted for the issuance of United States legal tender notes, and the bill passed the House on the 24 of June, by a vote of 76 to 47. And on July 2, 1862, it passed the Senate by a vote of 23 to 13; and it was approved and signed on July 11, 1862, by President Lincoln.

On January 17, 1863, President Lincoln also approved a joint resolution of Congress, authorizing the Secretary of the Treasury to issue another \$100,000,000, in legal tender United States notes. And on March 3, 1863, he approved a bill, authorizing the issue of \$150,000,000 in such notes, including the \$100,000,000, which had been provisionally authorized by the joint resolution of January 17, 1863. That joint resolution was originally reported by Mr. Stevens, from the committee on Ways and Means, to provide for the issuance of only \$50,000,000 in legal tender United States notes; but that amount was increased to \$100,000,000, on the motion of Mr. Lovejoy, and that resolution was passed by the House without any opposition whatever; and was passed by the Senate by a vote of 38 to 2; the yeas including the strongest opponents of the original legal tender Act of 1862. And the act of March 3, 1863, was passed by the House without opposition enough to call for the yeas and nays, and was passed by the Senate by a vote of 32 to 4.

Thus the practical working and results of United States legal ten-

der notes, during the first year after their origin, were good enough to convert nearly all their opponents into friends. But the new friends and the original advocates of the system were all conservative enough, to know that evil may result from an excess of good things; and though the civil war was not half through, at the time of the passage of the Act of March 3, 1863, no additional sum of United States notes was ever authorized after that day; and of the \$450,000,000 which were authorized up to that time, the largest amount ever outstanding at once, was on January 3, 1864, and was \$449,338,902.

An Act of Congress was approved March 12, 1866, which authorized the retirement of not more than \$10,000,000 of the United States legal tender notes, within six months after the passage of the Act; and after that, of not more than \$4,000,000 in any one month. Under that Act, the amount outstanding was reduced to \$356,000,000 in less than two years. That amount in the judgment of Congress was small enough; and therefore, any further retirement of United States notes was suspended by the Act of February 4, 1868.

In the fall of 1873, the Secretary of the Treasury, at the urgent solicitation of Cornelius Vanderbilt, and other great financiers, and with the permission of President Grant, reissued over \$26,000,000 of the United States notes which had been retired in 1866 and 1867; so that on January 15, 1874, the amount outstanding was \$382,979,815; and on June 20, 1874, the maximum amount to be outstanding thereafter, was fixed at \$382,000,000.

The Act of January 14, 1875, which provided for the resumption of specie payments to occur January 1, 1879, also provided for the retirement of \$82,000,000 of United States notes, four-fifths as fast as national bank circulation would increase under that Act; and also provided for redeeming in coin, any or all outstanding United States notes, on demand, at any time on or after January 1, 1879. That Act inten-

tionally refrained from providing whether any or all of the \$82,000,000 of United States notes, which might be retired or redeemed thereunder, should thereafter be reissued, or should thereafter be cancelled; and Senator Sherman carefully explained in his speech supporting the bill, that it relegated that question to future legislation. With this clear understanding, the bill passed the Senate after a long debate by a vote of 32 to 14; and it passed the House by a vote of 136 to 94. Under this Act, \$35,318,984 of United States notes were retired, prior to May 31, 1878; when President Hayes approved the Act, which has been the law ever since, and which provided that whenever thereafter, any United States legal tender notes should be redeemed by the Secretary of the Treasury, or should otherwise be received by him, they should not be retired or cancelled, but should be reissued from time to time, in payment of government obligations, and thus kept in circulation. That Act of May 31, 1878, passed the House by a vote of 177 to 35; Mr. McKinley voting in the affirmative; and it passed the Senate by a vote of 41 to 18. When this Act was signed by President Hayes, the amount of United States notes outstanding was \$346,681,016; and that has therefore been the amount of legal tender United States notes authorized by law, ever since that time.

On January 1, 1879, John Sherman, then the Secretary of the Treasury, by means of the sale of \$95,500,000 of four per cent bonds, had provided the Treasury with \$100,000,000 in gold, as a reserve with which to redeem such of the United States legal tender notes, as might be presented for redemption. But only about \$50,000,000 of those notes were presented for redemption, prior to March 4, 1893; and those were all redeemed out of the surplus gold in the treasury; so that the \$100,000,000 gold reserve was never diminished below that amount, until the Democratic party acquired control of all branches of the federal government on that day.

That event materially diminished the confidence of the people in the future maintenance of the United States notes at par with gold; because it fostered the opinion, that Congress would pass, and that the President would approve, such changes in the tariff law, as would reduce the revenues of the government below its outgoes, and would also reduce the protection afforded by those laws to American industries, and thus increase imports from foreign countries. It was easy to see that such increase of imports would cause people to present United States notes to the treasury for redemption in gold, in order to get gold with which to pay for that increase of imports; and it was also to be expected, that the United States notes thus redeemed would be paid out again, to make up for deficiency of revenue, and that thus the gold reserve would be practically drawn upon for the payment of government expenses, as a necessary result of increased imports and diminished revenues. Now it is an observed fact, that apprehension that a particular money fund is likely to be drawn down in the future, makes some people begin to draw it down immediately, in order to get the start of others. Accordingly, during the last ten months of 1893, more than \$32,000,000 of United States notes were presented to the treasury for redemption in gold, and were thus redeemed.

In 1894, the apprehended changes in the tariff law were made by the so-called Wilson act; and those changes began at once to operate, to increase imports; and also to reduce revenues below government outgoes; and in both these ways, those changes promoted demand for redemption in gold of United States notes. The fear of that legislation, and that legislation itself (supplemented to some small extent during the last few weeks before November 3, 1896, by the fear which was entertained at that time, by some people, of a forthcoming fall to a silver basis in the event of the election of Mr. Bryan to the presidency), caused the presentation for redemption in gold, during the years 1894, 1895, and 1896, and the early weeks of 1897, of about \$390,000,000 of United

States notes. Thus, about \$422,000,000 of United States legal tender notes were presented for redemption, and were redeemed in gold by the government during President Cleveland's last administration, as against about \$50,000,000 during the fourteen years, two months, and three days between the resumption of specie payments, on January 1, 1879, and the beginning of that administration, on March 4, 1893.

On July 14, 1890, President Harrison approved an Act of Congress, directing the purchase of silver bullion, and the issue of treasury notes therefor; and on November 1, 1893, President Cleveland approved an Act to stop that purchase of silver bullion and issue of treasury notes. While that Act was in full force, \$155,931,002 of treasury notes of 1890, were issued in pursuance thereof; and that Act provided and still provides, that those notes shall be redeemable on demand in coin, and shall be a legal tender in payment of all debts, public and private, except where otherwise expressly stipulated in the contract, and shall be receivable for all public dues, and when so received may be reissued. None of those treasury notes of 1890 were redeemed in gold, until October, 1891; but in that month they began thus to be redeemed in small amounts, though never prior to March 4, 1893, did that redemption amount to enough to necessitate taking any gold out of the \$100,000,000 gold reserve. But during President Cleveland's last administration, over \$30,000,000 of treasury notes of 1890 were redeemed in silver, at the request of the holders, and were cancelled; while about \$58,000,000 of treasury notes of 1890 were redeemed in gold by the government, in addition to the about \$422,000,000 of United States legal tender notes, which were thus redeemed during that time; and the treasury notes of 1890 which were redeemed in gold, were reissued from time to time, in payment of government obligations.

The gold with which the \$480,000,000 of United States legal tender notes and treasury notes of 1890, were thus redeemed, all came out of

the gold reserve, or out of the surplus gold in the treasury, which funds aggregated \$103,000,000 on March 3, 1893, and now aggregate over \$143,000,000. The replenishment of that treasury gold, to enable it to withstand that drain of nearly five times its own amount in four years, and to be \$40,000,000 larger at the end of that drainage, than at the beginning: came partly from gold bullion sold to the mints, and paid for by checks which were ultimately paid in United States notes; and partly from gold paid into the treasury for duties and other taxes; and partly from gold which was paid into the treasury, in exchange for United States notes; and partly from ~~gold~~ gold received in exchange for interest-bearing bonds, which were issued in three lots in 1894, 1895, and 1896, respectively, to the aggregate amount of \$262,315,400, for the purpose of obtaining gold for such replenishment.

James H. Eckels, the comptroller of the currency, in his report to Congress of December 7, 1896, took the ground that the cost and liability, which the United States had then incurred to maintain the \$346,681,016 of United States legal tender notes at par, amounted to \$735,200,546 in addition to the original and still existing liability to hereafter pay \$346,681,016, on the notes themselves. To make up that amount of \$735,200,546, he added together the principal of ~~xx~~ all the bonds, which were ever issued to create the gold reserve, or to replenish the treasury gold; and the interest on the average amount of free treasury gold, from January 1, 1879 to January 1, 1895; and the interest on all four lots of bonds from January 1, 1895 to the times of their maturity in 1904, 1907, and 1925, and 1925, respectively. But that elaborate calculation of the comptroller of the currency was wrong; because it did not credit the account with the \$100,000,000 in gold, which the government then had on hand out of the proceeds of those bonds; nor with those United States notes, which, having been redeemed with other proceeds of those bonds had been reissued in payment of government ex-

penses; nor with those United States notes which had been thus redeemed and not reissued; and because it charged the account with more than \$280,000,000 interest to accrue before February, 1925, on the last three lots of bonds, all the ultimate proceeds of which had either been used, in the payment of government expenses, or were still on hand as government property; and because it charged the account with interest from January 1, 1879 to January 1, 1895, on all the free treasury gold, instead of on the \$100,000,000 gold reserve only, which constitutes only a part of the free treasury gold. These five mistakes introduced errors amounting to more than \$670,000,000 into the elaborate calculation of Mr. Eckels.

The truth of the matter is that the cost of carrying, since January 1, 1878, the non-interest bearing greenback debt of \$346,681,016 has been even less than the interest since that time, on the \$95,500,000 of bonds at four per cent, which were issued to create the original \$100,000,000 gold reserve; because that \$100,000,000 of gold reserve is as large and valuable a property of the government now, as it was January 1, 1879; and because the \$262,314,400 of bonds, which were issued primarily to replenish the treasury gold, really diminished the other obligations, or increased the assets of the government, to amounts equal to the proceeds of those bonds; and because the government has made a profit of several millions of dollars out of the greenback circulation since January 1, 1879, on account of the notes which have been burned up in conflagrations, or otherwise lost or destroyed during that time. The interest on the \$95,500,000 of bonds, from January 1, 1879, to January 1, 1897 amounted to \$68,760,000; and it is almost certain that the profit which accrued to the government, during the same time, from the loss and destruction of notes when in circulation, amounted to at least \$8,760,000.

It is true that no direct evidence exists to prove what amount of

United States notes were thus lost or destroyed during those eighteen years; but a conservative estimate of that amount can be inferred from the loss and destruction of the fractional paper currency which was in use from 1862 to 1875, and thereafter, to a rapidly diminishing extent, as late as January 1, 1879. The largest amount of that fractional paper currency which was ever outstanding at one time, was about \$50,000,000, consisting of about 250,000,000 of separate pieces of paper; the average amount of which was about twenty cents. It has been officially estimated in the Treasury department that \$8,000,000 of that fractional currency was destroyed during the sixteen years it was in circulation, which would amount to the loss of about 40,000,000 pieces of fractional paper currency during that time. Now the average amount of each of the United States notes, which were in circulation from January 1, 1879 to January 1, 1897, was about \$7, or about thirty-five times larger than the average amount of the fractional notes, which were in circulation for sixteen years prior to January 1, 1879. And it is probably safe to assume that holders of those notes were about thirty-five times as careful of them, as were the holders of the fractional currency, so that not more than one United States note was lost or destroyed through carelessness, to thirty-five pieces of fractional currency. But on the other hand, conflagrations are not respecters of paper money, any more than of persons, and will consume a ten-dollar ~~xxxx~~ United States note as remorselessly as a ten-cent fractional note. On the whole, therefore, it is conservative to estimate that as many dollars worth of United States notes were lost and destroyed per annum, during the eighteen years ending January 1, 1879, as the dollars worth of fractional notes, which were lost and destroyed per annum during the sixteen years ending January 1, 1879; and that amount having been at least \$500,000 per annum, our estimate that the United States notes lost and destroyed, during the eighteen years ending January 1, 1897,

amounted to at least \$8,760,000 is sufficiently supported.

This item of profit resulting from the loss and destruction of paper money when in circulation, is an inevitable incident to every system of paper money; and where paper money is issued by banks, all that profit accrues to them. But where, as in the case of the United States notes, paper money is issued by the government, that profit accrues to the government in the first instance; but ultimately, it accrues to the people, by relieving them of the taxes which they would otherwise have to pay to furnish funds for the redemption of the lost or destroyed notes.

Coming now to compare the cost of carrying the greenback debt, and maintaining at par with gold, the United States notes which evidenced that debt, through the eighteen years ending January 1, 1897, with what it would have cost to carry the same debt, if those notes had been paid and cancelled January 1, 1879, with the proceeds of four per cent bonds, which might have been issued for that purpose; the figures will be found to be as follows.

While the United States notes which were uncanceled and were said to be outstanding January 1, 1879, amounted to \$346,681,016; the actual amount of those uncanceled notes at that time was probably only about \$340,000,000; because at least \$6,681,016 had undoubtedly been destroyed during the preceding seventeen years. At the rate at which four per cent bonds could have been sold January 1, 1879, it would have taken about \$325,000,000 of such bonds, to procure gold enough to redeem and cancel the \$340,000,000 of United States notes; and the interest on those bonds would have been \$13,000,000 per annum, and \$234,000,000 in all, during the eighteen years from January 1, 1879 to January 1, 1897; and the cost of carrying the greenback debt, on that plan of refunding it into bonds, would therefore have been \$174,000,000 more, during the eighteen years ending January 1, 1897, than it has been, on the plan of

keeping the non-interest bearing United States notes in circulation, during that time, and keeping them at par with gold, by means of the \$100,000,000 gold reserve.

The constitutionality of the United States legal tender notes, was first drawn in question in the Supreme Court in the case of *Hepburn v. Griswold*, 8 Wallace, 603, 1870; and that case was decided against the constitutionality of those notes, by a vote of five Justices to three. Those who voted against the constitutionality were Chief Justice Chase and Justices Nelson, Grier, Clifford, and Field; while those who voted in favor of the constitutionality were Justices Swayne, Miller, and Davis. The effect of this decision upon the opinions of statesmen, and of the people, was much weakened by the fact that Chief Justice Chase, when Secretary of Treasury in 1861, 1862, and 1863 had committed himself in writing, over and over again, to the constitutionality of the United States legal tender notes; and by the fact that Justices Nelson, and Grier, were both known to be almost literal constructionists of the constitution, having both concurred twelve years before, in the *Dred Scott* decision, which denied the constitutionality of any interference with slavery in the territories.

But before the decision in *Hepburn v. Griswold* was rendered, in February, 1870, President Grant had selected William Strong of Pennsylvania and Joseph Bradley of New Jersey, to be Justices of the Supreme Court; the former to take the place of Justice Grier, who had resigned after the case of *Hepburn v. Griswold* was argued and was decided by the court, but before that decision was announced or became known; and the latter to fill a vacancy on the bench. Mr. Strong and Mr. Bradley were both nominated by the President, and were confirmed by the Senate, and commissioned by the President soon after the decision in *Hepburn v. Griswold* was rendered, and probably without knowledge, on the part of President Grant, of their opinions respecting the constitutionality of

the United States legal tender notes.

Shortly after Mr. Justice Strong and Mr. Justice Bradley took their seats upon the bench, the cases of Knox v. Lee, and Parker v. Davis, came on for argument, and were found to involve the question of the constitutionality of the United States legal tender notes, and, as such, were argued with the utmost elaboration. In these cases the court decided, by a vote of five to four, that the United States legal tender notes were constitutional, both as to contracts made before, and contracts made after the passage of the Acts which provided for their issue. The opinion of the court was delivered by Mr. Justice Strong, who said therein, that the case of Hepburn v. Griswold had been decided by a court having a less number of judges than the law then in existence provided, and that it was contrary to custom for the court when thus incomplete, to hear and decide constitutional questions; and that the majority of the full bench was thoroughly convinced that the decision of Hepburn v. Griswold was wrong, and that the United States legal tender notes were constitutional. The cases thus decided by the Supreme Court were reported as the Legal Tender Cases, 12 Wallace, 457, 1870.

After the passage of the Act of May 31, 1878, the question arose whether United States legal tender notes which had been reissued in pursuance of that Act, after that day, were equally constitutional with those which had been originally issued during the civil war; for some lawyers thought that such notes were constitutional, only where issued as incident to the war power of the government, and were not constitutional where issued in time of peace. That question came on for argument in the Supreme Court in 1884, in the case of Juilliard v. Greenman, which is reported as the Legal Tender case in 110 U. S. Reports, 421, 1884. In that case, the court was unanimously of the opinion, that the issuing of United States legal tender notes in time of peace, cannot be

distinguished, in point of constitutionality, from issuing such notes in time of war; and the court decided by a vote of eight to one, that such notes are fully constitutional in either case. The opinion of the court was delivered by Justice Gray, who said that the power of issuing bills of credit, and making them a legal tender, is included in the express constitutional power of Congress, to borrow money on the credit of the United States; and that this position is fortified by the express constitutional power of Congress to regulate foreign and interstate commerce.

The constitutionality of United States legal tender notes was thus finally adjudicated by the Supreme Court, twenty-two years after it had been first defended by John Sherman in the United States Senate; and when thus adjudicated, it was mainly based upon the ground which Senator Sherman had principally invoked, namely: the express constitutional power of Congress to borrow money; but partly upon the ground which was taken by Mr. Bingham of Ohio in the House of Representatives in 1862; namely, the power to regulate foreign and interstate commerce. And that adjudication of 1884 has ever since stood, and will always remain as the permanent embodiment and authoritative declaration of our constitutional law upon the subject to which it relates; for it was decided by a full bench, and was nearly unanimous, and has stood long enough to be stare decisis; whereas the decision in the case of Hepburn v. Griswold was rendered by a small majority of an incomplete court, and was immediately challenged by the Attorney General of the United States with a motion for a re-argument, and was soon reargued in other cases, and promptly and emphatically reversed by the Supreme Court. For these reasons, all future debate upon the question of the constitutional power of Congress to issue United States legal tender notes, must be merely academic or futile, and can have no practical effect upon the laws or finances of the United States notes.

THE PROPOSED RETIREMENT OF THE UNITED STATES NOTES.

Mr. Cleveland, and Mr. Carlisle, and Mr. Eckels, and the Indianapolis Convention of bankers and business men of January 12, 1897, and some other officials and citizens, have been advising Congress to retire the United States legal tender notes from circulation. In his last annual message of December 7, 1896, President Cleveland recommended that the United States notes known as greenbacks, be redeemed by the proceeds of interest bearing bonds to be issued for the purpose. And in his last annual report which was sent to Congress about the same time, Secretary Carlisle made the same recommendations; and added that the national banks should also be permitted to take such bonds in exchange for United States notes, and to use the bonds as the basis for the same amount of national bank notes, to be issued by them. And in his annual report of December 7, 1896, Comptroller Eckels echoed these recommendations, and added that hereafter the banks should have the issuing of all credit currency. And the Indianapolis Convention resolved that steps should be taken to secure the ultimate retirement of all classes of United States notes, and to provide for the issuance of the future paper money of the United States by banks.

This programme, if executed upon the United States legal tender notes only, and not upon the treasury notes of 1890, would make the government hereafter pay interest, at three or four per cent per annum, on what remains of its non-interest bearing greenback debt, on the one hand; and, on the other hand, would allow banks to receive double interest upon a corresponding amount of their own capital, instead of single interest, as at present. And that reception of double interest would result from the fact that, according to this plan, the banks could take about \$330,000,000 of the capital, which they now have loaned out to their customers at single interest; and with that capital could buy the interest bearing bonds, which according to this plan, the government would issue in exchange for the remaining outstanding green-

backs; and on the basis of those bonds, could issue, and loan to their customers, ^{on interest} an equal amount of bank notes, and at the same time be receiving from the government, the interest on the bonds themselves.

It is possible that this operation could be carried out with very long time bonds bearing interest as low as three per cent; and if so, its first cost of the programme to the government, would be about \$10,000,000 per annum. But the banks would not make, nor the government lose so much as that from the transaction; because, according to the present law, they would have to pay to the government, a tax of one per cent per year upon their new circulation, so that the net bank profit, and the net government loss from the proposed programme, would, according to the present law, be only about two-thirds of \$10,000,000 per annum. But Secretary Carlisle in his last annual report, recommended that the tax upon the bank circulation be reduced from one per cent, to one-quarter of one per cent; and that change, if made, would increase the profits of the banks and the loss of the government from two-thirds of \$10,000,000 to eleven-twelfths of that sum, or ^{to} somewhat over \$9,000,000 per annum.

Thus it appears, and cannot be denied, that the proposed programme for the retirement of the greenbacks would take more than \$9,000,000 per annum indefinitely through the future, and certainly far into the twentieth century, out of the treasury of the United States, and put it into the vaults and ownership of the banks. And Messrs. Cleveland,

Carlisle, and Eckels, and at least the leading gentlemen who attended the Indianapolis Convention of January 12, 1897, must understand that fact well enough, though they have never mentioned it in any of their messages, reports, or resolutions.

But justice to those and all other advocates of the retirement of the United States legal tender notes, makes it necessary to immediately say, that they hold that the people would reap from the proposed trans-

action, certain indirect benefits, far greater in value, than the \$9,000,000 per annum, which through the government, that transaction would cause them to lose. If they are right in this contention, their advocacy of the proposed retirement of the United States legal tender notes is right; but if they are wrong in this contention, they are wrong in that advocacy; and whether they are right, or are wrong, is the next question for analysis, ascertainment, and answer.

Those who favor the retirement of the United States legal tender notes, base their arguments upon the fact that those notes will work great injustice among the people, by virtue of their full debt paying power, unless they are kept at par with gold; and upon the fact that they cannot be kept at par with gold, unless the government always keeps itself prepared to redeem them in gold upon demand; and upon the fact that the government cannot keep itself thus prepared, without keeping a large gold reserve for the purpose; and upon the hypothesis, that the government cannot be relied upon to be able to keep such a gold reserve.

Now it may be admitted that all the links in this chain of argument are true and sound, except the last one; but there is every reason for disaffirming that hypothesis. Those reasons are the fact that always, since January 1, 1879, the government has been able to keep such a gold reserve; and the fact that never, during the first fourteen years of that time, did the government meet the slightest inconvenience in maintaining that gold reserve at \$100,000,000; and the fact that during 1894, 1895, and 1896, though the government borrowed money with which to maintain that gold reserve, it used, or will use, all that money, in place of taxes which it refrained from assessing and collecting; and the fact that it has now become, and will undoubtedly remain the policy of the government, to assess and collect taxes enough to make the government revenues equal the government outgoes; and the fact that the assessment and collection of taxes to that extent, may be

expected to operate, as they always did operate from January 1, 1879, to the beginning of President Cleveland's last administration, to prevent any inconvenient drainage from the gold reserve; and the fact, which was stated by Daniel N. Morgan, the Treasurer of the United States in his annual report of December 1, 1896, that "there is a natural flow of gold toward the treasury, which is often limited only by the capacity of the treasury to carry the specie"; and the fact that this flow of gold, which consists of domestic and foreign bullion and foreign coin, deposited in the United States mint for coinage, and United States gold coin, which is deposited in the treasury in exchange for United States notes, is a stream which continues at all times; and indeed which operated, without any assistance from borrowed or purchased gold, to increase the treasury gold from \$100,957,561, at the end of August, 1896, to more than \$150,000,000 now.

These facts are certainly enough to send back to the domain of delusion, every fear that the government cannot be relied upon to be able to keep the gold reserve sufficient in amount to maintain all the United States legal tender notes at par with gold; and therefore the entire case and argument, in favor of the proposed retirement of the United States legal tender notes, plainly appears to be without any real foundation.

But strangely enough, it does not appear that any of the advocates of the substitution of bank notes for United States legal tender notes, in the currency of the country, have penetrated far enough into the subject to inquire whether the banks could be relied upon, after the retirement of the United States notes, to redeem their notes in gold. And there are good reasons for thinking that no reliance whatever could be placed upon the banks redeeming their notes in anything better than silver dollars, at any time after the retirement of the United States notes. Those reasons include the fact that the national bank notes,

according to the national bank law, are not redeemable in gold only, but are redeemable in silver dollars also; and the fact that there are about 440,000,000 of full legal tender silver dollars in the United States obtainable for use by the banks in redeeming their notes; and the fact that gold must go to a premium over silver in this country, as soon as the people generally acquire the opinion, that no existing paper money will much longer be redeemed in gold; and the fact that they will generally acquire that opinion, as soon as all the government notes are cancelled, and they learn that the national bank notes are redeemable in silver; and the fact that as soon as gold goes to a premium over silver dollars, all the banks will have an enormous motive to pay silver only, and not gold, whenever their notes are presented for redemption.

Thus farⁱⁿ the analysis of the subject, it appears that the proposed substitution of bank notes for United States legal tender notes, would be substituting a paper circulation, which would be almost certain to soon fall to a depreciated silver basis; for a paper circulation which is almost certain to continue to be at par with gold, and would be paying the banks \$9,000,000 each year, out of the treasury of the United States, for doing their part toward making that change.

But the reader may think that this is too plain a case of absurdity in planning, to be the true character of the plan; because he may think it impossible that President Cleveland, Secretary Carlisle, and Comptroller Eckels, and the Indianapolis Convention, would all overlook the point about the redeemability of national bank notes in silver dollars; and because he may think that they do not mention that point, because it is well ~~xx~~ known to be someway invalid. But the point is not well known to be invalid, nor even fairly answerable; because several of the most experienced and distinguished national bank presidents in the United States, who favor the proposed programme, have been asked in pri-

vate correspondence to answer the point, and have tried to do so, and have failed to show how the banks could be relied upon, after the retirement of the United States notes, to redeem their notes in gold. And the great apparent strength of the point is further fortified by the following facts.

The national banks do not redeem their notes in gold now, and have never done so; and they do not keep, and are not required to keep any gold anywhere, as a fund or reserve out of which to redeem any of their notes. The only fund in existence for that purpose, is the so-called "Five Per Cent Redemption Fund" prescribed by section three of the amendment of June 20, 1874, to the National Bank Act of June 3, 1864. That section provides that every national bank shall at all times have on deposit, in the treasury of the United States, in lawful money of the United States, a sum equal to five per cent of its circulation, to be held and used for the redemption of such circulation. The term "lawful money" includes United States notes, and standard silver dollars, as well as gold; and indeed fractional silver coin is lawful money, for the special purpose of paying bank notes, or other debts, amounting to no more than five dollars. Ever since June 20, 1874, it has therefore been open to the national banks to have their five per cent redemption fund either in gold, or in United States notes, or in standard silver dollars, or in all of these kinds of money, and also partly in fractional silver coin. But the annual report of December 1, 1896, of the Treasurer of the United States, indicates that the national banks have never deposited any gold in that fund, and shows what kinds of money that fund has consisted of since July 1, 1874, and what amounts of each of those kinds of money were paid out of that fund, in the redemption of national bank notes, during the twenty-two years ending with June 30 1896. The figures are as follows: United States notes, \$540,928,229; standard silver dollars, \$3,875,293; fractional silver coins, \$2,759,200 checks payable in United States notes, or standard silver dollars,

\$1,170,983,239.

Inasmuch as the national banks never have redeemed any of their notes in gold under existing laws, even during the last eighteen years, when gold has commanded no premium over silver dollars; he would be a credulous statesman who could believe that they could be relied upon, under existing laws, to redeem all their notes in gold hereafter, if gold should hereafter command a premium over silver dollars.

And gold will hereafter command a premium over silver dollars, whenever gold ^{cannot} ~~can~~ be obtained in this country at par, in exchange for paper money, or in exchange for silver dollars, or in at least one of those ways. Silver dollars are not, and never have been redeemable in gold; and the only kind of paper money upon which gold has been obtainable in this country, at any time since 1861, are the United States legal tender notes, and United States treasury notes. After all those notes are retired, there will, under existing laws, be no paper money in this country for which gold can be obtained at par, unless the national banks should voluntarily redeem their notes in gold. Therefore, in that event, and under those laws, silver dollars will not remain at par with gold, unless the national banks shall in fact redeem their notes in gold, when at full liberty to redeem them in silver dollars. But by simply redeeming them in silver dollars only, for one day, or at most for one week, the national banks could depress the value of silver dollars far below par with gold, and could always thereafter get silver dollars with which to redeem their notes, much cheaper than they could get gold for that purpose.

Therefore the national banks would be sure, after the retirement of all the United States notes, and during the continuance of the present national monetary laws, to redeem their notes in silver dollars only, and thus carry all the business of the country to a depreciated silver basis; unless there is some motive which would influence them to

forego the undeniable and enormous profits which they would reap from redeeming their notes in the cheapest, instead of in the dearest specie available for the purpose. Such a motive cannot be deduced from any benevolent principle; because the officers of national banks are not at liberty to give away, or renounce any legal right, which those corporations have; and because those corporations are conducted to make money for their stockholders, rather than to benevolently promote the good of other people. And such a motive cannot be deduced from the prospect, that the redemption of the national bank notes in silver dollars only, would make the national banks unpopular with the people; because the banks know that they have done some unpopular things in the past, and still have thriven; and because the prospective unpopularity would not practically diminish their business, for their notes, even when redeemed in silver only, would be as good as any other paper money in circulation, in this country, and indeed would be all the money in circulation, except silver and silver certificates.

For the foregoing reasons, the proof seems complete, that the proposed retirement of the United States legal tender notes, and treasury notes, would result in the national banks redeeming their notes in silver dollars only, and would thus carry all the business of the country, to a depreciated silver basis; unless the law for the retirement of those United States notes and treasury notes, should be accompanied by some other legislation, which should practically operate to prevent that disaster.

Secretary Carlisle, in his annual report of December, 1896, shadowed forth the possession by him of some incomplete notions, more or less relevant to this necessity, by saying that "Whatever plan may be finally adopted for the retirement of United States notes and treasury notes, it will fail to afford complete protection to the government, against demands for gold in the future; unless it includes a provision relieving the treasury from the obligation to redeem national bank

notes, except such as are worn, mutilated, or defaced, and the notes of failed banks; or requires these institutions to keep their five per cent redemption fund in gold, and to deposit gold coin for withdrawal of bonds, when circulation is to be surrendered or reduced."

But this suggestion of Secretary Carlisle relates to protecting the government from demands for gold, rather than to protecting the people from redemption only in silver. His proposed provision relieving the treasury from obligation to redeem national bank notes, would be nugatory for either of these purposes; because there is no obligation upon the treasury now, to redeem any national bank notes in gold; and because if there were such an obligation, its removal would not do anything toward making the banks redeem their notes in gold. But there is more point in his alternative recommendation to require these institutions to keep their five per cent redemption fund in gold; because as long as that fund in the treasury would last, holders of national bank notes could present those notes to the treasury, and get them redeemed in gold, out of that fund. But that fund would not last long, after people came to understand, as they soon would, that nothing else existed out of which gold instead of silver could be obtained in exchange for national bank notes. There were seven different calendar months in President Cleveland's last administration, in each of which more than five per cent of the United States legal tender notes were presented to the United States treasury for redemption; even when people knew that there stood between those notes and silver redemption, a gold fund from three to six times more than five per cent of the notes, and stood also a constant current of gold flowing into the treasury from various sources. The absence of this last element of confidence in the maintenance of the gold fund, and the reduction of that gold fund from as high as thirty per cent, to as low as five per cent, would so shake the confidence of the people in the maintenance of gold payments, that the five per cent gold fund pro-

posed by Secretary Carlisle, would probably not last a week, in the first instance. And even if the banks should keep it replenished for a while, there would be such a lack of confidence in their ability to keep it replenished long, that they would have to deposit as much as five per cent of their circulation in that fund, in gold, as often as once a week, in order to prevent it from being exhausted entirely. Of course they could not stand that strain long, and the day would soon come, in which their failure to maintain that gold fund would begin, and would be recognized as having been inevitable from the first.

And there is another analysis which shows that the banks could not, without any gold redemption of anything by the government, maintain gold payment of the bank notes, which would be in circulation in this country, after the new bank notes, which it is proposed to issue in place of the United States legal tender notes, and treasury notes, were added to the national bank notes which are already in existence. To take the places of those which are still in existence, of the \$346,681,016 United States legal tender notes, and the \$124,000,000 treasury notes of 1890; about \$455,000,000 of bank notes would have to be issued in addition to the \$220,000,000 of those notes which are now in existence, making \$675,000,000 altogether. Now any law which could make any plausible plan for providing for the redeemability of all those notes in gold, without any assistance from the government, would have to provide that the banks should create and maintain a gold reserve large enough to give confidence to the people that they could get gold on their bank notes whenever presenting them for redemption; and such a gold reserve would have to be at least as large, in proportion, as the \$100,000,000 gold reserve, which the government accumulated January 1, 1879, for the purpose of maintaining gold payments of the \$346,681,016 of United States notes; and therefore such a fund or funds would have to aggregate at least \$200,000,000 in gold. But the banks do not have,

as the government does, any incoming current of gold from taxes, or from deposits of gold bullion in mints, nor any way to get any gold, except to buy it, or to receive it on deposit from their customers. But customers will not deposit gold in banks, when they have much reason to fear or to hope that gold is going to a premium; and therefore any extended run on the gold reserves belonging to the banks, would prevent them from getting any gold for the replenishment of those reserves, in any other way than to buy it at a premium. And as soon as the banks would begin to buy gold at a premium, holders of gold would put the premium up. That advance would cause holders of bank notes to present them for redemption, in order to get gold to sell at that premium, and thus an "endless chain" would be put in operation, sure enough. And the banks could not endure the "endless chain" process, as the government can; for the simple reason that the government has several great sources of gold supply which no banks can ever have; namely, the sources which arise out of its taxing power, and out of its constitutional monopoly of the reception of gold bullion for coinage.

It is somewhat surprising that Messrs. Cleveland, Carlisle, and Eckels, and the Indianapolis Convention, should all assume that the problem of maintaining gold payments of paper money in the United States could be solved, by simply shifting that burden from the government of the United States, which is the most wealthy and powerful corporation that ever existed anywhere on this planet, to some banks now organized or hereafter to be organized, with a very small fraction of the wealth, and without any of the power, which is at the command of the government. But such has always been their assumption, and they have always omitted to base that assumption on any argument, or on any statement of any ground therefor. For example, President Cleveland said in his annual message of December 7, 1896 "The entire case may be presented by the statement that the day of sensible and sound financial methods will not

dawn upon us, until our government abandons the banking business, and the accumulation of funds." But he said nothing logically tending to prove that the business of maintaining paper money at par with gold can be safely conducted by banks alone. And in his annual report of December, 1896, Secretary Carlisle said "The issue and redemption of circulating notes is not a proper function of the treasury department, nor of any other department of the government." But that report contains

no attempt to show that any banks can take the monopoly of issuing circulating notes, and with that monopoly, can maintain gold payment of those notes. And in his annual report of December 7, 1896, Mr. Eckels said "A point must be finally reached, when banks shall issue all the credit currency of the country, and stand wholly responsible, instead of the government, for its redemption in gold coin, whenever and in whatever quantities presented." But that report contains no statement or argument, to show that the people can safely trust that tremendous responsibility with any banks. And the Indianapolis Convention of January 12, 1897, resolved that a banking system should be provided, to furnish a safe and elastic circulation; but the resolutions of that convention contain no attempt to explain, or even say that banks can be relied on to maintain gold redemption of the proposed circulation, after that retirement of all classes of United States notes, which those resolutions also demand.

Indeed, the principal plans for future issues of bank notes, which have been made and published, by those who advocate the retirement of the United States notes, include no provision whatever for the redemption of the proposed bank notes in gold. The Baltimore plan, which was adopted at the annual meeting of the American Bankers Association, held in Baltimore in October, 1894, provided that the redemption of all bank notes should be made according to the now existing law; and this essay has already shown that, according to that law, national bank notes,

while redeemable in gold at the option of the banks, are also redeemable in silver dollars, and have never been redeemed in gold. Secretary Carlisle's plan, which accompanied, or shortly followed, his annual report of 1894, required each national bank to deposit in the treasury, a guarantee fund to secure its notes, amounting to thirty per cent of those notes, and to consist of other lawful money than gold, and required each national bank to also redeem its notes at its own office, or at its own office and agencies to be designated by it; but that plan did not require that any redemption should be in gold.

It has, however, been suggested that the national banks can be enabled and compelled to maintain gold redemption of their old notes, and of their new notes to be issued in place of the United States notes, by means of an amendment to the national bank act, providing that each national bank shall keep in its own vaults, a fund of gold amounting to five per cent of its outstanding notes, for the sole purpose of redeeming those notes on presentation at its own office; and providing that every national bank shall redeem its own notes in gold on such presentation; and providing that no national bank shall be required to redeem its notes anywhere else than at its own office. The argument in support of this suggestion is, that it would be impracticable for anybody who wanted to get a large amount of gold for export or speculation, to collect notes enough of any particular bank to exhaust its five per cent gold redemption fund. The reply to this argument, is that it would not be impracticable for either of several great handlers of money in New York City, to collect in a few days, or at most in a few weeks, enough of the notes of some one bank, which might be selected for the raid, to exhaust the five per cent gold redemption fund of that bank in one hour; and that, a few examples of such an operation would teach the public that such a disaster might happen to any bank, on any day, and thus put the notes of that bank below par in gold; and that, where the pub-

lic knows that such a disaster is possible, in respect of the notes of any national bank, they will accept the notes of no national bank at par, for fear that such a disaster may happen to those particular notes.

And there is also a constitutional doubt that national banks can be compelled to redeem their own notes in gold only. That constitutional doubt is connected with the fact that there are more than 440,000,000 silver dollars in the United States, which, according to the laws in pursuance of which they were coined, are full legal tender for all debts, including national bank notes. Now a law^{which} should provide that national bank notes can be redeemed only in gold, would thereby repeal the laws which make silver dollars legal tender for all debts, as to some of those debts; while leaving those laws in full force as to all other debts; and there is a serious doubt of the constitutional power of Congress to make silver dollars legal tender for some debts, and not legal tender for other debts. That doubt arises out of the express constitutional regulation of Congressional power on that subject; which power is "to coin money, and regulate the value thereof." Now the only way to regulate the value of a coin by law, is to provide that everybody in the country, must take it at the prescribed value; because if the government does no more than certify to the weight and fineness of that coin, it leaves its value to be regulated in the market by the laws of trade, just as the value of a bushel of wheat is regulated, after some reliable authority has certified to its grade and measure. And the value of a coin cannot be regulated by a law which provides that it shall be legal tender for some purposes, and not legal tender for others; because such a law leaves the regulation of that value, for the latter purposes, to the laws of trade; and the latter regulation will always affect the general value of that coin to ever varying extents. Therefore, a law which should provide that the 440,000,000 silver dollars in this country, should thereafter not be legal tender in payment

of national bank notes, while remaining legal tender for all other purposes, would apparently be contrary to the constitutional power and duty of Congress to regulate the value of those coins.

But aside from this constitutional point, it is plain that the government, having coined those 440,000,000 silver dollars, on its own account at an enormous profit, with only about fifty cents worth of silver in each one, and having paid them all out at par, either in their own proper persons, or by their representatives, the silver certificates; it would be bad faith and partial repudiation for the government to now deprive them of part of their legal tender power, while in the hands of the public; and he is a dreamer, who supposes that the Congress of the United States will ever do that thing.

Still there is one plan, by means of which all the United States legal tender notes, and treasury notes of 1890, may be retired and cancelled, and national bank notes be issued in their places, and the latter notes be kept at par with gold.

That plan consists in issuing about \$330,000,000 of interest-bearing bonds, in exchange for those of the \$346,681,016 of United States legal tender notes, which are still in existence; and consists in selling, for use in the arts, the remaining silver bullion which was purchased with the now outstanding \$124,000,000, or thereabouts, of treasury notes of 1890; and consists in issuing about \$20,000,000 of interest bearing bonds with which to procure gold, to add to the \$104,000,000, which that silver bullion might fetch; and consists in using the \$124,000,000 of gold thus collected, to redeem and cancel the outstanding treasury notes of 1890. And that plan further consists in allowing and encouraging the national banks to issue \$350,000,000 of national bank notes upon the security of those two sets of bonds; and consists in providing that the 440,000,000 of silver dollars in the United States, shall be redeemed by the United States in gold, whenever presented to

the treasury, either in their own proper persons, or in the persons of their representatives, the silver certificates; and when thus redeemed, or otherwise received in the treasury, shall be reissued from time to time, in payment of government obligations, and thus kept in circulation. According to this plan, the government would have to keep the same \$100,000,000 gold reserve for that new purpose, which it has heretofore kept for the purpose of maintaining gold redemption of the United States notes; and the outstanding silver dollars and silver certificates could be used hereafter, just as the United States notes have been used heretofore, to draw gold out of the treasury. And the maintenance by the government of gold payment of the \$440,000,000 of silver, and silver certificates, would operate hereafter, as the maintenance by the government of gold payment of United States notes has operated heretofore, to indirectly maintain the national bank notes at par with gold, without any gold redemption of those notes themselves.

The new results of this plan would consist in substituting about \$350,000,000 of interest bearing debt, for the same amount of non-interest bearing debt, of the United States; and in giving the national banks double interest upon about \$350,000,000 of their capital, instead of single interest, as at present; and in contracting the currency of the country about \$104,000,000, through the retirement of that amount of treasury notes of 1890, by means of the sale, for use in the arts, of the silver bullion, to that commercial value, which the treasury now holds as an asset against those notes. All of these results except the second, would be injurious to everybody in the country; and that result would be injurious to everybody except the national banks.

But this plan for retiring all the United States legal tender notes, and treasury notes of 1890, when thus found to be entirely ineffective, as a measure to relieve the government from maintaining a gold reserve; could be supplemented by a further plan which would have

that effect. That further plan would consist in retiring the 440,000,000 silver dollars, and the silver certificates which represents some of them in circulation, while the dollars which they represent are in the treasury. That retirement would require the expenditure of the \$100,000,000 gold reserve; and the sale, for use in the arts, of the 440,000,000 silver dollars to be retired; and the issue of about \$120,000,000 of interest bearing bonds. To diminish as much as possible, the contraction of the currency to the extent of \$340,000,000 which would otherwise result from this operation; this further plan would allow and encourage the national banks to issue \$120,000,000 of national bank notes, upon the security of the bonds sold by the government, to aid in the retirement of the 440,000,000 silver dollars.

first;

The new results of this further plan, would consist, in substituting about \$120,000,000 of interest bearing debt of the United States, for

second;

the same amount of non-interest bearing debt; and, in giving the national banks double interest on about \$120,000,000 of their capital, instead

third;

of single interest as at present; and, in contracting the currency of the country about \$220,000,000, on account of the difference between the 440,000,000 silver dollars retired, on the one hand, and the \$100,000,000 gold reserve released, and the \$120,000,000 national bank notes is-

fourth;

sued, on account of that retirement, on the other hand; and, in relieving the government from getting and keeping any gold reserve hereafter;

fifth;

and, in compelling the national banks to maintain gold redemption of their notes, for want of any other legal tender money in the country;

sixth;

and, in disabling the government from hereafter maintaining, or helping to maintain gold payments of paper money, in case the national banks should prove to be unable to do that great work alone.

The first and third of these results would be injurious to everybody in the United States; and the second would be injurious to everybody, except the national banks. The fourth result and the fifth would

be generally beneficial; provided the sixth result should not prove to be an evil outweighing all benefits which could flow from them or any others.

To disable the government from hereafter maintaining, or helping maintain gold payments of paper money in this country, would be a very injurious measure; because there would thereby be imposed upon the national banks, the work of maintaining gold payments of their present circulation of \$220,000,000, plus the \$350,000,000 which would be issued upon the retirement of the United States legal tender notes and treasury notes, and plus the \$120,000,000, which would be issued upon the retirement of the silver dollars; making \$690,000,000 in all. While some of the banks issuing these notes would probably be able to maintain gold redemption thereof, for a while; others of them would be failing, from time to time so to do; and the people would not know beforehand which national banks were to succeed, and which were to fail. This uncertainty would naturally cause the people to distrust, more or less acutely or chronically, according to circumstances, the promises of all the national banks to redeem their notes in gold; and that distrust would naturally cause runs to be made on sundry of those banks from time to time; and those runs of course would develop failures in many cases; and those failures would deepen still further, the public distrust of the redeemability of national bank notes.

A depreciation of those notes, far below par in gold, would be the inevitable result of that distrust, and this nation would thus be plunged into the evils of a depreciated non-legal tender paper currency: there to remain, far into the twentieth century.

Albert E. Walker

Collection Title _____

Nelson W ✓

Box 51

Box

Reel 51

Series/Volume _____

Shelf/Accession No. _____

LC 77-38 (1/70)