

NELSON ALDRICH

Monetary Commission

MISCELLANY

CLEARING-HOUSE CERTIFICATES AND THE NEED FOR
A CENTRAL BANK

BY WILLIAM A. NASH,
President Corn Exchange National Bank, New York.

It is universally conceded that the present time is highly favorable for financial reforms. The great danger is that the remedies will be so numerous, and the diagnoses so differing that the patient will linger and suffer. Not only here to-night, but in Washington to-morrow and for months after, the doctors will assemble and discuss. I hope, to use an old story, we shall not have to wait for the autopsy to find out what is the matter.

The brief contribution that I shall make on this occasion towards the solution of the riddle of American finance is based on my life as a banker in the City of New York, and what I have learned in my relations with the New York Clearing House.

When I read the numberless projects for our financial well being that fill the newspapers, our book shelves, and soon, the Congressional Record, I ask myself on what do these men base their plans, on observation or actual contact and familiarity with the subject they talk about, and I must conclude that much of it is spun out of their inner consciences.

The best known of our Revolutionary orators said, "I have but one lamp by which my feet are guided, and that lamp is experience," and I propose to use experience in the few minutes at my disposal.

When I was a youth I saw the panic of 1857. The failure of the Ohio Life and Trust Company created a distrust of banks generally all over the country. It began as always in New York. Good and bad banks alike were attacked by uneasy depositors and they were fought to a standstill and compelled to surrender. The situation, however, soon righted itself because the depositor had no safe place to keep his gold and soon returned it to the bank he had been distrusting. We had not at that time that ingenious device known as the safe deposit vault by which banks and trust companies now connive at their own decimation.

The Civil War was marked by no less than four banking and currency crises, in 1860 and 1861 when the war broke out, and in 1863 and 1864 when the unwonted demand by the government and the creation of a new currency, threw the machine out of gear. To remedy these derangements the most useful and effective device ever known in our finances was created. I mean the loan certificate of the New York Clearing House. It was invoked four times during the war. In 1860 we issued \$7,357,000; in 1861, \$22,585,000; in 1863, \$11,471,000 and in 1864, \$17,725,000 in all about \$58,000,000, which was an immense sum for those days. They played an important part in the war for the Union. While the banks and the people were subscribing for bonds with an uncalculating patriotism, the clearing house stepped in with the loan certificate and steadied the business situation by enlarging credit and preventing the panics that always follow excesses of any kind in the commercial world. The effect of the loan certificate is instantaneous. Credit is expanded upon the soundest basis known to experienced financiers and the sufficiency of that basis and the volume of the supply is regulated by bankers and men of business whose character and antecedents are the strongest guarantees of the honest and wise administration of the trust.

You are all familiar with the basis of the loan certificate, yet a short re-statement may not be amiss. Every bank in the clearing house has the privilege of coming to the loan committee with its bonds, loans and commercial paper and obtaining seventy-five per cent of their value in loan certificates of all denominations with which they can pay their debts to each other. They naturally bring their very best assets, so that in our experience in New York not a single dollar of loss has ever followed our many issues. Again, quite naturally, the banks are desirous of getting back their gilt-edged assets, and the process of redemption and retirement begins almost as soon as that of issue. The practical part of this expansion is very interesting. The loan committee can issue many millions in a single morning. There is no necessity of waiting for a slow press to print the circulation. We in New

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After the war there ensued a season of speculation and development, stimulated and fostered by the currency created for the needs of the government and the people during the rebellion. This lasted till 1873, when the inevitable reaction came, resulting in that famous panic. Here the clearing house hesitated a day or two before issuing certificates, and a hesitation even of that time is a very serious matter. When a house is on fire you do not want to walk your horses before the engine. In 1873 we issued \$22,400,000, and the time between their first issue and their final retirement was about four months. Then for eleven years there was no occasion for their use, until the Marine and Metropolitan Bank panic in 1884, when about \$25,000,000 were put out and again four months was the limit of their existence.

In 1890 we felt the effects of the Baring panic and issued sixteen millions, and in three months they were all retired. You remember that in England in the Baring panic the joint-stock banks, under the guidance of the Bank of England, substantially adopted our loan-certificate system for their own relief. In 1893 the certificate performed its most useful and brilliant service. We had a crisis of great and varying elements. The silver question and the end of a long period of commercial extravagances conspired to produce an emergency that none of us will ever forget. The New York Clearing House acted with superb energy and promptness. We issued more than ever before, \$41,500,000 certificates were signed. Their issue began June 21, 1893, and the last one was cancelled November 1, 1893—again a period of about four months. In 1895, when the Venezuelan message was issued, the clearing house forstalled and prevented a panic by authorizing the usual issue, but the very promptness of their action prevented the use of any of them by the banks.

THE POSITION OF THE NORTHWEST IN THE PRESENT
FINANCIAL CRISIS

BY A. L. MILLS,

President First National Bank, Portland, Ore.

The story of the panic of 1907 varies little from that of former panics. If, however, we profit by its lessons and evolve from its troubles proper financial legislation that in future will protect our banks and commercial interests against danger and loss, the panic of 1907 will not have been without compensation. As was the case in 1857, this country in 1907 was seemingly most prosperous. There was much railroad construction, involving the sinking of a great amount of capital far beyond what was immediately productive; speculation was rife, accompanied by much extravagance in both public and private life; graft and dishonest business methods were exposed; money was in increasing demand at steadily rising rates; there were many strikes and labor was dictatorial in its demands; real estate was active and there was a reckless expansion of all credit.

These conditions are the familiar forerunners of every panic, but our people paid no heed to the warnings uttered by students of finance, spoke jestingly of "a prosperity pinch," and went on in search of easy wealth until the failure of the Knickerbocker Trust Company in New York plunged the country into a useless panic. As, in 1857, the failure of the Ohio Life and Trust Company of Cincinnati; as, in 1873, the failure of Jay Cooke & Co.; as, in 1893, the failure of the Philadelphia and Reading Railroad Company and the National Cordage Company, so, in 1907, the failure of the Knickerbocker Trust Company marked the end for some years to follow of our country's reckless financial operations.

The bankers of the Pacific Northwest were not altogether unprepared for financial trouble in the East; they had read the handwriting on the wall and were warned of approaching danger. And yet, when the storm broke, they were not prepared, for they found themselves stripped of their Eastern balances and forced to depend upon the actual coin within their vaults. Confidence begat by the knowledge that the Northwest was out of financial bondage to the East, that the whole world was calling for its lumber, that an immense wheat crop had just been successfully harvested, which England was eager to buy at highly remunerative prices, was destroyed in a second, and for a moment the people of the Northwest could see nothing before them but disaster.

Prior to October 28th the Pacific Northwest had watched with interest, but with no concern, "The rich man's panic in Wall Street," had noted the struggle of the Copper Kings, the failure of the Knickerbocker Trust Company and the great run on the Trust Company of America. The troubles in New York were interesting, but did not closely concern the Northwest. But on October 28th all was changed. Telegrams poured into Portland from bank correspondents all over the country, "Cannot ship you coin or currency against your balance. Make your drafts payable only through the clearing house. Advise you organize for your own protection." The financial machinery of the United States had broken down and in a flash business was paralyzed.

The Portland bankers then carried in their vaults but the usual amount of coin necessary for the ordinary transaction of business. When this shock came, October 28th, they had barely begun to shift their balances westward, always necessary at crop-moving time. Face to face with the problem of moving thirty millions of bushels of wheat, threatened by frightened and hysterical depositors, with no funds other than those then in their vaults, they sought aid from the governor of the state. His excellency at once grasped the situation, and on October 29th declared a legal holiday that continued, with the exception of three days, from October 29th until December 16th. On the latter date Portland returned to normal conditions, the first of all the larger cities to remove all restrictions on payments. The return was accomplished without trouble or excitement; the people had had time to cool down and the good sense and loyalty of our citizens did the rest. But though there was a legal holiday from October 29th to December 16th, the banks of the state kept open. The holiday gave protection to the banks against hysterical depositors.

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The moment a holiday was secured the Portland banks, on October 29th, authorized the issuance of clearing-house certificates for use between the banks in settling balances. One million dollars in certificates were issued, but by December 16th six hundred and thirty thousand dollars had been retired. The most difficult problem to face was to finance and move the wheat crop. There was not enough coin in the banks and some sort of a circulating medium to serve as an emergency currency had to be devised and one that the people would take.

Printing-presses were set to work manufacturing what was known popularly as "Wheat Money." The banks agreed to take it on deposit or for payments of debts. This was necessary to give the scrip negotiability. This emergency currency was in denominations of \$1.00, \$2.00, \$5.00, \$10.00, and \$20.00, and in all over a million dollars were placed in circulation. In the main it was secured by wheat in warehouses, covered by insurance, and for every dollar of money so issued there was in the warehouses \$1.50 of wheat. Some small amount was issued also against approved bonds in the same ratio. The currency was readily taken in all the stores and by the railroads, and yet it was liked by no one. Better secured even than national bank notes, since behind national bank notes ultimately is only the tax-raising power of the United States, nevertheless Portland's wheat money, lacking the power of legal tender, drifted quickly back into the banks. Such in brief is the story of the panic from the view point of the Pacific Northwest. What of its lessons?

To him who was in the control and management of a national bank in Oregon in the fall of 1907 two dangerous faults in our existing financial laws were strikingly apparent, to-wit, the utter weakness of the fictitious system of bank reserves, and the total inadequacy of our present financial system to withstand the onslaught of unreasoning panic.

Fictitious Reserves

In an address delivered before the Washington State Bankers Association held at Whatcom, July 23, 1903, the writer, in speaking of bank reserves, said as follows:

"Under the present National Bank Act, in other than reserve cities, a bank is permitted to loan all but 15 per cent of its liabilities; of this 15 per cent three fifths may be deposited in a reserve city; and the banks of a reserve city are permitted to deposit one-half of their 25 per cent reserve in New York, Chicago or St. Louis, where the national banks are required to keep but 25 per cent in coin. Has it ever occurred to you how small an amount of coin is thus behind the deposits of the country? How dependent all the banks of the country are upon the resources of the great banks of New York, Chicago and St. Louis? The restrictions of the

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lishment of a central bank several points must be covered:—

1. The government must have a voice, and perhaps a controlling one, in its management.

2. No one section of the country should be permitted to dominate in the directorate, all parts of the country should be represented.

3. The bank should be a bank of issue and not of deposit. Its profits should be derived from leading its circulation and its debtors should be the banks of the country.

4. To it alone should be given the power to issue an emergency currency, and care should be exercised in the amount of gold reserve.

The national bank currency and greenbacks should be retired.

If the central bank cannot be established and we have to work with the tools we have on hand, which is more than likely since changes come slowly, then to the national banks should be given additional powers. They should be permitted to take out an emergency currency to the extent of 50 per cent of their capital on comparatively easy terms. This currency should be a legal tender and in all forms like the present notes. It could be protected by a small tax on all the national banks as well as by deposit of securities. Above all and before all it must be taxed on a rising rate that will make sure its retirement when the emergency passes. Panics come quickly and do not last long, so that the emergency currency should be promptly issued and as promptly retired.

The panic of 1907 has passed into history; whether its lessons will have taught us aught of good or will bring about reform in our financial system remains to be seen.

From A. L. Darrow, President,

The Fort Sutter National Bank, Sacramento, California.

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October 18, 1911.

In response to your circular of October 9th, 1911, our cashier, Mr. L. P. Dodson, has expressed our ideas briefly and, at the same time, referred to this letter.

As you are securing information from and the opinions of the bankers throughout the country on the question as to whether national banks should be permitted to loan money on real estate, I presume you will not consider this letter a trespass on your time.

From the date that I organized this bank to the present time, I have given the subject considerable thought because of the fact that Sacramento is in the midst of a large agricultural territory and in thousands of instances the only security that people of considerable means can offer is real estate.

It has always seemed to me a great mistake for the United States Government to exclude from national banks all business offered by such persons, as the making of a loan of that kind often means the establishment of a good account and obtaining the influence of the borrower toward securing other good accounts for the bank. Present conditions are a great detriment to the banks of the national association, because the banks organized under the State law not only have the privilege of loaning money on real estate, but also have practically all the privileges that national banks have except the issuing of circulation, which gives them a tremendous advantage in an agricultural district, or in a section where a great deal of the best securities are in the shape of real property. This, of course, as you know is the condition in a large portion of the United States.

In my opinion, national banks should have the privilege of organizing savings departments to be maintained in the same banking room, if the bank so desires. The funds and accounts of the savings department to be kept entirely separate from those of the commercial department, but I do not think that it would be necessary to officially apportion part of the capital, surplus and undivided profits to the savings department, as usually these funds belong to the stockholders, except in case of financial trouble and, in such case, would be available proportionately for the benefit of the depositors under the law.

Double Lead

Savings departments of national banks should be required to incorporate into their by-laws rules and regulations such as obtain in most of the savings banks in regard to time notices of withdrawal of funds, but the savings departments, of such banks, should have the option of paying on demand.

National bank savings departments should not be restricted to loans of only ~~fifty~~ (50) per cent, of the cash value, or market value, of the property, as in many states the limit is ~~sixty~~ (60) per cent. and there is no reason why the State banks should have that advantage and ~~sixty~~ (60) per cent, leaves an ample margin if the bank officials are honest and, if they are not, no restriction would avail.

National banks should not be permitted to loan on real estate except from funds of a regularly organized savings department nor be permitted to loan more than ~~sixty~~ (60) per cent, of their savings deposits on real estate. Every national bank

Double Lead

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savings department should be required to have not less than ~~fifteen~~ (15) per cent, of its deposits invested in United States, State, County or Municipal bonds, which would serve as a secondary reserve. The cash reserve of national bank savings departments should be ~~six~~ (6) per cent, at least ~~three~~ (3) per cent to be kept in its own vault, the balance to be kept with the commercial department of the bank, drawing interest at not less than ~~two~~ (2) per cent.

~~Respectfully submitted,~~

~~A. L. Darrow,~~

~~President.~~

[From W. S. Blair

President,

8th Le Conte

First National Bank

San Francisco, California.

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October 27, 1911.

Double Lead

Answering your circular to national banks having savings departments. I have answered same "yes" and "no" as required, but I would like to give you our experience in regard to the savings department in our bank, which you may use or reject as circumstances impel.

In the first place, national banks in commercial cities do not need the savings department, but those in agricultural communities and savings bank towns, absolutely need such departments to meet the competition of other banks, and to hold their customers and prestige.

~~This bank is in a savings bank town and to get in a fair portion of the public's deposits, we had to pay interest equal to our competitors.~~

~~After we had gathered in the money from our clients during the commercial half of the year, which is the crop moving period, our clients would then deposit the money left over, with our competitors, and we were forced, by competition, to pay interest on deposits, to retain same.~~

~~As it was only reasonable to exact some compensation for this interest that we paid depositors, we put it squarely in our savings department books that in consideration of receiving interest thereon, that we would exact notice for withdrawals of same in times of stress.~~

~~We operate this savings department merely as a separate window and booth in our regular banking room, and it costs as the salary of one clerk, and such stationery and advertising as we think necessary.~~

~~We have always mingled the funds received from our depositors together and have invested same within the National Bank Act. The profits accruing from these deposits, after paying interest on same, and retaining the average twenty per cent. idle cash, are not very large, but such profits, even though small, are welcomed, and now, that the deposits in that department are approaching the two million dollar mark, such profits amount to a considerable factor on our capitalization.~~

~~We have never found any difficulty in keeping our funds sufficiently employed without needing real estate loans, and any bank in any part of the United States can do the same thing under the present opportunities of investment.~~

The unusual facilities offered banks everywhere to buy commercial paper have grown to such an extent that any small bank could keep all of its funds in that line, if they considered it good judgment, furthermore, correspondents of country banks will generally supply them with such loans, during their flush season, if they ask for them; also, the investment in bonds, both municipal, railroad, industrial, and otherwise, keep pretty close pace with the amount of deposits in the whole country; then, there is always a certain amount of local commercial demand in every town irrespective of size.

With these opportunities of investing, without placing the depositors'

money, which must be repaid on demand, on real estate mortgage loans, (which are usually for longer periods, and absolutely slow and uncertain in their collection), there is no necessity for national banks adding real estate mortgage loans to their list of investments.

I am firm in my knowledge that no percentage of national bank deposits should be permitted to be loaned in that manner. In the regular course of business we are compelled to protect our loans occasionally by taking whatever security the borrowers have to offer, and frequently this includes a real estate security.

~~I have no doubt that all national banks operate on the principle that the bank is in existence to assist its client to make a profit in their business, and not to force them into losses by compulsory collection of loans in inopportune times, consequently, as a general rule, when the bank has felt the necessity of taking security on real estate from their clients, the loan has usually reached the stage where the business has to be nursed to prevent loss, and these real estate secured loans are the long-time holdings of the bank.~~

Real estate loans can be divided into many classes: the preferred class, of course, would be on business blocks that have a regular income and can pay their interest promptly; the next might be on agricultural lands of productive soils, and these are subject to the owner getting a crop before he can pay his interest; another class is loans on residences, which are both good and bad according to the financial ability of the owner; another class is on speculative property, which are very bad for any bank; and another class is on industrial plants, which are also bad for a bank.

The first class of loans are sought with so much competition, that it is usually hard to confine yourself to such loans. All the other classes are poor loans for a bank to realize upon, and can be supplied by private parties who do not have the demands of depositors staring them in the face.

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I was in the mortgage loaning business for twenty five years before I came into this bank, and I know that the times of prosperity in the real estate business are followed by times of extreme dullness, and during such periods of extreme dullness, real estate values usually fall below the amount loaned on mortgages on the properties. This would require, in the case of a bank holding such loans, to have a department of "Care of real estate and sales of same" for the bank to be able to meet demands for cash that are usually greater in such times of depression. Furthermore, I know that during such times of depression, the money on the mortgage loans cannot be forced out of the borrower, nor can the loans themselves be sold nor used as good collateral in the event the bank needed the money. These are not arguments. These statements are facts that have been proved by regular recurrence in the real estate business since the Federation of the United States, and they are just as potent for the ~~future~~ future as they have been for the past.

The savings department of a national bank is started for the purpose of drawing trade into the bank itself, and therefore, should be conducted in the same counting room as the balance of the bank. If it should be required to be separate the advantages of it would be lost to the bank.

The separation of the funds and separate investment would only have an advantage in event that laws were made preventing the withdrawal of the deposits in ~~ix~~

times of stress, and permitting the bank to carry a smaller legal reserve in that department. It appears to me that the factor of safety would require the increasing of legal reserve rather than the diminishing of it. Naturally, on a rising market, a smaller reserve might be carried than on a falling market. But no bank can change its investments sufficiently rapid to meet such changes of requirement.

We have maintained our savings department since 1906, and went through the stress of 1907 without trouble in the department. But that stress plainly showed that the investments of a bank should be in as liquid short term maturities as possible.

It would be regrettable if the national government made any changes regarding savings departments in national banks more than a clause specifying that "money could be received on contract as to notice of withdrawal."

~~Respectfully submitted,~~

~~W. S. Clayton,~~

~~President.~~

Double Lead

I would ask that this report be made a part of the minutes, and I will go over it, if you desire.

Mr. Weeks. Perhaps I ought not to ask this question, if it is not proper to answer it. I would like to know if the Commission was substantially unanimous in its report.

Mr. Cox. I understand it was.

Mr. Hamilton. They were unanimous.

Mr. Cox. I was not present. I was sick at the time; but the position that the Commission took was exactly what I thought it should take; and I had letters from Mr. Hepburn, who was the chairman, asking me to go to Chicago to appear for him in the matter. I have also heard from Mr. Talbert, Mr. Forgan and Mr. Wardrop---all members of the Commission.

Mr. McKinney. You have a number of these reports?

Mr. Cox. I have a few of these copies.

Mr. McKinney. ^{you} You have enough of them so that you could give a copy to each member of the committee?

Mr. Cox. I will see that all the gentlemen get copies of these. I only had a few, and I brought all I had,--- a half dozen. I think I gave you a copy.

Mr. McKinney. You gave me a copy; yes sir.

The Chairman. The stenographer will include this report of the Currency Commission of the American Bankers' Association, made at the meeting held at Chicago Saturday, January 18, 1908, in the report of the proceedings, in connection with Mr. Cox's remarks, if there is no objection on the part of any member of the Committee.

of the Currency Commission
The report_n above referred to is as follows:

Note for Mr. Cox or Mr. Hamilton: Insert here
copy of Report of Currency Commission.

Mr. Cox. Mr. Chairman, I would ask that you hear Mr. Hamilton, who has been one of the pioneers in credit currency, and who has been before you on other occasions; and who was formerly the president of The American Bankers' Association.

STATEMENT OF JOHN L. HAMILTON, ESQ.,
of Hoopeston, Illinois.

The Acting Chairman. Please state where your home is, Mr. Hamilton.

Mr. Hamilton. Hoopeston, Illinois.

The Acting Chairman. What position did you hold in connection with the American Bankers' Association?

Mr. Hamilton. You mean at the present time?

The Acting Chairman. No; what position did you hold?

Mr. Hamilton. I was ~~formerly~~ president of the Association, two years ago.

The Acting Chairman. For what years?

Mr. Hamilton. For the years 1905-1906.

The Acting Chairman. Are you now a member of that Association?

Mr. Hamilton. Yes sir; I am a member of the Association, and a member of the Currency Commission, and Executive Committee.

The Acting Chairman. And as a member of the Currency Commission that reported favorably upon a bill at a meeting held at Chicago, Illinois, January 18, 1908, you are now appearing before us?

Mr. Hamilton. Yes sir.

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The Acting Chairman. Proceed in your own way, Mr. Hamilton.

Mr. Hamilton. The Commission met in Chicago pursuant to the call of the chairman and took up the two principal measures that were before Congress, as we understood at that time. There were several others, of course, ~~that are~~ are before Congress, but the two that were attracting the greatest attention were the Aldrick bill and the bill proposed by your Chairman, Congressman Fowler. After a discussion of these measures for the greater part of the day a committee was appointed which prepared the resolutions that you have before you.

The Acting Chairman. One question, please. Were there many bankers present at that meeting?

Mr. Hamilton. ~~Ten of the committee were present at the meeting.~~ Ten of the fifteen members of this committee were present, *at the meeting.*

The Acting Chairman. Can you, from memory, ~~an name~~ ~~you any data~~ name those men; or have you any data from which you can name them, and tell from what sections of the country they came?

Mr. Hamilton. Yes sir; I think I can name every one of them. Mr. James B. Forgan, President of the First National Bank of Chicago, was chairman of the meeting, in the absence of Mr. Hepburn, who had gone to Europe; but Mr. Hepburn gave out a letter outlining his objections to these measures, ^{which} ~~so it~~ was practically the same as the report; Joseph T. ^{Talbert} ~~Albert~~, ^{via-} President of The Commercial National Bank of Chicago; Mr. Charles H. ^{Huttig} ~~Huddick~~, President of

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 Mr. Luther Drake, President of the Merchants National Bank of Omaha;
 The Third National Bank at St. Louis; Mr. Myron T. Herrick,
 Chairman of the Board of Directors of the Society for
 Savings of Cleveland, and Ex-Governor there; Mr. ^{Robert} Wardrop,
^{President of the People's National Bank}
 of Pittsburg; ~~I have forgotten what his bank is;~~ Mr. Arthur
^{President of the Des Moines National Bank}
 Reynolds, of Des Moines, Iowa; Mr. ^{Sol} Charles S. Wexler, ~~of~~
^{Vice-President}
~~New Orleans~~ of the Whitney National Bank of New Orleans, ^{and myself.}

Mr. Hayes. And Mr. Perrin?

Mr. Hamilton. Mr. Perrin was not present. He was
 sick. ~~It is easier to name the ones who were not pre-~~
~~sent than to name those who were.~~

The Acting Chairman. ~~You can include that data~~
~~later.~~ I only wanted to show on the record the character
 of the men who were present, and the sections of the country
 represented.

Mr. Hamilton. I will say in this connection that
 Mr. Perrin and Mr. Wade, who were both members of the
 Committee were not present, yet they have since endorsed
 the action of the Committee, as have also Mr. Cox, Mr.
 McCord, and Mr. Swinney. They are the five who were
 not present. There were six who were not present, count-
 ing the chairman, Mr. Hepburn. We had in addition, at
 that meeting, Mr. Lacey, president of The Bankers National
 Bank of Chicago, George M. Reynolds, president of the
 Continental National Bank, and Mr. Roberts, president of
 The Commercial National Bank. They were present and took
 part in the discussion ^{on} of this measure, and while they are
 not recorded in connection with this, yet they were of the
 same opinion as the committee.

Mr. Gillespie. How long were you in session?

Mr. Hamilton. We were in session all day Saturday,

from about nine o'clock in the morning until about six or seven o'clock at night.

Now, the committee ^{feel} ~~felt~~ that this is the best measure that has been so far before the American people. This measure has been presented, as you perhaps know, to a great many state organizations and a great many different organizations, as well as to the membership of the American Bankers' Association. It has the approval of the ^{whole of the} Bankers' Association of Illinois, ~~of its~~ Executive Council, and has the approval of The American Bankers' Association. That is, this bill ~~which~~ was brought before the convention held at Atlantic City,---

Mr. Gillespie. Last summer?

Mr. Hamilton. Last summer, ~~and~~ ^{the} secretary sent out notices to all the members of the association that one day would be set apart for the discussion of this measure, giving all those who had any objections to present, an opportunity to be there and present their objections. The notice was not only sent to members of the Association, but to bankers who were not members, so that anyone might have an opportunity to be there. It is true that the measure was gotten up between the meetings of the Association, and we deemed it advisable as a commission to present it to that organization and secure ^{its} ~~their~~ approval. There were but two men who appeared upon the floor of the convention in opposition of the measure. They were given full liberty to talk as long as they chose and as much as they chose on the subject. After listening to those gentlemen and the arguments in favor of the measure which were mainly presented by the Chairman, Mr. Fowler, but one other member of

the Commission, Mr. Perrin, taking part in it, they were adopted. You may have noticed a criticism in the newspapers, claiming that there were a limited number present at the meeting. There were about one hundred and fifty bankers present in the room when the vote was taken, and twelve of those voted against the adoption of this measure. However, the notice had been sent out and all bankers had been given an opportunity to be there and to vote against it if they were interested in it.

Mr. Gillespie. What is the membership of the Association that attended the meeting at Atlantic City? What was the largest attendance on ^{any} ~~by~~ one day?

Mr. Hamilton. The attendance that morning was perhaps the largest we have had. I should judge there must have been in the neighborhood of two thousand present at the morning meeting, and this was taken up at that meeting.

Mr. Gillespie. And one hundred and fifty were present when this matter was acted on?

Mr. Hamilton. Yes; they had drifted out.

Mr. McCreary. But they were on notice that this was to be taken up?

Mr. Hamilton. That day was set apart for it. It was the special order, and nothing else was set for that day. There were some other matters considered---amendments to the constitution, etc.,--but this was the only thing on the program published by the Association for that day, for their consideration.

Mr. Gillespie. You have seen ~~the article~~, the pamphlet that has been sent around by Mr. Fraame?

Mr. Hamilton. Yes sir.

Mr. Gillespie. With his speech, giving a recital of the proceedings of the convention?

Mr. Hamilton. ^{the} A speech published by Mr. Frame and sent broadcast throughout the country was not delivered in the convention.

Mr. McCreary. It was canned goods? It was a speech that he did not deliver, but had leave to print?

Mr. Hamilton. Yes. He did not deliver that speech.

Mr. James. Do you think if he had delivered it that it would have affected the proceedings any?

Mr. Hamilton. ^{Not at all,} ~~None whatever.~~ I do not think so.

Mr. Gillespie. Did he speak?

Mr. Hamilton. He spoke in a general way, and apologized for taking up the time of the convention, although he had unlimited time at his disposal. Mr. Frame ^{has} made challenges against members of the Commission in his printed speech, that he did not make in the meeting. The challenges would have been answered had he done so; but for some unknown reason or other, the speech was permitted to be printed as though he had delivered it. The fact is that that speech has never been delivered in full, at any meeting.

Mr. Weeks. Is it printed at the expense of the Association, or at his own expense?

Mr. Hamilton. I think it is largely at his own expense, although it is a part of the proceedings of The American Bankers' Association, in their published report.

Mr. Gillespie. Is he a member of the Association?

Mr. Hamilton. Oh, yes; he is a member. His bank

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is a member of the Association.

Mr. McCreary. Is he a member of the Commission?

Mr. Hamilton. He is not a member of the Commission.

Now, going back to the bill, we have been very much disappointed as a committee, that the bill ^{was} ~~had not been~~ introduced earlier in Congress, supposing, of course, that it would be. This bill has back of it the support of three-fourths of the national banks outside of the reserve cities, and it has the endorsement, I think, of the majority of the banks in the reserve cities, ^{I know} particularly, as to the banks outside of the reserve cities, ~~that~~ for the reason that I took this matter up individually with those institutions. The more we considered ^{it} the measure the better we think it is for the interest of the country. We believe it will give to the country a safe currency, one that will be automatic, one that will meet with the demands of the times, and be the means of preventing, to a large extent, a panics. We realize that no measure will absolutely do this, no matter how it is framed, ^{and} no matter who gets it up.

This bill provides---do you want me to go into the general provisions of the bill, all the way through?

The Acting Chairman. Yes.

Mr. Pujo. That is the McKnney bill?

Mr. Hamilton. Yes.

Mr. Pujo. Yes, I would like to have you do so.

Mr. James. You need not, of course, refer to the technical details.

The Acting Chairman. State it in your own way.

Mr. Hamilton. This bill, under section 1, provides that a national bank, before it can issue such notes must have been in business a year and must have a surplus equal to twenty percent of its capital. It also provides that ~~they~~^{it} must have out a circulation equivalent to sixty-two and one-half percent of ~~their~~^{its} capital, and after so doing may issue credit notes equal to forty percent of the bond-secured circulation outstanding. ~~They~~^{It} may then issue--

Mr. McKinney. Explain why you took that sixty-two and one-half percent as the basis.

Mr. Hamilton. The sixty-two and one-half percent basis, as was explained last year in connection with this measure, was arrived at ~~by~~^{as} being the available bonds held by national banks that might be used for bond-secured circulation; and it was done not only to protect the national banks who are holders of these securities, but to protect the individual holders of the securities. The Government having established the precedent, in the original enactment of this bill of furnishing a market for its securities, and the people having faith in this class of securities as to the note issue, we did not think it was advisable to depart entirely from that precedent. It also assures a future market for the Government securities.

(At this point an informal discussion took place as to where in the bill the provision as to sixty-two and one percent was to be found.)

Mr. McKinney. I will say that I introduced the identical text that was sent to me. If that provision is not clear enough to express the ~~unambiguous~~ meaning of the

Commission, that can very easily be changed. As I understand, the desire of the Commission was to preserve the present character of ^{the} bond-secured notes, and to keep it up to that amount, and not to change from a bond secured circulation entirely.

Mr. Hamilton. Yes.

The Acting Chairman. Proceed, Mr. Hamilton.

Mr. Hamilton. The bill provides further that after these notes may be issued, they may issue an additional twelve and one-half percent in credit notes bearing a tax of five percent.

Mr. James. This first issue bears a tax of two and one-half percent?

Mr. Hamilton. The first issue bears a tax of two and one-half percent. Section 2 of the bill provides for the two and one-half percent tax. Your Committee amended that last year and made it three per cent. We went back to the original idea and made it two-and one-half, believing in the theory ~~nam~~ that a low tax was better than a high tax.

Mr. James. As I understand it, under this bill, you require them to deposit ^a five percent reserve to redeem these notes issued originally, in gold.

Mr. Hamilton. Yes sir; in the guaranty fund.

Mr. James. You make the first tax two and one-half percent, and you ~~make~~ keep that tax in the fund until it becomes five percent, and then you let the banks withdraw the five per cent in gold?

Mr. Hamilton. Yes.

Mr. James. But what becomes of the tax which has accumulated ^{over} to the five percent, which has enabled the banks to withdraw the original tax, when a bank desires to liquidate or to quit business?

Mr. Hamilton. That, I presume, would remain in the hands of the United States Treasury.

Mr. James. But it is in the hands of the Treasury now as a trust fund. Is there any provision in the bill that it shall be covered into the treasury?

Mr. Hamilton. No; there is no provision of that kind.

Mr. James. Do you think it ought to go into the treasury?

Mr. Hamilton. I really think there should be a limit to the amount of the guaranty fund established in some manner; but in the measure there is no limit. It is left an open question. You have your annual tax from year to year, and that accumulates---

Mr. James. It accumulates ^{after the} up to five percent---

Mr. McKinney. The tax keeps on.

Mr. James. When it gets over the five percent, what becomes of it?

Mr. Hamilton. There is no provision for that.

Mr. McKinney. It keeps piling up. It does not go back to the banks, and it is not limited to the five percent.

Mr. Hamilton. We have not undertaken to dispose of that surplus.

Mr. Weeks. As long as you are speaking of the tax on this currency, I would like to ask two or three questions

about it, in a general way.

Mr. Hamilton. Yes sir.

Mr. Weeks. Do you not think we have currency enough in ordinary times, say forty-five weeks out of the year, under present conditions?

Mr. Hamilton. Yes, I do.

Mr. Weeks. Well, do you think under this method of taxing the currency that it would all of it ever be retired? Would not some of it be in circulation all the time?

Mr. Hamilton. I think there is bound to be some of it ⁱⁿ circulation, and I think it good policy that it should be in circulation.

Mr. Weeks. Then it is adding to the volume of our present circulation all the time, to a certain extent.

Mr. Hamilton. I do not think that the amount would be material.

Mr. Weeks. Why would it not be material?

Mr. Hamilton. It depends on your redemption facilities.

Mr. Weeks. Why would it not be material, if the banks can make a profit out of it?

Mr. Hamilton. The ability of the banks to make a profit depends upon the length of time the notes will remain in circulation, of course.

Mr. Weeks. Of course.

Mr. Hamilton. And we do not believe that these notes can remain in circulation for a longer period than thirty days, under the most favorable circumstances. Consequently

the profits would be so meagre that the notes would naturally be retired.

Mr. Weeks. The same notes will not remain longer than thirty days, but some other notes will go right out to take their place, will ~~it~~^{they} not?

Mr. Hamilton. ~~It~~^{they} may, and ~~it~~^{they} may not; because when the tide ~~of currency~~ of currency is toward the commercial centers, it is practically impossible to keep out any considerable quantity of these notes. There are certain seasons of the year when the money accumulates in the commercial centers, ---the actual bills.

Mr. Weeks. Let us take an instance. You issue notes and they come into Mr. Cox's bank. There is a profit in issuing the notes and Mr. Cox sends yours in for redemption, and issues his own, does he not?

Mr. Hamilton. Certainly.

Mr. Weeks. Is not that going to be perpetual, that method of keeping the notes out as long as there is any profit in doing it, so that although a note may be, and will be on an average retired in thirty days, does it not mean that the same volume of notes is going to be out all the time, provided there is a profit in issuing them?

Mr. Hamilton. No, it does not mean that, for the reason that it would be impossible for Mr. Cox, residing in a commercial center, to keep out any considerable quantity of those notes. They would be immediately sent back ~~to them~~ for redemption; and if he should put out fifty thousand dollars in notes, tomorrow, or to-day, in the city of Washington, he is practically sure to find those in the

Clearing House tomorrow morning for redemption, the same as he finds the drafts issued on the institution there for redemption, or cashier's checks.

Mr. James. Suppose it was in a country like I represent, where we have no clearing house; where we have a national bank in, say, one town, and two in another, and money is worth six or eight percent. Would it not be profitable for the banks to issue ^{these notes} this at two and one-half percent, if they can lend ^{the money} it at six percent, and keep it out? When people in my country get money, they do not rush to put it in bank. They keep it in their pockets, to a certain extent. ~~Would not these banks~~ ^{banks} where they would lend the money at six and even at eight percent in Kentucky, in my district, would not that money stay out?

Mr. Hamilton. I do not think that money will stay out to any considerable extent in any locality. The whole principle, I think, that the banking system of the United States is based on, is the checking system rather than on the note issuing system.

Mr. James. That is true in the great cities.

Mr. Hamilton. We are encouraging the people from the country---you and I are both from the country---

Mr. James. But that is not true in the country.

Mr. Hamilton. But we are encouraging the people to build up the deposits. That is what they are aiming for.

Mr. James. All the time; yes.

Mr. Hamilton. Your banks, no matter what kind they may be, national, state, private, or whatnot, are encourag-

ing the people to deposit their money in the banks and to use their individual checks in preference to currency.

Mr. James. But, right there, ^{let me say that} this panic has done more to discourage that than anything on earth, and you will find that it will take years to get ^{the} people back to the standard of confidence that they had before the panic, in depositing their money.

Mr. Hamilton. There is no question about that. You are absolutely right in that proposition, that this panic has been one of the most disastrous to the banking interest that ever occurred, and it has shaken the confidence of the public in those institutions.

Now, if this measure had been enacted a year ago, it would have prevented the occurrence of this panic to a great extent. The condition in your section of the country was the same as the condition with me. I am the only member of our Commission who does not reside in a clearing house center. The result of this panic, and the trouble it brought upon us was that we could not get actual currency from the commercial centers. In some localities the demand for currency was abused by the country bankers.

Mr. Weeks. Do you not think it was generally abused?

Mr. Hamilton. I do not think it was generally abused.

Mr. Weeks. Does not the statement of the national ^{banks} ~~bankers~~ prove that?

Mr. Hayes. I think it does.

Mr. James. Was it not abused, not so much by the country bankers as by the fellow who had the country bankers' money on deposit?

~~Mr. Hamilton.~~

Mr. Hamilton. There are two sides to that question. We who live in the country are inclined to condemn our city brother. Of course, the city banker had his difficulties to contend with, and I think when you sift both sides of the question down, they ^{were} both indiscreet in their actions in that respect; but nevertheless, our people were unduly alarmed ^{by} with the fear that they could not get money from the institutions; and in every community where the banks had to pay a limited amount of cash to their customers those communities have been seriously crippled by the ~~pre-~~ ~~sent~~ conditions that have prevailed, and confidence has been disturbed in those communities. Now, going back to the idea of the country bank note remaining out longer than the note of the commercial center. It might perhaps remain out a little longer, but if these notes are sent in (as is contemplated by the Commission but not embodied in the report) through the Post Office Department, by any institution, for credit without expense to the bank re-mitting, it will immediately send those notes home for retirement; and I thought myself, ~~personally~~, that it might be a wise provision to have that expense borne by the bank of issue. That would be an extra inducement to the banks who are not in the national system, sending in these notes for redemption.

Mr. James. The reason I asked that question was this. Take my home town. There the bank suspended specie payment, and only paid ten percent on a man's deposit, for over sixty days. It is a tobacco community. They commenced buying tobacco, and when they paid their money out to the

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farmers, the farmers would not put that money in bank. They were alarmed, and they took the money home with them. Now, if they were satisfied with this currency, would they not do that same thing?

Mr. Hamilton. If they did take this kind of currency home it would not hurt, for it would only stay a limited time before it would get back in the natural channels of business, the same as has occurred under the present conditions.

Mr. Hayes. In other words, they would spend it.

Mr. Hamilton. Yes.

Mr. James. But you must not presume on the theory that the farmers have to spend all they get.

Mr. Hamilton. It is not an inflation as long as ^{it is} ~~he~~ ~~kept~~ ^{kept} it hidden.

Mr. Gillespie. The point is that there is a profit to the bank as long as ^{a man} ~~he~~ keeps it in his pocket.

Mr. Weeks. What I wanted to ask you further was whether in your judgment it is desirable for banks to make any considerable profit on the issuing of circulation.

Mr. Hamilton. I do not think it is desirable that they should make any considerable profit; no sir. But I think there should be some profit in it.

Mr. Weeks. I do not think that any man with any reason would contend that there should not be a profit in any business enterprise; but circulation is so intimately associated with everything in our business life that it is necessary. The bank is supposed to make its profit out of its commercial business, or the business of loaning

money, which is its business. Do you not think that the profit in issuing circulation should be reduced to the minimum?

Mr. James. Especially an emergency circulation.

Mr. Weeks. I will confine it to that.

Mr. Hamilton. Yes, I think it should be, and I think it is reduced to the minimum in this measure.

Mr. Weeks. I think the present circulation is reduced to the minimum. I agree with you; but do you think it is in this bill?

Mr. Hamilton. I think so; yes sir. Now, take this bill, the original bill that was presented by your committee with ^{the} three percent tax, with money loaning at seven percent. I have had it figured by the actuary of the Comptroller's office, and by other men, and it shows a net profit to the bank, providing that such notes remain out on an average of thirty days, the same as ~~through~~ they do in Canada, of 1.95 percent.

Mr. Weeks. Do you not think that is too much?

Mr. Hamilton. I do not think it is too much, because I do not think that they will be able to maintain the full amount in circulation for thirty days.

Mr. Weeks. ~~But it is not a business~~ Suppose it remained out sixty days, instead of thirty days. What would be the profit? Do you know?

Mr. Hamilton. I do not know. Of course, it would be greater.

Mr. Weeks. What I wanted to especially get your opinion on was whether you think it desirable to have more

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currency than we have now for normal times, and whether you think it is desirable that banks should make any considerable profit out of circulation. You know, of course, that there is a very wide spread prejudice against anybody making any money in this country just now.

Mr. Hamilton. Certainly.

Mr. Weeks. Especially the banks.

Mr. Hamilton. Yes.

Mr. Weeks. And it seems to me that there is a point ~~where~~---my prejudices are not against the banks, as you know---~~that there is a point~~ where we can properly draw the line in legislation. The business of the banks is to loan money, and to make its profits out of loaning money, and when you make money out of a privilege which comes from the Government, and which affects all the people whether they are borrowers of money or not, it seems to me that should be reduced to a minimum; that that is good policy and good business from the standpoint of the Government, ~~and~~ ^{for} that reason I think, myself, that the tax on the circulation is too small, and I wanted your definite ideas on that subject, because you have had large experience.

Mr. Gillespie. The bank stands to furnish accommodation to its customers. These credit notes do not represent the capital of the bank. They only put the bank in the same position to use these notes as otherwise they could use their deposit privileges. To tax ~~the~~ ^{its} ~~bank's~~ ^{the banks'} note stands upon no other plane than to tax the right of the deposit privileges. These notes can be used and put into

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circulation, but as long as they are in the teller's drawer, in the bank's possession, they represent nothing but a signed piece of paper. They become nothing until they go out in circulation. The bank stands to furnish this accomodation to commerce, ~~and to say that when it gives its customer some obligation, I do not care whether~~ ^{just as it gives} ~~it is~~ the right to draw a check, ~~or to take one of these notes; it gives the same thing in both cases,~~ and to require a bank to pay a tax when it puts out one of ~~and~~ these credit notes is on no different plane whatever from requiring the bank to pay a tax whenever it opens up a deposit account with a customer.

Mr. Weeks. I should be perfectly willing to argue that point with ~~my~~ friend from Texas at the proper time.

Mr. Gillespie. And every cent of tax that you put on ~~this~~ ^{the} bank ^{it} is going to recover, in self-defence. It is going to put it on commerce, ~~and~~ ⁼ no other country that issues this kind of credit ever put a tax upon it, except in Canada where they put a small tax on to create a guaranty fund.

Mr. Weeks. I am getting at it from another viewpoint entirely. In my judgment we have ample currency for ordinary needs, and any further issue of currency means a tendency to inflation. I do not use that term technically, either. I want to be sure that we are not going to have any further issue of currency as a permanent issue. I want it to be temporary, and for that reason I want the tax large enough to immediately and suddenly drive that currency in. That has nothing to do with the technical

question which Mr. Gillespie has raised, and in which I think he is probably right; and if we did not have half a dozen other kinds of circulation I would agree with him absolutely. But having the other circulation we must figure from that standpoint, and not from the standpoint that we would figure from if we were starting to entirely revolutionize our currency system. That is what I am trying to get at.

Mr. Crawford. You want an ordinary increase, do you not? We started about ten years ago with twenty-two dollars, and now we have thirty-two dollars.

Mr. Weeks. I understand, but we have circulation enough, in my judgment.

Mr. Crawford. But what about the increase in business and population?

Mr. Weeks. The circulation has nothing whatever to do with the business, in ordinary times.

Mr. Crawford. Do you not think the increase of circulation since 1896 has had something to do with the business prosperity of the country?

Mr. Hayes. You gentlemen are taking up Mr. Hamilton's time. I want to hear him, if you will excuse me.

Mr. Powers. I want to ask a few questions in reference to this. I was one of the republican members who refused to report your bill last year, for the reason that I believed it was very largely an inflation measure, based substantially upon the views that were advanced by the gentleman from Massachusetts, Mr. Weeks. I see no sufficient reason to believe that this would be a flexible

currency, that it would come back after it had been put out. Knowing that the conditions are not the same here as they are in Canada, that we have more money in the ^{various} ~~United States~~ state banks than we have in these, I want to ask you, if these bills are equally good with any of them, (and they must be or there is no use in putting them out) what reason would any state bank, trust company, or savings bank, have for selecting them out and sending them for redemption instead of continuing to pay them over their counter^s if they have no bills of their own to get out?

Mr. Hamilton. They would have no particular interest in returning those bills unless there ^{were} ~~is~~ some ~~particular~~ provision made for their return, either through the plan outlined by the Comptroller's office, or else embodied in the measure.

Mr. Powers. Would they not continue, as long as they were good, to use them and pay them out, and would they attempt to return one of these any quicker than they would a national bank note, secured by bond?

Mr. Hamilton. It ^{is} ~~was~~ contemplated, ~~as~~ you know, that that part of the detail shall be covered by the Comptroller of the Currency in the rules that he makes governing these redemption centers.

Mr. Powers. I understand---

Mr. Hamilton. And there is a provision here that provides that such expenses may be paid out of this fund, you know.

Mr. Powers. But what inducement ~~is~~ there for a trust company having an amount of money consisting partly of bond secured currency and partly of this currency, to select

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these bills and send them to a reserve center to be redeemed, as long as one is equally as good as the other, and one goes as current as the other?

Mr. Hamilton. It depends, of course, upon the location of the institution, largely.

Mr. Powers. But one is just as good as the other.

Mr. Hamilton. If it is in the country, the country institution^s would send those bills to their correspondants for credit, because they can send them without the expense.

Mr. Powers. Why should a trust company do it, or why should any bank do it, unless it wants to get its own bills out.?

Mr. Hamilton. The reason they should do it is that it is natural for ^{people} ~~anyone~~ in any line of business to avail themselves of any profit they can make. It is also to their interest to keep down the circulation as much as possible.

Mr. Powers. Perhaps you may not recall it, but I asked substantially this same question of Secretary Shaw, as to what he believed with reference to the bills returning within a reasonable time, and he said he did not think over ten percent would; and I concurred with him---until it got worn out. Now, let me ask you one more question. Can you not in some way recall those bills so that instead of this being an inflation measure that would increase the volume of currency---I agree with Mr. Weeks that we do not want it increased in ordinary times---~~so that~~ it can be issued as emergency currency, and then returned to the banks? I like your bill in many respects.

Mr. Hamilton. Of course a measure of that kind might be amended, fixing the date to which the note should remain out; but I do not think it advisable to do so.

Mr. Powers. How do you propose to have the bank redeem the note^s? By depositing ^{other} ~~their~~ notes?

Mr. Hamilton. In lawful money, or circulation notes.

Mr. Powers. I suppose you would permit them to be redeemed by depositing lawful money.

Mr. Hamilton. Yes.

Mr. Powers. I care not how large the tax is, it will not affect the circulation unless you impound the lawful money and keep it by itself, not to be paid out until the bills come in. A tax will not reduce the circulation under the existing laws, will it?

Mr. Hamilton. What you mean is, if the money is deposited with the Treasury Department, and ^{it} ~~he~~ again deposits it with some other institution?

Mr. Powers. No matter if the bank has been relieved of the interest, the excessive currency or inflation is still out.

Mr. Hamilton. That is a feature that we have not attempted to regulate, because it applies to the management of the Treasury Department. We did not think it advisable to embody any feature of that kind in this measure.

Mr. Powers. Now, you said that if this had been adopted last year it would have prevented the present panic. I rather think it would, but having once issued several

hundred millions more this year, how would it have been next year? Would we not have had it worse than this year, if it should prove to be an inflation rather than an elastic currency?

Mr. Hamilton. I do not think it can be an inflation.

Mr. Powers. I cannot see how it is possibly anything else.

Mr. Hamilton. Because the banking experience of the Commission shows that the money accumulates there during certain periods of the year. The national bank notes to-day accumulate there and they do not know what to do with them.

Mr. Powers. I understand that.

Mr. Hamilton. These notes are bound to go in just the same as ~~the others~~, the national bank notes, go in.

Mr. Powers. I admit that a certain percentage will get in, but ~~they~~ will not send these in ⁱⁿ a preference to getting the interest ~~most institutions~~ most institutions will not, and the amount of currency that is sent in will not be very large as compared with the great volume of currency of the country. I cannot see any reason why you can assume that these notes, if they are equally valid, and if the people receive them equally readily as any other put in circulation under our peculiar banking system in this country, shall come back, except very slowly. How long does it take for national bank notes to come back---two or three years, on an average, does it not?

Mr. Hamilton. Seven hundred and thirty days, I believe is claimed to be the period.

Mr. Powers. I cannot see how they can come back ^{more} ~~very~~ rapidly, or but very little more rapidly than the present currency. If that is so, then this becomes, thereby, not an elastic currency, but an inflation currency, which we do not want; and that has been my objection to your bill.

The Acting Chairman. Would it not be well for us to hear Mr. Hamilton through, because our time is running. I do not think Mr. Weeks' questions have been answered, have they?

Mr. Weeks. I think he has answered all he cares to.

The Acting Chairman. Go on with the other sections of the bill, then, Mr. Hamilton.

Mr. Hamilton. Section three of this measure provides for the five percent ^{increase} tax which, ~~of course,~~ would not be issued until after the other two and one-half percent notes had been in circulation, as is natural. The total amount of the bank note issue, as provided in this measure, shall not exceed the capital of the institution. There has been a great deal of criticism of this particular section of the bill, in different sections of the country. National banks ~~have~~ ^{having out} their full quota, have objected to that provision, claiming that this measure would not give them any relief, because they cannot issue any additional circulation. However, I think that that is a very important provision in this measure, that there should be a limit to the amount of notes that may be issued. And we have provided in the last section of the measure so that national banks having out ~~the~~ the full quota of issue may

~~then~~ reduce it down to 62-1/2% of their capital without reference to the law that now exists, limiting the amount of redemptions to nine million dollars a month.

Section 5 of the measure provides for the legal reserve to be carried as against these notes, requiring the same reserve that is now carried against deposits in the different kinds of banking institutions, as designated under our national banking act. In other words, ^{it provides} ~~providing~~ the same requirements as to the reserve in the central reserve cities, that twenty-five per cent. be carried in their vaults; and the same provision as to reserve cities, requiring that they must maintain a reserve of twenty-five per cent., one-half of which may be carried with a central reserve city, and the same provision as to the country banks, which require [^] fifteen per cent. reserve, three-fifths of which may be carried with reserve cities or central reserve cities.

Mr. Weeks: Do you not think it advisable to increase the amount of the reserve which country banks should carry in their own vaults?

Mr. Hamilton: I do not. I think that would be a serious mistake. I believe that the average country bank carries a ^{greater} reserve most of the time than the law contemplates they should carry, and if you ^{should} ~~would~~ increase the reserve that they should carry to two-thirds instead of ^{three-} ~~two-~~ ~~fifths~~, you would be tying up one hundred and ten millions of additional money in the hands of the country institutions that would be absolutely useless in the ordinary times.

Mr. James: In times of panic have they not got that tied up anyhow, in reserve and central reserve cities?

Mr. Hamilton: They have that ^{ties} up in central reserve cities, to a certain extent, yes; but after a few days of the experience that we have just had, the greatest difficulty we all had to contend with was that we did not have enough credits in the reserve cities rather than ^{not enough} enough cash.

Mr. Pujo: I would like to ask Mr. Hamilton a question. The authorized circulation that could be taken out by national banks in this country approximates nine hundred million dollars, does it not?

Mr. Hamilton: Yes, sir.

Mr. Pujo: And the actual circulation of bank notes approximates six hundred million dollars, does it not?

Mr. Hamilton: Yes.

Mr. Hayes: Nearly seven hundred million.

Mr. Hamilton: The last report was six hundred and one million.

Mr. Pujo: During the financial panic of 1907, with a duty of one-half of one per cent. every six months on circulation, would not three hundred million dollars of additional circulation to the volume of currency during the last panic have prevented this financial panic?

Mr. Hamilton: I think so.

Mr. Pujo: Did not the clearing house certificates issued during the last panic amount to only \$150,000,000? approximately?

Mr. Hamilton: I have never seen the figures on that. I think New York ~~is~~ —

Mr. Pujo: I am referring to the report of the Comptroller of the Currency, at page sixty, showing that clearing

house certificates were issued, amounting to \$154,000,000.

Mr. Hamilton: I have never seen that report.

Mr. Pujo: Did the issuance of these clearing house certificates have a tendency to prevent runs on banks, and to protect the financial interests of the country, generally?

Mr. Hamilton: I think the issuing of the clearing house certificates was an excellent movement to stop the panic, but I do not believe the issuing of the clearing house certificates, or the thought that clearing house certificates are likely to be issued, would be the means of preventing a panic.

Mr. Pujo: Could not the national banks in this country, by taking out the circulation authorized by law, have prevented the occurrence of this panic in 1907?

Mr. Hamilton: Certainly, sir; there was plenty of margin in it, I think.

Mr. Pujo: Could they not, after the appearance of the panic, have prevented it by an application for the issuance of the currency to which the banks were entitled under the law?

Mr. Hamilton: The greatest difficulty was that they could not get the bonds to put up, to secure the bond secured circulation.

Mr. Pujo: ^{is} Is it not further a fact that there ~~was~~ not sufficient profit in the circulation for them, according to their viewpoint, which has prevented them in the past from taking out the circulation to which they were entitled under the law?

Mr. Hamilton: Under your present national bank system of depositing Government bonds ^{as} for security for

circulation, there is no inducement for a national bank to issue these notes for the sake of profit; the reason being that the higher the rate of interest that prevails in the community, the less profit there is in national bank note circulation. In other words, at an eight per cent. basis they would be losing money.

~~Mr. Pujo: In obtaining the issuance of a clearing house certificate to be used by a bank, is not security required?~~

~~Mr. Hamilton: Yes, sir.~~

~~Mr. Pujo: Does the Secretary of the Treasury require additional or different security from what the clearing house of New York requires in issuing circulation?~~

~~Mr. Hamilton: Well, I think - why, certainly he does.~~

~~Mr. Pujo: I was confounding that.~~

Mr. Pujo: Then your view, upon a study of this question, is that the banks could not have prevented this panic because they did not have the bonds to obtain the additional circulation to which they are entitled under the law.

Mr. Hamilton: They do not carry them, and do not have them; yes.

(After ^{an informal} ~~a formal~~ discussion, the Committee, at 12 o'clock a.m., took a recess until 2 o'clock p.m.)

After recess. |—————|

STATEMENT OF JOHN L. HAMILTON, ESQ., - Continued?

Mr. Hamilton: Mr. Chairman, I think we were on section 5 when we took the recess, relative to the legal reserve to be carried against the credit notes to be issued.

The Chairman: I think you had finished that.

Mr. Hamilton: It is contemplated in connection with this that the same reserve may be used in the issue of a credit note in case of emergency that is now used to secure a deposit, as against the deposits. In other words, when there were heavy withdrawals of ^{deposits} ~~deposits~~ you would have a larger legal reserve on hand that might be used to secure these notes, and credit notes would be put out in lieu of the withdrawing deposits.

Section 6 of this bill provides for the creation of a guaranty fund ~~fund~~ to be held by the Treasury.

Mr. Gillespie: you still provide, I see, in the other section, that they continue to keep their reserve on deposit with other banks in reserve and central reserve cities.

Mr. Hamilton: We make no change in the present law relative to deposits ^{whatever.}

Mr. Gillespie: I believe it is your opinion that no change should be made?

Mr. Hamilton: I do not think it advisable to make a change in that case.

Mr. Weeks: If you increase the amount of the reserve which the country banks should keep, do you think you would be justified in reducing the amount of the reserve which the central banks should be compelled to keep, in the same proportion, or in similar proportion?

Mr. Gillespie: Say a flat twenty per cent. all around.

Mr. Hamilton: Well, frankly, I will say that I have never given that subject any thought, and I do not know how it would apply. As to the locking up of the reserve money of the country, that is something that would have to be demonstrated by fighting ^{it} out. I could not tell, in an off hand answer.

Mr. Weeks: What do you think the effect would be if you compelled the country banks to keep ten per cent. in their vaults, if the increase of four per cent., which it would be, amounted to one hundred millions, and you stated this morning?

Mr. Hamilton: One hundred and ten millions.

Mr. Weeks: Well, something of that sort; and reducing the amount to be kept by the central reserve banks five per cent, ^{which would amount} to the same amount of money.

What do you think the effect would be on the country, and on the banking interests? Have you thought of that?

Mr. Hamilton: I have not given that subject any thought whatever, because the question has never arisen in my mind before; but I think that it is not desirable to change the reserve of the country bank. I do not think the recent conditions show that it is necessary that there should be an increased reserve exacted of them, held by the institutions.

Mr. McKinney: Down in my locality the reserves were away down at that critical time.

Mr. Gillespie: You mean ^{of} in the country banks?

Mr. McKinney: Of the country banks. There was no way, apparently, in which they could be strengthened. They could not get currency.

Mr. McMorran: Is not that the best reason in the world why the country banks should require a larger reserve instead of a smaller reserve?

Mr. McKinney: I always thought that if a country bank did not have a proper reserve it was through carelessness of their own. A panic never jumps on you without a minute's notice.

Mr. Gillespie: Of course they had plenty of signs of this coming on.

Mr. McMorran: Our banks never allow themselves to get below twenty per cent. They give as a reason for that that they are not as well situated as the city banks, with the class of paper they are dealing in. They cannot realize on it and depend on its payment as well as the city banks can, and therefore they feel, as a matter of safety, that they

should keep an extra five per cent.

Mr. Hamilton: Every bank carries the reserve in the country, a good deal in relation to the convenience to commercial ~~institutions~~ centers, in order to get currency. They are ~~governed~~ governed more by that than by almost anything else; but I think there are very few banks with actually more than the ten per cent of the legal reserve on hand; but I do not think it is good policy to amend your law and make it mandatory.

Mr. Gillespie: Do you think that six per cent reserve, ^m of a country bank or any other kind, is sufficient to inspire confidence to the patrons of the bank? They begin to figure. This panic was a panic of men who could figure, you know. The Comptroller of the Currency in his statement ^{calls} called attention to the reserves being too small. They begin to figure what this bank had to meet its demands absolutely, and there they find a little ^{old} over six per cent. It engenders uneasiness. They begin to want to get their money out, especially if they see signs of danger. Things begin to get tight, with interest rates running up, and talk of bad assets, and all that, and dishonest management, and they begin to figure on the condition of the bank, and here this bank has only six per cent as a reserve. Is not that too small to inspire confidence?

Mr. Hamilton: That does not enter into the ~~mind~~ general mind of the public.

Mr. Gillespie: It enters into the mind of the man who can calculate, and who knows something about banking; and this was his panic.

Mr. Hamilton: This was a banker's panic.

Mr. Gillespie: This was a panic of men who could figure on the situation.

Mr. Hamilton: But it did not affect the small country places until after the commercial centers went on a clearing-house basis.

Mr. Gillespie: They suspended their payments; or if it had gone on they would have.

Mr. Hamilton: Which?

Mr. Gillespie: The small country banks. In all probability a great many of them would have had a run like the others, and there they are caught with a little old six per cent.

Mr. Hamilton: I beg your pardon. A majority of the country banks in the national system, even at the present time, did not suspend payment.

Mr. McHenry: That was true up in my district.

Mr. McKinney: That was true in my region.

Mr. Hamilton: They did not suspend at all. There is only here and there a place throughout the States. Take it in Illinois. A majority of the banks in Illinois, outside of Chicago, Peoria, Bloomington and Quincy, I think, did not suspend cash payment.

Mr. Gillespie: I know that little towns in my district, of two or three thousand people, suspended.

The Acting Chairman: We did not.

Mr. McHenry: In the large cities in Pennsylvania, at Pittsburg, and Philadelphia for a short time, and Harrisburg, we had suspensions; but at Scranton and Wilkesbarre

none of our banks were affected at all.

Mr. McCreary: They did not, ^{suspend,} but they were on the verge. If it had kept up a week or ten days longer they would have suspended. I can speak of one large town there, particularly, where the pay of the Reading kept everything going, but the moment they ran into paying cash, the banks would have felt it.

Mr. McKinney: Mr. Gillespie, do you mean the reserve that the banks have in their own offices?

Mr. Gillespie: Yes; in their own vaults.

Mr. McKinney: I was connected with a bank for a good many years. As a rule I think we kept in our office only about six or eight per cent, but ~~we had~~ in the hands of our correspondent, and immediately available, ~~for~~ we almost never ran below fifty per cent of cash loans. We did not keep more in our office for the reason that we ~~did not consider~~ ^{considered} it hardly safe. Of course, in small country towns there is not the police protection that you have in large towns. We carried insurance against ^{burglary} ~~burglarlaries~~ and all that, but this six or eight per cent we found adequate to meet all the needs we had.

Mr. Gillespie: Yes, in normal times, of course; but the money that you deposit, ~~that~~ of itself becomes a reserve, and it supports deposits. The law only requires fifteen per cent. I believe if we had no law on the subject all banks would carry a great deal more reserves than now.

Mr. Hamilton: There is a certain portion of deposits deposited in commercial centers, called a reserve, that in reality does not belong to the reserve fund at all. It is

their excess deposits. It is not really put up for the reason of complying with the law relative to maintaining the fifteen per cent reserve. It is kept there for the purpose of getting what interest they can, and all that, and the convenience of having it; and in the majority of small places, exchange is more desirable generally than actual notes of hand.

Now, the next section is section 6, relative to the guaranty fund, which provides that the tax received from these credit notes shall be deposited in such a fund. Section 7 provides that before these credit notes can be issued the bank contemplating their issue must deposit with the Treasury Department a sum equal to five per cent of the contemplated issue, creating the guaranty fund at once. And after the receipts equal the amount of this five per cent, then the original deposit may be refunded to the ^{bank} ~~bank~~ of issue.

Section 8 provides for the redemption cities.

Mr. McKinney: But when you refund the original deposit, after you have reached 5 per cent through this tax fund, your fund will keep on increasing and accumulating?

Mr. Hamilton: We have made no provision for a limit as to the amount of this fund, whatever,

Mr. McKinney: But it naturally will keep on increasing and accumulating.

Mr. Hamilton: The tax continues just the same as the tax now continues on national bank note issues.

Mr. Gillespie: Is it your purpose that that shall be a fund to be covered finally into the general treasury, or to

be held as a special fund to go eventually, if not used, back to the banks? What is your idea about what ought to be done with that?

Mr. Hamilton: The thought of the Committee was that that fund probably would belong to the Federal Government; but we did not attempt to provide what course should be pursued with that, for the reason that none of us were familiar with the needs of the Government, and where you might wish to apply it; ^{only} ~~Only~~ having in ~~my~~ mind the creation of a fund sufficiently large to meet all the expenses of the management of this department, and giving security to the notes issued.

Mr. McKinney: Nothing has ever been done, has it, ~~towards any distribution or~~ toward any distribution of the fund that has been created through the loss of national bank notes, in all the years since the national bank act?

Mr. Gillespie: None that I am aware of.

Mr. McKinney: This would not go in the same category. You know there has been a profit always to the government on account of the loss and destruction, and so on, of national bank notes.

Mr. Gillespie: Yes.

Mr. McKinney: The assumption being that any of the notes that were ever issued might come up for redemption at some time.

Mr. Gillespie: Yes.

Mr. Hamilton: Section 8 of this measure is relative to the redemption cities. We think that, as it states there, they should be not more than 24 hours distant from the bank. In other words, it might ~~in~~ necessitate the creation of

additional redemption cities ^{over} from the forty-two cities we now have as reserve cities -- reserve city points --- and we believe that the more convenient these redemption cities are the quicker the notes will be returned and retired; and the success of the plan rests largely on the convenience of these points. The great trouble even under the present system is the length of time, etc., that it takes to retire the notes. That is, the length of time that the notes remain outstanding, depending upon getting to Washington and being cancelled, and the limited amount that may be retired. Of course under this measure the credit notes could be retired immediately when they came in, and it is expected that they would be charged to the account of the individual bank issuing them by their correspondence and would be retired at once.

The Acting Chairman: I would like to ask a question right there. How are these to be redeemed.

Mr. Hamilton: How are they to be redeemed?

The Acting Chairman: Yes.

Mr. Hamilton: By the correspondents of the institution in the commercial center, wherever it may be.

The Acting Chairman: In what kind of money or currency?

Mr. Hamilton: Oh, in lawful money, or like notes, you know. They may be redeemed in either.

The Acting Chairman: Does your bill so state?

Mr. Hamilton: It says in lawful money.

Mr. Gillespie: That does not mean this kind of note.

The Acting Chairman: That would not be lawful money.

Mr. Gillespie: ~~Our~~ ^{Our} statute defines what lawful money

is --- legal tender.

Mr. Hamilton: This bill, I think, covers that.

Mr. Gillespie: This says, "Lawful money", just like the present bank note.

The Acting Chairman: What section is that?

Mr. Gillespie: Somewhere here it says that it shall be redeemed in lawful money.

The Acting Chairman: We have so many different bills, that I am afraid we mix them up.

Mr. Hamilton: Of course section 13 speaks of the ---

Mr. Cox: It is in section 6.

Mr. Hamilton: Read it.

Mr. Cox: "That the taxes upon national bank guaranteed credit notes, provided for in sections ~~two and three~~ two and three of this act, shall be paid in lawful money to the Treasurer of the United States."

The Acting Chairman: But that is as to the payment of the taxes. Now, you have a redemption city created by the Comptroller of the Currency, and I come to that redemption city with some of your notes, issued by your bank in Illinois, and I ask to have those notes redeemed. What will they pay me in exchange for those notes; and does your bill state what it shall consist of?

Mr. McKinney: Section 8 provides for the redemption.

The Acting Chairman: But it leaves it entirely with the Comptroller.

Mr. Hamilton: I guess it is left with the Department, because I see no provision as to that.

Mr. McCreary: Absolutely, because it says that he shall require such bank to make arrangements satisfactory to

him.

The Acting Chairman: Do you not think that leaves it open? Suppose he insisted that you redeem it in gold coin?

Mr. Hamilton: Section 12 -- I do not know whether that could be construed to apply or not: "That any national banking association desiring to retire its national bank guaranteed credit notes or to go into liquidation shall pay into the guaranty fund an amount of lawful money equal to the amount of its national bank guaranteed credit ~~nan~~ notes then outstanding."

That is, when it is going out of business.

The Acting Chairman: But if ~~he~~^{it} does not want to retire, ~~and~~ you say the interest of any other bank would be strong enough to send your notes in and have them redeemed so as to leave a place for its notes to be put in circulation. Now then, I am that other bank. I have your notes. I ~~propose~~^{step} to the redemption agency, and ask to have your notes redeemed, to get rid of them so that my ~~notes~~^{notes} can take their place. What do I receive in return or exchange ~~and~~ for your ~~notes~~ notes, or your bills?

Mr. Hamilton: I guess that is not properly covered in the measure. I think that is a vital criticism.

The Acting Chairman: I think that ought to be covered in some way. Now, in connection with that, we have heard a good deal in this Committee --- the older members -- of the danger of throwing too much upon the gold reserve, or upon gold as a basis of redemption or exchange. It is claimed that by reason of our keeping our money on a parity, ~~maintaining that~~ the silver can be exchanged for gold, that the

Treasury notes can be exchanged for gold, that the greenbacks can be exchanged for gold, that national bank notes as now issued and in circulation *by one step* can be exchanged for gold. If there has been a danger up to this time, and you throw an extra burden of two or three hundred millions upon that same fund, are you not making that gold basis a little dangerous for the purpose of keeping all kinds of money at a parity; and as a matter of fact *with* ~~is not~~ your kind of currency as well as the Aldrich currency, ~~to the extent~~ that you issue this currency, do you not to ~~that~~ *the* extent burden our present gold as an agent for the redemption of other money?

Mr. Hamilton: I should think it would.

The Acting Chairman: Is there not a danger growing out of the whole scheme and plan of this kind of currency; and if it is not a danger tell why it is not.

Mr. McKinney: Mr. Chairman, it seems to me that the whole tenor of this bill is against that. It states in what way the notes issued can be ~~in~~ redeemed. In a former bill it was stated that they must be redeemed by the deposit of gold.

Acting
The Chairman: That is the new Fowler bill, so-called.

Mr. McKinney: Yes. In this bill it ~~markman~~ can be redeemed by depositing lawful money.

The Acting Chairman: No, it leaves it in the discretion of the Secretary of the Treasury.

Mr. McKinney: It does afterward, back here.

The Acting Chairman: That is when you retire it; but *I refer to* ~~this is~~ the current redemption of the notes.

Mr. McKinney: It seems to me there should be a different statement here, though, that it should be in lawful money, to make it harmonious with the other provisions of the bill.

Mr. Hamilton.

~~The Witness:~~ I think it would be better to amend it to that extent.

The Acting Chairman: What have you to say to ^{the} ~~that~~ objection ~~that~~ I make? We will have to meet that in the House, no matter what the proposition is, I am frank to say.

Mr. Hamilton: I think it would throw an additional burden on the gold reserve of the country. However, you must take into consideration the fact that these notes will generally be issued when there is a withdrawal of the deposits and the same legal reserve would apply, one for the other. If three-fifths of the ^{bank} country banks reserve is carried with the reserve city then it is up to that reserve agent to redeem those notes in whatever kind of money may be demanded. The idea that prevails that this note issue would enable banks to loan money, I think is an erroneous one, to a certain extent. For illustration, if a man came into a bank and wanted to borrow \$1,000 and demanded the currency for it, before the bank could make that loan it is necessary for ^{it} ~~them~~ to have equivalent to really twenty-five per cent of the amount, even in a country bank, in legal reserve money. In other words, the money that is required for redemption, for the guaranty fund and the fifteen per cent reserve, is equivalent to twenty-five per cent of the capital, and it would necessitate ^{the bank} ~~them~~ to have \$200 in legal reserve money before ^{it} ~~they~~ could make a loan of \$1,000 in credit notes. So that I do not believe this measure will tend to encourage banks to

loan their money for the sake of getting out the circulation; ~~but~~ I think the banks will issue it when there is a heavy withdrawal, and actual bills are required, and they can use the same reserve against the note that they now use against their deposits, and protect the reserve of the country in that manner. Of course ~~this~~ section 8 leaves ~~it~~ a good deal ~~to~~ the plan of completing the organization, and how it shall be controlled, to the Comptroller of the Currency, you will notice. ^{It says} ~~That~~, "he shall require such bank to make arrangements satisfactory to him for the current daily redemption of such notes in every redemption city so designated."

The Acting Chairman: Well, in a government of parties, where one stays a while and then another comes in, ^{when} and the currency question is involved in our politics so closely, would it not be better to leave it under the control of Congress to state just what should be the kind of money to redeem it in, rather than to leave it to one man, who may have one opinion now, and ^{whose} ~~his~~ successor may have another opinion --- which ~~this~~ we find is often the case?

Mr. Hamilton: Of course the more clearly you define anything of that kind the better the bill is.

The Acting Chairman: I just suggest that.

Mr. McKinney: Suppose you add at the close of section 8, where it goes on to state that the Comptroller shall require such bank to make arrangements satisfactory to him for the current daily redemption of such notes in every redemption city so designated, "in lawful money of the United States"?

The Acting Chairman: Well, that would put it where you would know what it was.

Mr. McCreary: How would that affect those emergency notes, Mr. Hamilton? They could be paid in kind, could they not?

Mr. Hamilton: I think they should be paid in kind.

Mr. McCreary: Are they not ^{intended} ~~considered~~ to be what we consider lawful money?

Mr. Hamilton: Yes.

Mr. McKinney: These notes are lawful money when you want to pay off some other bank.

Mr. Hamilton: You see that the bank note in section 9 of the bill is given the same powers identically as the present national bank note.

Mr. Gillespie: The bank note is not lawful money.

Mr. McCreary: There is where you get the confusion. We should put in there "or notes in kind."

Mr. Hamilton: It might be better to add that.

Mr. McCreary: And then you have it "lawful money or notes in kind", and if they have an exchange in favor ^{there} ~~of that,~~ they would send back the notes in payment.

Mr. McKinney: Lawful money of the United States, or notes in kind?

Mr. McCreary: Lawful money, or notes in kind. It does not ~~mean~~ ^{need} the words of the United States."

Mr. Gillespie: Here is a definition of what lawful money is. The term "lawful money" is understood to apply to every form of money endowed by law with legal tender qualities. This is not lawful money. It could not be redeemed in itself.

Mr. McCreary: But if you get "notes in kind" in there,

would that not be true?

Mr. Hamilton: You do not want this kind of a condition; that if I receive notes of your bank you could pay me in notes of some other man's bank.

Mr. McCreary: No; but if you send ^{me} these emergency notes for payment, I can pay you in our notes ^{and} ~~ex~~ get rid of them in that way.

Mr. Hamilton: I do not think that would be safe.

Mr. McKinney: In case you are going to redeem your notes, and liquidate or go out of business, this requires a deposit of lawful money of the United States. Why would not another provision that these be redeemed in lawful money be in line with that final provision?

Mr. Weems: ^{They} ~~It~~ would not be retired at all, if you redeemed them in national bank notes.

Mr. McKinney: If they were redeemed in lawful money it would be all right.

Mr. Gillespie: It seems to me it would strengthen your bill to put it "redeemable in gold."

Mr. Hamilton: The Committee, you understand, are not entirely hide-bound to this measure. Any amendment that will strengthen it we would be glad to have.

Mr. Gillespie: The people do not call for the gold, but if they know it is there it strengthens the bill in the popular estimation.

Mr. McKinney: But what is the practical difference? With lawful money, if you define it as being only Treasury notes ---

Mr. Gillespie: Then the Government will have to furnish the gold to retire the lawful money; but in this case the bank

will have to furnish the gold.

Mr. McKinney: The lawful money is good for gold, if you want to get it.

Mr. Gillespie: But the Government has to furnish it. This would require the banks themselves to furnish the gold with which to redeem this currency.

The Acting Chairman: Let me read you what Mr. Fowler says in his new bill, in connection with this. He describes the note in these words: "National bank guaranteed credit note. Will be redeemed upon demand over its own counter by the ----- National Bank in gold coin or its equivalent. The payment of this note is guaranteed by the fund deposited with the treasurer of the United States." It is the only one, as I now recall, of the bills under discussion which really redeems the notes. In the others, there is a burden back upon the Government to furnish the gold to redeem the notes, and if the Government has not the gold it then has to exercise its power under the law to sell bonds to get the gold with which to redeem these notes. The question is, is that a wise measure, with that in the bill. Would it not be better to throw the burden of redeeming this currency upon the bank itself, because it issues it only when there is a necessity for it, and if the necessity arises for the issuing of it the bank should provide itself with means to redeem the money in the case of stress or emergency, rather than to throw the extra burden upon the Government in time of stress or emergency to ^{furnish} meet extra gold with which to meet these.

Mr. Hamilton: The bill of last year, you know, did

require the redemption of the notes under section 12, in gold.

The Acting Chairman: I was just looking that up.

Mr. Hamilton: I have it here: "That any national banking association desiring to retire its national bank guaranteed credit notes or go into liquidation shall pay into the guaranty fund an amount of gold coin equal to the amount of its national bank guaranteed credit notes then outstanding."

Now, sections ten and eleven apply to any case of a failed bank. ~~In the~~ ~~the~~ McKinney bill, the one you have before you, we make these notes a first lien on the assets of the banking institution. Last year the bill provided, ~~that~~ ^{"that} the holder of any national bank guaranteed credit note shall be a general creditor of the National Banking Association issuing it." That is section ten. This year it reads, "That the holder of any national bank guaranteed credit note shall have a prior lien on the assets of the National Banking Association issuing it and on the statutory liability of shareholders."

The Acting Chairman: Why did you make that change?

Mr. Hamilton: We made the change on account of the criticism that arose in the minds of the people as to the security of these notes. I am frank to confess that the criticism was about equal between the national bankers themselves and those not in the national banking system. They seemed to think your section was not broad enough. I myself was one of those ~~that was~~ opposed to ~~the~~ making ~~of~~ such notes a first lien upon the assets of the national bank, believing that it would discredit the institution issuing it.

However, there seems to be a demand on the part of the public for greater security, if possible, ^{for} ~~to~~ the note issued. I believe that this provision is better for the banks of the country, and involves the same principle, practically, as it would to designate certain securities, and deposit those securities for an emergency circulation. It makes no difference whether you put up any class of bonds or security and require twenty-five per cent in excess of the amount of such securities ~~and deposits~~ ^{deposited} when it comes to the adjustment of the affairs of a failed national bank. If a bank should fail and be put into the hands of a receiver, the first step that will naturally be taken is to take from the assets of the institution and redeem its pledged securities. I can see no necessity for pledging the special securities for that purpose, and I believe that this section places the note holder in just as strong a position, if not a stronger one, than ~~it would~~ to have certain securities deposited with the Treasury Department. ^{of} ~~From~~ the measures I have seen I do not recall any of them that has a provision that such securities shall be the only security for the note issued, and like the present bond-secured notes I take it they would be a first lien on the assets of the institution, if the government failed to realize enough money from the sale of those securities to redeem the outstanding notes. Consequently, I think this provision is fully as safe, if not ^{safer} ~~safer~~, than anything that has been proposed.

Mr. McKinney: That is, ~~you are making a comparison as~~ ^{as} to the safety of this issue, ^{you are} comparing it with the notes under the Aldrich bill.

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Mr. Hamilton: I ^{do} ~~did~~ not make any particular reference to any measure. I am simply speaking of the segregating of special securities as security for bank notes.

Mr. McKinney: That was contemplated under the Aldrich bill, as we understand it.

Mr. Hamilton: Yes, that is what he contemplated ~~there~~ there. I believe that this provision ^{places} ~~makes~~ it within the ^{of the banks,} power, without any embarrassment to the institutions, to issue these notes without being compelled to go in the market and buy certain designated securities, or perhaps lease them out on a rental basis, ~~you know~~. And besides, even in times of ~~an~~ emergency, you are not depriving your customers of the help that rightfully belongs to them in order to go into the market and buy securities to be deposited.

~~Mr. McKinney:~~ Now, section 12 is as to ~~retirement~~, the manner in which these notes may be retired. It says that it shall be done by the deposit of lawful money.

Section 13 is the provision that in case a national bank has out the full limit of circulation under the present law, ^{it} ~~they~~ may retire it down to 62 1/2 per cent of their capital, or the amount contemplated in this act as the minimum amount of bond-secured circulation, without reference to the present law of \$9,000,000 per month.

Now, in connection with this measure, I wish to give you some figures as to how this bill would have worked had it been in operation during the past crisis. It would have given to ^{the} central reserve cities of New York, Chicago and St. Louis, based upon the capital shown by the September report of the Comptroller of the Currency, sixty millions of credit

note issue. It would have given forty millions of the low taxed notes, and twenty millions of the five per cent notes. It would have given to the other reserve cities, not central reserve cities, \$52,729,000 of low taxed notes, and \$26,364,000 of five per cent notes. It would have given to the 6178 country banks, or the banks required to carry a fifteen per cent reserve, \$131,000,000 low taxed notes, and \$65,000,000 of five per cent notes. It would have given to all the national banks of the country \$224,000,000 of the low taxed notes, and \$112,000,000 of five per cent notes. It would have given to the country banks \$196,576,000 of both kinds ~~sum~~ of credit notes, to have met the conditions that arose; or it would have given to all the national banks \$336,169,000.

I also have the figures here showing what it would give to each State. Of course you do not care to have that read, -- and to each reserve city.

Mr. Hayes: I would like to have the figures, myself.

Mr. Hamilton: Do you mean in any particular state?

Mr. Hayes: California.

Mr. Hamilton: California, it would give \$11,173,843;

Mr. Hayes: And New York City?

Mr. Hamilton: New York City, it would have given ~~\$11,173,843~~ \$42,967,000. It would have given Chicago \$10,368,000. Now, as to the clearing house certificates, there is a good illustration of the credit currency proposition, in a way. Chicago authorized, I think, ~~it was~~ an issue of fourteen millions. They put out something over eleven million. This bill would have provided for \$10,368,000 that they might have issued., so it was pretty close to what they did

do.

Mr. McCreary: What would Philadelphia have given, in Pennsylvania?

Mr. Hamilton: Philadelphia?

Mr. McCreary: Yes.

Mr. Hamilton: \$8,359,000. Pittsburg would have given \$10,912,000.

Mr. McKinney: They issued largely more than that of clearing house certificates?

Mr. Hamilton: Yes.

Mr. McCreary: What would the bill have given them?

Mr. Hamilton: This is what the bill would have given them.

Mr. McCreary. Oh, I thought that was the clearing house certificates that you referred to.

Mr. McHenry: Do you know how much the clearing house certificates of Pittsburg and Philadelphia amounted to?

Mr. Hamilton: I have not those figures.

~~Mr. McHenry:~~ The State of Pennsylvania could have issued \$42,162,000 in credit notes. I have the figures here for all the states, giving the number of banks, and the amount that should be issued, and also the reserve cities.

Mr. Hayes: Have you copies of that?

Mr. Hamilton: I can furnish copies of all these figures.

Mr. Gillespie: That can be printed with your remarks.

Mr. Hamilton: Yes.

Mr. Hayes: Yes; we want those.

(The statement above referred to will be found at the end of Mr. Hamilton's remarks.)

Mr. Hamilton: Now, applying these figures to banks of different characters. The criticism has been frequently raised as to the advisability of permitting the small institutions to issue these notes, in comparison with the city institutions, ~~and~~ the safety of it, etc. Another ~~unsubstantiated~~ criticism has been made that people might go into this system ~~for the purpose of note issue, for~~ ^{because of} the note-issuing privileges. Those criticisms really amount to nothing. The figures will not bear them out. For instance, you take a bank with a capital of \$25,000, which is the minimum amount. They could issue \$9,375. That is the total amount that an ~~institution~~ institution of that kind can issue under this measure. A bank with a capital of \$50,000 can issue a total of \$18,750. A bank with a capital of \$100,000 can issue \$37,500. Now, I make ^{the} ~~this~~ claim for this bill, that there is abundant security back of it to satisfy anyone if ~~they will carefully consider it.~~ ^{it is considered} Under our present bank law a national bank with a capital of \$100,000 can take out ~~it~~ \$100,000 in note issue, and all that is required of them, is to deposit [^] five per cent redemption fund with the Treasury Department, or \$100,000 in bonds, and \$5,000 in cash.

Mr. Gillespie: And that is a part of their reserve.

Mr. Hamilton: And that is a part of their reserve.

Under the plan we have proposed, before credit notes can be issued a bank must have a fully paid-up capital, must have been in business a year, and must have acquired a surplus equal to twenty per cent of ^{its} ~~the~~ capital. In other words, we are virtually increasing the capital of the institution twenty per cent before ^{it} ~~they~~ can have this note-issuing privilege.

Mr. McKinney: In selecting that twenty per cent, is the that based on a provision that now prevails that no national bank can pay dividends on its stock until it has accumulated a reserve of twenty per cent?

Mr. Hamilton: Well, we provided that without reference to the present law.

Mr. McCreary: That is the requirement, you know.

Mr. Hamilton: We made that provision without reference to that. That was done to prevent anyone from going into the business for the purpose of note issuing.

Mr. Gillespie: Would that twenty per cent provision cut out many banks in the south and west?

Mr. Hamilton: I think not. I think it would cut out very few. I have no means of knowing ^{how} ~~what~~ that would be, without a good deal of work. They must have been in ~~business~~ business a year under this measure.

The Acting Chairman: I would like to ask one question. Do you know how much gold was imported into this country? I am trying to find it here, but it is all mixed up.

Mr. Hayes: \$110,000,000. You mean during the panic?

The Acting Chairman: Yes.

Mr. Hayes: One hundred and ten million.

The Acting Chairman: Now, do you know how much bank note circulation, ^{the} based upon bonds was increased during that time?

Mr. Hamilton: I have not any means of knowing exactly, but the bank note issue of September was \$551,949,000.

Mr. Crawford: The export of gold was considerable.

Mr. Hamilton: And the note issue ~~of December 83,~~ as

shown by the report of December 23, was \$601,805,985.

Mr. Hayes: About six hundred million before ---

Mr. Hamilton: It was \$551,949,000 in September, and \$601,805,000 in December.

Mr. McKinney: An increase of \$50,000,000.

Mr. Hayes: No, over \$100,000,000.

Mr. McKinney: No; fifty million.

Mr. Hamilton: The report for September gives it as \$551,949,461. You can take that last report, and figure it very readily.

Mr. Hayes: What was the figure given in the report of December 23?

Mr. Hamilton: \$601,000,000.

Mr. Hayes: Oh, yes, it is \$50,000,000.

Mr. Hamilton: It was about \$50,000,000 at that time. I presume it is greater now.

The Acting Chairman: What I was getting at was to see the how much volume had been added to by gold importation, and by the increase of circulation based upon bonds.

Mr. Hayes: There was some gold exportation, though, I suppose.

Mr. McKinney: Yes; I suppose so.

Mr. Hamilton: These are the only figures I have on the subject.

The Acting Chairman: Mr. Hill has just suggested to me that, based upon the bond-secured circulation, and gold imports during the financial trouble, the amount will be a trifle short of \$200,000,000.

Mr. Hill: And the national bank circulation outstanding

on the first day of January was \$690,000,000.

Mr. Hamilton: That makes it \$140,000,000.

The Acting Chairman: And taking it on the first of February you will find it more than that, I think.

Mr. Hill: I think not.

Mr. Hamilton: That is an increase of approximately \$140,000,000 in the national bank circulation.

The Acting Chairman: Do you mean on top of your one hundred and ten millions of gold?

Mr. Hamilton: Yes.

The Acting Chairman: No; if there were \$110,000,000 of gold ---

Mr. Hamilton: That last statement the gentleman ^(Mr. Hill) presented there shows it to be about ^{\$140,000,000} ~~\$120,000,000~~ more. He said \$690,000,000.

The Acting Chairman: That is based upon the bank circulation. That is the bank circulation. That is not the gold importation at all.

Mr. Hill: It had nothing to do with it at all.

Mr. Hamilton: But that is an increase of \$140,000,000.

Mr. Hayes: That is \$140,000,000. That is extraordinary.

The Acting Chairman: Of course you mean, if there had been \$336,000,000 issued in that time?

Mr. Hamilton: Yes; it would have prevented this condition.

The Acting Chairman: And not wait until a ^{later} ~~late~~ time.

Mr. Hamilton: Yes. The security back of the notes issued, if our plan was a law, would be as follows. Taking a bank with a capital of \$100,000 as the basis to figure upon, they would have \$62,500 in bond-secured notes, or in govern-

ment bonds. They would have a five per cent redemption fund with the Treasury Department, amounting to \$3,125; a five per cent redemption fund credit notes, and a five per cent guarantee fund credit note, each amounting to \$1,875; *the* a legal reserve fund required to be carried would be \$5,625; you have 37 1/2 per cent of capital of the institution that is not invested in government bonds, but ~~am~~ is a general asset of the banking institution, which strengthens the asset of your bank to that extent; you have also the twenty per cent of surplus required, which would increase the assets \$20,000 in that connection. I take it that we have every right to consider this portion of the capital and this surplus as that much additional security in comparing the present banking law with the one we contemplate. In other words, that would give us \$132,500 in securities to meet \$105,000 in obligations.

Now, as to the security back of the smaller banking institutions, the country banking institutions, I have made special inquiry as to the country banks, and I find that the average responsibility of the stockholders of ~~the~~ banks with capital of \$25,000, is upwards of \$350,000, and that they own, generally speaking, in real estate, on an average of 3300 acres to each institution.

Mr. Weeks: How did you get at that information?

Mr. Hamilton: I sent a special letter to the banks individually, and had them fill it out.

Mr. Weeks: In Illinois, do you mean?

Mr. Hamilton: I sent it all over the United States.

Mr. Cox: These tables Mr. Hamilton prepared, himself,

certainly three months ago.

Mr. Pujo: How did they get that real estate?

Mr. Hamilton: I simply sent a circular letter to these banks asking them to furnish me with that information in a general way.

Mr. Pujo: The average bank you say owned how much?

Mr. Hamilton: 3300 acres.

Mr. Pujo: ^{Each} ~~Each~~ of the country banks?

Mr. Hamilton: Each of the ~~banks~~ country banks ^{with} \$25,000 capital. That is, on an average. Some would go ahead of it, but very few under it.

Mr. Pujo: They show, then, evidently bad loans, because they are only permitted to acquire real estate in connection with a bad loan.

Mr. Hamilton: Do not misunderstand me. This is ^{is} simply the real estate owned by the individual stockholders, in order to get at the responsibility of the institution and the security to the note-holder, in continued liability.

Mr. Pujo: Did they furnish you with the legal exemptions of each stockholder in those banks, under the homestead laws of his State, as to whether or not this real estate was part of his homestead?

Mr. Hamilton: Oh, no. It was simply general information that they furnished me in that connection.

Mr. Weeks: Did you ask whether that real estate was encumbered or not?

Mr. Hamilton: I asked them what the individual responsibility of their stockholders was above liability, and that is how we get the figure of upwards of \$350,000 to the institution.

Mr. Pujo: Your bill contemplates a guaranteeing of deposits?

Mr. Hamilton: No, it does not.

Mr. Pujo: Do you believe in guaranteed deposits?

Mr. Hamilton: I do not.

Mr. Hayes: Will you tell us why, briefly?

Mr. Hamilton: My objection to the guaranteeing of deposits is that I believe the banking system of this country should encourage the building up of ^{the} capital and surplus of your institutions. The guaranteeing of deposits would incline the management of the institutions to keep their capital at the minimum required in the different cities.

Mr. Hayes: And pay out all their surplus in dividends?

Mr. Hamilton: And pay out their surplus in dividends.

Mr. Pujo: That would be an advantage to the people, to get their money back to ~~use~~ spend.

Mr. Hamilton: Well, they get it in the way of loans.

Mr. Gillespie: Yesterday I heard a gentleman of a great deal of prominence make another answer to that argument. He said that he did not think that the capitalization of banks should be reduced, because the ^{big} heavy banks had heavy customers, and under the ten per cent limitation of loans to one customer, they would have to have a heavy capitalization.

Mr. Hamilton: That throws an additional burden on those larger institutions ^{in the way} of ~~the~~ responsibility ^{for} of the weaker or irresponsible parties, and it encourages every man in that particular class of banking to go out and advertise for

accounts, etc.; and he can, even though the public may know the institution is shady, and the management of the institution is shady, yet he can ~~fall back on the reputation~~ and say: "Here, our institution is just as good as the biggest institution in a commercial center, because the government is back of all our deposits."

Mr. Pujo: I would like to go just a step farther for my own information, and possibly for that of some members of the Committee, on this question of the Government guarantee. It is being advocated by both republicans and democrats now, and if any such matter might ever come to be a partisan matter---

Mr. Weeks: You mean by some republicans and some democrats.

Mr. Pujo: Well, some of both, but not all. If the Government were to guarantee the deposits by any scheme that might be devised and enacted into law, would it not have a tendency to have all depositors of savings banks, and trust companies, ~~and~~ ^{and} in State banks, transfer their deposits to the national banks, unless similar protection were afforded ~~to~~ ⁱⁿ the various State institutions that I have mentioned?

Mr. Hamilton: I do not look upon that with the alarm that most people do, in that connection. Now, I am not a national banker, myself. I am a State banker, ^{and} a private banker, and I think that well established State institutions ^{and} er a well-established banks of any kind will hold ^{while} There will be perhaps some withdrawals, ~~but they~~ will hold the bulk of their business; and it would lead to this, in my mind: That the State institutions, perhaps, might have to offer a little

extra inducement, or something of that kind, equivalent to what would be required of the national institutions, to establish this guaranty fund; and they would do it, saying to their customers, "You have known us for years, etc., and we prefer to give you the benefit of this rather than the Federal Government."

Mr. Pujo: Assuming now that such a plan should be enacted into law, and that the State legislatures would enact legislation similar to that enacted by the national government affording every protection as to guaranty, inspection and other methods of supervision of the affairs of the bank; Do you not believe that the average man would prefer to have the guarantee of the United States Government behind his deposit, ^{rather} than that of a State?

Mr. Hamilton: Well, that would ~~be~~ simply be a guess on the part of the party answering.

Mr. Pujo: Is it not socialism to have the Government protect anybody's deposit, either State or National, in banks?

Mr. Hamilton: I do not think it is good policy.

Mr. Pujo: Is it not socialism, or centralization?

Mr. McCleary: ~~Paternalism.~~ Paternalism.

Mr. Pujo: Yes, socialism or paternalism?

Mr. McKinney: If you ^{give} ask that protection ^{to} for the depositor, why can you not equally well permit the banks to go to the Government to guarantee the loans they make?

Mr. Hayes: Or the merchant, to guarantee his accounts, his bills.

Mr. McKinney: Yes.

Mr. Weeks: I would like to ask one question in connection with that. Do you think that the record of bank failures up to this time would be any guide to further bank failures in the future, if such a policy were adopted?

Mr. Hamilton: Do you mean ^{as to} the guaranteeing of deposits?

Mr. Weeks: Yes.

Mr. Hamilton: I do not think you could base it upon that at all, because I have an idea that this would lead a great many into offering inducements, etc., and the competition would lead them into unsafe banking.

Mr. Weeks: You think it would increase the number of bank failures, do you?

Mr. Hamilton: I ~~am~~ think it would have a tendency to do that. That would be my opinion.

Mr. McKinney: ~~Would it not naturally follow that under~~ ^{under} a system where all bank deposits were guaranteed by the Government, or guaranteed by the united banks ~~AAA under~~ ~~either system,~~ would it not lead to some method of competition between the individual banks through which the bank that offered the greatest inducement would naturally get ^{greater} the ~~greatest~~ amount of business?

Mr. Hamilton: I think it would, and I think that is wherein the danger lies. ^{that one set of} bankers would adopt a policy that conservative institutions would not adopt.

Mr. McKinney: And that would be the bank that would secure the business, because all the banks ^{would be} ~~are~~ behind it.

Mr. Hamilton: All the banks would be behind it, and they would use that leverage to get business.

Mr. Hayes: And they would get it, too.

Mr. McHenry: Are you in favor of postal savings banks?

Mr. Hamilton: I am not in favor of postal savings banks, so far as any bill that has been brought to my attention is concerned.

Mr. Gillespie: With the government paying two per cent on deposits?

Mr. Hamilton: It is not the question of paying two per cent on deposits that I object to, but it is the principle involved in those measures, where it ^{is provided} ~~provides~~ that all such deposits ~~may~~ made with postal savings banks are not subject to any legal process, and are not subject to taxation. That is a very dangerous feature for the country, and it would, in the smaller institutions where there is a tendency in localities to escape taxation, take a large per cent of business away from those institutions. That is the principal objection to the measures that have come to my notice. Of course the investment of the funds in ^{the bonds} of municipalities of 20,000 and upwards, and things of that kind, are objectionable to the smaller places; but the great ^{that I see} danger in the postal savings bank measures ~~that I have seen~~, is along the lines I have stated--- that is, ^{so} ~~as~~ far as the bills that have come to my notice are concerned.

Mr. ~~Mr~~ Hayes: You are familiar with the general character of what is called the Aldrich bill, I suppose. What do you think about the bond-secured circulation provided for by that? ~~We have discussed it, but not here.~~

Mr. Hamilton: The difficulty in answering your question

in that connection is that I do not know which edition you refer to. You see they are getting out a new amendment every day, almost. The original bill ~~was~~ I was very much opposed to, and I guess you all received a circular letter from me, if you ^{take} ~~took~~ occasion to look it up; ~~and that~~ ^{My} objection was that ^{there are} ~~it limited to a~~ comparatively few cities in proportion to the number in the United States, that ^{have} ~~had~~ bonds that ^{are} ~~were~~ acceptable for that purpose; and I believe that 232, or something of that kind -- I know it was twelve in the State of Illinois ---

~~Mr. Hamilton:~~ The Acting Chairman: Senator Aldrich has reported, on January ~~the~~ 30th, 1908, the bill with an amendment. Perhaps you have not seen it.

Mr. Hamilton: I have not seen that bill. I do not want to criticize that bill, for I do not know anything about it.

Mr. Hayes: Let me ask you this question, in a little different way, because I would like to get your opinion on it. Suppose all those requirements were wiped away; what then would you say in regard to it? I mean to say, suppose all municipalities without reference to their size, school districts, and everything, could be accepted for circulation, provided they had not ~~you~~ defaulted in the interest.

Mr. Hamilton: I think there should be some additional requirement in excess of that. For instance, there should be a limit to the bonded indebtedness in proportion to the valuation of the communities, etc. There should be something of that kind.

Mr. Hayes: Even with that, what would you say about that sort of currency?

Mr. Hamilton: You mean as to whether it would be effective or not?

Mr. Hayes: Yes.

Mr. Hamilton: I do not believe that the Aldrich bill, or a bill along the line that it contemplates, would be the means of preventing panics. I believe it would give us a good, safe, secure currency that could circulate, but I think that under any provision that I have seen of it yet, it would be too lengthy and cumbersome to do much good, before the patient would be in a helpless condition.

Mr. Hayes: In other words, you think the house would be burned before you could get the fire engine out?

Mr. Hamilton: Yes.

Mr. Glass: Right on that point, do you think the Aldrich bill, even in a time of emergency, would afford any great amount of relief to the banks of the south and the west? In other words, are not most of the banks in the south and west, and interior banks, up to their limit on circulation now? Are not all the small banks up to their limit on circulation?

Mr. Hamilton: I think not, all of them; but of course the reports of the Comptroller show that up to the beginning of this trouble they had about sixty per cent.

Mr. Glass: All the banks?

Mr. Hamilton: Yes, outstanding.

Mr. Glass: But I mean the banks of the south and the west.

Mr. Hamilton: ~~But~~ as to the smaller institutions I could not tell you what the figure is, because I do not know.

But we have provided in this measure ~~that~~ we are presenting here that they can reduce the circulation down to 62 1/2 per cent of their capital, and avail themselves of this emergency issue, if they wish to do so.

Mr. Weems: Here is something that I would like to know about the Aldrich bill. Suppose you could operate under it in five minutes, and you had a currency famine in ^{bank} banking, and you could not borrow securities, and had to buy them. How would it relieve the currency famine, as far as that bank is concerned?

Mr. Hamilton: Well, that bank of course would be as helpless under those conditions as ^{banks} they are under the present condition, ^{when they have} ~~in order~~ to secure government bonds to relieve themselves.

Mr. Hayes: It would take good money to do it.

Mr. Hamilton: Yes. I do not believe you can expect institutions to carry the class of securities to be put up.

Mr. Hayes: You could not expect them in the west to do it.

Mr. Weeks: Do you think they ought to do it, anyway? Do you think that is part of the business of a national bank, to buy, own and carry securities?

Mr. Hamilton: I think they ^{should} ~~could~~ be limited in what they do in that respect.

The Acting Chairman: In order to avail themselves, under the provisions of the Aldrich bill, to the full ~~maximum~~ extent, would they not have to purchase bonds of the kind mentioned in his bill, to the extent of \$500,000,000, before a panic had come upon the people?

Mr. Hamilton: To the extent of \$500,000,000; yes.

The Acting Chairman: Then to that extent, \$500,000,000 of the money of the bank^s is tied up, is it not?

Mr. Hamilton: Yes.

The Acting Chairman: Then when the trouble came, if they wanted to issue currency upon that \$500,000,000, they could only issue currency on part of it, to the extent of ~~the~~ 75 cents on the hundred; and one-fourth of that money would be tied up, ~~when~~ when it ought to be let loose?

Mr. Hamilton; Yes.

The Acting Chairman: And the balance of the money that was not tied up in that kind of security could only be issued to the extent of ninety per cent; so that in a time of stress they are worse off than they are in a time of prosperity.

Mr. Hamilton: Yes. The outline of the ^{that} ~~bill~~ I saw this morning, the Aldrich bill, provided that they ~~can~~ ^{could} issue 90 per cent instead of 75.

The Acting Chairman: 75 per cent on railway bonds.

Mr. Hamilton: The great trouble with the Aldrich measure, as I see it, is that for about 6,000 banks in the United States it would be practically useless.

Mr. Hayes: Or it would compel those banks to go to Wall Street and buy those securities.

Mr. Hamilton: ^{It would compel them to} Buy and carry those securities. They will not do that to protect themselves now in an emergency.

^{They will not carry} government bonds. If they had been available, and they had had the \$300,000,000 to ~~an~~ issue the additional circulation that they had margin to do, you would not need any emergency circulation.

Mr. McKinney: In order for a bank to be sure to be able to avail itself of the provisions of the Aldrich bill, would not that bank have to begin and, as it might be able to do so, acquire this class of securities

~~on hand~~ --- all these little local bonds ---
^{in order}
 and carry them as assets [^] to have them when suddenly the emergency would come up?

Mr. Hayes: Mr. Hamilton says they would not.

Mr. McKinney: Would it be wise for any ^{commercial} bank to load itself down with that sort of slow assets; ~~in a commercial bank?~~

Mr. Hamilton: I think not, for a country bank.

Mr. Glass: Do you know of a trunk line of railway in the south whose bonds would be made available for use under the Aldrich bill, which requires that ^{each railroad} they shall have for a period of ten years ^{its} paid interest on all of ~~their~~ capital stock ~~in each railroad on all of its capital stock?~~

Mr. Hamilton: I do not know of any railroad security, of course, in any section that could meet that requirement; but I presume there are such railroads. I have no means of knowing. That is information that I have not been able to get.

Mr. Pujo: That is to be corrected by amendment. Senator Daniels submitted an amendment on that, so as to protect the railroads in the south.

Mr. Hayes: If the Aldrich bill should become a law and a certain class of securities should be taken to the extent of \$500,000,000 for circulation, in your opinion would not that have the effect of giving a fictitious value

in the market to those securities?

Mr. Hamilton: It ^{would} ~~will~~ naturally strengthen the market for them.

Mr. Hayes: Would it not raise them in value ?

Mr. Hamilton: Well, I am rather of the opinion that it would, but the quantity of them may make some difference.

Mr. Hayes: It would certainly make a market in case of emergency, for that many bonds.

Mr. McCreary: A Government two per cent bond, without its value as carrying circulation, would not sell, ~~if it was a two per cent bond,~~ for more than eighty, would it?

Mr. Hamilton: I think not.

Mr. McCreary: 75. Now, if it raises a government bond, with the government back of it, from 75 to 104, or 108 1/2 or 109, as it did recently, on a two per cent basis, what would it not do under the same conditions with municipal bonds and railway bonds and such things as that, ^{on} ~~at~~ a four per cent basis? ^{It} ~~It~~ would give them a fictitious value, simply because they ^{carried with them} ~~had~~ the right of taking ^{out} ~~and having~~ circulation, ~~as a reason for having them.~~

Mr. Hamilton: I do not think it would inflate them in the same proportion, though, that it would inflate the government bond, for the reason that there would not be the contemplated use of ^{as great a} ~~the~~ number of them.

Mr. McCreary: Would ~~that~~ not the effect be, if there were more to be inflated, that the government at large would suffer more than under the government bond which is an assured thing; ^{by reason of} ~~rather than~~ taking a railroad bond which has a very changeable sort of value?

Mr. Hamilton: One of the difficulties in putting that measure into operation is that those securities are to be taken at a certain per cent of their market value. Now, what that market value might be in ordinary times, and what it might be in times of a panic, would make a whole lot of difference. Whether they have covered that in their bill or not I do not know.

Mr. McCreary: ^I Was it not a fact that in this late panic bonds of ~~real~~ good intrinsic value had not ~~in~~ any market value, comparatively speaking, and ~~there~~ ^{was not} one reason for desiring to help things out, ~~was~~ to increase the collateral value of those bonds because if they went beyond a certain point the collateral value of the bonds would be swept out, and the people of the country at large and ~~in~~ the banks would get into trouble?

Mr. Hamilton: Yes.

Mr. Hayes: How long have you been engaged in banking, Mr. Hamilton?

Mr. Hamilton: How long have I been engaged in banking?

Mr. Hayes: To put it a little more directly, does your knowledge and memory run back to the days in Illinois and Indiana when they had the red and yellow dog currency?

Mr. Hamilton: No, sir; I was born in 1862.

Mr. Hayes: But you may know in other ways in regard to it. I have seen various statements. That was a bond-secured circulation, was it not?

Mr. Hamilton: In some states, yes.

Mr. Hayes: Indiana and Illinois I speak of.

Mr. Hamilton: I think it was.

Mr. Hayes: But the weakness of it was that the banks did not have the gold to redeem it, as I remember it.

Mr. Hamilton: Yes.

Mr. Hayes: I have not looked at this bill as amended, but do you not think that the Aldrich bill has something of that weakness?

Mr. Hamilton: I cannot tell ^(c) I have not had a chance to read it carefully.

Mr. Hayes: It does not provide for five per cent or any other gold to redeem it.

Mr. Hamilton: I have not had a chance to read it carefully.

Mr. Hayes: Well, suppose it did not provide any fund to be put up by the government to redeem those notes in gold. Would not that be such a weakness as that in times of stress it would be likely not to circulate?

Mr. Hamilton: It might possibly discredit the notes. Of course if you have a five per cent guarantee up, it will strengthen the notes.

~~Mr. Hayes: What would make it redeemable by the government in gold?~~

~~Mr. Hamilton:~~ Your question suggests another ^{matter} to my mind, and that is this: There has been a demand that State institutions be permitted to issue circulating notes under some provision. I am a State banker, and vice president of such an institution, yet I do not believe that such a measure is a safe measure for this country to adopt, ^{I think} ~~and that~~ ^{conditions} it would tend to lead us back to those ~~cases~~ that formerly existed, ^{because of the} ~~for the reason of~~ a lack of uniformity of the differ-

ent State laws,—not on the ground that they are not safe, solvent and sound State institutions. They are just as safe and strong as the national institutions, but the diversity of laws would make it dangerous for such a measure to be enacted.

Mr. Pujo: Could not all this trouble ~~not~~ be obviated by ^{the} repeal of the limitation which permits ~~them~~ retirements up to \$9,000,000 a month; ^{or} that the national banks of this country could take out \$300,000,000 additional if they desired to prevent panics in the future, and pay ~~an~~ ^{the} impost or duty due the government thereon in actual circulation?

Mr. McKinney: The difficulty would be that they could not secure the bonds, would it not?

Mr. Pujo: I want him to answer this question, first. Could not all this trouble be obviated ~~by~~ if the authorized circulation be taken out, if the banks were willing to pay half of one per cent duty?

Mr. Hayes: And repeal the limitation?

Mr. Pujo: Repeal the limitation of \$9,000,000 a month, entirely.

Mr. Hamilton: It would tend to make the currency of the country more elastic, but there is a little danger about the retirement too rapidly of the bond secured circulation, which might work ~~disastrously~~ disastrously.

Mr. Pujo: Are you aware that it has been argued by the National banks of the country that the entire circulation was not taken out, primarily, because it was not sufficiently profitable, and secondly because they could not retire it when they had no more use for it?

Mr. Hamilton: Yes.

Would
 Mr. Pujc: ~~that~~ \$300,000,000 additional, to be
 a permanent addition to the circulating medium of this
 country, be sufficient to prevent the ordinarily recurring
 panics such as we have had?

~~Mr. Hayes: It is reduced to two, now.~~

Mr. Hamilton: I think that would be sufficient. The
 best illustration of that is from the report of the Secretary
 of the Treasury, just published. It says --- I have it here---
 that the total issue was \$296,125,469.

The Acting Chairman: That is the total issue at what
 time?

Mr. Hamilton: During this recent disturbance.

The Acting Chairman: How much?

Mr. Hamilton: ~~that~~ \$296,125,469.

Mr. Hayes: That is the circulation.

The Acting Chairman: I want the additional circulation,
 by national bank notes.

Mr. Hayes: It is \$140,000,000, in round numbers.
 The report says:

Mr. Hamilton: The amount of currency which disappeared
 from sight during this period, substantially, as can be
 ascertained from national bank reports and other sources of
 information, was about \$296,125,469, as follows: And then
 he gives the dates.

The Acting Chairman: That is the disappearance.

Mr. Hamilton: Yes.

The Acting Chairman: But how much was added?

Mr. Glass: There were but \$97,000,000, Mr. Hayes, as
 I understand it.

Mr. Hayes: No; \$140,000,000.

Mr. Glass: Of increase in National bank circulation.

The Acting Chairman: And there were one hundred and ten millions of gold.

Mr. Hayes: The last statement, issued on the first of January, shows \$140,000,000.

Mr. Pujo: Would it or would it not be practicable to require national banking associations to take out and put into circulation an amount equal to their capital stock, as well as a percentage of it, as we now require under the law?

Mr. Hamilton: You mean to force them to issue nine hundred ---

Mr. Pujo: To force them to issue an amount equal to their capital stock.

Mr. Hamilton: I do not believe that would be a good policy to be adopted, for the reason that you have immediately caused an inflation of that much money or notes into our currency system, and an inflation to any extent is as dangerous as the other.

Mr. Pujo: Why would that be an inflation, if they were secured by a government bond^s and ~~within~~^{even} their capitalization, when the issue of a credit secured note by a bond is not an inflation, when we ~~get~~^{need} two hundred and fifty million or three hundred million more dollars to meet the business of the country?

Mr. Hamilton: If you compel the issue of it you compel an inflation, if you issue on the credit. ^{In} Note issuing, for instance, as we have proposed it, ^{it} is optional with the institutions as to whether or not there is that inflation, and such an inflation would only be in proportion to the

demands of the actual business necessities of the country.

Mr. McCreary: Right on that line, I would like to read this:

"On December 3rd, 1907, a prominent Bank in New York City had deposits of government money to the amount of \$4,225,000.

" The same Bank at the same date had an outstanding circulation of \$ 139,000.

" The ability of said Bank to take out circulation amounted to \$3,000,000.

' On December 3rd, 1907, a prominent bank in Philadelphia had Government deposits of 200,000.

" At the same date it had National Bank notes outstanding 1,000,000

" Its ability to take out circulation amounted to 1,000,000.

" From a study of these figures it will be seen that the distribution of Government moneys as between these two banks was not only grossly unjust, but that it had no relation whatever to the circulation taken out, which might be supposed to be a prime consideration moving the Government in the deposit of its funds. Certainly the official utterances from Washington during the past two months have been fraught with advice and exhortation to the banks to take out circulation. So much for rhetoric - but the practical application of this advice would seem to have been quite in an opposite direction.

~~20.~~ "When it was recently proposed to issue additional circulation under extremely favorable conditions of profit to the banks, only those banks which had not done their full duty in taking out circulation up to the legal limit were

able to avail themselves of the opportunity. Here again there has been the clearest inducement created that in the future National institutions shall keep their quota unfilled until conditions force the Government to offer a premium for the performance of a plain duty to the community."

Mr. Glass: That is absolutely true, too. It came under my personal observation.

Mr. Hayes: Mr. Hamilton, I want to ask you ~~this~~ and perhaps you will regard it as a remarkable question --- what you would think of a proposition of this kind: To permit national banks to take out circulation in times of stress, under a high tax, without putting up bonds or any additional security other than to make the note the first lien on the assets of the bank, something after the manner they do in Germany?

Mr. Hamilton: I would want to see your bill drafted before answering that.

Mr. Hayes: You see what my thought is?

Mr. Hamilton: Yes. I doubt whether it would be advisable or not. It would depend on the draft of the bill.

Mr. Hayes: Do you think ~~that~~ such a bill could be prepared that it would be safe and proper and all right?

Mr. Hamilton: Of course I would hardly know how to answer that question. There should be some reserve, I think, carried against the note.

Mr. Hayes: Suppose that reserve were just as you have suggested, that any bank that has twenty per cent reserve fund might issue up to twenty per cent of its capital stock, by paying a six per cent tax on it, in times of stress, without putting up anything.

Mr. Hamilton: And no additional legal reserve required to meet it?

Mr. Hayes: Keep a legal reserve, of course, but not put up anything else with the Government.

Mr. Hamilton: That is a good deal along the same line that is the basis of our measure, with the exception that you go beyond the capital, and we try to confine it to the capital of the institutions.

Mr. Hayes: I mean a currency that could be taken out without putting up a fund or doing anything except to pay the tax to the government while it is out.

Mr. Hamilton: Who would determine the necessity of issuing it?

Mr. Hayes: Let the bank determine it, if ^{it} ~~they~~ wanted to pay the tax.

Mr. Hamilton. Well, if a bank issued that circulation in excess of its capital, and had its full quota of circulation outstanding, that bank would immediately become discredited for so doing.

Mr. Hayes: Why would it, any more than it would under the Aldrich bill?

Mr. Hamilton: The Aldrich bill will discredit the bank issuing it on account of the high tax.

Mr. Hayes: Then why would it any more than your bill, if the currency was different in form from the present bank currency.

Mr. Hamilton: Because we are limiting ours to the amount of the capital. We expect a limited amount of the currency to be constantly in circulation, and the public will

become familiar with it, as it is now familiar with the bond-secured bank notes.

■ Mr. Hayes: Yes; but if there was a twenty per cent reserve behind these ~~twenty per cent~~ twenty per cent notes, and the reserve, ^{was} like every other obligation of the bank, and the notes were issued just like our present national bank circulation, the public would not know whether it was in excess of the capital or not.

Mr. Hamilton: It is bound to show in any statement made by the banking institution.

Mr. Hayes: Oh, yes; it would show in the statement; that is true.

Mr. Hamilton: And the public would become aware of it.
~~If you took a reserve city~~

If you took a reserve city, that would show in the weekly statement, and the institution would instantly be come discredited?

Mr. Hayes. Well, the other would show, too. Your circulation would show.

Mr. Hamilton. Our circulation would show, but the low tax prevents the discrediting of the institution. A high tax discredits the bank of issue. You are requiring an additional twenty per cent there, to the amount of issue, and it is the additional twenty per cent of security in some form or other that increases your rate of tax one-fifth.

Mr. Hayes. Could it be avoided in this way? Leave it with the ~~Controller~~^{Comptroller} of the Currency in the Treasury, to say whether the banks be permitted to issue them or not, as a condition for not making the tax so high. Would that change the situation any?

Mr. Hamilton. When you come to that feature, I think you are putting a tremendous responsibility on that Department, in the constant demands from all over the country where rates of interest are high, and so forth, for the privilege of this emergency circulation.

Mr. Hayes. That is true.

Mr. Hamilton. In other words, you are putting them into the banking business.

Mr. Hayes. How is that?

Mr. Hamilton. You are putting that Department into the banking business.

Mr. Hayes. It is there now, so far as that is concerned.

Mr. McHenry. Would it not be just as profitable for a

national bank to take out this currency ~~and~~ ~~it~~
 at 2-1/2 per cent, as it is for it to receive deposits at
 3 per cent?

Mr. Hamilton. It would be profitable if you could
 keep the currency out, of course, because you are carrying
 the same reserve; but our contention is that it is not pos-
 sible to keep the currency in circulation at all times and
 all seasons of the year.

Mr. McHenry. Do you think there are times when we have
 more currency than we can profitably use?

Mr. Hamilton. Yes; that is unquestionable. It piles
^{up} ~~up~~ in these reserve cities by the ~~millions~~ ^{millions}

Mr. McHenry. ~~Supposing~~ ^{If} your bill was in force now, do
 you not think that a greater portion of this issue would be
 taken out immediately?

Mr. Hamilton. I should think it ~~would have been~~ ^{be}; yes.

Mr. McHenry. Do you not believe, still further, that
 six months from now when business gets to going on, and there
 is a new boom, ~~that~~ there will be even greater need for it
 than there is today?

Mr. Hamilton. I think you will find inside of six
 months that you have too much currency now, and that you have
 an inflation in this country.

Mr. McHenry. You will if the business depression keeps
 up; yes.

Mr. Hamilton. We are in course of liquidation right
 now, you know, and I think you will find that the interest
 rates, and so forth, will swing the other way, that there
 will be an overabundance of money in a short time in this
 country, on account of the financial depression that has

been brought to bear in this country; and that comes about, of course, on account of the disturbance of our business conditions. Every manufacturing institution and every line of business has curtailed its business now, and there is one of the greatest troubles with ~~our~~ our banking system today. It is that it tends, at certain periods of years, to cause distrust in the minds of the public, has a tendency to cause them to hoard their money, and through the inelasticity of our system the people are ~~paying this burden through excessive rates that they are~~ ^{excessive rates} compelled to pay for money that they use in different seasons of the year. If you had an emergency circulation the rates of interest in this country would be more uniform the year round, as is the experience in foreign countries where they have such circulation.

Mr. Gillespie. You mean a credit currency circulation, and not an emergency circulation?

Mr. Hamilton. Yes.

Mr. McMorran. Will not that continue as long as the Government continues in the banking business?

Mr. Hamilton. How do you mean, in the banking business?

Mr. McMorran. That is, this demand for currency at certain periods of the year is more apt to occur under the present system of our banking system than it ~~will be~~ ^{would} under some other. In other words, the Government today locks up large amounts of the people's money, and at a period of the year when the country is demanding currency, it is locked up in the treasury vault instead of being deposited in national banks. If it was out of that business entirely, and we had some form of currency elastic in itself, would it not fit

the needs of the Government very much better than the present system?

Mr. Hamilton. The plan we advocate would give us this elastic condition, and would meet the conditions that are occasioned by the Government locking up its surplus money from time to time, ~~until such time~~. It would help to relieve that situation.

Mr. McMorran. One might offset the other.

Mr. Hamilton. Well, when the Government paid out this money the emergency circulation would naturally be retired, and you would have a sort of ~~governing~~ governor between the two.

Mr. McHenry. Do you not believe it would be better to have a graduated tax upon this money? For instance, advancing the rate to a certain ~~rate~~ ^{point} if it is kept out four months, and ~~later~~ ^{a little higher} advancing it if it is kept out six months, in order to force it back and compel ~~the~~ [?] elasticity of the ~~provision.~~

Mr. Hamilton. Well, when you adopt a graduated tax, you change the entire nature of our bill and throw the responsibility ^{as to} of the necessity, the time and the amount of issue upon some individual.

Mr. Hayes. You might make it a graduated tax for the amount that is cut. That might make it a little more certain to be elastic. Suppose you begin with 2-1/2 per cent, and ~~the~~ issue ten per cent of that, and for the next ten per cent raise it.

Mr. Hamilton. That must depend upon the length of time it shall stay out, and so on. It makes additional complication.

Mr. McKinney. You believe, do you not, that there is and has been at the crop moving time of the year in this country an inadequate amount of circulating medium, ¹ ~~do you not~~ under ordinary conditions ~~at crop moving time?~~

Mr. Hamilton. Why, that has been demonstrated fully. *It is estimated that* from one hundred and fifty million to three hundred million is ~~what is estimated is~~ required.

Mr. McKinney. In this last trouble that we passed through, there was at no time any criticism of the money that was in circulation? No one was afraid of the money?

Mr. Hamilton. No; they were glad to get it.

Mr. McKinney. And there was no criticism. Well, do you not believe it is almost as important, if not fully as important, in trying to remedy the situation, and to supply more money, that we should supply a quality of money that ^{would} in no way raise a suspicion as to its value?

Mr. Hamilton. Yes, sir; that is very important.

Mr. McKinney. Do you believe, under the provisions of this bill that your Commission adopted, that there could be any suspicion of the currency? Can you figure out in any reasonable way how any noteholder could lose?

Mr. Hamilton. No; I cannot possibly do so. Another argument in favor of our measure ~~is this,~~ as compared with a bond secured currency measure, ~~and~~ ^{the} it has been fully demonstrated in my mind from figures that were presented a little while ago, ~~is that~~ ^{is that} in September we had \$551,000,000 of bond-secured circulation, and up to December 23rd they were only able to increase that circulation \$50,000,000; and on January ^{1st} ~~31st~~, I believe the statement that the gentle-

man presented here showed that they had an increase of \$190,000,000. That was after the trouble was mostly over.

Mr. Hayes. \$140,000,000.

Mr. Hamilton. Well, the sum total would be \$190,000,000.

It would have been \$140,000,000, ~~ma~~ from December 23rd to December 31st, so it showed that that method of handling it, determining values and getting securities, is a very slow process.

Mr. Hayes. \$691,000,000 on the 1st of January, and \$451,000,000 on the 1st of September. Were not those the figures?

Mr. Hamilton. \$551,000,000 in September.

Mr. Hayes. That would make \$140,000,000 increase.

Mr. Hamilton. \$140,000,000.

Mr. Hayes. And all but about fifty million of it in the last week of the year.

Mr. Hamilton. I do not want to take up all your time, Mr. Chairman-----

Mr. Glass. Let me ask one question right there. Can you tell me how the Aldrich Bill, with its emergency currency, taxed at six per cent, could afford any relief in the crop moving period?

Mr. Hamilton

I do not believe that a high tax bill would ever be of any material advantage to give us a currency at that time---a bond-secured currency.

Mr. Hayes. I think your suggestion is correct that the minute the bank takes out that high taxed circulation there will be a run on it. That is about the situation. It will be a flag of distress, right off.

Mr. Hamilton. If it were announced tomorrow that New

Yrk was going to issue that kind of notes, all us fellows in Illinois would commence to transfer our balances.

Mr. Hayes. You would be foolish if you did not.

Mr. McKinney. Now, let us take the practical workings of the different bills. Under the present system of national banks, when this ~~crisis~~ crisis came on, they were unable to avail themselves in many instances of the privilege of taking out notes on account of the fact that they would have to take out more money for the government bonds to secure the circulation than they would secure notes after they had bought them. It would place them in a worse condition, as far as available cash was concerned, than they were in before; and I cannot see but what that same criticism would apply measurably to the Aldrich Bill.

Mr. Hamilton. If will, if they wait until the time of panic to procure them.

Mr. McKinney. Well, under your bill---I should say my bill----

Mr. Hamilton. Yes, it is your bill.

Mr. McKinney. Under my bill you could secure circulation, and under this limit of taxation, ~~and so on, and you are~~ putting up five per cent, and all that, to a greater amount than you pay out, you would be better off ~~than under the limita-~~ ~~tions allowing you to issue circulation under your plan,~~ than you ^{were} ~~would be~~ before.

Mr. Hamilton. You could meet the emergency.

Mr. McKinney. You would get more money on hand through that method, although you would have to pay to get the advantage of that.

Mr. McMorran. How do you figure that out? Suppose

you want one hundred municipal bonds-----

The Acting Chairman. He is talking about his bill, and not the Aldrich Bill.

Mr. McKinney. Under the present plan, as you can see, I would have to buy Government bonds to get the circulation, and I would have to pay ^{the} ~~a~~ premium that would prevail, and then I would be allowed the amount of the face value of the bonds. ~~I~~ I have paid out ~~the~~ ^a per centage more in premium than I would get; so I would be worse off than before I availed myself of it. Under this bill I would not have to buy any bonds.

Mr. Hamilton. Before you close your meeting, Gentlemen, I want to make this suggestion to you. It is simply a suggestion as to the strength of this measure in the mind of the public. I am satisfied that if this Committee will report this bill to the House with any slight modification ^{that} ~~it~~ may ^{be} deemed advisable, you will find ~~that~~ you will be surprised at the support ^{it} ~~this measure~~ will have from every section of this country. This measure is like everything else of the same nature. In times of prosperity, the people paid no attention to its advocates, or those advocating such measures. They had plenty, and did not think they could in any wise be affected by a panicky condition. Even since the meeting of our convention at Atlantic City the conditions have changed, as you members of Congress all know. There are more students of finance in the United States than you ever dreamt of. Now the people have become alive to the situation, and I could furnish you letters by the thousand endorsing this measure, if you had the time to consider them,

and backing up the position taken by your committee last year, and by this committee at the present time. The people of the country are alive to the situation, and they are demanding that some kind of legislation be had.

Mr. Hayes. That is true.

Mr. Hamilton. And another thing in connection with it. One of the strongest features in connection with ^{the} ~~this~~ proposed legislation is that it can be put in operation without disturbing a single condition that exists, and it is optional with any banking institution whether or not ~~they~~ ^{it} ever avail ^{itself} ~~themselves~~ of the privileges in this measure.

Mr. Hayes. In other words, it is there if they need it?

Mr. Hamilton. It is there if they need it.

Mr. ^{McMorran.} ~~McMorran~~. I do not believe you will ever get any bill through this House until the members from the different districts hear from their constituents. Now, when the bill was introduced at the last session of Congress, I did not get a single letter from my district relative to the bill; and I inquired of the different members of my delegation, and not a single letter had they received.

The Acting Chairman. And this same bill was introduced, practically, and argued on the floor.

Mr. McMorran. Yes. Now, until there is some pressure brought to bear from every section of the country, on every member of Congress, I do not believe you will succeed in getting a bill through the House.

The Acting Chairman. I think only two of us spoke on the bill, Mr. Fowler and myself, about a year ago. Now, let

me ask you one further question. Suppose we should see fit, as a committee, to make your notes redeemable over your own counters, or in some redemption agency, in gold----

Mr. Hayes. Or with the ^{Comptroller} ~~Controllor~~ of the Currency, the Treasury Department.

The Acting Chairman. Well, wherever it should be, redeemable in gold.

Mr. Hamilton. We would not have any objection to that, whatever.

The Acting Chairman. That is throwing the burden upon the banks to redeem their own money in gold, if they issue it ~~out~~.

Mr. Hamilton. Yes, if it is demanded.

The Acting Chairman. And if they do not issue it under the provisions of the law, then there is nothing to relieve--- instead of adding to the burden now placed upon the Government to maintain all its money upon a gold basis.

Mr. Hamilton. Our commission would not object to that.

Statement
~~The report of the Currency Commission of the American Bankers' Association~~, referred to in Mr. Hamilton's remarks, is as follows:†

Note for Mr. Hamilton:
 (Insert statement compiled by Mr. Hamilton showing issue of notes under present law and under proposed law.)

ADDITIONAL STATEMENT OF W. V. COX,
President Second National Bank, Washington, D. C.

Mr. Cox. Mr. Chairman, mention was made this morning about the position taken by the members of the Commission, especially Mr. Forgan. I find a letter from Mr. Forgan in "The Economist", published in Chicago, January 18, 1908, on the Aldrich Bill; and in view of the discussion that has taken place I think it would be very useful to the members of the Committee if that were added to your hearings today.

Mr. Hayes. I would like to have it.

The Chairman. That may be inserted in the record.

(The letter above referred to will be found at the end of Mr. Cox's remarks.)

Mr. Cox. I want to say that it must be distinctly understood that that ^{refers to} ~~was~~ the original Aldrich Bill. There is one matter, speaking locally, that is rather exceptional so far as Washington is concerned, and that is that this city was the only city of its size that did not go to the clearing house certificate during this period of depression and panic. We met all our obligations in every way. There were no failures, and while we did not discount much paper, ~~we took care~~ speaking of my own bank, we took care of our people. But as soon as it was learned outside that we were on a currency basis, instead of a clearing house certificate basis, every device known to man was made to get our money, and we had to

scan that very carefully. But I fancy that the ~~reason of~~
~~this~~ condition here was due to the fact that there is a great
 deal of public money paid out here. We are very near the
 Treasury Department, and in that way, with these large
 buildings going ^{up here} ~~on~~, we were able to meet the obligations that
 came upon us.

I have ~~here~~ a statement that has never been published,
 in my pocket. I had it made up. It ^{is showing} ~~shows~~ the condition
 of these local banks during the ^{period} ~~time~~; a comparative statement,
~~It~~ which is of considerable interest in ~~this way~~, that it shows
 what the increases and ~~what the~~ decreases were during a given
 period. In every institution in the city, excepting three, there
 was a decrease in deposits, and there was a general decrease
 of \$1,820,000 in national banks; \$178,000 in savings banks,
 and \$1,583,000 in trust companies. The percentages are also
 shown here. I will leave that with the Committee, if it is
 desired.

(The letter of James B. Forgan, referred to by Mr. Cox,
 is as follows:)

The Acting Chairman. I would like to say that the Committee has been very much pleased with the manner in which each question has been promptly and squarely answered. You have not dodged anything, whether it came hard or easy.

Mr. Hamilton. I wish to express my thanks to the Committee for the courtesy and patience you have shown; and I wish to add this thought that has just occurred to me, in further support of our measure. That is, that the issuing of the clearing house certificates by the different commercial centers has shown the value of the assets of those institutions; and while they have been issued with questionable authority, yet it is shown that such commercial assets are good security for a credit note issued.

Mr. Hayes. It shows that the people there so regard them.

Mr. Hamilton. Yes, and the people so regard them in time of emergency.

(The Committee thereupon adjourned subject to the call of the Chairman.)
