

NELSON ALDRICH

Executive Committee

MISCELLANEOUS

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All national banking associations designated as special or temporary depositories of public money, subject to call, shall pay upon all sums so deposited not less than one per centum per annum upon the average monthly amounts of such deposits, under such regulations as the Secretary of the Treasury may prescribe; Provided, however, That this tax shall not apply to the regular and active depositories of public money: Provided, further, That the rate of interest charged shall be equal and uniform throughout the United States: and Provided, further, That nothing contained in this Act shall be construed to change or modify the obligation of any national banking association or any of its officers for the safekeeping of public money.

That a sum sufficient to carry out the purpose of this Act is hereby appropriated out of any money in the Treasury of the United States not otherwise appropriated.

Balance of public moneys held in special depository banks \$72,236,000.

Number of banks, 1007.

Balance of public moneys subject to draft in active and
regular depository banks..... \$72,266,573.

Number of banks, 424.

May 26, 1908.

The conditions which require an additional volume of money are, first, the annually recurring demand for currency to move the crops. This demand occurs from October to January in each year, and can be measured with approximate accuracy.

Second, an issue to prevent collapse and serious disaster in times of financial crises, when confidence is destroyed and banks and the people are hoarding currency.

Any measure of relief should, if possible, cover both classes of demands. Notes to be issued should be either national bank notes or United States notes, having, in either case, the same character and tenor, and the same provisions for prompt ^{redemption} ~~retirement~~, as outstanding notes. The notes to be issued by or to the banks upon the deposit of adequate security, and to be taxed to such an extent, say six per cent, that their prompt retirement will take place whenever the demand for their use has ceased.

Congress should fix a maximum limit of issue, but the time when issued and the amount to be issued in particular cases should be determined by some central authority, perhaps the Comptroller of the

Currency with the approval of the Secretary of the Treasury. This action of the Treasury officials might be taken upon the request of officers representing clearing-house associations of one or more cities.

The general class of securities, say State, municipal, or first class railroad bonds, should be named in the act. The character and adequacy of particular securities to be deposited in each case should, if this plan is feasible, be decided by the clearing-house association of the city or district in which the bank making the deposit is located, subject to final approval by the Secretary of the Treasury. It might be well to have the clearing-house association guarantee the deposits. In this case the securities would, of course, be kept in the custody of the association, the title remaining in the government.

If bank notes are to be used, the limit of issue to any bank *might possibly* ~~should probably~~ be fixed at the amount of capital and unimpaired surplus, instead of capital alone, as now.

To insure prompt retirement it might, perhaps, be well to have

a progressive tax, say at one rate for a period of not exceeding six months, and a higher rate for longer periods. Existing limitations upon the amount of bank notes which can be retired in any month should not apply to the notes provided for in the act, and perhaps all limitations should be removed.

If bank notes are used, banks should be allowed to deposit notes of any national bank, as well as lawful money, in the Treasury to effect their retirement.



TREASURY DEPARTMENT

WASHINGTON

The World's product of gold for the calendar year 1906 is estimated to have approximated \$400,245,300 and the product of silver 5,152,120 fine ounces of the commercial value of \$112,120,500. Of the World's stock of gold (estimated) December 31st, 1906, amounting to \$6,888,900,000

United States held.....	\$1,593,300,000.
Germany.....	1,030,000,000.
France.....	926,400,000.
Russia.....	939,400,000.
Great Britain.....	486,700,000.

\$4,975,800,000.

Leaving a balance for the
World of..... 1,913,100,000.

TREASURY DEPARTMENT,

BUREAU OF THE MINT,

....., 190

.....
Director of the Mint.

SUBJECT:

NO. OF INCLOSURES,

Total Capital of National Banks, Dec. 3, 1907		\$901,681,682
Total circulation	"	601,805,985
Total circulation	" Jan. 1, 1908	690,130,895

- - o - -

Distribution of United States Bonds.
From Bank Statement of Comptroller of Currency, Dec. 3, 1907.

U.S. Bonds held to secure circulation	\$619,329,870
U.S. Bonds held to secure deposits	72,369,400
U.S. Bonds held by trust companies and State banks and private banks	22,683,412
	714,382,682
Total U. S. Bonds outstanding Dec 1/07.	858,685,510

That with both metals in use ^{general monetary} ~~forming~~
~~the money of the world~~ ^{that the value of money and consequently} the prices of
Commodities to the extent that ~~they~~ ^{their value}
was depended on the aggregate volume of
The money of the world ~~must~~ ^{would have been} be made
stable and money

XX
Value depends
intensity of the demand and limiting
Supply

Silver
bimetallism

that by the law of supply and demand represented by silver

that if the total amount of metallic money

in existence is approximately 700,000,000
of silver ~~containing~~ ^{or any considerable share of it}
then if one half of this sum should be
withdrawn from use there would be
general a disastrous decline in prices

that with both metals in ^{general} use as
See sheet XX

that with a practically unlimited demand
for money which could be supplied by
one metal or the other at relative

to statement of
that these general propositions is simply
another way of stating

that ~~one money~~ ^{silver} having been partially demonetized
by legislative action its field of
employment reduced the problem is
to ~~give greater~~ ^{relative price} restore the action by
giving increased use can be done in
no other way

Silver fanatics

Opening

It is evidence of ^{the} inherent weakness of any
cause ~~where~~ ^{when its} advocates find it necessary
to lay aside reason and argument

and to appeal to passions and prejudices
of classes or sections

hold up visions of wealth
to be attained not by industry and thrift
by economy

but by the easy method of legislative increase
of money supply

I do not believe that the friends of the use
of silver as ~~money~~ ^{of whom I have} have
a cause of this kind and I have been
pained to hear

We have ample testimony, ^{that since 1861} ~~that~~ the
earnings of labor, measured by what
they would produce have largely
increased, while the saving power
of capital has constantly decreased

~~Silver~~ still

holds its position as a money metal in spite of anti-silver laws,

*Inventor p 5
XXX Silver*

while it has been to some extent degraded and denied the privilege

of coinage and legal tender in certain nations, *++*

Question either
^{case}
Broad or narrow
Inter or Ratio

of Inter gain of Nation lost

State of
US & Silver
Money

Fallacies
of Silver Fanatics

The extravagances indulged in the

That wealth can be created by
legislation and regulations

perpetual.
That prosperity can be assured

through ^{thorough} legislation
regulations ^{the application of silver may afford}
That a ~~correct~~ ^{correct} way of paying
That debts can be paid though
without there is to be no more sorrow
or

of the volume of money
That inflation may take the place of
industry and thrift ^{made to} in

Value of silver to a nation
Case of marking up and down a stock
of goods

Benton

"Congress has power to issue any species
of paper currency whatever"

(4) That this action is demanded by the people
Not by people who understand
Speculation and demagogues

Cheap money | The cry "more money" always raised when

If cheap money is wanted
Stanford's plan
or fiat money

~~Joint~~
proposition of 1878
Statement of, German and
Joint Res of 1857

Professor Nicholson, in his recent work on Money and Monetary Problems, says:

"The value of the precious metals compared with commodities, in other words, general movements in prices, and the relative values of gold and silver which largely determine the course of trade between gold and silver using countries are now more than ever beyond the power of any single nation to control.

The confidence of the people in the
stability

the growth of ~~population~~ and
expansion in business should
be adequately provided for

Convertibility
but Security ~~confidence~~ are
essential

Kennedy more extended use of
silver

Wage earners
have benefited in two ways
by the change they are great creditors
in Savings Banks
and by the fact that in the general
wages have gone down less than

Bimetallism

Evils as stated by friends of silver

1. Evils felt experienced in the United States
2. In other parts of the world -

The evils arising from a fall in the gold prices of commodities insofar as ~~the~~ such fall is due to monetary causes. The fact of a ^{general} decline in prices cannot be denied

impediment to the material progress of the country

alone.
That gold is inadequate ~~either on account~~
~~on account~~ to meet the increasing demands
made upon it ^{through} the growth of business and
population

Dangers
& result
Free coinage

Purchases would at first be made
in a currency equal to gold

to ~~accretion~~ addition
But with large amounts ~~of silver~~ of currency
which the ~~inflow~~ inflow of silver would render
inevitable, we should have not a
substitute of constantly decreasing
~~silver~~ purchasing power gold driven
out of circulation until we should
~~be in~~ reach a silver basis and $4\frac{1}{2}$
grains of silver trillion would have ^{no greater} ~~equal~~
purchasing power (over sold a commodity
with) than ^{the} same amount of silver coined
into a "dollar of the fathers"

Claims of Dem.

^{actor}
That H. S. in 1873 was the cause

of all labor troubles
low price of corn in Kansas
& low prices generally

The country is on the verge of
bankruptcy

There is ~~universal~~ universal
suffering

all because of the year 1873

No more blatant ^{and transparent} demagogues
was ever paraded before the American
people

The fact that a general election is
pending might ^{clearly} serve as an excuse
for this style of declamation but
it should have no place in
the chamber

Danger
Free Coinage

insanitary power are adherent of the gold standard

We should remember that a considerable portion of the leading ^{European} nations believe that any attempt to ~~maintain a parity between the~~ ^{maintain a parity between the} would ~~be a~~ ^{result in} failure.

Rec'd

- Danger of Free Coinage -
greatly increased production of silver

- Statistics -

Growth of uncertain elements
- in the future

Difference in ratio due to cause disturbances

Why take this great risk.

Currency Side

Sure to bring us to a silver basis with only helping the real cause of silver
a constantly fluctuating currency
not only fluctuating in relations to gold which ^{on account of the} ~~is~~ ^{has} ~~been~~ ^{been} ~~the~~ ^{the} ~~standard~~ ^{standard} of international trade & exchange but in a spasmodic jerky way in volume ^{not depending} ~~on~~ ^{account of} ~~the~~ ^{the} ~~demands~~ ^{demands} of trade but on the output of the mines or the accidental or speculative condition of the silver bullion market

Dumping of silver from all quarters
stock of gold and in coin
in ^{national} ~~monetary~~ ^{reserves}

No loss to countries holding silver & sell it

Cost & fractions of coins

is ample U.S. France Haystack

Silver basis

at a price ~~greater~~ above its real value
 Concerning ~~the~~ international
 In the absence of any agreement ~~which~~ ^{as} money and ^{metal} gold
 gives promise of ~~the~~ ^{exact} ~~status~~ ^{value} ~~of~~ ^{of} gold
 and ~~the~~ ^{value} ~~of~~ ^{of} gold
 (Silver bullion is a commodity at the public expense)
 in the monetary history of the world.

It is claimed
 that the U.S.
 has made a
 profit of 50.
 million by pur-
 chasing silver
 If the silver rep-
 in the U.S. had
 been at home
 proposed \$1.29
 112 more would
 have paid for
 the benefit silver
 producing

a less number
 of notes would
 have been
 issued. This
 was ~~not~~ ^{not} ~~an~~ ^{an} ~~error~~ ^{error}
 was ~~not~~ ^{not} ~~an~~ ^{an} ~~error~~ ^{error}
 on ~~the~~ ^{the} ~~part~~ ^{part} ~~of~~ ^{of} ~~the~~ ^{the} ~~U.S.~~ ^{U.S.} ~~Government~~ ^{Government}
 2 or 3 no
 what would
 be the saving
 on the limited
 purchases

If there unlimited purchases
 to be as one is assumed they are
 are made for the public benefit why
 are they not made at the market
 price of silver. (Extent of difference!!)
 why should the public take the risk of
 failure rather than the parties who have silver

If to furnish an adequate supply of money
 which shall neither be excessive nor insufficient
 in volume this plan has neither
 Certainty

The volume of money should be increased
 in definite amount
 and not be made to depend on
 the

a standard changing in value from
 day to day and from hour to hour

in the last year named over the first of
by the estimate of the Director of the ~~sub~~
and by the estimate of the

Bismarck

Friends of silver

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The case of the friends of silver

They contend that with both metals
in use as ^{free} legal tender money
that the general level of prices will be
more steady greater stability in value
secured more substantial equity
maintained between classes
that greater prosperity will be attained

Not free coinage

but a legislative ^{offer} to buy silver
billion, without limit as to quantity
at a price 20 per cent above
the present market value

It is a proposal to force
~~this~~ ^{the} existing National Bank notes
out of existence
a perfectly safe and satisfactory
medium of ^{credit} currency which involves no expenditure
as source of income to the Govt
and to substitute in its place
notes based on

in the
The enforced retirement of National Bank notes

Senators

No problem so important ^{kind of} ~~as~~ direct and indirect
consequences to all the people can be presented for
to the American Congress for solution

If the single currency of
pop & the are ^{with the world's nations}
determining factors in
fixing the increase of money supply
then it should be in f

and not left to a accidental
chaos spasmodic & irregular
supply

I carefully the whole
to consider what claim silver has
upon our case ^{beyond} that of any
other ^{equally valuable American} products

does

equally
The Silver is in use as money whether it is held
in the form of ~~coin or bullion~~ ^{coin or bullion} whether held in form
~~The silver market and its ones clearly make no~~
~~difference to the~~
or the other money, make no diff to the silver
market or to the value or security of the note

258

3858
258
1278
1290

retirement of B.N. currency }
Manton Saffey & Co }
Sincere desire to see silver }
restored to its full monetary use }

Action looking to a reversal of these evils

— Contending propositions —
Limited purchase & issue —
to
unlimited purchase & issue —
Diff. theories
of the evils to be redressed
& of the character of remedies

Free coinage means that the U.S. is to furnish
Germany a market for her surplus silver

Silver
coinage
prior to 1873

Standard Silver
Such coin as were struck at the mint
went rapidly abroad or ^{found their way into} the melting
pot of home ^{Silver Smiths} ~~manufacturers~~ in this country
who saved 3% by buying coin instead
of bullion —

Bismuth

The Case of the Friends of Silver

Walker Money

p. 265

We may rationally
be leine re

It was the of silver as money
disused in some countries and
monetary in others
The lessening of the demand, through ~~adverse~~ legislation
or changing business conditions
together with increasing production
greatly
or price of commodities
the value of money then things equal depends
on the amount in use

The greatly increased burden ^{thus} placed upon gold
has caused ^{a certain} appreciation ^{in the value of money} of that metal
and a consequent decline in the general
level of ~~gold~~ prices ^{of commodities when measured}
That this general decline ^{in price} has caused
placed caused congestion, prevented normal
industrial development and brought about
the fatal effects of contraction

That unless silver is restored a further and
disastrous fall of prices is inevitable
increasing the burden of debts
and rendering impossible the equitable

Democracy & Silver

all the really hostile acts
against silver have
been enacted during
their administration

Comptroller suspended by Mr
Jefferson

Silver excluded from use & gold
adopted with Andrew Jackson
as friend of Mr Benton

1853

8th Pierce

Administration in

1857 " Buchanan.

Silver
faulities

It is simply ^{the} revival of a story which
has ^{often} given temporary enchantment to
wires

That a ~~glorious~~ ^{state of} prosperity can be
created and sustained at will by
monetary legislation

The most that can be done is to
see that

Free Coinage

To open our mints to the free coinage
of silver at a ratio of $15\frac{1}{2}$ or rather
of $15.98 +$ to 1 ^{to place an insuperable in the way} is an obstacle to the
of an international agreement and
of the ^{extended} use of silver elsewhere at
a ratio of $15\frac{1}{2}$ to 1.

If an agreement is reached it will
not be for a ratio of 16 to 1.

If the French mint should be opened
our silver money all leave us at once
and we should have to change
our ratio and recoin our silver
at great expense

1873
for action

German Law
Jones Ref
pp 184-5

Changes in directors of deionetian

Germany adopted gold standard

mark unit of value

This imperial gold currency
was ordered to take the place
of local currencies,
Gold sales

See p 74 Jones Com
ref

Decem 4 1871
for Translation see

July 1873

The Scandinavian States Denmark Sweden

and Norway adopted the gold standard

Dec 18 1872 - B and sold gold to the extent of 10 millions
of dollars

Holland adopted the gold standard June 1875

The Latin Union France Belgium Switzerland

Italy and Greece restricted coinage in 1875

& finally suspended in 1878?

Germany Amount silver on hand in 1873 1,286,870,000
marks

by the terms of the Treaty of Frankfurt France
was to pay Germany 5000,000,000 francs

this was paid in 1871 1500.

500. 3,000
72-74

3,500.

There was paid in Gold 273,000,000

Silver 239,000,000

Balance in bills of exchange

See Jones
Comm Ref
p 79

Free coinage B 3 1/2

(3) (a)

If this coin should be destroyed would
the government lose 25. or $14 + 1\frac{1}{2}\%$ ^{being}
~~should be melted by day by an ^{accidental} fire~~
~~to go~~ The U. S. has say in minor
coin both say as coin and say
at metal, if ^{these coins should be called in for} ~~a re coinage~~ ^{needed} ~~or we~~
~~should~~ desired to use some other metal for
coins of this nature would the government
in either event lose — or

If Belgium should in the case we have
referred to should desire to retain coin
for either for circulation or as the basis
of notes she could either use the gold
which would be equally potent for this
purpose or could purchase silver
without loss if bullion should remain
constant in price or at a profit if bullion
should decline. ^{In this case} the only loss which she
could suffer would be in case of an
advance in bullion and then only to the
extent of the advance

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In the face of the record I have disclosed no political party can afford to place new and unnecessary burdens upon the industries and people of the United States, and I should regret extremely if the party of which I am a member should assume any such responsibility.

Parable

THE PANIC OF 1807 AND SOME OF ITS LESSONS

By MYRON T. HERRICK,

Chairman of the Board Society for Savings, Cleveland, Ohio.

Every American panic has been characterized by very similar events, which have followed each other in like sequence,—about as follows:

(1) Failure of an important bank or institution,—Ohio Life Insurance and Trust Company in 1857; Jay Cooke & Co. in 1873; Mitchell's Bank, and the Erie Railroad in 1893; and the Knickerbocker Trust Company in 1907.

(2) Heavy withdrawal of funds by depositors, and the failure of many financial institutions.

(3) Demoralized stock market,—affecting banks and depositors alike.

(4) Hoarding of money in large amounts, not only by individuals but by banks, and the partial refusal on the part of banks to pay out cash, resulting in a premium on currency.

(5) Large importations of gold,—\$15,000,000 in 1873; \$56,000,000 in 1893; and over \$100,000,000 in 1907.

(6) Gradual improvement in financial affairs, resumption of specie payments, and disappearance of premium on currency.

(7) Acute trade reaction, discharge of many thousands of employees, and realization that the country must pass through a more or less severe industrial reconstruction.

The present financial disturbance apparently had its inception on the 15th and 16th of October, when it was first known that the Mercantile National Bank, of New York, was in difficulty. The embarrassment of this bank was closely connected with an operation in the stock of the United Copper Company. The stock of this company, which had declined severely, because of the fall in the price of the metal, suddenly advanced, in a few days, from thirty-seven to sixty, by reason of an attempt to corner the stock. Unfortunately for the operator who was engineering the transaction, stock which it was supposed could not be delivered was produced, and the firm of brokers backing the deal was obliged to suspend. So far the episode differed little from an ordinary stock market fiasco, but when it was known that the Mercantile National Bank had supplied the funds for the attempted corner and was embarrassed thereby the affair took a more serious turn. The bank was examined, found to be solvent, and help was extended to it. Up to this time the public was not much alarmed, but on Monday, October 21, the Knickerbocker Trust Company, one of the largest institutions of its kind in New York, made an appeal for assistance, which was not granted and the company closed its doors at noon the next day, after a run in which more than \$8,000,000 was paid over the counter. The failure of this large company demoralized the stock market. Call money advanced to 70 per cent and many stocks sold at new low records. Depositors in other institutions now began to lose confidence and commenced to withdraw funds. The Trust Company of America and the Lincoln Trust Company, both solvent institutions, were subjected to severe and prolonged runs. In the week following it was estimated that \$40,000,000 was paid out by those two companies. At the same time Western banks began to make drafts on their New York depositories and during the week of October 21st, \$14,000,000 was sent from New York City to banks in the interior. The withdrawal and hoarding of this vast sum by banks and individuals produced a most acute condition. On October 24th the panic on the Stock Exchange seemed almost hopeless. Call money was practically unobtainable,—only a few loans being made at 125 per cent. At two o'clock, when the demoralization was at its worst, a bankers' pool headed by J. P. Morgan loaned \$25,000,000 at 10 per cent,—thus tiding over a situation fraught with the gravest danger. An appeal was made to the Secretary of the Treasury for additional government deposits and gold in large quantities was imported in spite of the fact that the Bank of England, to protect its gold reserve, raised its discount rate to 7 per cent, the highest in thirty-four years. Before relief was obtained from these measures, the reserve of the national banks of New York City had declined to more than \$54,000,000 below that required by law. This was the largest deficit on record. Clearing-house certificates were authorized to settle the balances between the banks and a premium of 3½ per cent was paid for currency. The disturbance which, for a time, was confined to New York City gradually extended and banks in most of the larger cities were obliged to use certified checks, clearing-house checks and clearing-house certificates to make up the deficiency in currency caused by its withdrawal from circulation.

At present, so far as the banks are concerned, the situation is gradually improving. Money is being brought from its hiding places and is again finding its way into the bank reserves and the premium on currency has disappeared. The deficit in the reserves

of the Treasury for additional government deposits and gold in large quantities was imported in spite of the fact that the Bank of England, to protect its gold reserve, raised its discount rate to 7 per cent, the highest in thirty-four years. Before relief was obtained from these measures, the reserve of the national banks of New York City had declined to more than \$54,000,000 below that required by law. This was the largest deficit on record. Clearing-house certificates were authorized to settle the balances between the banks and a premium of $3\frac{1}{2}$ per cent was paid for currency. The disturbance which, for a time, was confined to New York City gradually extended and banks in most of the larger cities were obliged to use certified checks, clearing-house checks and clearing-house certificates to make up the deficiency in currency caused by its withdrawal from circulation.

At present, so far as the banks are concerned, the situation is gradually improving. Money is being brought from its hiding places and is again finding its way into the bank reserves and the premium on currency has disappeared. The deficit in the reserves of the New York associated banks has been made good and for the week ending January 11th a surplus was reported for the first time since October 26th. The statements just issued, pursuant to the call of the Comptroller of the Currency are, under the circumstances, unusually good, showing most of the national banks to be in normal condition, many of them holding a reserve in excess of that required by law. Two facts evidence the widespread extent and the violence of the panic. The premium on currency continued longer than in any other period in the history of the country and with a single exception it has taken the New York banks longer to repair the deficit in their reserve. One of the most striking features of the panic is the remarkable way in which the banks have stood up under the strain. In 1893, 160 national banks failed, while in 1907 but twenty-one were obliged to suspend, a number which has been exceeded many times in years in which there has not been a panic.

Such, in brief, are the salient features of the history of the past three months. If these facts afford an adequate explanation of the disturbance, and if from them alone we are justified in drawing a conclusion as to its probable length and extent, it would be safe to say that within a few weeks at the most industry would return to the highly prosperous state of a few months since. Such a conclusion, however, is not warranted. The course of the events of the immediate past is undoubtedly but the surface indication of a deeper and more important economic phenomenon. This belief is strengthened because we now know that the striking events of past crises were but outward manifestations of industrial and financial conditions. When the history of the panic of 1907 is written and its significance fully appreciated, it will undoubtedly rank with the epoch-making panics of 1893, 1873, 1857 and 1837. That the sequel will be similar to that following any of these other critical years, is not at all likely, for the immediate circumstances that produce a financial or industrial panic are never the same, and it is these circumstances that determine the direction that the disturbance is to take as well as the duration and the severity of the depression that usually follows.

The periodicity of crises is undoubtedly a psychological phenomenon and is an expression of the rhythmic movement between hope and despair, optimism and pessimism, that has ever characterized society. So long as a man is a creature whose judgment is largely determined by his feelings, we are bound to have recurring periods of prosperity and depression. The form that a crisis in modern times takes is, to a large extent, fixed by the existence of credit in many forms and by the existence of the great accumulation of loanable capital. The crisis occurs when credit has been unduly extended and the supply of capital exhausted or so involved in unproductive enterprises as not to be available. In every period of business activity, capital is gradually absorbed, there is a heavy demand for funds for investment in new enterprises. As these new enterprises take form and develop, there arises an increased demand for all sorts of labor, from that of the lowest grade manual labor to that requiring executive ability of the highest order. Prices rise, partly because of the increased cost of production and also by reason of the greater demand on the part of better paid labor. The rise in prices, however, is always out of proportion to the rise in wages and thus the ability to save and create new increments to the store of capital is curtailed. If the absorption of capital is not lessened to meet the diminution in its creation, the time must surely come when the supply of capital is entirely inadequate to the demand and going enterprises are then severely hampered by inability to obtain funds sufficient even for ordinary betterments. It has probably never happened that such a situation is appreciated in time to gradually and easily curtail capital expenditures. It is of the nature of man to be swept along on a current of optimism, overdiscounting the future and investing large sums in enterprises whose present worth is largely overvalued. It is only when the breaking point is reached and the crisis is at hand that men come to a realization that credit is unduly extended and capital exhausted.

Since 1897, the year in which were recognized the first sure signs of the present cycle of prosperity, the train of events has followed pretty closely the lines just indicated. The average of prices in 1907 was higher than at any time in over thirty years. For more than a year past, not only new enterprises, but old well-established industries and railroads have found it almost impossible to obtain the capital requisite to procure the equipment essential, because of the great trade activity. Some time since, many of the important railroads found that the only method by which funds could be secured was by the sale, at a discount, of short time notes bearing an unusually high rate of interest. From 1896 to 1907 the proportion of capital of all national banks to deposits has decreased from \$1.00 to \$2.46, to \$1.00 to \$4.82, and the proportion of reserve to deposits has decreased from \$1.00 to \$5.13, to \$1.00 to \$6.16. The aggregate resources of all banks was reported in 1897 at \$7,822,000,000, and in 1907 at \$19,645,000,000. On August 22, 1907, the loans of national banks amounted to \$4,678,000,000, the largest total on record. The percentage of reserves to deposits in national banks has shown a constantly declining tendency from 1894, when it stood at 32.7 per cent, to 1907, when it was but 21.33 per cent. In 1896, banks of all classes reported individual deposits of \$4,000,000,000, with cash holdings of 10.72 per cent. In 1906, the banks of the United States had deposits of \$12,000,000,000, with cash reserves of 8. per cent. Moreover, within the past ten years, there has been an enormous destruction of capital. The Boer War, the conflict with Spain, the Russo-Japanese War, the Baltimore fire, and the destruction of San Francisco, involved a waste of capital so prodigious as undoubtedly to weaken the stability of industry the world over. These facts and figures are representative of only a few of the indications of an overstrain on the capital and credit of the country.

If, then, what we have experienced in the few months just past is a real economic crisis, is there anything in the condition and circumstances of the country that would lead us to believe that the depression that always follows such a crisis is to be of a comparatively short duration and of less than usual severity? For the sake of comparison, it is well to take the panic of 1893, inasmuch as the organization of industry and credit at that time was more like that of to-day than at the time of any other crisis in the history of the United States. In almost every respect the country is in better condition than it was fourteen years ago. Possibly the most important factor is the status of government finance. In the six months from January to June, 1893, the excess of government expenditures over receipts was \$4,198,000, and during the fiscal year ending June 30, 1894, the excess increased to \$69,000,000. It was even necessary to encroach upon the gold reserve for

past is a real economic crisis, is there anything in the condition and circumstances of the country that would lead us to believe that the depression that always follows such a crisis is to be of a comparatively short duration and of less than usual severity? For the sake of comparison, it is well to take the panic of 1893, inasmuch as the organization of industry and credit at that time was more like that of to-day than at the time of any other crisis in the history of the United States. In almost every respect the country is in better condition than it was fourteen years ago. Possibly the most important factor is the status of government finance. In the six months from January to June, 1893, the excess of government expenditures over receipts was \$4,198,000, and during the fiscal year ending June 30, 1894, the excess increased to \$69,000,000. It was even necessary to encroach upon the gold reserve for current expenses, and for months this fund was less than caution and prudence demanded. To-day the government has a working balance of something like \$200,000,000, and while expenditures are now in excess of receipts, due to decreased imports, the balance in the treasury is so large as to afford a safe margin for falling revenues. The currency of the country is now safely on a gold basis. In 1893, the money of the country was in a chaotic state, because of the coinage of silver dollars under the Bland Act, and of the issuance of treasury notes of full legal tender to pay for the 4,500,000 ounces of silver bullion purchased each month under authority of the Sherman Act of 1890. It was only when the panic was well under way and the harm done, that Congress was sufficiently aroused to repeal the Sherman Act. Even after this pernicious measure had been wiped from the statute books, the sentiment in favor of the coinage of silver was so strong as to unsettle confidence for several years. The apprehension that existed, both in this country and abroad, as to the ability of the government to maintain gold payments, was one of the fundamental and effective causes of the crisis of 1893. This fear led to a rush to realize on all sorts of property before gold should disappear. British and other foreign investors hastened to get rid of their holdings before the distrust became so general as to cause a severe fall in prices. The excess of merchandise exports in 1892 exceeded the imports by \$203,000,000, yet so great was the liquidation in securities of this country by foreigners, that we exported more gold than we received, by \$495,000 in that year. Too much emphasis cannot be laid upon this point of distinction, that in 1893 we were threatened with repudiation, whereas, in 1907, the whole world has confidence in our ability to pay our obligations in gold. As a matter of fact, the favorable condition of the finances of the government, the stability of banking institutions, and the soundness of our currency and monetary systems, distinguish the panic of 1907 from that of any other in the history of the country. In 1837, speculative prosperity led to an enormous increase in the note issues of the state banks made possible by Jackson's destruction of the second United States bank. Much of this circulation rested on inflated assets, and when the treasury issued its famous specie circular, July, 1836, requiring payment for public lands to be made in specie, the complicated credit structure collapses. The panic of 1857 was precipitated by the vicious banking systems of the various states. In only a few states

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was the least attempt made to limit bank note issues or to see that the notes had proper assets behind them and the result was inevitable. The enormous issues of government securities, greenbacks, etc., to carry on the Civil War, resulted in overstimulating industry and unduly inflating prices. The crash came in 1873 when the maladjustment of production to consumption broke down the credit structure already overstrained. In recent times railroads and railroad finance have played an important part in every economic crisis. In the last decade, the increase in the mileage of railroads has been comparatively small and what expenditures have been made have been for the improving and extending of established lines rather than for the building of new roads into sparsely settled and undeveloped territory. The gross receipts of railroads are larger per capita of population than at any other period in the history of the country, and this is true at a time when rates have steadily decreased. There can be no question that our railroads are now on a most substantial basis. In 1894, there were 156 railroads operating a mileage of nearly 39,000 miles, in the hands of receivers,—among them were the three great systems,—Erie, Northern Pacific and Union Pacific. It is inconceivable that any such calamity should overtake us now. Of course, it is unsafe to predict the ultimate effect of the falling off in business on the earnings of railroads, but we do know this, that it was the poverty of the West that caused the railroad receivership in 1893, whereas, to-day, one of the most reassuring signs is the great strength and stability of the agricultural districts of the West. In 1893, the railroads served a population of 66,000,000. They are now called upon to transport the products of 86,000,000. The world's output of gold has increased from \$147,000,000 in 1892 to something over \$400,000,000 in 1907, and the fact that the balance of trade is now well in our favor will enable us to secure and retain at least our share of the new metal with which to strengthen our bank reserve. The export of breadstuffs in November was of record proportions, the value being \$24,700,000 this year against only \$15,416,000 for the same month last year. This is the first panic year in our history when exports exceeded imports. For the year ending June, 1893, the import excess was \$18,700,000, and in 1873 and 1857 the import excess was the largest on record. For the fiscal year 1907, exports exceeded imports by \$446,000,000, which places us in a very favorable relation to international exchanges. In 1893, the exports of gold coin and bullion exceeded the imports by over \$87,000,000. We have had bountiful harvests, and the prices of all products are high. The reverse of the condition obtained in 1893, when cotton was selling for 8 cents, wheat for 70 and corn for 48. The farmers of the country are especially prosperous, they are lenders, not borrowers, as they were fourteen years ago. These are but a few of the circumstances that distinguish the situation of to-day from that of the last economic crisis. The aftermath of the panic is now becoming apparent in the lessened bank clearings which are running about 30 per cent below those of last year. Prices of commodities are already substantially less than they were four months since. Each of the last three months has recorded a decline in the average price from that of the month preceding, aggregating about 11 per cent. Funds are already showing a tendency to flow to reserve centers, and it is quite possible that in this respect, the history of the panic of 1893 will be repeated. In February, 1894, about six months after the panic of the preceding July, the surplus reserves of the New York banks amounted to \$111,000,000, the highest they have ever been either before or since. The gross earnings of some railroads have declined 50 per cent, and the average decrease for all the railroads of the country for December was over 10 per cent. The decline in railroad earnings can be attributed only in part to industrial conditions. Unwise and drastic state laws are having a most serious effect on the earning power of railroads. Already two large railroad systems have been obliged to ask for receiverships. It does not seem likely, however, that these decreases in industrial and railroad earnings will reach dangerous proportions and it is altogether probable that a few months of lessened industrial activity will restore the equilibrium between the demand and supply of capital and relieve the strain. Much, however, depends on the good sense with which the people meet the situation, and the extent to which they retain their confidence in the basic stability of the country's industry and finance. The people, so far, have faced the changed conditions wisely and bravely.

Every such crisis brings into prominence some weak spot in industrial or financial arrangements. The incidents of the past few months have clearly demonstrated that our currency system is too rigid to meet the varying demands made upon it. It seems to have been a part of the sequence of every panic that an insistent demand should be made for an increased volume of currency. Mr. Bolles,

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(1) It is inelastic. (2) It lessens the loaning power of banks by the amount invested in bonds. (3) It tends to withdraw funds from the locality where needed to the section where funds are cheap. (4) The volume of bond secured notes is determined by the price of bonds, rather than by the commercial need for currency.

The system of national bank notes in this country, secured by government bonds, is essentially irresponsive to the demands of trade and commerce. The need for additional currency is most urgent in the fall of the year, from August to December, and yet from 1890 to 1906, a period of sixteen years, there was an actual decrease of bank note currency in the fall of three of those years, and in seven of those years the increase was not more than \$3,000,000, whereas an expansion of \$200,000,000 would not be excessive. In Canada, with a population of less than 6,000,000, there is an expansion and contraction of about \$20,000,000 in the fall of each year; and in Germany the amount of currency varies about \$120,000,000 every three months. This inelasticity of our currency is, in its final result, a tax on the agricultural interests of the West,

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for it is there that the demand for currency is most insistent and the inability of the banks to meet this demand is indicated by an increase in the rate of discount at certain periods of the year. Even in the face of great emergencies, bond secured notes have failed to expand in anything like the amount they should, and whatever expansion there has been has usually come after the crisis was past. On June 1, 1893, New York banks held a surplus reserve of \$21,000,000, and the volume of outstanding bank notes was about \$177,000,000. By the first of August of that year the demand for currency had become so intense that the reserves of the New York banks showed a deficit of \$14,000,000, a loss of \$35,000,000 in three months, and yet the outstanding bank notes had increased by only \$5,000,000. By September 1st, when the urgency was past and currency comparatively plentiful, the volume of bank notes began to expand rapidly, reaching \$209,000,000 on November 1st. In October, 1907, when currency was being hoarded and bank reserves were far below the amount required by law, the volume of bank notes increased by less than \$6,000,000, but in November, when the situation was improving \$50,000,000 of bank notes were issued. Not only do bond-secured notes fail to expand in volume when needed, but they fail to contract in proportion to the lessened requirements of trade incident to the depression following a crisis and the result is redundant circulation and exportation of gold at a time when it is particularly needed in the rehabilitation of industry. Of the panic of 1893, Professor Joseph Johnson says, "During 1893, the fours of 1907 sold down to 113, and the banks added to their circulation \$37,000,000. During the months of June, July and August of that year, there was a most urgent need for an expansion of the currency, but during these months the new national bank notes did not appear. Not until the panic was over and the money was piling up in all the financial centers, a drug on the market, did the increase in the national bank note circulation take place. As a result of the panic, business being depressed, the interest rate on prime commercial paper during 1894, 1895 and 1896 was between 3 per cent and 4 per cent. The money supply of the country was in excess of its need, and gold was exported in large amounts." By the amount that a bank is required to invest in bonds to secure circulation is its loaning power curtailed. The statement of a bank with a capital of \$200,000, deposits of \$500,000, and bond-secured circulation of \$100,000, would be as follows:

<i>Assets.</i>		<i>Liabilities.</i>	
Reserve	\$125,000	Capital	\$200,000
Bonds	100,000	Deposits	500,000
Loans	575,000	Notes	100,000
Total	\$800,000	Total	\$800,000

If, however, the same bank was permitted to issue notes based on assets and secured by the same reserves as deposits, its statement would appear as follows:

<i>Assets.</i>		<i>Liabilities.</i>	
Reserve	\$150,000	Capital	\$200,000
Loans	650,000	Deposits	500,000
Total	\$800,000	Total	\$800,000

From these two statements it is apparent that the loaning ability of the bank is lessened \$75,000 by a needless investment in bonds. The need for currency is greatest in rural communities where capital is scarce and rates of interest high and in so far as bonds are purchased to secure circulation, are such communities deprived of capital of which they have need. The amount is loaned elsewhere at a low rate of interest, in the form of investments in bonds. The record of the volume of national bank circulation, since the passage of the National Bank Act in 1865, shows conclusively that the amount of bank note currency outstanding has varied with the price of bonds and not with the needs of trade. This results in redundancy at some periods and insufficiency at others, greatly to the detriment of industry. The use of railroad and municipal bonds to secure circulation would possess no advantage over the use of government bonds. A bond-secured circulation is unscientific and economically extravagant. This country has a great sufficiency of this kind of currency, and it would be a serious mistake to extend the system by permitting the use of other than government bonds. The Aldrich Bill, now before Congress, provides for an emergency circulation secured by municipal and railroad bonds. Such a measure does not reach the seat of trouble, and at best will only provide a partial remedy of question-

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After years of study and discussion, the American Bankers' Association, through its currency commission, has reached the conclusion that the only kind of currency that will respond easily to the need for such a medium of exchange, is that secured by the assets of a bank in the same manner as deposits are secured. The principles upon which the commission unanimously agreed are, in brief, as follows:

(1) A credit currency should be issued by national banks of the country under proper conditions.

(2) A bank note is essentially the same in principle as a deposit payable on demand.

(3) It is important in any plan seeking to provide a more flexible currency, that no measures should be taken that would impair the market value of United States bonds.

(4) Credit notes should be taxed at a rate that will produce a guarantee fund sufficient to redeem the notes of failed banks.

(5) Banks should keep the same reserve against credit notes outstanding as is now required by law against deposits.

(6) Active daily redemption of credit currency is the proper and only means of making it elastic, preventing redundancy and automatically adjusting its volume to the actual requirements of commerce.

Much of the opposition to the so-called asset currency arises from the failure of people generally to appreciate the essential similarity between a bank-note and a deposit, and also because of the fact that until within a very few years before the passage of the National Bank Act, note issues of banks exceeded deposits, and hence the losses and disturbances occasioned by improper banking were attributed to over-issue of notes. Therefore, the absolute safety of bond-secured notes, as provided for in the National Bank Act, has fostered a prejudice against bank notes otherwise secured. It is probable, however, that had the proportion of bank notes and deposits in the early days been reversed, the losses due to unwise banking would have been equally severe. Frequent bank failures were due, not so much to the form of the

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demand liabilities of the bank, as to the nature of the loans that the bank made. It is not likely that we shall have a rational reform of our currency system until the similarity between the bank note and the deposit is clearly understood, and the prejudice against any form of security for circulation, other than bonds, is dispelled. That bank deposits constitute a medium of exchange as truly as bank notes, is not a new discovery. The principle was clearly enunciated by Alexander Hamilton in 1790,—“Every loan which a bank makes is, in its first shape, a credit given to the borrower in its books, the amount of which it stands ready to pay, either in its own notes, or in gold or silver, at his option. But in a great number of cases no actual payment is made in either. The borrower, frequently, by use of a check or order, transfers his credit to some other person to whom he has a payment to make. This man, in his turn, is as often content with a similar credit, because he is satisfied that he can whenever he pleases, either convert it into cash or pass it to some other hands as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is distinguished by a discount with some person who has a payment to make to the bank to an equal or greater amount.

To illustrate the contention that there is no vital difference between a bank note and a deposit, take a specific instrument. A jobber sells a bill of goods on time, sixty or ninety days, and desires to obtain the present use of his funds. He takes the note that he has received, to the bank, and has it discounted. He does not want gold, but what he does want is something that he can use in payment of his obligations and, accordingly, he receives credit on the books of the bank for the face of the note, less the discount. This credit is a demand liability of the bank, and is used by the depositor, by means of checks, as a medium of exchange. It is currency in every true sense, having the same effect on prices as a like amount of bank notes. Suppose, however, that the bank had authority to issue, and the jobber desired and received bank notes in exchange for the notes discounted. The result to the bank and to the volume of currency in circulation are precisely the same. The bank has added precisely the same amount to its demand liabilities, and the volume of currency outstanding is the same, the bank note taking the place of a deposit. By making a loan the resources of the bank are increased in the form of a promissory note and the deposit, or bank note, on the liability side of the account, has the security of the assets behind the loan. For example, take the bank above referred to, with a capital of \$200,000 and deposits of \$500,000. If this bank issues no notes and holds a 25 per cent reserve against its deposits, its statement would be as follows:

<i>Assets.</i>		<i>Liabilities.</i>	
Reserve	\$125,000	Capital	\$200,000
Loans	575,000	Deposits	500,000
Total	\$700,000	Total	\$700,000

If, however, the bank has the power to issue notes against which it holds the same reserve as against deposits, the statement would be as follows:

<i>Assets.</i>		<i>Liabilities.</i>	
Reserve	\$125,000	Capital	\$200,000
Loans	575,000	Deposits	400,000
		Notes	100,000
Total	\$700,000	Total	\$700,000

So far as the bank is concerned, the situation in the first supposition is the same as in the latter, except that \$100,000 of its loan had been made in notes instead of deposits. The aggregate of the bank's liabilities is the same as well as its resources. With the community that the bank serves, the situation is very different. By being able to offer to its borrowers the choice of a deposit credit or a note credit, the bank supplies the community with that form of credit instrument which it can use to the best advantage, thus facilitating industrial transactions to a much greater degree than would be the case could the bank only offer the deposit credit. Mr. Henry Dunning McLeod, in his history of economics, gives a very lucid explanation of the similarity between the deposit and bank note. He says: “And as every advance a banker makes is done by creating and issuing a right of action against himself to his customers, and as a banker has an unlimited right of buying any amount of debts or obligations from his customers, by creating as many of these deposits, rights of action or issues, as he pleases, it follows that every banker has the right of unlimited issue; and

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ient, for the holder of a note to obtain reliable information as to the solvency of the bank upon which a note is drawn. It is essential, therefore, that a guarantee fund be provided to absolutely secure every bank note issued, irrespective of the soundness of the particular institution on which it is drawn. Approximately 95 per cent of all the business of this country is transacted by means of bank deposits, and this will continue to be the case, whatever form the currency of the country may take because of the superior convenience of checks as a medium of exchange. When currency is wanted, the need is imperative, as we have all learned to appreciate, and the banks should be in a position to satisfy that need. Deposits, since they originate in industrial transactions, and are permitted to expand and contract practically unhampered by legislative restrictions, constitute the most elastic medium of exchange ever devised, and if the banks of the country are ever to serve the community as they should, like freedom must be given to note issues. Unnecessary restrictions on the power of banks to issue notes are a serious handicap to industry. The desirability of an elastic currency is felt more strongly in the smaller towns of rural communities, where funds are needed to pay for farm labor, etc., particularly during the harvest time. Could the banks serving the agricultural districts offer to their clients bank notes instead of a deposit, the necessity for withdrawing currency from the East would be avoided as would also the return movement which creates a plethora of loanable funds in New York, unduly stimulating speculation and giving a wrong impression as to the plentifulness of capital and credit. An asset currency is not a new kind of medium of exchange! Practically every civilized nation of importance permits note issues secured in part, at least, by the general assets of banks. Canada, Scotland, France and Germany, all make provision for bank notes of this nature. The Reichsbank, of Germany, is permitted to expand its circulation without limit, but if the amount of note issues uncovered by cash in bank, exceeds 450,000,000 marks, the bank must either increase its coin reserve to cover the excess or pay a tax of 5 per cent on the amount over the limit of 450,000,000 marks. Of this bank, Dunbar says: "The effectiveness of the elastic limit, in time of crisis, have never been severely tested, but it has been found to meet with much success, exceptional temporary demands for currency, which, under a rigid system of issue, like that of the Bank of England, could only have been satisfied by the withdrawal of specie or notes from the reserve. It is noteworthy that with one exception the limit has been only exceeded at the end of September and at the beginning of October, or at the end of December and the beginning of January, at the opening of the autumn or winter quarters of the year, when, for various reasons, there is regularly an increased demand for currency. In England, similar demands can be met only by withdrawal from the reserve of the Bank of England and through the temporary nature of such demands is well understood and in itself causes no alarm, the difficulties of the situation are thereby enhanced when the bank is trying to strengthen its reserve against more serious drain in other directions. Such demands the Reichsbank is enabled to meet, without difficulty, through the device of the elastic limit." Representative Fowler has prepared a bill for introduction into the House, which revolutionizes the entire currency system of the country, and its enactment would, without doubt, unnecessarily disarrange existing financial methods to the detriment of industrial conditions generally.

The laws of finance are as well known and as sure in their operation as the laws of physics and the problem before us is simply to apply these laws wisely. For many years, because of the conditions peculiar to this country, we were obliged to conduct our financial affairs along unknown and untried paths, the experience of the older countries did not afford suitable precedent for our guidance, but to-day we have reached a stage of development wherein we can learn much from the older countries, and it certainly is the part of wisdom to profit by their experience.

Should the present financial disturbance be the means of inducing Congress to pass a bill providing for an asset currency as outlined by the currency commission of the American Bankers' Association a currency would respond as easily and as readily to the needs of trade and industry as does the deposit currency, we might feel almost repaid for the discomfort and distress of the period. On the other hand, unless the present system of bank note currency is modified in a rational and scientific manner, we must expect the periodical repetition of the disturbance through which we have just passed, for of all the factors that tend to develop unsound industrial conditions, a system of bank note currency that fails to expand or contract when it should, is the most potent. The plan proposed by the currency commission of the American Bankers' Association is the result of years of experience and study on the part of the leading bankers of the country, and for this reason, if for no other, it merits most careful consideration. It is undoubtedly the best plan now before the American people.

DIAGNOSIS OF THE WORLD'S ELASTIC CURRENCY PROBLEMS

BY ANDREW J. FRAME,
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Professor Sumner, in his "History of American Currency," said, in summing up the doctrines of the celebrated bullion report which was submitted to the House of Commons in 1810, "Its doctrines are the alphabet of modern finance. They are no longer disputable." Another section reads, "In the presence of a panic the duty of the bank is to discount freely to all solvent parties."

I take it, a smile will pass over the features of my banker friends the moment their ne'er-to-be-forgotten practical experiences of 1893 and 1907 loom up as a nightmare before them again. How can a bank discount freely to all solvent parties when its panic-stricken depositors want all the cash the bank holds, and very quickly too?

What is the meaning of the word panic? The Standard Dictionary says: "The prevalence of unreasoning and overpowering alarm in financial and commercial circles, or in both, leading to sudden and stringent restrictions of credit and great shrinkage in values, and precipitating mercantile and banking failures; often the precursor of a financial panic."

Panics undoubtedly cannot be wholly prevented except in theory by such dreamers as Bellamy, who support the impossible idea that human nature can be changed, speculation cease and optimism be eradicated from Anglo-Saxonism.

Notwithstanding this, I am a firm believer in ameliorating panic conditions, both as to their frequency and as to their severity. But how? My answer is:

(1) By studying history and profiting by the experiences of the past.

(2) By passing conservative and sound banking laws, and then enforcing them.

(3) By giving as much elasticity to the circulating medium as can be safely attained, but never to reach an amount which engenders doubt in the public mind as to its redemption in the world's standard of value.

As to the problem of conservative and sound banking laws and enforcement, the national banking system is the safest and best this country has known. It is a well-known fact that some states have good laws, some lax laws, and others none at all. It is also a matter of gratification to know that many states are working along the line of betterment. With thirteen thousand million dollars due to not less than sixteen million depositors in the banks and trust companies of the United States, in order that conditions leading to panics and their paralyzing effects may be minimized, is it not the clear duty of our statesmen to perfect, as far as possible, conservative laws on sound lines?

These laws should demand ample capital paid in, limitations on loans to any persons or firm, and reasonable reserves according to whether depositors are payable on demand or on time. As space forbids further pursuit of this phase of the subject, I will confine myself to the knotty "elasticity problem."

The Elasticity Problem

The history of the progress of nations during the earlier centuries shows an evolution from the use of bullocks as a medium of exchange, as recorded in the Bible, to the later period of barter by the use of beads, nails, skins, shells, etc. In later centuries, in addition to the limited quantities of coin, the banks have indulged more or less in the issue of so-called asset or credit currency; dubbed "coined credit," by Professor Sumner, as well as currency secured by various kinds of collateral. All makeshifts have in the most advanced and progressive nations given way to the world's standard of value—gold, until to-day those progressive nations which issue currency do so largely through one great central bank. The immense coin reserves of these great banks practically make their currency issues a gold certificate payable on demand. They are practically banks of issue and not of deposit, as will be seen by the table which follows. These banks issue more or less currency in excess of coin held but some are based on gov-

by the use of beads, nails, skins, snells, etc. In later centuries, in addition to the limited quantities of coin, the banks have indulged more or less in the issue of so-called asset or credit currency; dubbed "coined credit," by Professor Sumner, as well as currency secured by various kinds of collateral. All makeshifts have in the most advanced and progressive nations given way to the world's standard of value—gold, until to-day those progressive nations which issue currency do so largely through one great central bank. The immense coin reserves of these great banks practically make their currency issues a gold certificate payable on demand. They are practically banks of issue and not of deposit, as will be seen by the table which follows. These banks issue more or less currency in excess of coin held, but some are based on government securities, as in England; all their loans are amply secured and of a quick liquid character. In view of these facts, these great banks, with immense capital, coin reserves and small liabilities, are in a position to expand currency issues to move crops without distrust, and under panic conditions "to discount freely to all solvent parties," also to furnish extra cash to banks with which to meet the insane demands of frightened depositors, thus preventing general paralysis of trade and industry in all branches, which is inevitable if forced liquidation takes place which is so destructive to labor and capital alike.

I am firmly convinced that if the United States had lately had a large central bank of the banks, commensurate with our greatness, notwithstanding the colossal pyramid of credit which we have been building, we might have been let down by easy stages, instead of falling off from the top of the building. I am also convinced that if the last Congress had authorized asset or credit currency on the American Bankers' Association plan, when the 1907 spasm struck us, our troubles would simply have doubled.

Let us briefly diagnose the reasons therefor by a comparison of European conditions with those of the United States as they exist to-day.

Capital, specie, circulation, etc., of the great European single banks of issue on or about June 30, 1906.

TABLE NO. I.
In Millions.

	Capital.	Circulation.	Deposits.	Total specie.	Loans.
Imperial Bank of Germany	\$28.9	\$412.0	\$149.9	\$211.1	\$345.7
Bank of Austria-Hungary	41.9	376.5	31.6	299.2	189.8
National Bank of Belgium	9.6	136.5	16.3	24.1	124.8
National Bank of Bulgaria	1.8	8.6	17.0	7.6	11.9
National Bank of Denmark	6.8	34.9	.8	27.2	13.7
Bank of Spain	28.9	305.7	134.2	200.2	154.4
Bank of Finland	1.9	18.2	4.2	5.2	11.7
Bank of France	35.2	908.8	189.1	803.4	255.3
National Bank of Greece	3.9	23.1	23.4	.4	21.6
Bank of Italy	28.9	213.3	90.6	152.7	91.6
Bank of Naples	11.6	66.6	16.1	32.8	34.5
Bank of Sicily		14.8	10.6	9.1	10.9
Bank of Norway	3.5	21.4	1.9	8.0	12.0
Bank of Netherlands	8.0	113.0	2.5	57.1	59.8
Bank of Portugal	14.6	74.5	29.3	13.7	26.5
National Bank of Roumania	2.9	43.1		15.0	25.2
Bank of England	70.8	146.8	280.3	187.8	156.8
Imperial Bank of Russia	28.3	591.0	109.8	455.9	208.3
National Bank of Servia	1.1	6.6	.6	4.5	2.3
Royal Bank of Sweden	11.9	52.2	12.2	20.6	37.0

Total 20 banks\$340.5 \$3,567.6 \$1,120.4 \$2,525.6 \$1,793.8

The foregoing, practically banks of issue and not of deposit, show demand liabilities versus coin reserves, as compared to the national banks of issue in the United States, as follows:

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	<i>In Millions.</i>	
	20 European banks.	6,137 U. S. Nat'l banks.
Circulation outstanding	\$3,567.6	\$517.9
Deposits	1,120.4	5,898.0
Total	\$4,688.0	\$6,415.9
Coin reserves held	2,525.0	464.4

Mark the fact that the great issuing banks of Europe hold 54 per cent of demand liabilities in coin, as against only 7 per cent in the United States.

Mark that, as records show, the total currency issues by all the other great European banks of deposit on June 30, 1906, approximated but 150 millions of dollars, and when the charters of the four German banks and those of Great Britain and Switzerland expire, the right to issue currency by all of them being doomed, there will be no one left in Europe to issue currency except these twenty great centralized banks and the new bank of Switzerland.

Do not the foregoing facts conclusively show that the progressive European nations each have one great issuing bank, which might be termed the governor to the engine, expanding and contracting automatically without distrust, because they have immense coin reserves and quick assets, and that the issue of credit or any other kind of currency by small, independent banks has practically been totally abolished all over Europe?

This result in Europe was evidently brought about through the dear school of experience. Let us touch upon a few most salient instances abroad.

France

John Law, nearly 200 years ago, after being turned down by the keen Scotchmen, captured the French people with his plausible populist inflation scheme, and history tells us that France did not recover from its terrible effects for fifty years. The statesmen of France, not content with the John Law experiment, in consequence of business depression in 1789, instead of manfully waiting for a natural return of better days, in response to the popular clamor for "more money," sought to take a short cut to prosperity by issuing heroic quack doses of fiat money for several years in succession. Just as soon as the effects of the first issues began to show symptoms of a reaction upon business, another larger dose was administered to the already staggering public.

The statesmen of France, in most eloquent perorations—which might be likened to some in these latter days—swayed the multitude so far that the intoxication for assignats grew until nearly 40,000 millions of francs were outstanding in 1797, a sum aggregating nearly three times our whole circulating medium to-day. With one fell swoop the French nation repudiated the whole issue.

The Bank of France was organized in 1800 with about \$6,000,000 capital, which at various times was increased, until to-day it is about \$35,000,000. It has power to issue notes with the following prerequisites, as dictated by Napoleon: "The notes shall be covered either by coin held by the bank or by notes secured by collateral or by notes signed by three responsible persons." A strong effort was made at that time to give the right of issue to the banks generally in France, but Napoleon answered in substance,—It is easier to watch one bank of issue than it is to watch great numbers. His logic exactly condemns the American Bankers' Association plan to-day. What has been the result in France? The foregoing table shows:

	<i>Millions.</i>
Circulation	\$908.8
Coin on hand is 88½ per cent of circulation	803.4
If we add the deposits of	189.1

to circulation outstanding, the bank still would show about 73 per cent of coin against all liabilities, as against 7 per cent for the national banks of the United States. We must not forget also that the \$255.3 millions of loans are of a much more liquid character than are those of the national banks generally throughout the United States.

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The Bank of France has been managed with such consummate skill that even during the Franco-German war the depreciation of its notes was only 4 per cent. It also during the past century rendered invaluable aid by loaning coin to the Bank of England during several crises in Britain. The bank, with its vast coin reserves and quick assets has been enabled to loan freely all solvent parties under panic conditions, thus undoubtedly preventing panics at times, and it has steadied the financial convulsions in France for a century. The Bank of France has had the sole right of issue in France since 1848. Its uncovered currency is about 120 million dollars, which indicates no currency inflation in France as against 900 millions in the United States.

England

The Bank of England was chartered in 1694. Although it was of great value to mercantile interests in several financial crises, yet as the bank had limitless authority to issue notes, and there was no rule as to coin reserves from 1694 to 1844, at which date Peel's Act "gave the Old Lady of Threadneedle Street the straight jacket she has worn ever since." Bagehot, in his classic work entitled "Lombard Street," says, "This unbridled authority was in more than one instance used with the extremest unwisdom, so that devastating panics followed hard upon the heels of the reckless speculation which too great facilities for borrowing had engendered." Such dearly-bought experiences ought to warn us against easy methods of inflation. English statesmen battled for a quarter of a century with the subject of whether gold was at a premium or a redundant quantity of Bank of England notes at a discount. The question was finally settled in 1816 by the adoption of the profound "Bullion Report of 1810." The integrity of her gold standard of payments has since been maintained with a fidelity that commands the admiration and confidence of the whole world, to the extent that London is the world's clearing house, and practically all the nations of the earth pay tribute to Britain. The paramount question to us is, how soon will New York City displace London as the world's clearing house, if we keep on injecting more non-standard currency into our already redundant currency issues?

Under Peel's Act, the banks of Great Britain in 1844 were restricted on issues of bank notes to the amount then outstanding by the banks then existing. Seventy per cent of the right of issue of those banks which have closed since 1844, has reverted to the Bank of England, thus reducing the total uncovered issues allowed to banks in general, all of which are subject to the unlimited liability act as to note issues, to the small sum of approximately £8,000,000, and has increased the issues of the Bank of England since 1844 from £14,000,000 to about £18,175,000 based on securities. All other issues of the bank are covered with gold coin or bullion, thus making the notes practically gold certificates and giving the Bank of England the sole right of issue in Britain. The total uncovered issues in Britain average about \$120,000,000, of which \$90,000,000 are Bank of England notes based on government securities. Scotch banks, so much harped about, can issue but £2,676,350 uncovered notes. As extraordinary troubles require extraordinary remedies, in order to ameliorate some of the calamitous panic conditions which have overtaken Britain, history says, the Bank of England in 1847, 1857 and 1866, after the panics had paralyzed her progress, on the assurance of the government officials

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that no prosecution would follow, suspended the bank act as to issuing notes only on the deposit of a like amount of either coin or bullion, and it issued notes to the banking department on deposit by it with the issue department of ample securities. This was an unlawful act, giving elasticity to the currency, but it placed the banking department in an easy condition to "discount freely to all solvent parties." Again, in 1838, the bank borrowed £2,500,000 from the Bank of France during panic conditions, and in 1890, during the Baring troubles, she borrowed £3,000,000; besides £2,000,000 from outside sources, and the panics were stayed. The Barings failed for \$105,000,000 and yet their indebtedness was liquidated by the Bank of England with the aid of other local banks without general suspension of cash payments as experienced in the last months of 1907 in the United States. The apparent necessity for these extraordinary acts was that the country had reached a commercial crisis where good securities could not be sold for cash. Suspension and consequent ruin were staring sound commercial houses and banks in the face.

In each case the action of the bank afforded instant relief and doubtless saved hundreds of millions of dollars to tottering houses unable to meet payments except for such relief. As soon as the pressure was over the illegal issues were retired.

These unlawful acts were parallel to our clearing-house certificates, except that clearing-house certificates have but limited use, whereas the Bank of England notes satisfy the insane demands of frightened depositors and give sufficient elasticity to meet necessary demands for loans to solvent parties so that the wheels of commerce be not stilled. Should the Bank of England be legally empowered to relieve extraordinary pressure on the same lines as in 1847, 1857 and 1866 before paralysis takes place, the benefits undoubtedly would be incalculable. Nearly all political economists criticize this feature, which seems to be the only material defect, without which the Bank of England would be ideal in practically all respects.

Germany

With the exception of only four banks, which are allowed to issue say eighteen millions of dollars of uncovered notes—and these privileges are doomed—the Imperial Bank of Germany monopolizes that right. The bank is allowed to issue now about \$112,500,000 uncovered circulation under certain restrictions. Any excess over that sum must pay 5 per cent interest per annum to the government. This excess issue is the only true method by which to obtain relief under panic conditions, as the interest rate will certainly retire the redundant currency as soon as the pressure for funds is over, thus preventing inflation.

It is a noteworthy fact that the Imperial Bank of Germany has raised its discount rate to 7 per cent but once in thirty years, except during our panic of 1907, when its rate was raised to 7½ per cent. It is also a noteworthy fact that during that thirty-year period the bank issued such 5 per cent taxed currency 121 times as a relief measure under pressure. The Austro-Hungarian bank did likewise under similar conditions fifty-five times in the past eighteen years. In the face of the fact that interest rates are lower there than here, such 5 per cent taxed currency automatically expands under pressure and contracts as soon as the pressure is over, thus preventing inflation. This fact defies theory and upsets the absurd claim that a high taxed currency imposes such a tax on commerce that banks will not use it. Germany's uncovered currency averages say \$150,000,000, which is a wide contrast to our \$900,000,000 and over.

But enough. These details and the foregoing table are conclusive evidence that elasticity in Europe, by an evolutionary process, has been achieved without producing distrust or inflation.

Issuing Currency is not a Necessary Banking Function

Further, it does not seem to be a necessary function of banks generally in Europe to issue currency at all. As state and other

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Issuing Currency is not a Necessary Banking Function

Further, it does not seem to be a necessary function of banks generally in Europe to issue currency at all. As state and other banks in the United States issue no currency, I assert the special privilege ought to be abolished as to the other third, as soon as the banks owning the abnormally low rate 2 per cent interest bonds can obtain payment for them. Banks holding them run great risk of material depreciation should the government for any cause be compelled to issue large sums additional. Let the United States sell its bonds strictly on their merits, as every other nation does. This result ought to be brought about by a slow evolutionary process, and under natural economic laws the channels of circulation would automatically fill the vacuum created with the world's standard—gold. Adam Smith gives an illustration in point in his "Wealth of Nations"—"Money, like wine, must always be scarce with those who have neither the wherewithal to buy or the credit to borrow it. Those who have either will seldom be in want of either the money or the wine which they have occasion for, and a country that has wherewithal to buy gold or silver, will never be in want of those metals." I am strongly impressed that the United States has the wherewithal to buy all the gold and silver we need for a basis of our circulating medium. If some of the poor sections of our country are short on circulation, is it not because they are also short on collateral or wherewithal to buy it?

The Lesson from American History

Let us turn to the United States without specific reference to the disastrous results of continental currency in the eighteenth century, which might be excusable, as the birth of the nation was at stake. The "History of Banking in all Nations" says, in referring to all banks of issue from 1739 to 1841, "The estimated losses on their circulation were 18.1 millions of dollars." Again, on page 337—under "Free and Safety Fund Banking in New York State," "the notes of twenty-five of them were rejected, and all the safety fund notes were at a discount." Again, "In December (1840), it was reported that few brokers would buy the notes of any free banking association," "and the notes of many of the safety fund banks of the interior are regarded with great distrust." John J. Knox, in his history says that from 1789 to 1864 "the probable losses to noteholders were about 5 per cent per annum." Further, the circulating notes of the state banks were subject to violent expansion in times of confidence and sudden contraction when distrust occurred. The runs on the banks were not made by the depositors (for they were few), but by the noteholders.

The pages of these authorities, as well as many others, are strewn with proofs of the sickening details of losses to noteholders, caused by bank issues, some based on credit and others based on various collaterals, clear through the eighteenth, and even past the middle of the nineteenth century. Because much of the currency issued during the latter period was secured by collaterals instead of being a pure credit currency, the nineteenth century experiences lessened materially the comparative losses to noteholders everywhere, but still they were calamitous in results up to the end of

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the "wild cat" days in the United States. Two generations have passed since then wherein no man has lost a moment's sleep over his absolutely secured national bank notes. We ought not to need, like children, to be told to keep away from the fire. We ought to profit by the experience of the past before trouble overtakes us again.

That word "elasticity" is a sweet morsel to play upon the credulity of an innocent public. It has worried the political economists of all ages. Its ghost still stalks forth in this enlightened day.

Panics and the Monetary Standard

All property was measured in depreciated currency in 1865, when gold was 100 per cent premium and over. Then the premium began to decline year by year, and all property in proportion, until 1873, by which time values had shrunk to about one-half of the prices of 1865. This process undermined all prosperity and was the underlying cause of the panic of 1873. After specie payments were resumed in 1879 confidence and prosperity revived with a bound, and they have been forging onward and upward ever since at a pace which has astonished the world. A campaign of education has been constantly and successfully waged toward the establishment of the world's standard—gold—upon an unequivocal foundation. Distrust of our standard halted us from 1893 to 1896, when the repudiators were repudiated, and since that date the Gold Standard Act of March 14, 1900, has been written into our statutes, and thus the battle of the standards has been practically won. There are two links missing to complete the chain. They are the elimination of some of our redundant soft money issues, and the adoption of some sound relief measure when panic threatens.

Since 1896, when confidence was restored as to the integrity of our standard of value, the wave of prosperity has been almost continuously rising higher and higher. Under the impetus of rapid fortunes acquired by some Napoleons of finance since 1896, who foresaw that a swelling tide of prosperity was at hand, the get-rich-quick fever intoxicated the many. Nature has been generous in her bounties to us, thus aiding in the development of the rising tide. Another force has been the immense increase in the world's production of gold for the past few years, which doubtless has stimulated the activities and credit expansion of the whole commercial world.

During this period our credit system has grown to colossal proportions. As shown by official statistics, our banking power has increased from 5,150 millions of dollars in 1890 to nearly 18,000 millions of dollars on January 1, 1908, which nearly equals the banking power of the rest of the world. The individual deposits have more than trebled in that period, which largely represents actual not fictitious capital. The gigantic general statistics of our wonderful progress and present condition are too numerous and too well known to repeat.

During the past ten years our circulating medium has doubled in quantity, using 1,500 to 3,000 millions of dollars, until, as a basis for this mighty superstructure of credit, we hold the following amounts of the world's standard of value, that stands through storm as well as sunshine:

TABLE No. 2.

In gold coin, say	\$1,600,000,000
In addition we have:	
In silver (say one-half fiat) about	700,000,000
Legal tender notes	346,000,000
National bank notes, about	690,000,000
	\$1,736,000,000

By way of comparison with the most progressive nations, permit the following approximate:

TABLE No. 3.
In Millions.

	Gold.	Silver.	Uncovered currency.	Per capita circulation.
United States holds	\$1,600	\$700	\$900	\$35.50
Great Britain holds	559	117	116	18.08
France holds	1,032	400	120	39.94
Germany holds	917	200	180	22.18

This table shows the United States has nearly as much silver

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This table shows the United States has nearly as much silver as Great Britain, France and Germany combined, and more than twice as much uncovered currency as all combined. It also shows a per capita circulation almost equal to that of France, where cash instead of checks is used much more extensively than here. This per capita circulation is also so far in excess of either Great Britain or Germany that the redundancy of our currency must be apparent to all.

The Barometric Signal

In view of all these facts, even before the explosion caused by the wild speculation and pyramid banking of the Heinze, Morse, Thomas, etc., outfit; in view of the fact that a high interest rate the world over is the sure barometric signal that the great pyramid of credit has grown beyond the limits of prudence; in view of the handwriting upon the wall as recorded by all the standard authorities on political economy that optimism had outrun conservatism, and that the primary cause of our troubles is over-speculation, I will only quote in proof from one standard authority. Professor Sumner, in his "History of American Currency," tersely sums up the case as follows: "Over-speculation is speculation which outstrips the capital of the country;" further, "When we lose our heads in the intoxication of our own achievements, look on currency anticipations, which are only fictitious capital, as if they were real, use them as already earned, build other expansions upon them, then we bring a convulsion and a downfall; some time or other a liquidation must come: . . . then credit breaks down and there must be a settlement, a liquidation, a dividend, a new start." I say, in view of all these facts, I cannot understand why the powers that be in the great American Bankers' Association, who ought to be the leaders in conservatism, should undertake to bring about a sentiment to commit this country to eighteenth century fiatism again, by the issue—on top of our vast volume of soft money issues—of over two hundred million dollars of asset or credit currency, as a starter only, according to one of the most aggressive advocates, with only 5 per cent secured and 95 per cent fiat, under the plea of providing an elastic currency to move the crops, notwithstanding crops could not move faster, as transportation facilities have been taxed to their utmost for years. Who wants to move the earth to-day and lie idle to-morrow?

The American Bankers' Association Plan

The American Bankers' Association plan, boiled down and put in cold type, can fairly be diagnosed in this way:

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panic conditions? This is exactly what occurred in fiat money days. Taint our currency issues with a breath of suspicion, and our prosperity will be undermined as by an insidious disease. Even the first lien on assets, which would make the currency secure, but which would rob the depositors, is eliminated under this plan, thus increasing general distrust. Again, as the quick redemption theory will not work, which is now admitted by asset currency advocates, does any sane man believe that any bank in the United States with a right to issue asset currency, practically without collateral, paying only $2\frac{1}{2}$ per cent per annum for the use of it, in the face of a 6 to 10 per cent interest rate clear through 1907, would not have kept out the whole permissible amount for the profit in it, thus stretching the rubber currency to the limit. Under such conditions the reservoir would have been empty when the panic of 1907 struck us. Would not the very object sought, relief under panic conditions, be defeated? The result would simply spell inflation, and inflation spells disaster. Such currency would expand, but not contract. The currency committee seems to have lost sight of the fundamental principle of Gresham's law. Britain, after a campaign as long and as bitter as ours over the Gresham Law, and the expulsion of her gold by the injection of too many bank notes into her circulation, unequivocally adopted the gold standard in 1816. The integrity of that standard, as against the uncertainties of other national standards, has been maintained with a fidelity that commands the confidence of the whole world to such an extent that London has long been the world's clearing house. Will New York soon win that position if we inject an additional quantity of inferior currency into our circulation?

A wise man buildeth his house upon a rock, but the foolish man upon the sand. When the rain descends and the floods come and the winds blow, the wise man's house falleth not, but as to the foolish man's house, great is the fall thereof. Is not this a perfect simile to apply to the building up of the superstructure of our credit system upon a sound metallic currency for a foundation as against the shifting sands of a credit currency? The pages of history are strewn with proofs that when the great instrument of exchange is deranged, all trade, all industry, is stricken as with a palsy. That instrument of exchange recognized by the world as the solid foundation that does not totter when the storm rages in its severest intensity, is the only foundation for a prosperous people to rest upon; and to-day our coffers hold sixteen hundred million dollars of it. This is a billion dollar country, and we need these resources. This gold has come to us since 1873 in the natural course of trade, in response to the well-known principles of the Gresham laws and monetary science, as expounded by Mr. Adam Smith, Ricardo, Jevons, Sumner and many other eminent economists, and as also clearly set forth in what Professor Sumner dubs the most important document in financial literature, "The Celebrated Bullion Report of 1810 to the House of Commons." I have quoted these maxims before, but deep-seated error requires repetition of them again and again. Summed up these principles are:

- (1) The cry of all ages is for "more money."
 - (2) Rich countries will have all the coin they need, providing no impolitic act of legislation interferes to force it out of circulation by the injection of inferior currencies.
 - (3) When the coin in any country exceeds the effectual demand, no vigilance of government can prevent its exportation.
 - (4) It is the province of government to settle the quality question of money, and the needs of commerce will settle the quantity.
- In proof of the above maxims, history says, Chinese walls, jails, shot guns or hanging did not prevent exportation of coin, and in these modern days the object lesson of the exportation of more than thirty millions of gold in May and June, 1907, in the face of high interest rates and the plea of the asset currency advocates for "more money in the United States," is more potent than pages of logic. Let us fix the "quality" question and stop tinkering with the "quantity," as the needs of commerce will settle that.

With over 1,700 million dollars of soft money in the United States to-day, would not the injection of 200 to 300 millions of inferior asset or credit currency drive the same amount of gold out under the Gresham Law, thus undermining our metallic foundation for our great credit superstructure? Let us bend our ener-

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With over 1,700 million dollars of soft money in the United States to-day, would not the injection of 200 to 300 millions of inferior asset or credit currency drive the same amount of gold out under the Gresham Law, thus undermining our metallic foundation for our great credit superstructure? Let us bend our energies to increase our metallic foundation and reduce our redundant soft money issues, if we would avoid trouble as far as human ingenuity can accomplish it. The only true remedy to compel conservatism is to penalize over-expansion of credit, instead of adding an unsecured asset currency stimulant. Throw a life line out to the over confident, and he will be swimming beyond his depth continually.

Asset Currency Fallacies

The asset currency advocates are continually referring to the Canadian and Suffolk systems, also isolated cases in Indiana, Louisiana, Iowa and other states, as parallel to our conditions. Their arguments are as full of holes as a skimmer, and so-called parallels are as closely related as the Equator is to the North Pole. They are also continually quoting general European branch banking methods as systems for us to adopt. I stand with the masses of bankers of the country against a few great central banks owning all the banks of the country, because under that system, the branches practically pay no taxes where they are located; there is no real board of directors; few, if any, stockholders to whom dividends would be declared; in short the system simply skims the cream from the country towns to enrich the exchequers of the great centers, as is conclusively proved by the abnormally large profits made by the great central banks owning such branches.

A National Reserve Bank

As our independent banking system has worked wonders in the upbuilding of our hamlets and cities; as the quality of our money is unquestioned, and the quantity more than ample for normal conditions; as Europe has more nearly solved the "Elastic Problem" with fewer objectionable features than any plan yet

suggested; why cannot we reject as entirely unnecessary the general branch banking feature, continue, if thought best, the United States sub-treasuries, with modifications as to cash holdings, and bring about elasticity through a national reserve bank. Such a bank would be owned by the banks of the country, and thus the profits would be theirs.

The capital stock might be \$50,000,000 and be taken in sums of not to exceed 5 per cent of the capital of each subscribing bank, to prevent monopoly. The Comptroller of the Currency and Secretary of the Treasury should be members of the Board of Directors. The National Reserve Bank, if such we may call it, might have authority to issue up to \$250,000,000 of national bank notes, as an experimental limit, under a tax of 6 per cent to drive it home as soon as pressure is over.

Again, under strained conditions, or when frightened depositors are demanding cash, and solvent merchants and manufacturers are calling for loans to pay bills and keep the wheels of commerce from being stilled, where is the banker that will not temporarily provide cash, if possible, at 6 per cent or even a higher rate, if necessary, instead of slaughtering sound securities in a hard market? Do not many bankers when capital demands exceed supply, get rediscounts now, and is much comment made unless rediscounts become excessive?

No interest should be paid upon deposits, nor should loans be made upon stocks, thus giving no aid to the stock gambling element. Such issues should be loaned only under conservative restrictions on quickly convertible securities. I believe if such a bank had been open in October, 1907, the panic with its train of evils might have been avoided, because the gamblers who were the cause of the outbreak could have been refused aid and thus have been weeded out as a future menace. The sound and solvent banks of New York could have been furnished with all the cash needed, because they have ample sound collateral. The country calls for balances in New York could have been promptly met with cash. Suspension of cash payments then would not have been necessary, and the result would have been that the whole country would not have been compelled to restrict cash payments nor to issue clearing-house certificates.

On the other hand, if the American Bankers' Association's $2\frac{1}{2}$ or 3 per cent currency plan had been authorized last winter, the full limit would have been out for the profit in it when the panic struck us. The National Reserve Bank plan will accomplish the object sought in an absolutely sound manner; it will checkmate locking up cash, as was done many months ago by a bear to the extent of \$5,000,000 in an attempt to bring on another Black Friday onslaught. The banks of the country will not hoard money in excess of needs, because they will know relief is at hand if needed.

It will not lead the bankers of the country generally to further expand their credit and thus feed the fires of speculation which have already gone beyond the limits of conservatism. It will not drive gold out of the country under Gresham's Law by the injection of any more inferior currencies, which must be avoided if our standard of values is to be maintained, and if New York City is ever to become the world's financial center. It will furnish cash at all times when necessary to move the crops. Under panic conditions it will loan to all solvent parties that the wheels of commerce be not stilled and general paralysis result. The rate of interest will automatically drive home the extra issues as soon as confidence is restored; inflation will not result and the machinery will be ready for the next urgent call; 10, 20, 50, 100 per cent money will be unknown; the Secretary of the Treasury will heave a sigh of relief from pressing importunities; every bank in the country, whether national, state, private, savings or trust company, will, directly or indirectly, get relief if entitled to it. In the matter under discussion clearly the trend of all progressive countries is toward the concentration of the power to issue currency.

If this plan cannot be accomplished, then the plan brought out by the Senate Finance Committee, as a modification of Treasurer Treat's plan, will accomplish the relief sought, by the issue of extra currency amply secured to prevent distrust, with a tax sufficiently high to prevent inflation. These requirements are the main essentials.

A third plan, which would accomplish the relief sought, would be the issue of currency based on clearing-house certificates, such as have been lately issued. Such certificates should be deposited with the United States Treasurer as security for such issues. It is cash that fills demands and kills panic.

I prefer the central bank plan, because the machinery works smoothly and automatically, more so than under the second plan, and much more so than under the third. All three are sound, and infinitely better than asset currency, which will only produce distrust and inflation. Confidence upbuilds, distrust destroys. Statesmanship alone should reign. Whatever plan is provided, our standard of value should never be tarnished, because distrust breeds panic. On the contrary our currency should be above suspicion, that confidence, the great bulwark of all progress may be ours to the fullest possible extent.

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(1) National banks (none others need apply), big and little, in city or country, can indite a letter as follows:

COMPTROLLER OF THE CURRENCY,
WASHINGTON, D. C.

Please send to this bank the \$25,000, \$50,000 or \$100,000 of asset or credit currency to which it may be entitled; keep 5 per cent of it on deposit as collateral security; express the other 95 per cent to us, and we will return the same to you at our pleasure, plus 2½ per cent per annum.

Very respectfully,

.....
Cashier.

(2) The Comptroller of the Currency shall designate numerous redemption cities conveniently located in various parts of the country. Through the agency of the banks in such cities adequate facilities shall be provided for active daily redemption of credit notes. (The advocates of this redemption plan now admit it impractical, so no answer to it is necessary.)

(3) A bank (credit) note is essentially the same in principal as a deposit payable on demand. This is an amazing conclusion. Political economists say, "Coined credit" in the shape of I O U's. issued by banks is fictitious capital. A deposit generally represents actual capital, so no further argument on that point seems necessary.

In reply to the foregoing I issued the following five challenges in a debate before the State Bankers' Association of Minnesota in July, 1907, in response to John L. Hamilton, ex-President of the American Bankers' Association, who advocated the American Bankers' Association plan, to wit:

(1) I respectfully challenge any member of the currency committee or any advocate of asset currency to point to a single progressive country on the earth where small, independent country banks are allowed to issue currency backed by only 5 per cent collateral, the remaining 95 per cent of such currency being purely fiat.

(2) I challenge any man to prove that easy methods of issuing currency have not been discarded in all progressive nations.

(3) I challenge any man to disprove the fact that, with but few exceptions, where charters have not expired, in all progressive nations, only great centralized banks, with very large reserves and rigid restrictions as to loans, are allowed to issue currency at all, and the right to issue is limited under rigid restrictions referred to later.

(4) I challenge any man to prove that the method of redemption proposed—which the asset currency advocates claim as the crucial test of success or failure—has any parallel on earth, or affords any practical assurance that it will work under our banking system.

(5) I challenge any man to prove that "a bank note is essentially the same in principle as a deposit payable on demand," or that "it resembles in character . . . a current deposit liability of the bank."

After the debate what was the verdict of the Minnesota jury? The answer is found in the unanimous condemnation of the American Bankers' Association plan, as will be seen by the passage of the following resolution:

WHEREAS, The prosperity of our country is due in a large measure to the absolute confidence of our people in our present currency, be it

Resolved, That while we are strongly in favor of some well-secured method to relieve monetary stringencies that will not produce inflation, yet we are unalterably opposed to any plan or change in our currency that does not afford absolute security; hence we do not look with favor upon the plan proposed by the American Bankers' Association committee.

Later, after listening to John Perrin, President of the American National Bank of Indianapolis and member of the association currency committee, in favor of its plan, the State Bankers' Association of Wisconsin passed the same resolutions with only two dissenting voices. Still later,—after the meeting of the American Bankers' Association at Atlantic City, when, with practically an empty house and under discreditable conditions, the plan was apparently endorsed,—the State Bankers' Association of Indiana, after a full debate on the same subject, where O. A. Watts. Presi-

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These facts, representing the judgment of bankers when a fair hearing could be had, indicate clearly that the banks of the country generally are against fiat money. The committee of the American Bankers' Association evidently doubted the soundness of their own proposition, as is evidenced by the self-indictment contained in the following quotation taken from the Atlantic City currency committee reported to the convention:

In all our recommendations principle has, to a greater or less degree, been subordinated to practicability. We have recommended, not what we believe, in the light of experience and existing conditions, to be best for the interests subserved, but what, in the light of existing political conditions, we believe to be attainable, not what was best, but what we might reasonably hope to obtain.

President Roosevelt's Opinion

President Roosevelt clearly grasps the essential weakness of the plan, as will be seen in the following quotations from his last message to Congress, when he refers to the absorbing currency question:

We need greater elasticity in our currency; provided, of course, that we recognize the even greater need of a *safe and secured* currency, . . . Provision should be made for an emergency currency. The emergency issue should, of course, be made with an effective guaranty, and upon conditions carefully prescribed by the government. *Such emergency issue must be based on adequate securities approved by the government and must be issued under a heavy tax. This would permit currency being issued when the demand for it was urgent, while securing its retirement as the demand fell off.*

And now comes the Finance Committee of the United States Senate with a bill, in all its essential features, demanding absolute security for all issues to prevent distrust; with such a high tax—6 per cent—as will bring such currency out only under stress, and will surely retire it as soon as pressure is over, thus preventing further inflation. These essentials seem to be ignored under the American Bankers' Association plan, because, under it, the currency, if issued, would be practically unsecured and would still further inflate our circulation.

The American Bankers' Association plan undoubtedly would arouse distrust in the minds of the masses, especially in troublous times, when it is of paramount importance to allay distrust. When panic is on, as the asset currency advocates claim a deposit is the same thing as asset currency, and local depositors are clamoring for cash, why will not eighty million holders of such currency demand coin on their notes, thus more than doubling our troubles under

AN ELASTIC CREDIT CURRENCY AS A PREVENTIVE
OF PANICS

BY WM. BARRET RIDGELY,
Comptroller of the Currency.

The commercial and financial conditions existing not only in the United States, but throughout the world, in the early part of October, 1907, which made a panic or crisis possible, were the accumulated and composite results of the business transactions of many years. A reaction in business was due and inevitable, in fact, it had for some time been in progress. The exact incident which precipitated the crisis, and produced a panic, is not very material. If it had not been the collapse of the corner in United Copper stock, it might have come from the Westinghouse receivership a few days later, or from almost any one of a number of similar developments which were not only possible, but probable.

The expansion of business and inflation of credits, whether based on transactions which would be classed as perfectly sound and legitimate, or on semi-speculative ventures, or on speculation pure and simple, had reached the point where there had to be some settlement and liquidation. While it might not be difficult to assign any single transaction to one of the before-mentioned classes, it is impossible to separate the results on the general business situation and say just which added to and produced the catastrophe, and which did not. The time had arrived when some one had to pay the penalty for the indulgences of the past. The reaction and liquidation were not only absolutely inevitable, but necessary and desirable, in order to bring business of all kinds back to its normal condition. This should have been accomplished, however, in a much more orderly, quiet way, as it had been taking place for months, without the resulting excitement and foolish sacrifices incident to any condition of panic.

There never is any necessity for a panic and this, of all others, should never have taken place because the conditions did not justify it in any way. Least of all, should we have had a panic among the banks, and this particular panic might easily have been avoided. In its place we might have had a more reasonable and orderly readjustment of credits and values if we had had a better system of currency and a better system of banking, both national and state. A better system, I say; not better banks.

We would also have been in a very much better position if the relations between the business world and the Treasury Department had been on a different basis: if the Treasury Department had been either entirely out of business and free from responsibility as to business conditions, as it ought to be, or if, being in business, it had had the proper facilities to deal with the situation as it arose.

I have no criticism to make of the operations of the Treasury Department, but, on the contrary, from my experience during the three administrations of Secretaries Gage, Shaw and Cortelyou, I believe they are all entitled to the highest praise and commendation for what they have done to make the best of bad situations, with antiquated, complicated and cumbersome facilities, often little better than mere make-shifts.

Mr. Cortelyou, for instance, has done splendid work in the relief he has rendered in the last few trying weeks, by distributing government deposits and stimulating bank circulation, when it was so desperately needed. He has shown himself to be a strong, courageous, resourceful man, in a great crisis, and is entitled to all credit for it. The deposits of the government with the banks, have been very potent in checking the panic and restoring confidence, and on this account we find many men commending such a system of government finance. It is true the most has been made of it, and it has been done with not only fine ability, but with absolute fairness, with no end in view but the public welfare. But look at the situation. The United States Government has collected from its people \$245,000,000 surplus, above its necessary expenditures, and in order to restore this money to circulation and repair the damage done to business by its withdrawal, has had to deposit \$222,000,000 with the national banks; and when the supply of government bonds gave out, has had to accept various other bonds as security.

This is all that could be done under the circumstances, but the surplus should never have been collected to such a vast sum. The government should not take money from you and me when we need it, just to keep it on hand as a panic fund. It is no proper governmental function to tax people for such a purpose. If it is

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This is all that could be done under the circumstances, but the surplus should never have been collected to such a vast sum. The government should not take money from you and me when we need it, just to keep it on hand as a panic fund. It is no proper governmental function to tax people for such a purpose. If it is conceded that the government should take a hand in such business, what an awkward, complicated method it has of doing the business. What a wasteful use of the money available.

The government should collect its revenues and make its payments as every one else does, through regular banking channels. The money should stay in the banks and the smallest possible amount should be withdrawn from circulation. If the national banks are not satisfactory for such use, we should have a central governmental bank to do the government business. The funds left in its hands would be available for use by the other banks for business of all kinds, either as reserves against circulating notes issued, or as loans and rediscounts to the banks. With such facilities as this at its command, the Treasury Department could prevent panics and keep business steady, instead of only being called in like a doctor to see a patient after he has become desperately ill. What we need is better hygienic and sanitary conditions and less medicine. The whole system is wrong, and requires change and readjustment.

While we are yet probably too close to the incidents of this panic to be able to properly judge of the causes and effects, we may now, while these matters are fresh in our minds, and their results have been brought home to us with such force, take account of those things which have made the trouble, and at once begin to devise means not only to repair the damages done, but, much more important, to foresee the future, and make provision on proper principles for such changes as will avoid such troubles, or mitigate the effects of the disturbances which cannot be prevented.

It is needless to go into details as to the events which produced the business conditions existing in the United States for the last six months or a year. Everyone is familiar with the great expansion in business of every kind which has taken place all over the world. Probably the most potent factor in all of this, if it is not the sole cause of it, has been the enormous increase in the production of gold, which has more than quadrupled in the last few years, and is now at the rate of about \$430,000,000 per year.

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It is this, more than anything else, that has more than doubled selling prices of wheat, corn, cotton, pig-iron, steel, copper and all the great staple articles of wealth which are the basis of all modern commerce. While this was going on, it was absolutely inevitable that there should be a great increase in the volume of credits not only in all the banks, but between merchants and manufacturers, between wholesale merchants and retail merchants and so on, through all the lines of business transactions. There is no country in the world, and no line of business, which has been free from it. It has led to an increase of what may properly be called legitimate investment values not only in mines, manufactures, and mercantile concerns, but in real estate of all kinds; city and suburban lots, farms, and tracts of timber. It has increased the prices of not only sales and transfers of the actual properties themselves, but of mortgages, stocks and securities based on them.

It is not only natural, but probably inevitable, that all this expansion should be overdone, for side by side with the transactions of men who are making such investments carefully and conservatively, based on real values, were those of men who, some through lack of judgment and over confidence, and others through dishonesty, were promoting schemes and issuing securities based on far higher values than were justified. This universal process of expansion and increase of values, has been, on the whole, based on sound conditions and justified by the facts, but it has been evident for several years, that we were approaching the crest of the wave, and there must be some slackening of pace, and almost inevitably some reaction or decline in prices.

It must be remembered that this expansion started from the abnormally low values and basis which had followed the crisis and depression of the year 1893, and the few years following. Wealth at that time was measured on an abnormally low plane of values. It was not only perfectly proper, but highly desirable, that they should be increased. This has gone on, however, as events have shown, until the limit has been reached. The natural limit of all such movements is the amount of reserve money which can be held by the banks as the basis of their credits. The proportion of this has been growing less and less for several years, and for at least two or three years there has been a condition of scarcity of reserve money; not only in the United States, but in all other countries.

Another important factor, and in some respects the most important, is that such an enormous proportion of the existing credits has been transformed from liquid capital into fixed capital and investments, leaving a scarcity of liquid capital for the enterprises which were in operation. It has been this, more than anything else, probably, which has led to the necessity for a contraction of credits and more or less liquidation.

During this whole period of active business, there have been many times when conditions have brought about violent reactions in the stock market. There have been several stock market panics, notably such as the one which occurred March 9, 1901, any one of which might have produced a far more serious bank panic than that which occurred in October, 1907, if business conditions had not been found so entirely sound that the disturbance was practically confined to the stock market alone.

During the past few years there have been several periods of marked depression although they have not been of long duration, nor accompanied by any considerable number of failures. Why, then, should we have had a banking panic of great severity in October and November, 1907? It cannot be that it was entirely due to speculation, for this existed in much less volume when the panic occurred than it has in several other periods when it produced stock-market panics. The more speculative loans were far less in volume in October, 1907, than they had been a year ago. The main difference in the situation must have been that we were one year farther along in the period; that the whole world had come to realize that there had to be a readjustment; that many of the largest and strongest concerns, as is well-known, found difficulty in renewing their old loans, and foresaw that they were soon to be compelled to reduce the volume of their operations.

Conditions during the summer of 1907 were becoming more and more acute, and were greatly strained when the demand came for the crop-moving funds. The total volume of credits was up to the maximum that could be carried on the reserve money available. When the withdrawal of deposits in the demand for crop-moving money came, it was necessary for the banks to supply this with reserve money. As far as this money had to go into circulation outside the banks, it made a reduction in loans to that extent inevitable.

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If our system had been such that the country bank first, then the reserve city bank, and finally the central reserve city bank, could have supplied some form of credit notes in payment of their deposits, the situation would have been entirely different. If we had had such a system of notes as they have in Canada, for instance, which expands quickly and automatically in the fall of every year, when this demand comes, and contracts just as surely by February of each year, there need have been no apprehension in regard to the crop-moving period. There would have been no variation in the volume of credits at all. Reserve money in the banks, which was ample for the deposits, would have been ample for the credit notes, if they had been available.

It need have made no difference at all in the total volume of credits. The total of note credits and deposits would have remained the same with the same reserve against them. No one need have cared how much the people changed their credits from one form to another, and there would have been no panic among the bankers as to the effect of a demand for current cash. No disturbance of payments, collections, or remittances. People who were insolvent or too badly extended might have suspended or failed, but the man who was in good solvent condition need not have been fearful, least of all panic-stricken.

Instead of this every banker was at once compelled, in self-defense, to increase the amount of cash on hand. That is, instead of maintaining his reserve at practically the same point and changing his deposit credits into note credits, he had to meet his deposit credits in reserve money, and to call upon his reserve and central reserve agents for it. When a demand of this kind came suddenly upon the country it was not surprising to find that deposits which had been counted on as reserves were not reserves at all because they were not available. This developed at once the two inherent weaknesses and defects in our banking system; the lack of any elasticity or expansibility of the currency, and the uncertainty of the system which piles reserve on reserve, first in the reserve cities and then in the central reserve cities.

The way to cure this trouble and prevent recurrences of events of this kind, is to give the banks and the people who are their depositors some proper system of elastic credit notes and to compel banks to carry against these notes and their deposits, larger reserves on hand in cash, and kept there reserves in other banks where they will surely be available.

The experience of all the rest of the world, in every important

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country, has shown that the best way to accomplish this result is by means of a strong central government bank which will handle the finances of the general government, act as reserve agents for other banks and have the sole right to issue credit bank notes. This bank should be under government control, and subject to severe government supervision and inspection.

Among students of these problems the opinion is steadily growing that until something of this kind is done in the United States, we shall never have such a financial system as we should. With such an institution as this in operation, there could have been no excuse at all for such a panic as occurred this fall. Months ago, a central bank could have brought about such a gradual contraction of loans, and such reduction in the volume of business, as would have enabled us to meet this situation quietly and calmly without anything approaching a panic. Speculative corners might have collapsed, trust companies with large lines of commercial deposits unprotected by reserves, and invested largely in speculative ventures might have failed or have been liquidated, manufacturing concerns with inadequate capital attempting to do too large a volume of business with borrowed money might have been forced to suspend or submit to receiverships, mercantile concerns which had been able, through note-brokers, to dispose of such a volume of notes that their failure to renew brought on embarrassment might have been tided over and given extensions;—all without any bank panic if we had only had the advantage of a great public bank. The people who are engaged in smaller lines of business would thus have been spared the losses and embarrassments due to such conditions as have existed within the last few weeks.

As long as modern business is conducted on credit, as it must be, there will inevitably be periods of expansion and inflation which culminate and are inevitably followed by periods of liquidation. No one has ever suggested any means by which this can be avoided. With the knowledge that such conditions must exist, it is the highest duty of the government to provide proper means for dealing with them. Until this is done, we have only ourselves to blame for such a panic as has occurred within the last few weeks. It is useless to blame it to speculation. It will not cure the evil to prohibit speculation in grain futures, or trading in stocks on margins. These are all only incidental to the great movements which we have been tracing. They do not cause the expansion of business, and do not bring about its collapse. It is still more unjust to blame such a condition upon the national administration, the acts of the legislative authority, or of the administrative officers.

Nothing can be more unfair and unwarranted by the facts than the efforts of his enemies and critics to put the blame of this panic on President Roosevelt. He is in no way to blame for the general conditions which were world-wide and far beyond the power of any man to prevent. He is not in the least responsible for the special incidents which started the feeling of panic among the banks, and led them to go to clearing-house certificates and a partial suspension of payments. There is far more blame due to those critics of the President who, for months before there was any condition approaching a panic, seized upon every remark made or action taken by him, and predicted its disastrous effect on business.

If this panic is in any way due to talk and prediction, the President's critics have done their utmost to produce it by their doleful lamentations and pessimistic predictions of what would happen if the President did not change his policies in regard to the enforcement of the laws. It is significant that the trouble started, and has been worst, in New York, where there has been the most criticism and abuse of the President and where he is supposed to have the most opposition. There has been less panic and trouble in the country, in the West, and among the smaller business men, and the working people where the President has always been the strongest, and where anything he has said or done would surely have the greatest effect.

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This whole episode has been more a panic among banks and bankers than among the people. Except in the City of New York, there has been surprisingly little excitement among the people, and very little distrust of the banks. That there have been so few failures and that the panic has been no worse, has been due to the intrinsically sound condition of the banks and the business of the country, to the wonderful courage, patience and forbearance of the business men and people. They have quickly adapted themselves to the necessities of the situation, and availed themselves of every possible temporary expedient to get along until the excitement was past. This has been especially true of the working people and the smaller depositors, who in many notable instances, have acted in concert with great coolness and deliberation, to support their local banks and to share their portion of the burden.

The critical period has passed with surprisingly few failures. Conditions are improving daily; banks are resuming payments and remittances, and the panic is a matter of history. We have yet to face some depression in business, and have to undergo the somewhat painful, but very necessary process of reducing expenses, practicing economy, and paying our debts. But there is nothing that pays an individual or people better, and when matters are readjusted, and prices are on a better and more stable foundation, no one who knows our country and people, our resources and powers of recuperation, can doubt that in a short time our business will again proceed on a sounder and more durable basis. Our prosperity, while less spectacular and sudden, perhaps, will be greater than ever before.

RELATION OF A CENTRAL BANK TO THE ELASTICITY
OF THE CURRENCY

BY JACOB H. SCHIFF,

Senior member of the firm of Kuhn, Loeb & Company, New York.

The storm which has recently broken loose has not yet entirely subsided. The causes of the financial trouble which has come upon us are hardly understood yet, but with typical American courage, we are looking already for the remedies, not only to retrieve what has been lost, but also in the desire to gain protection for the future against the recurrence of a disaster similar to that which has overtaken us.

The physician who would want to find proper remedies must first know and understand the origin and seat of disease. We should therefore, carefully inquire into the causes of this crisis, which has come upon us almost in the midst of an era of unprecedented prosperity.

To me it appears the answer is not surrounded by much doubt. The origin of the crisis is to be sought mainly in too great an expansion of enterprise of every nature, both corporate and individual. This, as a consequence, caused a straining of financial requirements, and particularly of credit, beyond legitimate limits. "Prosperity run riot," expresses perhaps best the condition, which existed and which brought us to our present plight. Nothing is probably more largely responsible for the breakdown, than the obstinacy with which new enterprise became fostered; the enormous volume of business which was developed in every quarter, even in the face of a steadily increasing money scarcity, and, further, the stubbornness with which it was insisted that the country was so prosperous and rich that particular caution and prudence were not needed. The march forward was made with a totally unprotected rear.

Look only at the number of so-called trust companies, called into being during recent years, and which under a false flag bid for and attract millions upon millions of deposits, to be used not for legitimate banking, but for illegitimate promotion, from which funds could not be withdrawn when their return was asked for by those to whom they belonged. And not alone in financial quarters had developed this prosperity madness—industry and commerce, prudence had likewise been thrown to the winds. The manufacturer and merchant, when warned that he was expanding too largely—that he was straining his credit in too great an extreme—scornfully rejected the advice to go at a slower pace. His answer almost invariably was that the demand for his goods was great; that his customers were in good condition, and that anxiety and complications existed only in Wall Street. He overlooked the fact that the basis of the large volume of business, which he thought he was doing legitimately, rested, to a great extent, upon the very over-expansion of enterprise represented by the inflation of corporate securities he was criticising, and that the collapse in security-values would have inevitably to be followed by a breakdown of the general business of the country.

And now, as a panacea for the ills under which we are suffering, a sudden demand has sprung up throughout the country for currency reform. Proposed by the few who foresaw and foretold what was coming, as a partially protective measure, the warning to reform the currency was, when it was sounded, described as a scheme of banks and bankers for selfish purposes, and became almost lost, like a cry in the wilderness. Had it been heeded, the present crisis might not have been entirely prevented, but it would never have gone so far in upsetting the business of the entire country. Let it be said, however, and well understood, at this juncture, that currency reform, imperatively needed though it is, can in itself never furnish protection against the consequences of unsound and illegitimate business methods. A properly constituted circulating medium, can furnish in times of financial difficulty a palliative, but without simultaneous reform in the unsound practices, which, to so considerable an extent, have governed the affairs of financial institutions, currency reform will be of little avail.

The action of the Governor of the State of New York, who, with statesmanlike sagacity, has just taken action with a view to correct the shortcomings, which have been laid bare, through the medium of a commission, which is to report upon a revision of the banking laws of the state, should be particularly welcomed.

I shall not enter here into a discussion, to which I have already furnished my quota upon earlier occasions, of any particular scheme for the reform of the currency. So much has already been said, written and published upon the question of currency reform, so many propositions have been made by all sorts and conditions of men as to methods, ways and means, through which is to be secured what is needed, that with the meeting of Congress just upon us, it had perhaps now be best left to the wisdom of our national legislators to embody some measure into the form of law, which to them shall appear to best satisfy the demands and needs of all sections of the country; Congress will, in all events, have at

2—SCHIFF—ANNALS.

its disposal rather a long catalogue of currency reform plans to select from.

What we are most in need of at this juncture, is the enactment of a measure, through which the circulating medium can be made to respond promptly to a *diminished* money demand. We have, during recent years, with the enormous expansion in enterprise and general business, no less than in the few weeks since this crisis has come upon us, been rather liberal in the creation of paper currency. If we are not careful, we shall before long find ourselves face to face with so large a volume of paper money, that gold will inevitably be driven out. Otherwise, some day, when this mass of paper can no longer be digested, we may be face to face with a depreciation in the standard of credit of the government, as expressed by the market value of United States bonds.

Expansion of the currency, when legitimately needed, will, under proper provision for this, take care of itself, if only in any scheme for the reform of the currency, proper provision be first made for the promptest possible contraction of the circulating medium, when its volume becomes too large for legitimate requirements: Nor is it likely that any scheme for the issuance of a circulating medium will prove permanently satisfactory, which shall clothe 6,000 banks with the privilege of issuing credit currency, each for itself. No matter how completely the safeguards proposed to be established through the creation of a guarantee fund may appear to be thrown around the exercise of this privilege, a single default, even if only temporary, would likely create prejudice against the entire volume of the outstanding currency, and no chances, however remote, ought to be permitted to be taken in this respect. Whether it shall be a central bank—if authority for the establishment of such can be obtained—or a central association of national banks, to possess no other function than to issue to the banks the circulating notes, to which, under the stipulations and restrictions to be imposed by law, they shall become entitled, there is needed a central authority, to properly control and determine the issuance of any circulating medium, based upon assets. Such a controlling central authority, should and can best be constituted by the banks themselves. An association of national banks would, for the time being, at least, likely prove more acceptable than a central bank. The latter, to be of real advantage, would not only have to receive a monopoly of the privileges to issue circulating notes, but would moreover have to become the depository of the funds of the government. It would have to undertake the discounting of commercial paper, both for banks and for individuals, and it is not likely that the country is, at this time, prepared to sanction so far-reaching a scheme, which of necessity would revolutionize our entire national banking system.

The one lesson, at least, which we should learn from recent experiences, is that the issuing of clearing house certificates, while no doubt it helped locally, has also worked considerable harm. It has broken down domestic exchanges and has paralyzed to a large extent the business of the country. Far better, as has recently been semi-officially proposed, that the government itself should become authorized to issue, in times of great stress, legal-tender loan certificates through the clearing houses, to the banks, upon appropriate security, and with stringent automatically acting provision for quick redemption. Undesirable as such an expedient may perhaps in itself be, from an economic point of view, it would at least prevent a breakdown of domestic exchanges, such as we have just experienced, resulting in a large premium upon currency—or, to state it more correctly, in a large discount upon bank checks. We have seen how the suspension of cash payment by the banks in the leading centers, compelled us to throw upon Europe the burden of financing our cash requirements almost entirely during the important period of the crop movement, and forced the Bank of England into the position, so mortifying for us, where it had to assume this burden almost single-handed.

Comparisons are odious, but sometimes they are also profitable, if properly applied. Let us at least hope that the severe and costly lessons we have received, shall not be permitted to be forgotten, until we have found appropriate remedies. It is certain, if this be done, we shall emerge from the momentous period, through which we are just passing, freed from many handicaps, which still impede us in the financial, commercial and industrial aspirations, which we possess—fortunately be it said—both as a nation and as individuals.

2—MILLS—ANNALS.

National Bank Act may, in the opinion of the framers of that law, be sufficient protection to the depositors, but does anyone here think it reasonably safe banking to have but a little over 6 per cent in cash behind his deposits? And yet a compliance with the National Bank Act requires but that much coin. For instance, a national bank in Whatcom has \$400,000 deposits; of its \$60,000 reserve \$36,000 may be kept in Portland; against the \$36,000 Portland must keep a reserve of \$9,000, of which \$4,500 may be in New York, and New York is required to keep but \$1,125 of this on hand. To meet the \$400,000 in Whatcom the requirements of the National Bank Act are fulfilled with only \$29,625 cash, or a trifle over 7 per cent. This may be sufficient protection to the public, but when Uncle Sam deposits his money, he requires as security dollar for dollar in his own obligations. When we note how closely the banks of the country are knit together, how dependent they are upon one another, is it a matter of wonder that a panic in Wall Street is felt throughout the length and breadth of the land? Is it wise to be so dependent? Should our banks not be more independent? And to do so should they not carry more of their reserve in their vaults?

But these remarks only referred to national banks and their reserves. When account is taken of the scanty reserves maintained by state banks, private banks, savings banks and trust companies, the amount of actual reserve behind the deposit liability of the country dwindles to such small figures that one staggers with amazement at the vast amount of credit that rests upon a single dollar. With this thought in mind need one be surprised that a run on the Trust Company of America caused a currency famine in New York, the effects of which were felt throughout the length and breadth of the land?

In framing the National Bank Act (of which most state bank acts are but loosely-drawn imitations with more lax restrictions) the theory seems to have obtained of concentrating the actual money of the country in the large cities. A reserve that is on deposit with another bank is not a cash reserve; the only cash reserve is coin in the vault. It is a good asset of the bank, but by no means cash. The present system of reserve on reserve, reserve on reserve, makes it more difficult to find the true reserve than it is to find the elusive pea in a shell game.

The complete breakdown of the present system of reserve was illustrated in the recent panic. Beyond permission to draw against their balances in "Clearing House Funds" the legal reserves maintained in the East by the banks of the Pacific Northwest were almost valueless as a source from which to draw funds to meet the demands of depositors. The banks were forced to depend upon the actual coin in their vaults and to manufacture such other circulating medium as the suffering public would endure. Does not this experience prove that our system of reserves is a fiction, false in theory and worthless in practice?

If banks were required to maintain in their own vaults the full legal reserve there might be contraction of credit for a time, but the financial institutions of the country would be on a sounder basis. However, there is little hope for change, especially as long as the payment of interest on daily balances exists to arouse the avarice and befog the judgment of the average banker.

The Weakness of our Financial System

That a currency famine in New York should endanger every financial institution in the Union, and in a year of bountiful crops and great prosperity cause a widespread and senseless panic is sufficient evidence of the extreme weakness of our system of finance to cause every Doubting Thomas to favor currency reform at once. Writing forty years ago Robert Baxter said, "provision should be made for such a contingency as a panic, so that, when hoarding interrupts the necessary flow of currency, a new stream may, under proper safeguard, be created and the course of business sustained." The necessity for such a provision, for the issuance of some kind of an emergency currency, had ample illustration in the fall of 1907. Every great city and many smaller ones in October and November issued clearing-house certificates for use in settlement between banks, and in addition, in order to prevent the utter stagnation of business, issued in unlimited quan-

hoarding interrupts the necessary flow of currency, a new stream may, under proper safeguard, be created and the course of business sustained." The necessity for such a provision, for the issuance of some kind of an emergency currency, had ample illustration in the fall of 1907. Every great city and many smaller ones in October and November issued clearing-house certificates for use in settlement between banks, and in addition, in order to prevent the utter stagnation of business, issued in unlimited quantities clearing-house scrip of small denominations.

Can there be a better example of what reform is needed in our financial system than the fact that throughout the length and breadth of our land local emergency currency was issued to discharge the duties of a national currency that had largely disappeared from circulation? As a supplement to the national currency this suddenly-developed circulating medium served its purpose well. Without concerted action on the part of the banks, nevertheless, in a night, this local emergency currency sprang into existence to perform the daily exchange business. The emergency that called it into existence having passed, it quickly gave way to the better currency and was retired.

How much better a true emergency currency with legal tender qualities would have been, any one who handled the hundred different kinds of clearing-house scrip can bear witness. Had there been provision for an emergency currency as in France and Germany, and in a measure in England, the financial disturbance in New York would not have involved the entire country. The frightened depositors of that city would have been met with an ample supply of funds and New York's financial institutions would have paid the price, for no plan for an emergency currency should ever be adopted that does not include a steadily rising tax to be levied upon the banks taking out such currency; and the tax should be no light burden, such as three or four or even five per cent, lest in avoiding panic we are ruined by expansion.

Sumner says, "Any device which has elasticity for its object will have expansion for its effect." And expansion spells ruin for our financial system. We therefore must beware of the expansionists with their asset currency nostrums and keep ever before us that the standard of value is gold and that gold can carry but so much burden. Overload gold with too great an amount of paper promises to pay and the precious metal will leave our shores and we shall be dependent upon fiat money. Better a panic every year than gold at a premium.

How should our laws be amended to permit the issue of an emergency currency that shall be sound, be quickly issued when required, and rapidly retired when the emergency is passed? The best plan proposed is a central bank of issue, approaching as nearly as possible to the Imperial Bank of Germany; but it is to be feared that the intelligence of the average congressman is not of high enough order to rise above fear of local prejudice and to permit him to vote for the good of the whole nation, if it does not suit his local banker. Should the unexpected happen, however, and Congress rise to the needs of the country and pass a bill for the estab-

I—VANDERLIP—ANNALS—
THE PANIC AS A WORLD PHENOMENON

BY FRANK A. VANDERLIP,
Vice-President National City Bank, New York.

It might very properly be urged that the present is too early a date for us to draw wise conclusions from the lessons of the recent financial crisis. Indeed, one can hardly speak of it, as I did just now, as the recent crisis. It is the present crisis. If we are not well in the midst of it, we at least continue to be surrounded with many unpleasant features that have formed a part of that crisis. We are still in a situation where a great majority of the banks of the country have practically suspended cash payments.

Domestic exchanges are still seriously disorganized. After the most heroic measures for relief, taken by the Treasury and by banks generally, we continue to be surrounded by abnormal conditions, and the day is somewhere in the future when we can look back with anything like academic interest and comment with intelligence on the true lessons which have been taught by this extraordinary financial event.

Although it may be too early to speak with certainty about these lessons, there is good excuse to give consideration to the phenomena of the crisis, even at as early a date as the present. Sufficient excuse may be found in the profound necessity which exists for an understanding of the causes and a comprehension of the principles which must underlie proper remedies for such a financial panic. There has never been a time in our political history, I believe, when there was more necessity for a broad educational movement in relation to financial affairs, than at the present time. The necessity for education so that the public will comprehend the underlying principles governing sound banking and a proper currency is as great to-day as was the necessity for education in regard to the standard of value ten years ago.

The causes of the remarkable financial disturbances which we have been experiencing are more or less obvious. Still, men are not agreed upon them nor upon the varying degree of importance that should be allotted to those causes that are obvious. Some men will trace the roots of the trouble to the policies of the President of the United States. Some will trace them directly to the activities of the "gamblers" of Wall Street, as they choose to call that portion of the community. Now the truth lies at neither of these extremes nor indeed does it lie between them. It is much broader, deeper and more comprehensive than either of these suggestions.

If I were to attempt in just a word to outline the causes as I see them, I should say that we must run back for some of the roots in the terrific losses which the world's capital experienced as a result of the Boer War, costing as it did one billion of dollars, the Japanese-Russian War, which cost one and one-quarter billions, and the losses of the San Francisco disaster, which footed another half billion. Here we have figures of nearly three billions of dollars direct loss to the world's capital. That loss too came at a moment when the world was just entering upon a most intense industrial activity, an activity which created, what was, I presume, the greatest demand for capital that the world has ever known.

The world has thus, in an unprecedented degree, been using of its liquid capital. We have seen railroads and other corporations inexorably pushed to build a new lines, to add to their equipment and to extend plants. But although the corporations were forced to make these expenditures by the demands which broadening industry and growing commerce made imperative, they became at last, owing to the exhaustion of the world's investment fund, unable to sell securities to provide money for their forced expenditures. They were unable to sell bonds, even though the security that was offered was wholly above criticism. The investment capital of the world became well nigh exhausted. That phase of the situation was by no means confined to America. It was international in its origin and world-wide in its effect.

This financial crisis, however, has by no means been altogether a matter of money. It has, in large measure, been a matter of what was in men's minds. I would again go back a few years in search for the roots of our present difficulties and note that we have had

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This financial crisis, however, has by no means been altogether a matter of money. It has, in large measure, been a matter of what was in men's minds. I would again go back a few years in search for the roots of our present difficulties and note that we have had a period of so-called "much raking." A period in which there has been the most general criticism of leaders, both financial and political. Now, to tell the truth, we have had a good deal of honest reason for criticism; at the same time, it is unquestionably true that much of the criticism has been unfounded. There has, however, been brought forward evidence enough to show that no small measure of criticism was merited.

The financial world approached the fall months of 1907 with a situation in which investment capital was practically exhausted and at a time when the confidence of the people in financial leaders had been severely shaken. It was not alone the confidence of the people in financial leaders that had been shaken, however. The confidence of the financial leaders, the confidence of investors and of men who control capital had been shaken in the people. The confidence of those men, in the wisdom of legislation, in the fairness of legislators, in the high-mindedness of courts and in the right spirit and justice of public opinion, has been seriously shaken. We approached these fall months then with a situation where confidence was lost on the part of the people in the financial leaders and was shaken on the part of those who directed large corporate affairs, in the stability of conditions such as only an honest and fair public opinion can insure.

We approached these months with a banking and currency situation in which any withdrawal of money from the banking centers, even such a withdrawal as comes with the ordinary legitimate demands for the crop movement, meant, because of a bad banking and currency system, a withdrawal of reserves from the banks. We approached these trying months with a currency system which had in it no expansive element. If more circulation were to be needed, there were only three places it could come from. It might come from abroad in the shape of gold imports, it might come from the treasury in the form of additional public deposits, or failing a sufficient supply from these two sources, it must come from the reserves of the banks.

We have been preaching about the necessity for an expansive currency for years. We have now had an illustration of the need of it, an illustration of the danger which we run to be without it,

2—VANDERLIP—ANNALS—

which is going to go farther to convince the people that we require legislation, than have all the meetings and all the addresses which have been made on this subject in a great many years.

Of course, if one were to trace more minutely the causes of the financial upheaval, he might find the direct, immediate cause was intimately related to trust company development. A great number of trust companies have been organized in the last few years. Bank depositors have been very greedy to obtain high interest rates. The trust companies, with small reserve requirements, were in a position to pay higher interest rates than did the commercial banks. In some cases they paid rates that were too high, and in order to pay such rates they engaged their capital in a way which was not the most conservative. That made the situation such, taken in connection with the general shock to confidence which I have referred to, that when a breath was raised against the credit of trust companies, it found quick lodgment in the minds of the people and depositors, and made those suspicions promptly felt by large withdrawals of deposits and a considerable hoarding of cash. The hoarding, indeed, was not confined to the people altogether. It soon extended to the banks themselves, and has finally become one of the most important features of the situation. This hoarding of money in excess of their normal reserve requirements, by the banks, is one of the phenomena that will deserve close attention. The remedy for it lies outside the field of an elastic currency.

Now, as we have remarked, it may be rather early for a really academic view of this crisis. Nevertheless, I believe the necessity for a study of the lessons of the crisis is so great, the need for an understanding of these lessons is so pressing, that now, while it is all fresh in our minds, is the best of all times to begin a study of the problems raised.

Recently the newspapers have contained interviews with a large number of senators and congressmen as to the course of probable financial legislation. To my mind it was shocking to read the views of many of the members of Congress. They ran all the way from those members who thought nothing at all was necessary in the way of legislation to those who wanted to have the United States Government guarantee all the deposits in all the national banks and issue \$300,000,000 of greenbacks. I am ashamed to admit it, but I presume the truth is that a series of interviews with well-known bankers, interviews with men bearing the most important relation to the country's financial work, would show as great a variation of opinion as did these interviews with members of Congress. I am afraid that the bankers would show, in some cases, as great ignorance of what is needed, and as little comprehension of the principles underlying any really intelligent reform, as our senators and congressmen. That leads me to believe that there never was a time when education of the people in the principles of banking and currency was more seriously needed. The necessity for such education is reason enough for this inquiry into the lessons of the crisis.

The one great practical lesson, of course, is going to be that some form of expansive currency, a currency which will be related in volume to the commercial needs of the country, is necessary. Whether such currency be secured as a result of an extension of the powers of the treasury or by giving the right to all national banks to issue asset currency, or by the organization of a central bank, is one of the questions which a better educated public opinion is needed to answer. Whatever the answer may finally be, there are certain principles which we must learn to recognize and to apply to all discussions of this subject of an expansive currency.

It is, perhaps, fortunate that we have had an illustration of an expansive currency in the issue of clearing-house certificates which have been put out in many cities in the form of circulating notes and which will help many to see more clearly what really is the function of an asset currency.

One of the valuable lessons which we have learned from this financial disturbance is the interdependence of financial centers upon one another. New York had shown evidences of the approaching crisis for several months. There had been disturbances in the stock market, high rates for money, low reserves and other indications of a possible period of strain, but the great West and South, with seven billions of agricultural products, said, "We are independent. We have divorced ourselves from the people of Wall Street. They may have their troubles. We are strong enough to take care of ourselves."

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London, Berlin and Paris did not feel the same financial independence that was felt by Oskaloosa and Podunk. Oskaloosa and Podunk believed that the wheels of prosperity would continue to turn for them with unabated speed regardless of what happened in New York. London, Berlin and Paris were deeply concerned over the situation as it was reflected in Wall Street. Now the whole country has come to see that there is no such thing as financial independence. It took hardly twenty-four hours from the disturbance resulting in clearing-house certificates in New York for the difficulties to become national. The West and the South, rich and independent as they are, can now see more clearly that the whole country's welfare is pretty much bound together in a financial way.

Perhaps the most significant of all the lessons of the crisis, one that will, in the end, sink more deeply into our understanding than any of the others, will come to us when we comprehend the full weight of what it means to destroy confidence; what it means to destroy the confidence of the people in the financial leaders, to destroy the confidence of capitalists in the fairness of the people as reflected in legislation and in the decisions of the courts.

I—TREAT—ANNALS—

THE READJUSTMENT OF OUR BANKING SYSTEM AND THE UNIFICATION OF THE CURRENCY

BY HON. CHARLES H. TREAT,
Treasurer of the United States.

The importance of remedying the confused condition of our many issues of paper currency and to relieve the stigma of discredit that attaches thereto for a great nation like ours has been a favorite topic of discussion for several years among students of finance. It would seem desirable that such modifications should be made as would bring about a more harmonious unification of currency issues.

It is not to be denied that formidable obstacles exist to securing such a result, more especially in overcoming the prejudices in the public mind, the views of legislators, who hold with great tenacity long-cherished ideas on the efficacy and wisdom of a retention of the "greenback," and the opinions of the silver doctrinaires who believe in basic money, as the safest and most desirable form of circulating medium.

Our conglomerate currency issues have been largely the growth of a necessitous condition that has been met by temporizing legislation; therefore there must be some excuse for the weakness and helplessness that has produced such an unsatisfactory currency system.

As we come out into the light of national strength and independence, we look back with a more critical eye upon present financial aspects, their origin and condition. It is, however, encouraging that we are restive over such disclosures. There is an undoubted sentiment that something should be done that shall place our monetary system upon such a broad and comprehensive basis as will be lasting in its beneficent workings and stand the test of time, not only for half a century, but for an entire century.

In view of these facts, I offer a plan that is more in the nature of "a suggestion," but which I hope may incite intelligent examination and discussion that may evoke something of value to the yearnings of those who would like to see a remodelled currency system, a plan for national finance that would not be discreditable to our intelligence and our experience of to-day.

Retirement of United States Notes

1. I advise legislation by Congress, authorizing the Secretary of the Treasury to retire United States notes in sums not less than 50 millions nor exceeding 100 millions per annum. The payment of the United States notes and the releasing of the reserve fund for their redemption would give a legal reserve of about 350 millions in gold for banking purposes.

Public sentiment is again agitating the desirability of utilizing the advantage of an overflowing national treasury for the gradual retirement of United States notes or what are known as "greenbacks."

The minimum sum, \$346,000,000, has not been changed since Secretary McCulloch was instructed by Congress not to retire any more of these notes, and when Congress declared that that amount should remain in circulation. Since that time there has been periodical agitation by bankers and financial students to secure a revival of the practice of Secretary McCulloch of retiring "greenbacks" when the surplus of the treasury allowed such a step under the enactment of February 25, 1862. Various objections have been raised to this among others, that it would cause a contraction of the currency; on the part of others, that it would destroy in a measure, the amount of reserve money which was not at all excessive for banking use, and still others, that there would be saving of interest.

The increased supply of gold would seem to be an assurance that there need be no apprehension of a lack of a sufficient legal reserve, in case 20 or 50 millions per annum of "greenbacks" were replaced by gold coin. It has perhaps escaped popular attention that we have over 150 millions of coin and bullion held in reserve against the issue of 346 millions of greenbacks, which leaves an approximate currency supply of \$170,000,000 available for circulation.

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The permissive circulation of United States notes is 346 millions. Of this, there is an average of 26 millions held in the vaults of the treasury, which, taken from this sum, leaves 320 millions in actual circulation. There is now a reserve fund in gold for redemption of United States notes of 150 millions. Taking this from the 320 millions, leaves only a practical gain to circulation of United States notes of 170 millions, provided that the reserve fund of 150 millions were not released.

The saving of interest can, therefore, only be reckoned on 170 millions, which, at 2 per cent, would amount to about \$3,700,000 annually. The saving of interest to the government is but a small item for a circulation of \$170,000,000.

If the gradual retirement of greenbacks were known to be the settled policy of the government, this would give rise to an enhancement of the credit of the country, and the financial repute therefrom would far outweigh any paltry saving of the interest account. Such a step would convince the international investor that gold was the legal and established standard of the country, and that he might confidently feel that his investment would be returned to him in gold, on demand. It would promote a larger growth of the national banking system, which is doing so much to uphold the credit of our securities. It follows, therefore, that no apprehension need be felt of calamitous results from a gradual retirement of the greenbacks.

Retirement of Silver Certificates

2. I advise the retirement of all outstanding silver certificates—about 475 millions—and the issuance, therefor, of 2 per cent United States fifty-year bonds for an amount not exceeding 50 to 100 millions per annum. The silver dollars so released from pledge in paying off silver certificates, could be utilized for the government's need of subsidiary coin. This would do away with the purchase annually of a large amount of bullion, which in the past year amounted to nearly nine million dollars.

3. The retiring of these two kinds of money—United States notes and silver certificates—would do much to complete the unification of the currency, as national bank notes and gold certificates would be the only currency used.

4. I would advise that the present issue of national bank notes be retired, and that the government bonds so pledged for circulation and payment be redeemed by a special bond known as a "banking bond," bearing interest at 2 per cent for a term of not less than fifty years; and that such bonds as are now held for circulation shall be redeemed and paid for at a premium of 5 per cent to re-

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imburse the average cost to the investor, as the government should not require the banks to pay more money than they actually receive therefor.

I advise that the sale and purchase of these banking bonds should be under the absolute control of the government, and that when a bank desires to retire its circulation, the government shall buy the bonds at not less than par and without premium. This will do much to prevent the daily speculation in government bonds which not only causes fluctuations in price, but affects the volume of circulation without regard to business conditions. The bonds so purchased should be destroyed. The denominations of these bonds should not be less than \$10,000 nor more than \$100,000. The bonds to be issued for the retirement of silver certificates should also be banking bonds as before described. This would furnish the basis of additional circulation without contracting the volume of currency and the total amount of 500 millions, which is the measure of the volume of silver certificates, would then be reissued during the term of ten years in the form of national currency.

Some one might make objection to the retirement of silver certificates, in that there may be no legal reserve money to take its place, but in the gradual retirement of silver certificates of 50 to 100 millions per annum, we could fairly look for an adequate supply of gold. The volume of gold production is now over 400 millions annually, and our country is increasing its gold output in comparison with other nations.

United States National Bank Currency

5. The new issue of bank notes should be known as "United States National Bank Currency." This designation would give it an *international* recognition, and the sentimental effect of such a designation would inspire world-wide confidence in its genuineness and its financial responsibility.

I would advise that simplicity of design of all notes be carried out in the different denominations, and that the distinction should mainly be upon two points: first, the denomination itself, and second, a vignette differing for each denomination issued. This would give such uniformity in size and appearance, that the note would easily be recognized and would be more difficult to counterfeit. The denomination numbers should be *large*, so that the counter could not fail to see the same clearly at a glance. A vignette is said to be the most difficult thing to counterfeit, and experience has proved that the least embellishment on a note affords the greatest protection against counterfeiting. The different banks using this new circulation would only be known by the numbers printed on each note.

A sentimental objection might be made to the elimination of the individuality of the bank note, but when the facts are taken into consideration, it is well known that it is very seldom that the holder of a bill looks at the signature, his only concern being that it bears the impress of guarantee by the United States.

This uniformity of size and design would be less expensive to prepare, and a large quantity of currency could be kept on hand which would be applicable to the needs of any banker. The only names of officials attached to said notes would be those of the Comptroller of the Currency and the Treasurer of the United States.

These notes should be issued in such a percentage of denominations as would meet the existing and growing demands of business conditions. All banks should be required to take out such percentage of ones, twos and five and tens, as would meet the requirements of business. The same form of note would provide for a permanent, as well as an emergency or "supplemental" currency.

The guaranty of the government on said notes would simply be expressed thus: "*This note is secured by bonds deposited with and guaranteed by the United States.*" Three hundred millions of these notes should be held in reserve, and as they would be used in common by every national bank, there would be no risk in their being utilized. There would also be a lessened expense in preparing and issuing the same.

This re-adjustment would not only unify the currency, but in its simplified design, would avoid the well-deserved criticism of confusion in our monetary forms of currency, and make it more acceptable in all the money markets of the world. This unification of the currency has long been desired by large numbers of the American people, but no feasible plan has been put forth. These notes would be acceptable for taxes, etc., in the same way as the present national bank notes, which would be in supply until all the silver certificates had been called in and canceled.

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There might be objections on the part of some devoted advocates of silver, that it is the money of the people and that they would oppose its withdrawal. The records of the treasury show that the demand for silver dollars over that for currency, arises mainly from the fact that the transportation of the silver dollar is made *free by appropriation from Congress*, whereas there is a charge for transportation of currency. This was abundantly demonstrated last year when the appropriation was exhausted for free transportation of silver dollars and the demand therefor was reduced nearly *seventy-five per cent*. When a new appropriation was granted, silver dollars were again in demand because transportation was made free.

It might be further objected that the retirement of silver certificates would make an additional interest charge of some ten million dollars to the American people, but it must be considered that there would be a great saving to the government in the profit of utilizing the silver dollars for subsidiary coin, and also the lessened expense of furnishing currency of one simple uniform design, and the saving of loss to the government by the abraiding of silver dollars. This is a large item in the treasury to-day, as not less than a million dollars are short-weight, and probably on a closer investigation, this amount would be largely increased.

The paramount question, however, is not simply one of saving a small amount of interest, but it is, what would be to the greater advantage, convenience and profit to the American people? It would seem to me that now is the time, when far-reaching amendments are needed to the laws of our banking system, to so construct a system of finance that, while it shall be absolutely

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safe and desirable in its appearance, it shall also have the elements that are needed not only for a permanent but for an emergency or supplemental circulation.

I append hereto my well-known view on the supply of a supplemental currency, which needs no further elucidation.

This whole plan, as I have outlined it, would not only accomplish a fundamental re-adjustment of our banking system, but I believe would meet the needs of the American people here to-day and likewise the needs of fifty years hence, when the population of the country shall have largely increased and the business needs be correspondingly enhanced.

It would seem that our requirements are peculiar to ourselves and cannot be likened to that of any other nation. We grow crops to the value of seven billion dollars and we manufacture to the amount of fifteen billions of dollars. Legislation should therefore be so comprehensive that an adequate amount of currency could be issued, under proper legal forms, that would always provide sufficient funds to move the crops without an exorbitant tax such as is advocated by the friends of asset currency, that would seem to penalize the grower for producing excessive crops or the manufacturer for making an enlarged output.

There should be a broad distinction between the use of a supplemental currency for recurring autumnal needs and an emergency currency in time of panic.

What this country needs is not only an enlargement of banking credit at crop-moving seasons, but also the establishment of a system whereby the panicky conditions that recur every seven or ten years may be met.

The present National Banking Act should be so amended as to permit any national bank with no less than 50 per cent of its capital invested in United States bonds, to issue national emergency or supplemental currency not exceeding the remaining 50 per cent nor more than its capital stock. Such emergency notes I would have similar in form and design to our present national bank notes, but the guaranty thereon should be modified to read: "This note is secured by bonds deposited with and guaranteed by the United States." The issue of these notes might be made in four, six or eight months, dating from August 1st or September 1st, as may be needed at the time of crop-moving periods.

I would accept collateral for this supplemental currency issue in the form of state and municipal bonds that meet the requirements of savings bank investments in the States of New York, Connecticut, Massachusetts and New Jersey, such securities to be accepted at 70 per cent of their market value. I would have the bank make a collateral note to the order of the Treasurer of the United States on four, five or six months, and should it fail to meet the notes at maturity, it should be penalized in the sum of 2 per cent per month, until paid; the United States Government to guarantee the redemption and payment of all notes so issued at a charge of about 3 per cent. I would not extend the selection of bonds to other than those of state and municipal bonds which have the government power of taxation behind them, as it would be well to limit this class of bonds and not open the door to the acceptance of railroad, industrial and real estate bonds.

How Inflation Would be Avoided

This plan requires a margin of 30 per cent on the amount of notes issued, which, it would seem, would be ample in every contingency, to safeguard the government. These notes would have a definite time for maturing and when they were paid for, so much currency would be retired, which, practically, in a compulsory way, would prevent any permanent or undue inflation of the currency. As to the amount of issue, Congress can determine it, based upon the outstanding issue of national bank notes, permitting an increase of $33\frac{1}{3}$ or 50 per cent, in addition to the regular circulation.

This plan would give practically all the advantages arising from a great central bank, as far as the issue of currency is concerned, without the drawbacks of mixed responsibility or adding to the confusion of another form of currency, which there would be, if a great central bank were permitted the right to issue its notes. It would seem that making the interest rate about 2 per cent is already too low. It might be increased to 3 per cent per annum—I per cent more than interest on United States bonds—what the national banks now pay in semi-annual duty and taxation on circulation; but if good collateral be furnished, why should the people be compelled to pay any higher rate?

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Some criticism has been made that a larger percentage of loans than 70 per cent could be made on good state and municipal securities, but it is of importance that the price of United States 2 per cent bonds should be safeguarded, and that their supremacy as a security should be upheld, whereas if too large an advance was made on other bonds, the credit of the 2 per cent would be impaired.

Interest should Not be Excessive

It has long been the practice in finance that the borrower who gives the best collateral secures the loan at the lowest rate of interest. If the currency was issued on the general assets of the bank, without compulsory retirement, the risk would be greater and the rate of interest increased. An excessive rate of tax is not to be considered in this case, because the issue of supplemental currency is applied to a normal condition of business that recurs every autumn.

Adequate monetary facilities should be provided to move the crops without disturbing the normal conditions of banking business that prevail through the country. The crops cannot, under present conditions, be moved without a great disturbance, by the calling of loans from \$250,000,000 to \$300,000,000.

To meet this exigency it is important that a supplemental currency should annually be issued at a low rate, at moderate cost and with specific security, as is now required for the issue of all bank notes. This supplemental currency should be so liberal and attainable in its terms that the burden of this accommodation should scarcely be felt.

The advocates of asset currency propose that an issue of bank notes be made, based upon the general assets of a bank and taxed at a high rate of interest. To this conservative men demur, because the security behind the notes would not be sufficient to guarantee them, the assets of a bank not being proper security for the issuance of notes, even with the addition of a reserve redemption fund.

What the farmer, manufacturer and business man generally needs is to have banking accommodations at a moderate cost. It would seem that those whose productions are so large, whether from the field, the factory or the mine, should not be penalized by a high rate of interest for the use of money at every recurring crop-moving season. If safe collateral be furnished the charge should be at the lowest rate of cost of issuing and redeeming the supplemental notes.

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Repeal Tax on National Bank Circulation

The national government now has a monopoly of our currency. Therefore it should not withhold from the people this inestimable service, when good collateral approved by bankers can be given for the currency furnished. It might be well to repeal the tax of one-half of one per cent on bank circulation and also permit banks to take out additional supplemental circulation to the extent of the premium on bonds now pledged for redemption of the bank notes.

I feel justified in making this suggestion that the charge against issuing the supplemental currency be no more than 3 per cent per annum, for, as the government charges no interest on its public deposits, why should it do so for loaning its credit? It is only as rational an expansion of the privilege to loan the credit of the government in the form of national bank notes as it is to loan the government's money under the name of deposits.

It does not seem to me that any valid objection could be made to the issue of such supplemental currency under government control. This plan would seem to me a natural evolution of the custom of national banking. It does not commit the government to any untried or hazardous experiment or confuse the public mind with the idea that there is to be any radical departure from the present system of banking.

No danger lurks in the plan. Seeing as I do every day the importance of affording relief to the business interests of the country, I offer a plan that does not pretend to be a panacea, but one which is, I believe, not the dream of a financial visionary. I am no "faddist" on currency reform, and am looking only for the attainable and for a plan that shall commend itself to the common sense of the American people as safe and practicable.

A CENTRAL BANK AS A MENACE TO LIBERTY

BY GEORGE H. EARLE, JR.,
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The solution of the problem of a central bank, with power to control the currency of the United States, to be at all adequate, must depend upon and be controlled by ultimate political principles. The same principle that underlies the never-ending conflict between the advocates of a strong centralized government and what are called "states rights," governs this question. Taught in the school of experience and adversity, the early English and American patriots learned the salutary lesson that the development of peoples, as well as their happiness, depended more upon liberty—that is, the power to control and govern themselves, rather than to be controlled or governed by anybody else—than upon any other single thing; and they, therefore, in drafting our Constitution, always viewed government as an evil made necessary by the weakness and defects of human nature, and never extended it beyond that necessity.

Under the plan of freedom, of self-reliance, self-dependence, self-government, we have become the greatest, the happiest, the most powerful people of the world; but, notwithstanding these proofs to justify the work of the Fathers, we have, more and more, concluded that we could have done a great deal better, and are rapidly tending in the opposite direction, which must inevitably destroy liberty by vesting all discretion in some form of central government, rather than in the people as individual, independent entities.

Starting with the theory that government but existed because of the defects of mankind, and was but an evil wherever it exceeded the necessity of restraining evil human tendencies, we have now reached the higher light wherein we produce schemes of regulating everything, until liberty is but a name, and we govern ourselves by theories entirely independent of the characteristics of the people to whom our systems are to apply. It is difficult to find any one, nowadays, who has not some "counsel of perfection," and founded on it, some theory of government that would work perfectly with a perfect race, in whom neither self-interest nor passion existed and that, consequently, did not need any government at all.

Among the radical reformers, the Nihilists are much more logical than the Socialists because neither system would work with human nature as it is, and no system would be required with society so constituted as to make their theories practicable. But the strangest development of modern times is that, concurrently with the wildest theories against restraint, popular opinion is forcing more and more restraint upon individual freedom of choice, that is liberty, year by year; until business and everything else is being stifled by the almost incomprehensible mass of liberty-restraining laws and regulations. I suppose to-day the American people imagine they are a free people; but in the sense that they were free in the days of such lesser lights as Washington and Franklin and Jefferson and Hamilton—that is, free to work out their individual independence and salvation, unrestrained by any unnecessary laws—they are veritable slaves; and under the leadership of the wonderful statesmen of our age, who, not confined to either party, have a legislative panacea for everything, and who are making us happy by passing statutes binding us hand and foot on one subject after another, all the while increasing public officials and public burdens to enforce them, real liberty—liberty in the sense that each man must, to the greatest possible extent, be given free discretion to work out his own salvation—is rapidly ceasing to exist.

But, it may be asked, what has all this to do with a central bank? My answer is, everything. For this country to be great, happy and prosperous, it must be really free; and freedom, just as justice, consists in distributing power and opportunity as equally as possible, and as much controlled by everybody's individual, untrammelled discretion as the nature of things will permit. I am as much opposed to undue centralization as I am to Socialism or Nihilism, and for an identical reason: They are all enemies of liberty; and it is only through liberty that mankind can reach the highest forms of development.

Now, what effect will the central bank idea have upon these principles which I have thus, I fear crudely, stated? If it will tend to an equalization of power and opportunity, if it will tend to placing, as near as may be, equal powers and equal restraints upon everybody, it is consistent with the spirit of our institutions and the purpose of our civilization; and if not, being against them, it *must* prove injurious. There is not the slightest doubt that the

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And so, if we had a central bank, with the power of practically fixing the price of every commodity in the United States, of aggregating to itself, or those who exercised its powers, just such proportion of the production of wealth of the Union as they saw fit; would, in a little while, tend to a selfish use that could be neither effective nor beneficial; and, like all other forms of inordinate and unequal power, it must become destructive of any republican form of government. Procuring efficiency, not through evolution and development, but tyranny and inequality, is a means that all human experience has demonstrated to be fallacious.

In my own judgment, our currency, like our other evils, is to be remedied by greater freedom and greater distribution of choice and discretion, rather than by a greater centralization or unequal distribution of power. It is a fair question to ask, therefore, whether conceding, as I do, that there is not sufficient elasticity of the currency, I can suggest no remedy, but would prefer present evils to those resulting from the creation of too centralized a power; and the answer, to my mind, is obvious. The true remedy must be found, not in placing our dependence upon the discretion of any one, but of every one,—that is, again, upon liberty, rather than upon power and restraint.

We have a very satisfactory system of regulating the investments of saving funds, that demonstrates that a line of investment can be easily named in advance by statute that would be a safe basis for currency, as well as for investments, as at present. In my judgment, therefore, starting with government bonds, which should always be given a great advantage in currency issues, as that strengthens the credit of the Union, a list could be made upon which any bank—and, again, the banking laws should be equally open to all—could issue its notes. A system of taxation on such issues should be so regulated as to make inordinate inflation impossible; but there should be no limit to the amount of circulation when the tax had reached a point where it must become unprofitable to the banks that take out that circulation, for then they would only take it out to save the commercial community and their customers, and for no dangerous purposes. And this currency so available should be available at the discretion of *everyone*, without the necessity of consulting any government official or any government bank. I do not want to be misunderstood. The restrictions as to security should be full and ample, the taxation large *and on an ascending scale*. The currency should be made absolutely safe—as safe as it is now—and from the tax collected with such a system, it would be utterly impossible, if that tax were properly applied, that it would not only not be sufficient to guard every holder of a note against loss, but would yield large revenues beyond this to the government and in relief of general taxation. With such a system worked out in detail, governmental power would not be increased, the danger of depriving the people of any part of their self-developing discretions would not be incurred.

This, as I have said, is all very crudely stated by a man who has no opportunity to work out details or polish sentences; but it recommends itself to me, because my whole study of the constitutional history of our peoples has convinced me that liberty is the greatest friend of mankind, just as inordinate powers are the greatest danger; and that we shall go higher and better and further, following out, in all our troubles, a liberty as wide as human defects will permit, than hunting around for benevolent despots in any form; for I do not believe that even benevolent despots ever do real good, because, however well they may govern, the injury to communities inflicted by taking from them the educational benefits of self-government is incalculable.

Both religion and science teach us that human advance is but to be gained through the slower methods of development of character—the one calling it “regeneration,” the other “evolution” or “survival of the fittest,” or what you will. Even in politics and by politicians these principles are at times heeded—even now we are daily told that the policy of the government is to educate the Filipinos to a fitness for self-government, by gradually entrusting them with widening discretions, increased liberty, as this increasing liberty fits them for more. This is true political science—the *only way*—these gentlemen are unquestionably Filipino patriots, but what we need is American patriots—men who will “make way for liberty” here as well as there; who will disregard popularity, if need be, that they may abide with duty; and not piecemeal exchange our birthright of freedom for a mass of legislation and restraint only really effective for evil. Many, many injurious steps have already been taken toward the inequality and slavery of over-government and benumbing restriction. But all of them will be but a drop in the bucket, compared with the dangers of placing the entire discretion as to the volume of the people’s money in the hands of the few.

In an ultimate analysis, our country is only languishing for liberty and equality; and I do not hesitate to predict an instant return of prosperity, at the first moment that honest men can make investments and conduct important affairs, without the necessity of having a lawyer at their elbows, who, indeed, in most cases, refuses the responsibility of advising what all the accumulating mass of restrictive legislation means. We have evils enough in this direction, without restraining the people’s right to determine when or to what extent their interests require a further supply of currency on a sound basis. If we really need all the present restrictive mass of regulative legislation, we are, like the Filipinos, already unfit for freedom; and if, as I believe, we do not, by taking away our personal right of choice, of initiative, we are being educated to be like them, unfit for self-government, as rapidly as possible.

If these hasty suggestions should chance to reach the eye of someone with a faculty for leadership, and a love of his country, and invite him to battle again for freedom, to expose the shams under which the people are losing their freedom, under the pretense that their enemies are being punished, I can promise him the ultimate approval of his countrymen. For that, in the end and permanently, only comes to real patriots, those that unite instead of divide, those that love instead of hate; those that, putting aside “malice, envy and all uncharitableness,” understand the potency of “good will to men,” while never forgetting that “eternal vigilance is the price of liberty.”