

Collection Title _____

Nelson W. Aldrich

Series/Volume _____

BOX 83

Shelf/Accession No. _____

NELSON ALDRICH

Monetary Commission

MISCELLANY

Dec 13

I CN MONO. SEC.

TABLE OF CONTENTS.

	Page.
Scope of the report.....	
Banking features of crisis of 1907.....	
Investigation of foreign banking systems.....	
Relation of European experience to American conditions.....	
Principal objects of the proposed plan.....	
— (1) Concentration of reserves.....	
— (2) Elasticity of the note issue.....	
— (3) Restriction of business to commercial banking.....	
— (4) Coordination of the banking system.....	
— (5) Leadership in the money market.....	
— Cooperative character of the reserve association.....	
Operation and adequacy of the proposed plan.....	
The concentration of reserves.....	
Evolution of present currency conditions.....	
The system of note issue.....	
(1) The requirement of minimum reserves.....	
(2) Special taxes on deficiencies in reserves.....	
(3) Special taxes on excess circulation.....	
(4) Legal status of the notes.....	
Resources of the reserve association for meeting periods of pressure..	
(1) The concentration of reserves.....	
(2) Authority to grant rediscounts.....	
(3) The power of note issue.....	
(4) Changing the rate of discount.....	
(5) Authority to deal with foreign banks.....	
(6) Dealing in foreign bills.....	
(7) Facilitating domestic exchange.....	
Advantages of the proposed plan to the business community.....	
(1) The better distribution of capital.....	
(2) Stability and uniformity in discount rates.....	
(3) The encouragement of commercial banking.....	
(4) Competition in foreign markets.....	
(5) Security against panic.....	
Guaranties of management in the public interest.....	
(1) The democratic form of organization of the reserve associa- tion.....	
(2) The participation of the Government in the management of the association.....	
(3) The limitation of the profits of the association.....	
(4) The restrictions upon the character of business permitted...	
(5) Position of responsibility at the head of the financial system.	
(6) Publicity of the operations of the association.....	

*Character of organization
differentiate with
for systems*

Loeb u. Hecht

fehlt

Die Berlin banks ad H. census 9 1900 H. 261-321
Die fahrung 9 H. Leipzig 373-390

Die

Störungen im deutschen Wirtschaftsleben

während der Jahre 1900 ff.

Sechster Band.

Geldmarkt. Kreditbanken.

et al.

Mit Beiträgen von F. Hecht, R. Helfferich, Ernst Loeb, Adolf
Weber, Arnold, E. Heinemann, Levinger und L. E. Jer.

17 Monetary

Argus Pressclipping Bureau

OTTO SPENGLER, DIRECTOR

352 Third Ave.

New

CLIPPING FROM

BOSTON CHRISTIAN-SCIENCE MONITOR

31 OCT 1911

BANKING REFORM NOT IN INTEREST OF SPECULATION

Mint Director Says National
Reserve Association's Pur-
pose Should Be in Aid of
General Business

TO END BANK RUNS

WASHINGTON, D. C.—George E. Roberts, director of the mint, says that the country's banking system must be reformed in the interest of general business and not in the interest of speculation. He disagrees with James J. Hill that the National Reserve Association, the proposed plan of reform, should accept stock exchange collateral as security for loans, and says the association should only loan on commercial paper arising out of day-to-day trade transactions.

"I think the organization of the National Citizens League is one of the most promising signs of the times looking to banking and currency reform," said Mr. Roberts.

"This movement got its first impetus from the panic of 1907. Everybody knew while that panic was on that something was wrong with our banking system. There are two things that are mental in banking: the banks are always ready

ready to loan for the present needs of their customers at some reasonable rate. In view of experience in the past those two conditions may seem to make a very lax contract, but in every other important country of the world those conditions are met. There is plenty of proof that a properly organized banking system can meet them.

"There is an end to bank 'runs' whenever it is known that the individual banks will be adequately supported, and the amount of credit required to handle the current exchanges can always be supplied. Of course, no banking system can undertake to furnish all the credit that may be wanted for speculation or extravagant construction, but it can and should furnish all that is needed to move the crops and make the current exchanges of trade.

"Our system broke down in 1907, when great railway systems could not get

FORM INTEREST SPECULATION

Says National
Association's Pur-
d Be in Aid of
Business

BANK RUNS

ON, D. C.—George E. Rob-
of the mint, says that the
king system must be re-
interest of general busi-
in the interest of specula-
agrees with James J. Hill
ational Reserve Association,
plan of reform, should ac-
exchange collateral as security
and says the association should
on commercial paper arising
to-day trade transactions.
the organization of the Na-
izens League is one of the most
signs of the times looking to
and currency reform," said Mr.

movement got its first impetus
e panic of 1907. Everybody knew
that panic was on that somethi
rong with our banking sys
are two things that are
t in banking: the banks s'
ready

ready to loan for the
rent needs of their custom
some reasonable rate. In view
experience in the past those two co-
tions may seem to make a very lai-
contract, but in every other importan-
country of the world those conditions
are met. There is plenty of proof that
a properly organized banking system
can meet them.

"There is an end to bank 'runs' when-
ever it is known that the individual
banks will be adequately supported, and
the amount of credit required to handle
the current exchanges can always be
supplied. Of course, no banking system
can undertake to furnish all the credit
that may be wanted for speculation or
extravagant construction, but it can and
should furnish all that is needed to
move the crops and make the current
exchanges of trade.

"Our system broke down in 1907, when
great railway systems could not get
money for their pay rolls; the move-
ment of such staples as cotton and
wheat came to a standstill and hun-
dreds of thousands of wage-earners
were thrown out of employment.

"Every consideration demands that
the country be safeguarded against a
repetition of this experience. It is more
than a banker's problem or merchant's
problem; it involves stable markets for
the farmer and steady employment for
the wage-earner. It is more important
to wage-earners than any other single
question, more important to farmers
than a year's crop, more important to
all classes than any disposition of the
tariff or trust questions can possibly be.
It is now up for action and ought to
have right-of-way over every other
issue until it is settled by a compre-
hensive and final treatment.

"There is no wide disagreement among
the friends of banking reform. It is
agreed that our system lacks unity and
cohesion and reserve powers. There is
general confidence that our banks are
solvent, but no confidence in a crisis
that they will be able to maintain cash
payments or grant needed accommoda-
tions. The banks feel their own help-
lessness, and their struggle to keep up
their cash reserves and reduce their
loans do even more to demoralize the
situation than the actions of the public.

"What is wanted is some responsible
organization, with reserve resources
which command complete confidence,
that will stand back of the individual
banks and support them when help is
needed by taking over some of their
assets and advancing cash thereon. Ex-
perience elsewhere has demonstrated
that the demands upon such an institu-
tion can be effectually controlled by
raising the discount rate. That is the
general principle to which the rest of
the world has come, and it is now com-
monly accepted in this country. The
only disagreements seem to be over the
details of this organization.

"I see no reason to fear that such an
organization will be controlled in the
interest of a locality or clique. The
controlling board will be chosen from all
sections of the country, with proper
checks and safeguards, but the most im-
portant safeguard is a regulation as to
the character of paper that shall be
handled.

"I see that Mr. Hill argues that good
bonds should be accepted as collateral.
No doubt the bonds of good railway
and industrial corporations are a safe
security for loans; but there is practi-
cally no limit to the supply, and the
only real danger that exists, that the
organization might be used for stock
operations or promotion schemes, lurks
in the use of this class of collateral.

"Warehouse receipts for wheat and
cotton are totally different. The supply
of these commodities is seldom
beyond a year's consumption,
must be sold and the loans
paid. If the

Attendant, wishes position. Tel. Hilland
4543-J. MARIE ZURCHER, 6744 Thomas
blvd., Pittsburgh, Pa. 4

ATTENDANT—Young woman attendant
wishes position with party traveling to Pa-
cific coast; will work for expenses. MISS
JENNIE L. HODGE, 329 North High st.,
Mount Vernon, N. Y. 2

ATTENDANT—Trained American desires
position as attendant and companion to
elderly lady; experienced; reference, MISS
LILLIE HARBOURNE, 273 Lincoln st.,
Flushing, N. Y. 6

CLERICAL—Girl (17) wishes position as
office assistant. ANNA KRUBY, 1541 Ave.
A, New York city. 1

COMPANION AND MAID to elderly or
young lady; understands dressmaking,
mending, care and dressing of hair, etc.
ROSE JEANETTE KENNEDY, care Wm.
J. Brown, 34 South High st., Mt. Vernon,
N. Y. 6

COOK—American woman wishes posi-
tion to do plain cooking in family of
adults; kind home preferred to high wages.
HELENA KAVANAUGH, 238 Atlantic ave.,
Brooklyn, N. Y. 31

DEMONSTRATOR and saleswoman, ex-
pert, desires position with good house;
willing to travel; A1 references. F. M.
SHEPARD, 145 Union ave., Saratoga
Springs, N. Y. 3

DRESSMAKER, experienced, excellent
fitter, conscientious, satisfactory, wishes
position; best references. MRS. S. AR-
RIAGA, care Reid, 218 W. 128th st., New
York. 4

DRESSMAKER, 7 years' experience, cut-
ting, fitting, remodeling, desires work; ref-
erences. MRS. E. GARDNER, 16 West 31st
st., New York. 3

HOTEL STENOGRAPHER, experienced,
desires position in Boston or elsewhere;
references. MISS WHITAKER, 179 Frank-
lin st., Buffalo, N. Y. 4

HOUSEKEEPER—Lady desires position
as housekeeper, companion or secretary;
has taken responsible charge of gentleman's
home and children; highest references.
MISS J. KNOWLTON, Fulton, N. Y. Gen.
very. 2

HOUSEKEEPER would like position in
hotel, family or institution; 7 years' ex-
perience. C. CHAW, 34 Ormond pl.

JULY 31, 1934, 58th St. N.Y.
 VICE SECRETARY—Eleven years' experience; capable and efficient; exceptional references; prefers Philadelphia or New York. L. W. REEVE, 4807 Regent st., West Philadelphia. 1
 REFINED YOUNG GIRL wishes position, secretary, companion to elderly lady; cheerful, obliging; typist; experienced; references. WREDE, 3137 Fairfax ave., Westchester, N. Y. 31
 SEAMSTRESS—Neat, reliable colored woman wishes plain machine sewing few days weekly; moderate pay. MRS. F. JOSEPH, 119 E. 100th st., New York. 31
 SEAMSTRESS desires employment; plain sewing, darning or buttonholes. BELLA SHOEMAKER, 1949 N. 13th st., Philadelphia. 6
 STENOGRAPHER, experienced, desires position, private secretary preferred; references furnished. HILDA SNYDER, 452 E. Walnut lane., Germantown, Philadelphia, Pa. 3
 STENOGRAPHER and typewriter, young woman, thoroughly capable and experienced, rapid and accurate, wishes high class position in New York city. E. PATTERSON, 163 E. 115th st., New York. 3
 STENOGRAPHER AND TYPEWRITER—Young lady, nearly 18, desires position in vicinity of Newark, N. J., or downtown in New York city; is accurate and painstaking in her work, neat and ladylike in appearance. OLIVE HILBERT, 87 Quincy av., Arlington, N. J. 3
 STENOGRAPHER and bookkeeper, some experience, hard worker, moderate salary to begin. KAPLAN SCHOOL, 1731 Pitkin ave., Brooklyn, N. Y. Phone 660 East New York. 4
 STENOGRAPHER of several years' experience, thoroughly competent and reliable, desires position; will go to Kenosha or Milwaukee, Wis. MISS MARY ALICE OLIVER, 245 Frank ave., Racine, Wis. 3
 STENOGRAPHER, first-class, desires position; German and English diction, translations; experienced in import, advertising, insurance; had charge of department. ELISE M. CORDSEN, Suffern, N. Y. 2
 STENOGRAPHER-TYPIST desires position where the services of a capable, experienced and trustworthy stenographer will be appreciated; moderate salary; references. GERTRUDE FOX, 195 Adelphi st., Brooklyn, N. Y. 3
 TUTOR—Young lady, graduate of Parker Collegiate Institute, wishes position to tutor in elementary subjects, Latin, French and German. Address M. PRESSPRICH, 256 79th st., Brooklyn, N. Y. Phone 3421-J Bay Ridge. 6
 VISITING GOVERNESS (French), linguist, seeks morning position; would take children walking; references; apply by letter only, stating particulars. MISS E. BURKY, 257 W. 24th st., New York city. 4

SM

IN NEED

Work?

Try

e Want Ad

n

ONITOR?

GE TWO

ticulars

1 RH MONO. SEC.

The formation of clubs and societies for the serious study of economic questions is a hopeful sign of the times. Modern economic conditions have developed new problems of vast importance which are pressing upon the American people for solution. Among these none is more important, with reference to the future development and welfare of the country, than that which is submitted to the National Monetary Commission. The question of how best to secure a comprehensive organization of our financial institutions and a thorough reconstruction of our monetary system is one of vital interest to the people of every class and every section. There can be no wise or permanent legislation, no final solution of this problem, that is not supported by intelligent public opinion. Enlightened public opinion must be based on the final judgment of thoughtful men who have thoroughly investigated this great question from the practical and theoretical point of view.

We are living in a new economic era, brought about by the march of civilization; by wonderful improvements in methods of transportation and the transmission of intelligence; by important changes in business and industrial methods; and by remarkable discoveries in the arts and sciences.

The wonderful transformation which has taken place in every direction in recent times has added greatly to the responsibilities of bank managers. In our complex economic life credit forms a more and more important element in the successful development of communities and States. As in the earlier days, every successful bank manager is brought into close and confidential relations with the men upon whose activities and influence the welfare of every community depends. His advice and assistance are solicited for the promotion and support of every industrial enterprise, and his counsel is asked with reference to the investment of the savings and earnings of the people he serves.

In respect to their important responsibilities in this connection the great mass of the bank managers of the United States leave nothing to be desired. In no other country do we find their equals in the uniform courtesy and intelligence with which their business is transacted. They are vigilant in safeguarding the interests of their stockholders as well as their customers. Nowhere else do we find the same skill in the technique of the profession. The practical details of the business of a bank are conducted here with a facility and rapidity quite unknown outside the United States. Everyone who has attempted to transact the simplest business in a foreign bank—cashing a check, for instance—will confirm this statement.

We may safely assume, therefore, that so far as concerns the personality of bank managers, their conduct of the routine affairs of their banks, and their personal relations to customers, depositors, or borrowers, there is no demand for new or improved conditions.

Notwithstanding the possession of these admirable personal qualities, the bank managers of the United States find themselves unable to meet the new and serious duties and responsibilities which are imposed by the momentous physical and financial changes which have taken place in recent years.

United States. Everyone who has attempted to transact the simplest business in a foreign bank—cashing a check, for instance—will confirm this statement.

We may safely assume, therefore, that so far as concerns the personality of bank managers, their conduct of the routine affairs of their banks, and their personal relations to customers, depositors, or borrowers, there is no demand for new or improved conditions.

Notwithstanding the possession of these admirable personal qualities, the bank managers of the United States find themselves unable to meet the new and serious duties and responsibilities which are imposed by the momentous physical and financial changes which have taken place in recent years.

The inability of bank managers to meet these changed conditions is due in a large part (1) to the limitations and restrictions imposed by antiquated or obsolete laws with reference to the treatment of reserves; in part (2) to a defective, inelastic, and unscientific system of note issues; and (3) to an entire absence of cohesion and cooperation on the part of banks in what are now their more important functions—those in which the public has the deepest interest.

The necessary cooperation of banks for mutual protection and support at critical times is rendered impossible by unwise, artificial restrictions. This lack of cooperation in times of pressure, exceptional or otherwise, transforms individual banks from a condition of independence to one of complete isolation and dependence. In emergencies they are without the power to serve successfully the interests of either their stockholders or the public. The situation in this respect is illustrated by the fact that the country banks now entirely depend for assistance to enable them to meet unusual demands upon their resources upon their correspondents in reserve or central reserve cities; and, in the last analysis, the banks of the entire country depend for their support upon the financial institutions of New York, with their vast accumulations of capital.

Unfortunately, for reasons which it is not necessary for me now to recite, in times of severe stress all these agencies fail or prove inadequate. We are confronted, therefore, with the fact that the banks and the business of the country have no reliable resource upon which they can depend at all times for the protection of vital interests. Exceptional demands made upon the banks for credit, arising from an expansion of business or otherwise, and the regular recurring movements of lawful money from one section of the country to another, are disturbing elements of more or less importance, liable to lead to widespread distrust, resulting at times in a general suspension of cash payments and

2 RH MONO. SEC.

the complete disruption of all exchanges.

In the losses and paralysis incident to general bank suspensions, the banks themselves are not the only—in fact, they are not the principal—sufferers. Banks, if properly managed, are usually able to take care of themselves. Not infrequently they pass through the trials of a panic with increased earnings and unimpaired resources. I do not mean by this statement that the intelligent bank managers of the United States on this account look with indifference upon a panic or panicky conditions. I believe the intense strain to which the bankers of the United States were subjected in 1907 taught them a practical lesson which they never will forget and that they are now earnestly seeking with one accord some resource which shall at all times be available to sustain their own credit and that of the communities they serve.

The widespread disastrous results of the panics following bank failures in 1873, 1893, and 1907 affected all classes. In each of these cases we had an entire or partial suspension of all productive industries, a shrinkage in all values, a reduction of wages and loss of employment, with irreparable loss to wage earners, an arrest to all progress, a destructive impairment of confidence, and a loss of prestige for the country. Farmers and other producers were not able to secure the necessary facilities either for holding or marketing their products, and business men of all classes were unable to meet their current obligations.

Usually there is no opportunity for the great mass of the people to prepare for these emergencies, as the transition from prosperity (real or apparent) to depression and panic usually takes place without warning.

It is utterly impossible for any man to measure the extent of the losses and the injuries (direct or indirect) to the productive forces of the country which have arisen from our defective monetary system. In the exuberance of youth, nations as well as individuals are likely to be indifferent to the evil results which are sure to follow a profligate waste of vital forces. At such times a feeling seems to exist that the evil results of a continued infraction of natural laws can be safely ignored. Were it not for our unrivaled natural resources, and the characteristic energy of our people, which have given us an unprecedented prosperity and a rapid growth in wealth, in spite of all obstacles, we should have long since found the defects to which I have referred intolerable.

Our great natural advantages have enabled us to go on suffering losses that would have ruined any other country. Every intelligent man who has observed the unsatisfactory character of our banking practices and who has had an appreciation of their destructive results must have been filled with wonder and amazement that a great people should have so long submitted to such crude and expensive methods.

It must be apparent that the entire public is vitally interested in everything that pertains to the strength and safety of our financial institutions. They are the principal creditors of the banks as the number of depositors in financial institutions is greater than the number of persons employed in all the useful occupations in the United States.

In considering the universality of the public interest in the cause of monetary reform, I am constantly reminded of the striking statement made by Sir Robert Peel in opening the discussion on the English bank act of 1844. With reference to that proposition, he said:

There is no contract, public or private—no engagement, national or individual—unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of life, pecuniary

sons employed in all the useful occupations in the United States.

In considering the universality of the public interest in the cause of monetary reform, I am constantly reminded of the striking statement made by Sir Robert Peel in opening the discussion on the English bank act of 1844. With reference to that proposition, he said:

There is no contract, public or private—no engagement, national or individual—unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of life, pecuniary transactions of the highest and the lowest amounts, the command of money over the necessities of life, are all affected by the questions submitted by me for your consideration.

The questions which were involved in the provisions of the act of 1844 were very simple compared with those that confront us to-day. There was then practically but one question considered, that affecting the character and extent of the note issues of the Bank of England. We have to deal with a great variety of questions, all far outweighing in magnitude that involved in the legislation to which I have referred.

Great and continued successes create in the people a natural condition of inertia, which produces an unwillingness to consider reforms involving a solution of difficult problems. With the conservative character of our business men and bankers, who dread all radical changes, and the extreme difficulty of securing an agreement on the character of adequate legislative remedies, the work of monetary reform in this country has moved slowly. The experience of other countries in this respect has been different from ours for reasons which it is not difficult to understand.

It is true that a generation passed from the time of the bullion report to the passage of the act of 1844. But since the adoption of that legislation the evolution of monetary methods in England, France, and Germany has been rapid. This progressive movement was not retarded or prevented by unwise legislative requirements. The issue of notes by banks of issue was the only subject of rigid governmental supervision. There were no laws regulating banking methods or prescribing the character or extent of reserves. The joint-stock banks in each country were governed by the general corporation laws. The changes which have taken place by usage and as the result of experience in each one of these countries in the last 50 years have been revolutionary in their character. With a new and distinctive evolution in banking methods and practices everywhere outside of the United States, we have had no important changes whatever since the enactment of the national banking laws.

We have as a people during this period suffered from bitter, expensive, and profitless discussions with reference to the resumption of specie payments, the issue of Government notes, and the free coinage of silver. But it has not been possible to modify existing laws or to change our banking methods and practices to make them conform to those universally successful elsewhere in securing an efficient organization of credit and the prevention of panics.

3 RH MONO. SEC.

I have referred to the magnitude of the interests involved in the solution of this problem, to the resources, the wealth, and the remarkable development and growth of the country financially and physically. To-day the banking resources of the United States are greater than those of all the other commercial nations of the world combined. Any constructive legislation must provide not only for the necessities of to-day, but must have reference to the future needs and development of this great nation. In 10 years the number of our banks and the banking resources of the country have more than doubled. In the same period the business of the country in many lines has trebled and quadrupled. Imagination fails us if we undertake to make an estimate of the increase in our banking resources and the extent of our industrial development within the next generation, but principles must be laid down and machinery provided that will properly take care of any possible increases.

Having alluded in this imperfect manner to some of the defects of our system and their consequences, I now propose to call your attention to some of the phases of the remedial legislation proposed.

I realize—and I am quite sure you, who have given the subject attention, realize—the magnitude, the complex, and intricate character of the questions involved. I never stand before an audience like this for the purpose of treating any of the phases of this great problem without feeling that I ought to apologize for what must be, inherently, the unsatisfactory character of my discourse. It is utterly impossible for me or any man in an address limited in time as this must be to do more than barely touch upon some of the great fundamental questions which are involved in the cause of monetary reform.

About a year ago I was requested by my fellow members of the Monetary Commission to prepare a tentative plan of monetary legislation for submission as a basis for discussion and criticism. In accordance with this request a plan was submitted to the commission in January. Lately I have submitted a revision of the plan, undertaking to deal with three important phases of the subject not covered definitely in the original plan.

I have considered the provisions of this plan earnestly and sincerely, having always in view the best interests of this great country, the character of its institutions, and the needs and requirements of its people in every section. I have considered it in the light of a careful study of the experience of the other commercial nations of the world—experience which has for us lessons that are invaluable. I have submitted it to the Commission and the American people with confidence, because I have a profound conviction that it furnishes a workable and sound basis for the successful solution of great problems. It is, however, presented to the members of the Commission for their criticism and action, and not as the last word that can be said on the subject.

I have alluded to the enforced lack of cooperation of
of the principal defects of

and the American people

experience of the other commercial nations
experience which has for us lessons that are invaluable.
I have submitted it to the Commission and the American
people with confidence, because I have a profound conviction
that it furnishes a workable and sound basis for the
successful solution of great problems. It is, however,
presented to the members of the Commission for their
criticism and action, and not as the last word that can be
said on the subject.

and the American people

I have alluded to the enforced lack of cooperation of
banks in critical times as one of the principal defects of
our system. I am satisfied that the only effective remedy
for this defect is to be found in a better organization of
credit secured through the associations of banks for
definite purposes and with distinctive functions. These
must be associations for mutual protection and assistance.
The central association must not compete for the usual
business of discount and deposit.

The banks of the country are fully satisfied of the necessity
of closer cooperation. The changes that have taken
place in the character of clearing-house organization is
evidence of this. The clearing-house associations were
originally organized for clearing of checks and to facilitate
the exchange of the business of their district. Since 1873
their powers have greatly broadened to include other and
more important fields, through the use of clearing-house
loan certificates and cooperation in other important
respects.

I realize that we can not adopt or even adapt to our
use in the United States a central bank of the character
of the central institutions of the great commercial nations
of Europe. The form and character of their organizations
are not compatible with the character of our institutions.
The central banks of Europe without exception
compete for business with the joint-stock banks in their
respective countries to a greater or less extent. This
competition is in some cases required by law. It is of
course true that through the force of public opinion and
the evolution of banking systems and not as a result of
legislation, these central institutions have assumed very
important functions other than those exercised by commercial
banks. I need not say to any student of the

4 RH MONO. SEC.

subject that it is now the recognized function of the Bank of France, the Bank of England, and of the Reichsbank not only to take care of the reserves and to extend assistance to the joint-stock banks in their respective countries, but they are expected to maintain at all times the public credit as well.

We can not afford to overlook the prejudices of the past or the present. We can not, for instance, have a bank like the second bank of the United States. One of the principal objections to that institution was the charge of personal and political favoritism to individuals in its management. We must afford no opportunity for a repetition of transactions of this character, and the new organization must, therefore, do business with the banks alone; it must be their agent, not generally, but for certain specific and defined purposes.

We must consider carefully the diversified interests of all sections and communities, the broad general interests of the country at home and abroad. The international aspects of the question are perhaps quite as important as those that relate to our domestic affairs. They are even more important to the great mass of the producers of the country who are directly interested in our exports.

The organization I have suggested is a cooperative union of all the banks of the country—not an organization to do a general banking business, but a federation of banks with functions clearly defined. Its purposes are strictly limited to two functions. One of these functions is to hold a portion of the cash reserves of the banks of the United States, with provisions for their mobilization and use for specific purposes. The other is a grant of power for the issue of circulating notes under strict governmental regulation. Everything else is incidental and collateral to these two main objects, and the business of the Reserve Association is absolutely confined to these, with the exception of the Government's relations to it as a depositor and the receiving and paying out of Government funds.

One of the most difficult problems that confronted me in preparing the outline of a plan for monetary reform was to provide a form of organization with the limited powers I have described that would fit into and supplement sound banking and business conditions without disturbing any; that would meet the wants of every section and of all our people without the possibility of control by political influences or by individuals or combinations in Wall Street or elsewhere.

I have insisted from the beginning that the question must be kept out of politics. It is a business question pure and simple, vitally affecting all the people of the country, and politicians have no right to use it or to attempt to use it for the benefit of any party or individual. If the thoughtful and patriotic people of the country will let the gentlemen who are trying to thrust this question into politics, personal or otherwise, who are for party or personal advantage attempting to arouse public prejudice

must be kept out of politics. It is a business question pure and simple, vitally affecting all the people of the country, and politicians have no right to use it or to attempt to use it for the benefit of any party or individual. If the thoughtful and patriotic people of the country will let the gentlemen who are trying to thrust this question into politics, personal or otherwise, who are for party or personal advantage attempting to arouse public prejudice against a plan which they have never read or in regard to which they have not absorbed enough knowledge to comprehend its meaning, understand emphatically that it is a business question to be settled outside of politics and in the public interest, criticisms of a certain kind will promptly cease. I realize as fully as anyone can that intelligent criticism is invaluable in a great constructive work like that we have on hand, and we have not only welcomed but sought advice and criticism of this kind from every source. We are earnestly seeking frank expressions of opinion from thoughtful men all over the country. If this problem is to be solved successfully it must be treated purely from a nonpartisan standpoint. If it is made the football of politics it will meet the fate of all reforms that have gone before.

We can all recall years of doubt and uncertainty, when the public mind was distracted and public opinion divided with reference to questions of currency and coinage, questions settled only after a generation of costly political discussion which could have been avoided if the questions had been treated from the standpoint of economics rather than of politics.

The fear is expressed in some quarters that the selection of the governor by the President from a list submitted and the provisions making the Secretary of the Treasury, the Secretary of Commerce and Labor, and the Comptroller of the Currency ex officio members of the board of directors of the reserve association, might lead to an attempt to control the organization for political purposes. I believe that the participation of these officials in the management of the institution to the limited extent prescribed is necessary to secure a proper recognition of the vital interest which the public has in the management of the association.

5 RH MONO. SEC.

It is, of course, a corporation with private stockholders, but it is proposed to make it the principal fiscal agent of the United States and the depository of its funds. The more important powers of the organization and its principal powers are of a public character. It is not only the custodian of the Treasury balances, but the principal reason for its existence is found in its ability at all times to sustain the public credit. Neither the President nor any of the officials named, from the inherent character of the institution, could possibly use any of its functions for personal or political purposes.

The plan I have suggested provides for the organization of all the banks in contiguous territory into local associations, of local associations into district associations, and the district associations into the Reserve Association. Each district association is to have a branch of the national association. These separate organizations are analogous to our political divisions into counties, States, and the United States, and each have distinctive functions quite unlike in their character, and the form of all is based upon the idea of securing self-government to each. In the local association the individual bank is the voting unit. A majority of the individual banks, without reference to their size or to their holdings of stock in the Reserve Association, elect three-fifths of the directors, and a majority of stock interest elect two-fifths. While the controlling interest is in the hands of the majority in number, a majority in stock holdings receives a smaller representation. This form of organization and method of election is, so far as I am aware, quite novel in representative government. It is more democratic in form, more liberal to minorities than others that I know of. I believe that it is a fair arrangement. If advantage accrues to any, it is, of course, to the small banks, because they can, if they please, elect a majority of the directors in every local association in the United States.

The next step is the organization of all the districts into a central reserve association.

In the organization of the National Reserve Association we provide (1) that each of the districts, without reference to its size or location, shall elect one director; (2) that a majority in stock holdings shall elect a smaller number, as in the case of the local association; and (3) that these two classes together may elect a certain number of directors, representing fairly the agricultural, industrial, and commercial interests of the country.

In order to remove any possible danger that some combination of individuals or corporations in some section—New York, for instance—might obtain control of the National Reserve Association and use it for their selfish purpose, I have provided that not more than three of the directors of the second and third classes and not more than four in any event shall be selected from any one district. I fully realize that this provision is not in one sense equitable when we consider the great disparity in the size and importance of districts.

By this provision, for instance, New York could have but 4 directors out of 39. This is a trifle more than one-

National Reserve Association and use it for their selfish purpose, I have provided that not more than three of the directors of the second and third classes and not more than four in any event shall be selected from any one district. I fully realize that this provision is not in one sense equitable when we consider the great disparity in the size and importance of districts.

By this provision, for instance, New York could have but 4 directors out of 39. This is a trifle more than one-tenth of the whole. But New York City alone has 20 per cent of the banking capital and 26 per cent of the banking resources of the United States. Take the whole eastern section, the New England and Eastern States as classified in the comptroller's report, together: Under the plan they would be entitled to 12 members of the board of directors out of 39, or 31 per cent of the total. But these States have 50 per cent of the banking capital and 60 per cent of the banking resources of the United States. Under this plan the States of the Middle West would have 41 per cent of the representation and but 25 per cent of the banking resources. The Southern States might have 31 per cent in representation and but 14 per cent in banking resources.

This seems, on its face, to be unfair to New York and to the East, but, so far as I am concerned and so far as my judgment of the situation is concerned, I should be willing to have every one of the directors elected from the city of Chicago. They have only to deal with banking and business questions of vast importance, it is true, but I should be willing to trust representative bankers in any community to see that the law was fairly and impartially administered. This organization is analogous to that of clearing houses, and I have never known politics or differences of opinion growing out of the size of a bank or its location to enter into the selection of the management of a clearing-house association. The clearing-house banks of all of our communities work together harmoniously for the general good in times of ordinary business and in times of stress without reference to their size or importance.

Personally I believe, in a broad way, in the solidarity of the interests of all the American people. If the people of Illinois are prosperous, the influence of your prosperity will be felt throughout the length and breadth of the land. If your industries are depressed, if production stops upon your farms and in your mills, that depression is felt everywhere in New England and in the South as well as here. But, notwithstanding this, no plan can be adopted or ought to be adopted that does not take into consideration the prejudices, if you please, as well as the interests of the various sections of the country.

6 RH MONO. SEC.

I am constantly reminded of the fact that the principal obstacle in the way of the acceptance of the proposed plan is the fear of its domination by Wall Street. It must be apparent from an examination of the provisions of the plan that in order to control the various associations, including the Reserve Association, it will be necessary practically to control a majority of the 26,000 banks of the United States with their banking resources of 21 thousand millions of dollars. The banking capital of the country is, in round numbers, 2,800 million dollars. Taking the selling price of bank stock into consideration and the advance which surely would follow an attempt to purchase control, it would be safe to say that a control of the banks of the country would cost more than 2,500 million dollars. No scheme could be possibly enacted into law which would not make a combination or purchase of this kind illegal. The magnitude of the operation, if there were no other reason, makes the execution of this plan absolutely impossible.

It might be pertinent to inquire what this supposed combination of capital could do with the associations if it could control them. In order to affect local interests in the West, for instance, it would have to control not only the central organization but every local and district association, with their local self-governing boards. The district organizations alone exercise the functions of discount and rediscount and the amount of such rediscounts in any one locality is limited by the capitalization of local banks. It might, with the control of the national association, be able to fix the rates of discount, but these rates must be uniform throughout the United States, and no advantage could be secured by this power. No profit of any kind could inure from the transaction, as the dividend rate to shareholders is fixed, and any additional profits would go to the Government. It is impossible to see from any reasonable standpoint why anyone should want to take, if they had the power, the responsibility of controlling these organizations.

I believe that the plan as submitted undoubtedly answers every requirement of the conditions I have laid down, that its control should be absolutely beyond the reach of any political influence or sectional combination; but I say, with the utmost frankness, that if any better scheme or plan to secure these results can be devised I am sure the National Monetary Commission would adopt it.

In the plan as originally presented I suggested that national banks should be the only stockholders in the Reserve Association. But as a result of careful investigation I have made up my mind that it is important (I think I may say it is necessary) that State banks and trust companies should also be admitted to membership upon equitable terms.

By the provisions of the plan as now presented State banks and trust companies are admitted to all the advantages and privileges of membership in the National Re-

national banks should be the only stockholders in the Reserve Association. But as a result of careful investigation I have made up my mind that it is important (I think I may say it is necessary) that State banks and trust companies should also be admitted to membership upon equitable terms.

By the provisions of the plan as now presented State banks and trust companies are admitted to all the advantages and privileges of membership in the National Reserve Association upon conditions that I believe are acceptable to the representatives of those institutions. These conditions are—

(1) That they shall hold the same percentage of reserves against their demand or other liabilities that is required of national banks in the same locality.

(2) That State banks must conform to the capitalization requirements of the national banking laws that apply to national banks in the same locality. That trust companies must conform to a plan of capitalization recommended by the trust company committee of the American Bankers' Association.

(3) That all subscribing State banks and trust companies must submit to the examinations that are authorized or required by the plan.

(4) That all subscribing State banks and trust companies, as well as national banks, shall make regular reports of a specified character to the Reserve Association.

We have prescribed standards of reserves, of examinations, and of reports that will be applicable alike to all federated institutions of the same class, whether acting under National or State charters. I believe that the proposed system of thorough examinations by local expert examiners insures better results in the ascertainment of actual conditions than can now be obtained through either the National or the States requirements. The publicity of condition secured by the required reports must prove, as a basis of public confidence, a great advantage to all well managed institutions. It is true that many people do not now understand the technical details of bank reports, but when their frequent publication is required those specially interested as stockholders or depositors will in time be able to understand their significance, and I believe we shall have through this publicity one of the most effective guarantees of solvency in condition and wisdom in management that can be devised. We do not propose to attempt to change or interfere with the business of these institutions authorized by State laws.

7 RH MONO. SEC.

As I have already stated, one of the principal defects of our banking system grows out of the artificial and unscientific treatment of reserves required by our banking laws. There is universal agreement that a portion of a bank's assets must be kept at all times in liquid form to enable it to meet promptly its demand obligations. With us a certain percentage of its liabilities are required to be kept in actual cash and another portion on deposit with reserve agents.

In ordinary times withdrawals of balances are equalized by new deposits, but banking institutions must be prepared at all times to meet exceptional demands, and all well managed financial institutions have a secondary reserve of commercial paper and other quick investment assets that should be readily convertible into cash. In this country we have had but little serious discussion with reference to the proper character and extent of bank reserves. In other countries reserves are regulated, both as to character and extent, by the judgment and custom of managers of banks and not by legislative provisions.

One trouble arises largely from the absurd limitation prescribed by the national banking law—a limitation that has been generally followed by legislation in the States—that not only prevents a bank from giving credit or discounting the paper of its customers, but forbids the use of the reserve for the purposes for which it was created whenever and so long as the aggregate of cash and balances falls below the prescribed legal percentage. The effect of this paralysis is disastrous in times of stress. Not only is extension of relief to customers prohibited, but no method is provided of protecting or replenishing the reserves.

In every other commercial nation deposits by joint stock banks in a central institution are held by custom to be equivalent to a cash reserve, and this balance can always be increased upon reasonable demand by rediscount of commercial paper of a recognized standard. In other countries in times of stress or anticipated trouble credit is liberally extended to all solvent customers who have the necessary collateral, and the reserves of the banks are freely used, protected, and increased in the manner I have described.

You are all familiar with our experience in 1907. Before and during the general suspension individual banks, almost without exception, outside of the great cities took every means to increase the amount of their cash reserves, as they naturally believed this course was necessary for self-preservation. This general increase in the reserves of the banks from the Atlantic to the Pacific accentuated, if it did not create, panicky conditions.

It is clear that in times of pressure the scattered cash reserves in the possession of individual banks are practically useless and ineffective for any of the purposes for which reserves are created.

We propose to remedy the defects to which I have alluded by providing that the balance of any bank with the Reserve Association shall be counted as a part of its legal reserve. To increase these balances whenever necessary to protect and maintain the stability of the banking system.

reserves in the possession of individual banks are practically useless and ineffective for any of the purposes for which reserves are created.

We propose to remedy the defects to which I have alluded by providing that the balance of any bank with the Reserve Association shall be counted as a part of its legal reserve. To increase these balances whenever necessary, to protect and replenish these reserves, the Reserve Association may rediscount commercial paper for individual banks. Commercial paper, as defined by the plan, includes all notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, and not for carrying stocks, bonds, or other investment securities.

Paper of this description having not more than twenty-eight days to run may be discounted for individual banks. If having more than twenty-eight days and not exceeding ninety days to run the rediscount may be made for individual banks with the guarantee of the local association. But in times of panicky conditions or when serious trouble is anticipated the direct obligations of individual banks, with the guarantee of the district association, may be discounted, secured by a pledge of undoubted collaterals. By this process the loaning power of the bank for whom the discounts were made is restored or increased by an increase of its balances available for reserve purposes.

This will enable the banks of the country to adopt the policy which has been successful in every instance for half a century for the prevention of panics in the commercial nations of Europe. This policy contemplates the liberal granting of credit by the banks in times of pressure to every customer whose standing entitles him to receive it. There is no suspension or paralysis of accommodation to customers, but rates of discount are increased sometimes to a very high figure.