START

Collection Title The Papers of Nelson Aldrich

Series/Volume

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Aldrich, Nelson Wilmarth, 1841-1915.
Papers, 1777-1930. 58 ft. (ca. 42,500 items)
U.S. Representative and Senator from Rhode Island, financier, and philanthropist. Correspondence, diaries and notebooks, material relating to tariff rates and legislation (1880-1915) and the National Monetary Commission (1907-12), financial papers, speech file, and printed matter, chiefly relating to Aldrich's career as U.S. Senator (1881-1911). Papers also include a group of biographer's research materials containing correspondence and notes of Nathaniel W.

(Continued on next card)

Aldrich, Nelson Wilmarth, 1841-1915. (Card 2)
Stephenson and Jeannette P. Nichols, and some diaries and engagement books kept by Aldrich's wife, Abby Chapman Aldrich. Correspondents include Joshua M. Addeman, Edward B. Aldrich, William B. Allison, Abram Piatt Andrew, Henry B. Anthony, George E. Barnard, Jr., Robert W. Bonynge, Jonathan Bourne, Jr., Charles R. Brayton, Theodore E. Burton, Adin B. Capron, Jonathan Chace, William E. Chandler, LeBaron B. Colt, Samuel P. Colt, Charles A. Conant, George B. Cortelyou, Henry P. Davison, Elisha Dyer, Jr., Henry W.

(Continued on next card)

Aldrich, Nelson Wilmarth, 1841-1915. (Card 3)
Gardner, Eugene Hale, John E. Kendrick, Philander C. Knox, Charles Warren Lippitt, Henry Cabot Lodge, Stephen B. Luce, Orville H. Platt, Aram J. Pothier, Theodore Roosevelt, John P. Sanborn, William Howard Taft, Henry M. Teller, Edward B. Vreeland, Paul M. Warburg, George Peabody Wetmore, William Whitman, and Nathan M. Wright.

Finding aid and index in the Library.

Information on literary rights available in the Library.

Gift of the Aldrich family, 1944; John D.

(Continued on next card)

Aldrich, Nelson Wilmarth, 1841-1915. (Card 4)
Rockefeller, Jr., 1955-56; and the Seminary of Our Lady of Providence (Rhode Island), 1970.

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CONTAINER

83 CONT. - 85

Collection Title Nelson W. Aldrich

Series/Volume BOX 83

Shelf/Accession No.

LC 77-38 (1/70)

NELSON ALDRICH

6.

MISCELLANY

duplicate

February 22, 1910.

THE DISCOUNT SYSTEM IN EUROPE. Conant

An illuminating discussion of one of the features of banking policy which is closely linked in Europe with the central bank system is presented in a monograph written by Mr. Paul M. Warburg, of the banking firm of Kuhn, Loeb & Company, of New York, and just made public by the National Monetary Commission. The monograph is entitled "The Discount System in Europe," and begins by stating as a general principle of sound banking policy that "with the present system of immense deposits payable on demand, and by right payable in gold, at the option of the payee, only that structure is safe and efficient which provides for effective concentration of cash reserves and their freest use in case of need, and enables the banks, when necessary, to turn into cash a maximum of their assets with a minimum of disturbance to general conditions." In this respect, Mr. Warburg declares, recent events have made it clear that our system is an unqualified failure, and that it is now generally acknowledged that the end of 1907 witnessed one of the most impressive victories of the central bank system. It is declared, however, that it was a victory of the discount system of handling commercial paper, because the central bank is only a component part, although a most vital one, of the discount system. A careful description of what this system is, in contrast with the American system of advances on securities and single-name paper, forms the subject matter of Mr. Warburg's monograph.

"Discounts," it is declared, represent, -- or, like our promissory notes, ought always to represent, -- temporary indebtedness which is to be paid off by the liquidation of the business transaction for the carrying out of which the loan was incurred. A bill may be drawn for cotton while it is being harvested, or while it is in transit for Europe, or while it is being manufactured into yarn, or while the merchant that purchased the finished article continues to owe the manufacturer therefor, or possibly even while the finished article is being shipped back to the same country from which the raw product originally came. To bridge each of these periods a long bill may be drawn by the various parties who, each in turn, handle the goods on their way from their original state to their place of final distribution. The length of the bill will depend on the underlying transaction; in England, France, and Germany it varies, as a rule, between two and four months, the vast majority of such paper being issued for three months.

With us the promissory note is, generally, one-name paper, while in Europe single-name paper is looked upon with distrust and is scarcely purchased at all by the banks. The European banker believes in having several signatures on the bill that he buys, thus securing more than one guaranty. Furthermore, additional signatures are evidence of the legitimate character of the paper and show that the money was taken for a temporary transaction, not for permanent investment.

Through the acceptance or endorsement of the merchant's note by the bank or banker the promissory note, from being a dead instrument and a nonliquid asset, -- becomes a liquid asset, part and parcel of the system of tokens of exchange which serve as a substitute for money or as auxiliary currency.

The old promissory note is nothing but the evidence of a commercial credit, the granting of which entails a material business risk and must remain an individual transaction only to be concluded by the few who happen to be well acquainted with the issuer of the note and are willing to take the hazard of granting that particular credit. Through the addition of the banker's signature the question of the maker's credit is eliminated and the note, instead of being a mere evidence of an advance, is transformed into a standard investment, the purchase and sale of which will be governed only by the question of interest. This investment commands the broadest possible market.

Acceptances are given by European banks and bankers mainly for three kinds of drafts: the documentary bill, the commercial credit bill, and the finance bill.

The documentary bill is probably the most important of these three. If an American merchant buys coffee in San Paolo, he will generally pay for it by opening for the shipper a documentary credit in Europe; that is to say, the American purchaser makes an arrangement with the European banker, by which the latter agrees to accept, let us say, a three-months' bill drawn on him with shipping documents attached, covering a certain shipment of coffee, the amount to be drawn being the equivalent of the amount due by the American purchaser to the South American shipper. The shipper will have no difficulty in selling to a bank in San Paolo his bill drawn on a first-class European banking house, and thus will promptly secure the money due him for the goods sold. The local bank in San Paolo will buy the bill without hesitation, because it knows that it need only send this foreign bill to England, Germany, or France, as the case may be, where, owing to the extensive discount market in these countries, it can immediately rediscount the bill, thus securing repayment in cash for the amount invested. Indeed, if the Brazilian bank prefers to do so, it can at the moment of shipment, by cabling to Europe, fix the discount rate at which the bills will be discounted upon their arrival in Europe.

When the bill reaches Europe, the drawee puts his acceptance on it, and having thus obligated himself to pay the bill when due, the documents are in most cases released and sent to the American purchaser of the goods, who opened the credit with the European bank. Of course, the American purchaser pays a commission to the European banker for the service rendered. The compensation depends on the standing of the purchaser and in part on the question of whether or not the documents are to be released upon acceptance (the American purchaser obligating himself to put the bank in funds before the bill falls due), or whether or not the documents are only to be given up by the accepting bank against cash payment by the purchaser. It may be said that the average compensation for such acceptance is between a quarter of one per cent. up to three-quarters of one per cent. for three months, according to the conditions of the case.

The majority of all shipments of merchandise, particularly those of raw material, are everywhere "financed" in this way by documentary bills on Europe. It is interesting to note that no matter how good may be the credit of the American purchaser or of any American bank, whose acceptance the purchaser may offer to the shipper in China, South America, or Europe, no shipper in such countries will, as a general rule, take the acceptance of an American bank or banker, because the American bill has no ready market, while the European bill is of very easy sale. It is impossible to estimate how large a sum America pays every year to Europe by way of commissions for accepting such documentary bills, [redacted], but the figures run into many millions.

Next in importance to the documentary bill is the two or three months' bill drawn on a bank or banker as a commercial credit granted by the acceptor to the customer. This transaction is a comparatively simple one. It means that the European banker permits his customer, whether residing in the banker's own country or abroad, to ~~drawn~~ draw on him at two or three months' sight, with the understanding that the customer will put the accepting banker in funds before the bill falls due, so that the drawee will not be called upon to advance any cash. He merely gives his signature to an acceptance, which the customer sells under discount, employing in his business the cash thus realized. The privilege of renewing the bill at maturity is often agreed upon at the outset, and the use to which the customer may safely and legitimately put the money realized from such a credit will in part depend on this feature of the arrangement between banker and customer.

Large business firms will, as a rule, have such accommodation at their disposal in several countries and they will draw against their credits on such countries as have the lowest discount rate for the time being. They may use all foreign credits at the same time when the interest rate at home is higher than the rates ruling abroad, and, conversely, they may at times cover all their foreign credits and use only the financial accommodation offered at home, if, for the time being, the home rate is lower than the rates abroad.

The vast majority of these commercial credit bills are drawn without collateral, but there are many instances where the drawer of the bill gives security to the acceptor by the pledge of his own bills receivable or of claims against his customers or of merchandise or similar collateral.

The total volume of bills representing commercial credits given by one country to any other is relatively unimportant as compared to the amount of documentary bills issued, but large numbers of such bills are drawn by the home customer on the home banker, especially in France and Germany.

Since the rate for a three-months' cash advance is very much higher than the discount rate for three-months' bills, it is nearly always more advantageous for the customer to draw on the banker and to pay the commission for acceptance and, in addition, the European stamp tax, rather than to pay the rate of interest charged for a three-months' cash advance.

This heavy difference between the discount rate and the rate for cash advances most eloquently illustrates the different valuation applied by the European banker to an investment of easy sale, -- the discount, -- as compared to one that locks up cash for even the comparatively short time of three months in a nonliquid asset.

There are three kinds of purchasers of discounts in all important financial centers: One is the central bank of each country; the second is the banking community at large, which means banks, bankers, and brokers, who form the regular investors; the third is the irregular investor within and without the country.

The relationship between the central bank and the discount market is a most important one. While in normal times only a small proportion of the business is done by the central bank, the existence of this bank is all-important to the whole financial structure, because even if a bank makes it a rule not to rediscount with the central bank and in its general business keeps independent of this institution, the fact remains that in case of need it can nevertheless rediscount with the central bank every legitimate bill, both bankers' or mercantile acceptance, so that every legitimate bill represents a quick asset, on the realization of which every bank or banker can always rely. Consequently no investor bank, banker, private capitalist, or financial institution will ever hesitate to buy good bills. Furthermore, there will not be in critical times any rush to sell good bills, as everybody in these countries knows that there is no better and safer investment, because for no other investment is there an equally reliable market. It is this confident reliance that creates the enormous discount market in modern financial economies and which renders it possible for untold millions of discounts to change hands daily, sometimes without any change whatever of rate or else with fluctuations of only one-sixteenth or one-eighth of one per cent. per annum.

Duplicates

February 24, 1910.

HOW CENTRAL BANKS INFLUENCE THE MONEY MARKET.

The manner in which the central banks of Europe, by control of their note circulation, maintain the reserves of the country and check violent fluctuations in the money market, is one of the interesting phases of the monograph of Mr. Paul M. Warburg, which has just been made public by the National Monetary Commission. Mr. Warburg begins this part of the discussion by declaring that it is one of the main duties and privileges of the government banks to buy legitimate commercial paper, which has been accepted or endorsed by bankers. As the government banks from time to time buy this paper, the volume of their circulating notes, which they issue in payment, increases, while, on the other hand, when they collect this paper at its maturity and thus reduce their holdings of discounts their outstanding circulation decreases. This means that they expand or contract according to the requirements of trade, because discounts represent progressive stages in the process of commerce and industry. However, this is not a merely automatic process, for when those entrusted with the management of the central bank see the necessity of exercising a restraining influence on the business community, they raise the rate at which the bank will discount, and in this they are generally followed by the other banks of the country.

The government banks consider themselves more or less as custodians of the national reserve, ready to take an active part in the nation's business only in times of emergency. The distinction should, however, be carefully observed between the abnormal crisis and what ~~we~~ may be called the normal emergency, arising periodically in consequence of certain economic changes, like crop movements or the particular requirements for special industries at fixed periods, which, as experience shows, subside as regularly as they occur. When these normal emergencies arise, the central banks do not ordinarily raise their rate, but, for a time, meet all the requirements at the usual, or at a very slightly increased, rate and allow their circulation to increase with the result that the reserves go down. When the government banks anticipate, however, that more than a normal emergency will have to be dealt with, they successively raise the rate in order to protect the reserve and to force liquidation, and in order to deter all branches of industry from entering upon far-reaching obligations.

Each government bank has a very decided interest in keeping its gold holdings as large as possible and in preventing the gold from leaving the country. If an augmented demand for money and credit accommodation increases the amount of notes outstanding, the government bank, by raising its rate, purposes not only to encourage a general contraction of business and to force the general banks of the country to contract, but also to attract foreign money into the country by the inducement of the higher interest return.

Most of the central banks in normal times accumulate large amounts of foreign bank paper. This is done for a two-fold purpose: First, in order to withdraw funds from the home market at a time of ease, thus creating a reserve; secondly, for the purpose of warding off withdrawals of gold by use of the foreign bills when foreign exchange rates approach the gold exporting point.

In the United States it is not only a central bank which is lacking, but a discount system which creates acceptances capable of ready sale in the money market. The fluctuations in the demand for money cause disturbance on the stock exchange, because that is the only market for call money. Our own system being absolutely inelastic, we have become accustomed to use as a substitute the power of our banking community to borrow in Europe. We thus use Europe as an auxiliary financial machine; but we forget that our weight has become so great as to threaten the safety of the European machinery when we are compelled to use it to its utmost capacity in order to provide for our needs. Europe, in sheer self-defense, refuses under those circumstances to let us borrow, and by the simple means of refusing our finance bills renders useless our reserve of elasticity. Thus, instead of securing additional means of assistance at the most critical moment, we find ourselves suddenly forced to dispense with a most important part of our machinery, upon which we were wont to rely in normal times. This is what happened during the panic of 1907.

In Europe the daily plus and minus of money requirements are adjusted by the use of the discount market, -- that is to say, in a final analysis, by purchase or sale of bills. In a last analysis this means that in Europe attempts to liquidate are primarily appeals to the whole nation to liquidate its temporary commercial investments, the brunt of such liquidation being borne by the entire community, and the pressure being constantly subdivided, every member of the community thus contributing his share.

As a majority of discounts represent goods in process of production or on the way to consumption, liquidation with them primarily expresses itself by a falling off in new production, while the consumer, on the other hand, cannot stop consuming and must therefore continue to pay. The brunt is thus borne by the whole nation and adjustment follows without violent convulsions.

Of course, general liquidation in Europe includes a liquidation of securities, just as liquidation in the United States also includes liquidation of commercial paper as it matures. But the difference is that in Europe bills will be the main factor and securities will play a much more subordinate part, while with us just the reverse is true.

To maintain the right proportion between the demand cash obligations of a nation and its holdings of actual cash is a task requiring the minutest study and the most constant care. In Europe this is the function of the central bank, which concentrates its attention and energies almost exclusively on this duty, and which should therefore be kept free from too intimate and direct contact with the general business of the country.

The general banks, on the other hand, organized to be money-making concerns and devoting their energies, as they do, to taking care of the requirements of the general public, cannot be expected individually to watch this problem of the cash reserves of the nation. Moreover, such a duty cannot possibly be performed by 21,000 competing institutions, which can only protect themselves by attacking one another. There must be one central reserve to which all unemployed cash will inevitably return, and to which everybody can apply, or an acute demand for cash will unavoidably bring forth hesitation to pay in cash, as happened with us during the last crisis. Hesitation in paying cash only increases the drain, which each bank can meet only by drawing on the reserves of the other banks, and if to these unbearable conditions there is added a foolish law (unavoidable under a decentralized system) which, by making it obligatory to keep 25 per cent. of the deposits in cash, renders the cash reserves absolutely useless, there can be only one consequence, viz., runs by the public, runs by the banks, hoarding by the banks and by the public alike, and finally a general suspension.

If after a prolonged drought a thunderstorm threatens, what would be the consequence if the wise mayor of a town should attempt to meet the danger of fire by distributing the available water, giving each house owner one pailful? When the lightning strikes, the unfortunate householder will in vain fight the fire with his one pailful of water, while the other citizens will all frantically hold on to their own little supply, their only defense in the face of danger. The fire will spread and resistance will be impossible. If, however, instead of uselessly dividing the water, it had remained concentrated in one reservoir with an effective system of pipes to direct it where it was wanted for short, energetic, and efficient use, the town would have been safe.

We have parallel conditions in our currency system, but, ridiculous as these may appear, our true condition is even more preposterous. For not only is the water uselessly distributed into 21,000 pails, but we are permitted to use the water only in small portions at a time, in proportion as the house burns down.

Notes issued against discounts mean elasticity based on the changing demands of commerce and trade of the nation, while notes based on government bonds mean constant expansion without contraction, inflation based on the requirements of the government without connection of any kind with the temporary needs of the toiling nation. Requirements of the government should be met by direct or indirect taxation or by the sale of government bonds to the people. But to use government bonds or other permanent investments as a basis for note issue is unscientific and dangerous.

If the Panama Canal costs $500,000,000 we shall have $500,000,000 additional currency, whether the nation needs it or not. But what sane person can be found to make the currency of the nation dependent on whether or not we build a canal? And why should we have more currency if we decide to build a sea-level canal rather than a lock canal? If we were not so well protected by our immense exporting power, we should suffer even worse and more frequent catastrophes through our system of issuing notes without maintaining a safe proportion between gold-secured and uncovered notes and through our device of a circulation not based on temporary investments and therefore incapable of contraction. There cannot be any doubt that a continuance of such a system must prove disastrous. The economic law that bad money always drives out good money cannot be safely disregarded, and it is only a question of time when its effect will show itself.

If we compare the net results of the discount system with those of the bond-secured system, we find that in Europe rates of interest fluctuate within comparatively small limits, while the outstanding circulation constantly contracts and expands within wide ranges. With us it is the reverse: The outstanding circulation, once it is issued, remains fairly stationary, while the rates of interest fluctuate violently from 1 to 200 per cent.

The discount system enables the country to concentrate its reserves and to use them freely when needed; it brings about a clear distinction between the working reserves of the general banks and the actual cash reserves needed to protect the circulation of the country. With us such a line of demarcation cannot be drawn and our reserves become hopelessly decentralized and prove absolutely unavailable in times of stress.

The discount system recognizes the fact that issuing money and making money are two entirely distinct functions, which are at times antagonistic to each other. It is the duty of the money-issuing bank to restrain the money-making bank when the latter wants to go too far or too fast. Therefore note issuing and general banking are separated in Europe, the power to issue notes being more or less centralized. With us, on the contrary, general-banking power and note-issuing power are lodged in the same banks, and the note-issuing power is not centralized.

Original Notes Session Nov 25/08

Mr. Aldrich. I desire to state to the Commission the subjects which I think it necessary to investigate and the class of people that I want to take hold of things with us and for us, with a view to getting the best possible result. There are a large number of men who have been studying the various phases of the currency question along different lines.

In the first place, Professor Davis R. Dewey, of the Institute of Technology, Boston, has been placed in charge by the Carnegie Institute of the subject of the banking history of the United States. He is willing to put the material that he has gathered at our disposal if we are willing to give him some clerical assistance - say that of some young men (students and college graduates) who can assist him in looking up authorities, etc. It seems to me that this would be a very valuable thing to do. The work he has in charge is a history of banking in America before the Civil War.

There have also been a number of young men who are at work on various subjects whom we can employ to do different parts of our work in this country. I should like to have some one make a special investigation of the safety fund and free banking system of New York.

Mr. Bailey. I question the authority of the Commission to investigate general banking conditions.

Mr. Aldrich. I will call the Senator's attention to Section 18 of the Act of May 30, 1908, which is as follows:

Mr. Bailey. I protest against obtaining information about savings banks and the ordinary banks of discount and deposit, and think we should limit our investigation to the banks over which the Government has control.

Mr. Aldrich. The questions concerning which I am now suggesting that the Commission inquire into led up to the formation of the national banking system.

Mr. Bailey. And that was purely as a means of selling bonds.

Mr. Aldrich. It may not be profitable for us at this moment to enter upon the discussion of what were the reasons for the formation of the national banking system. I do not agree with the Senator from Texas, but that is not important to decide now.

Mr. Money. I think it is very important to know now what our work is to be. I understood that the prime object was to inquire into the monetary system of the United States, and that would embrace the banking system as an important part of our inquiry.

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Mr. Bailey. I do not question the propriety or the power of the Commission to conduct any investigations of the existing national banking system. What I protested against was the statement of the Chairman that he wanted information about the safety fund and free banking system of New York.

(After some further discussion).

The ~~information we seek~~ inquiry we intend to make is fully covered by the terms of the Act and cannot in justice to ourselves ~~and~~ the public be omitted

Mr. Aldrich. I am in hopes that some time in July, or perhaps before, we will be able to present the complete report of the information collected in England, France and Germany.

~~I am glad to be able~~ to say ~~to the Commission that~~ Mr. ~~Horace White, who is a well-known writer on financial subjects~~, is ~~extremely interested in the work of the Commission~~. ~~It is~~ the ~~ambition of my life to make this work thorough~~. ~~I do not want anything~~ There will be nothing partisan in the information which we obtain, and the preliminary reports will contain simply facts and not theories or conclusions.

Mr. Hale. If you can get the information you speak of into shape by the end of the extra session of Congress - the complete statements of the systems of the three countries referred to - that will be an immense step in the direction you have in mind.

Mr. Money. Is it necessary for the entire Commission to be engaged in this preliminary work of obtaining information?

Mr. Aldrich. I will be glad to go ahead with ~~out the Commission~~ the work along the lines I have indicated if the members of the commission understand and approve of what I am going to do. I will be glad to consult with the Vice-Chairman and with ~~every~~ any other member of the Commission from time to time.

Mr. Vreeland. I agree with the Chairman that this information will be worth ten times what it will cost.

Mr. Weeks. (Addressing the Chairman). If any considerable expense is to be incurred, I think, for your own protection, some formal action should be taken by the Commission, granting you the proper authority.

Mr. Aldrich. I entirely agree with that. I should be glad to have a subcommittee created which would have authority to pass on all questions of expense.

Mr. Hale. I would suggest the Chairman and Vice-Chairman.

Mr. Aldrich. That would be most satisfactory to me, but I would be very glad if Senator Teller could be associated with us.

Mr. Teller. I am willing to trust you in the matter.

Mr. Hale. I move that the employment of agents, employees, or assistants in investigation, and the expenses and salaries of the same, be committed to a subcommittee consisting of the Chairman, ~~and~~ the Vice-Chairman, and Senator Teller, this subcommittee to make such reports to the full Commission from time to time as they may deem essential.

This motion was agreed to.

Mr. Hale. My understanding now is that it is left entirely to this subcommittee to exercise authority regarding all expenses and to scrutinize the same, and, whenever they deem essential, to report to the full Commission.

(After some further discussion).

Mr. Aldrich. In connection with the visit of the subcommittee abroad, I desire to say that our Ambassador to France, Mr. White, rendered most valuable assistance to us in the prosecution of our work.

Mr. Weeks brought up the question of foreign and domestic exchange, suggesting that he regarded that as one of the most important questions that the Commission would have to deal with.

Mr. Aldrich stated that when the members came to read the report of the investigations of the subcommittee abroad and their interviews in foreign countries, they would see that the subcommittee made that one of the principal branches of their inquiry.

Mr. Weeks. I wondered if you had it in mind to employ some one to investigate this question.

Mr. Aldrich. I am very glad you spoke about that. I certainly think we ought to do it. You will find that we examined Lord Swaythling particularly on this subject.

Thereupon, at 1 o'clock p.m., the Commission adjourned.

Nov 25/08

The National Monetary Commission took up this morning the question of suggested amendments to the administrative features of the banking laws. Secretary Cortelyou, who was present, asked to have the hearing on this subject postponed for the reason that the formal recommendations of the Department had not yet been completed, and the Commission decided to take the matter up for further consideration on Wednesday morning, December 2.

The Commission have communicated with the President of the American Bankers' Association and suggested the presence here at that time of the legislative committee of that Association, consisting of five members. In order that the various sections of the country should be more fully covered by representative officers of national banks, the Commission decided to invite the attendance of the following gentlemen: Wm. H. Porter, President Chemical National Bank, New York; Thos. P. Beal, President Second National Bank, Boston; Ernest A. Hamill, President Corn Exchange National Bank, Chicago; E. F. Swinney, President First National Bank, Kansas City, Mo.; C. E. Currier, President Atlanta National Bank, Atlanta, Ga.; J. J. Gannon, President New Hibernia National Bank, New Orleans, La.; C. K. McIntosh, Vice-President San Francisco National Bank, San Francisco.

They have also asked the President of the American Bankers' Association, Mr. George M. Reynolds, President of the Continental Bank of Chicago, to be present at that time.

PROCEEDINGS OF THE NATIONAL MONETARY COMMISSION.

Hotel Imperial,

Narragansett Pier, R.I.,

July 20, 1908.

Pursuant to the call of the Chairman, the Commission met at 11 o'clock a.m.

Present: Messrs. Aldrich (Chairman) Hale, Teller, Money, Weeks, Bonynge, Smith, Padgett, Burgess, and Pujo.

At 11:30 a.m., after the Commission had been in session about half an hour, Mr. Overstreet appeared.

In calling the meeting to order, the Chariman stated that one or two of the members, including the Vice-Chairman of the Commission, Mr. Vreeland, had not yet arrived, and he suggested that formal sessions of the Commission should not commence until they were present.

He stated, in a general way, what the Commission had done up to the present time. (This will be found in the minutes of a preceding meeting of the Commission and a subcommittee thereof).

He further stated that, in his opinion, it would be impossible for the Commission to make a full report at the next session of Congress, and that probably the only subjects that could be successfully taken up would be such amendments to the administrative features of the national banking laws and of the Act of May 30, 1908, as could be agreed upon with practical unanimity.

He also stated that the Secretary of the Treasury had been requested to recommend necessary or desirable changes in the administrative features of the national banking law, and that the Secretary had been invited to appear before the Commission during the week, at which time he would probably submit such recommendations as he had decided upon.

One feature of the Act of May 30, 1908, which, in the opinion of the Chairman, demanded early attention was the regulations governing the formation of national currency associations, the particular objection which had arisen since the passage of the Act being the inability of a bank to withdraw from the association, once having formally become a member.

The Chairman also called the attention of the Commission to the immediate importance of giving some attention to the subject of postal savings banks, on account, first, of legislation on that subject being on the calendar of the Senate, and, second, of its having been recommended in both the Republican and Democratic national platforms.

This statement was followed by an informal discussion by the members of the Commission of the general subject of postal savings banks, and, at 12:30 p.m., the Commission adjourned to meet again at the call of the Chairman.

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PROCEEDINGS OF THE NATIONAL MONETARY COMMISSION.

Hotel Imperial,

Narragansett Pier, R.I.,

July 21, 1908.

Pursuant to the call of the Chairman, the Commission met at 10 o'clock a.m.

There were present, in addition to the members who attended yesterday's session, Messrs. Burrows, Daniel, and Vreeland.

In discussing the scope of the investigation to be undertaken by the Commission, the Chairman said that its inquiries could be divided into the following general subjects:

1. The money question, speaking in the broadest possible sense, including note issues in our own and foreign countries, by whom and under what conditions, and a great many kindred questions.

2. Banks, national, savings, state, and trust companies;

postal savings banks, agricultural banks, etc.

3. Domestic and international exchanges.

4. The relation of the Government to the volume of money by reason of the collection, handling, and disbursement of the revenues.

The immediate question before the Commission was, What is the best way to make a careful study of the available material with reference to these questions.

In answer to an inquiry by Mr. Daniel, the Chairman stated that it was the consensus of opinion that, so far as the general Commission was concerned, following this meeting there would be no other meeting until after the elections in November; but that, during the summer, the work of preparation should go on by subcommittees, by the individual members and by the executive force of the Commission.

This statement of the Chairman was concurred in by the Commission.

This preparation, in the opinion of the Chairman, should consist of getting together literature and statistics on the subjects above referred to and investigating the experiences of the principal commercial countries of the world, so that when the Commission should assemble in the Fall, they would have a library in Washington for their own use, which will cover the essential questions which must come before the Commission for consideration.

The Chairman announced that the subcommittee which met in New York in June took the responsibility of employing Professor A. P. Andrew, who was at that time Assistant Professor of Economics at Harvard, and was very strongly recommended to the Commission by President Eliot, of Harvard, and others.

The Chairman further ~~stated~~ suggested that the best way for the Commission to obtain information in regard to foreign countries might be to employ an expert in each country - say Great Britain, Scotland, Ireland, Canada, Germany, and France - to write a history of the various phases of the development of the present banking and money systems in these countries, and also a synopsis of those systems as they are at present.

The Chairman also stated that he would like the Commission to authorize a small subcommittee to take up this work of preparation, with a view to carrying it forward ~~xxxxxx~~ as possible, the Commission to fix the scope of the inquiry as to countries and subjects, and to leave to the subcommittee the carrying out of the details.

At this point (12 o'clock meridian) the Commission took a recess to 3 o'clock p.m.

When the Commission reconvened at 3 o'clock, the discussion of the question of obtaining information in foreign countries was resumed.

It was finally decided that the inquiry should embrace the following countries: The United States, Canada, England, Scotland, Ireland, France, Germany, Sweden, and Switzerland.

The Chairman suggested that perhaps Professor Sumner, of

Yale, would be the best man to write for the Commission, in a condensed form, a history of banking and currency in the United States.

The Chairman stated that he would undertake, before the next session of the Commission, to formulate some general line of investigation to cover the scope of the inquiries relating to the countries referred to.

The Chairman suggested to the members of the Commission whether, in their opinion, it was feasible, in carrying on the work of investigation, to select certain questions for examination, and to employ some trained economist, familiar with the literature of currency, to take up these questions and give to the Commission the arguments on both sides, together with full references and citations to the authorities.

Acting upon this suggestion, Mr. Weeks moved -

That the Chairman be authorized to appoint a committee of six, of which he shall be one, to employ a person, or persons, whose duty it shall be to prepare a compilation of arguments and references for and against the establishment of a central bank, and those who have given careful consideration to this subject be invited to submit their views upon the same to the commission in writing.

This motion, after being seconded by Mr. Burgess, was unanimously adopted.

In the discussion which followed as to the men who would be familiar with this subject, the following names were suggested: Messrs. Ridgely, Roberts, Fairchild, Joseph French Johnson (of the New York University), Vanderlip, Warberg, and Dawes.

The Chairman stated that Professor Andrew had already begun the preparation of a bibliography on currency.

The Chairman further stated that it had been his intention to request Mr. Griffin, the Bibliographer of the Library of Congress, to appear before the Commission at this meeting, ~~but that~~ upon inquiry it was found that Mr. Griffin was abroad at this time. The Chairman had hoped to secure the advice of Mr. Griffin, in consultation with Professor Andrew, as to what books not now in the Library of Congress it would be desirable to secure for the library of the Monetary Commission.

After some discussion of this question, Mr. Burgess moved that the commission give to the Chairman authority, with the assistance of Professor Andrew, to secure for the Commission a good working library of the best authorities on banking and currency in this and other countries.

Mr. Hale seconded this motion, and it was unanimously adopted.

The Chairman stated that at the meeting of the subcommittee in New York certain rooms had been selected for the use of the Commission in the Senate Office Building, and that the Secretary was directed to communicate with Mr. Woods, the Superintendent of the Capitol, with a view of having these rooms assigned to the Commission.

The Building Commission, in charge of the Senate Office Building, advised Mr. Woods that it had no authority, under the law, to assign any rooms in this building, their duties being limited to the construction of the building.

The Chairman suggested that the Committee on Finance, as one of the leading committees of the Senate, would be entitled to rooms in the Senate Office Building for hearings and for a library, and that these rooms, when secured, could be used temporarily also by the Monetary Commission until suitable rooms could be assigned by Congress for the use of the Commission.

Mr. Overstreet then moved that the whole question of securing suitable rooms in Washington for the use of the Monetary Commission, either in the Senate Office Building or elsewhere, be delegated to the Chairman, with authority to act on behalf of the Commission.

This motion was seconded and adopted.

The Commission then, at 5 o'clock p.m., adjourned until Wednesday, July 22, 1908, at 10 o'clock a.m.

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PROCEEDINGS OF THE NATIONAL MONETARY COMMISSION.

Hotel Imperial,

Narragansett Pier, R.I.,

July 22, 1908.

The commission was called to order at 10 a.m.

The chairman stated that he, together with Mr. Vreeland and Mr. Overstreet, were ready to present a general outline of the plan for obtaining information in regard to the banking and currency systems of the leading commercial nations.

He thereupon presented the following:

The general purpose of the Commission being to make an exhaustive and comprehensive inquiry into the varbus banking and currency systems which are in operation in the leading commercial nations of the world, competent persons should be employed in each of such countries to prepare for the information of the Commission concise, accurate histories of the development of existing systems in such countries, which should include all important historical and statistical information relative to the same; such information in regard to these various countries to follow, as far as possible, similar general lines, in order that the results may be comparable.

Mr. Hale moved that this plan be adopted, which motion was seconded and unanimously agreed to.

Mr. Overstreet then moved that a subcommittee be appointed by the Chairman, of which subcommittee the Chairman of the Commission shall be the Chairman, be authorized to visit such European capitals as may be deemed necessary and practicable to make proper arrangements for the employment of the competent persons just authorized, and institute such investigations in such countries as may appear of advantage for the proper work of the Commission.

This motion was seconded and agreed to.

The Chairman stated that in addition to the questions which he had mentioned at a previous session as being proper subjects of investigation by the Commission, there were the following:

1. The question of the guarantee of bank deposits. In connection with this question should be considered the safety-fund system in New York, the free-banking system of

New York and the Suffolk system of Massachusetts.

Mr. Burgess stated that in the July number of Scribner's Magazine there was an article by Mr. Laughlin opposing the guaranty of bank deposits.

It was also stated that Mr. Forgan, of Chicago, was perhaps a good man to write in the negative on this question.

2. State banking laws and statistics.

In this connection the Chairman stated that he had already caused letters to be sent to the bank examiners of the various states requesting copies of the present State laws on the subject of banking.

The question of holding hearings in different parts of the United States at some future time was discussed by the members of the Commission. It was suggested by one member that perhaps this work could be done through subcommittees, each subcommittee being assigned a certain section of the country in which to hold hearings. The Chairman was of the opinion, however, that it would have a better effect on the different localities visited if the full Commission should hold the hearings, and the discussion which followed developed this to be the general opinion of the Commission.

In suggesting amendments to the administrative features of the National Banking Act, the Chairman said there was one change which certainly ought to be made at the first opportunity, namely, that national bank examiners ought to be compensated by proper salaries paid by the National Government instead of by fees paid by the banks which they examined; that they should be given more power than they now possess; and that an endeavor should be made to get a better class of men. It was suggested that bank examiners should have special authority to examine banks in the national currency associations authorized by the Act of May 30, 1908.

It was also suggested that it might be wise to appoint a subcommittee which would take up this question between now and the next meeting ofthe full Commission, and perhaps consider other changes in the administrative features of the National

Banking Law.

At this point (11:45 a.m.) the commission took a recess until 3 o'clock p.m.

When the commission reconvened at 3 o'clock, the Chairman suggested that as they were considering the several changes in the administrative features of the National Banking Act, the commission might adjourn until 10 o'clock tomorrow morning, when the Secretary of the Treasury would appear before them on this subject.

The suggestion was adopted, and thereupon the commission adjourned to Thursday, July 23, 1908, at 10 a.m.

PROCEEDINGS OF THE NATIONAL MONETARY COMMISSION.

Hotel Imperial,

Narragansett Pier, R.I.,

July 23, 1908.

The commission was called to order at 10 a.m.

The Secretary of the Treasury, accompanied by Assistant Secretary Coolidge, appeared before the Commission.

The Secretary of the Treasury addressed the Commission in regard to the progress which had been made by his Department in carrying out the Act of May 30, 1908, amending the National Banking Laws, and discussed certain desirable amendments.

At 12 o'clock meridian, the Commission took a recess until 2:30 p.m.

When the Commission convened at 2:30 p.m., the Secretary of the Treasury resumed.

He laid before the Commission various recommendations for amendments to the National Banking Laws.

Copies of the statements and recommendations of the Secretary will be attached to these minutes as a part of the proceedings.

When the Secretary concluded, Mr. Vreeland, the Vice Chairman of the commission, took the chair during the temporary absence of the chairman.

Mr. Weeks moved that a subcommittee be appointed by the Chair to consider changes in the National Banking Laws, and especially those suggested by the Secretary of the Treasury, and to report its conclusions to the Commission at its next meeting.

Before the discussion of this motion was concluded, the Commission took a recess until 8:30 p.m.

At 8:30 p.m. the Commission reconvened, with Senator Aldrich in the chair.

After some further discussion, the motion of Mr. Weeks was agreed to, and the Chair appointed the following subcommittee: Senators Allison, Burrows, Teller, Money, and Bailey and Representatives Weeks, Bonynge, Smith, Burgess, and Pujo.

Upon motion of Senator Money, at 9:30 p.m., the Commission took a final adjournment, giving to the Chairman the authority to determine the time and place of next meeting.

Hotel Imperial,

Narragansett Pier, R.I.,

July 25, 1908.

At an informal conference of such members of the Commission as were still present at Narragansett Pier, the following statement for the press was submitted by the Chairman and agreed to:

The Commission, during their sessions have been engaged in the discussion of the various phases of the important work assigned to them by the Act of May 30, 1908. A large portion of the time has been taken up in considering plans for securing information upon which their ultimate report to Congress will be based.

It was deemed of the utmost importance that steps be taken to secure a thorough and, as near as possible, exhaustive examination of the monetary and banking systems of the leading commercial nations. Preparation for this work was entrusted to a subcommittee consisting of Senators Aldrich, Hale, Knox, and Daniel and Representatives Vreeland, Overstreet, Burton, and Padgett.

This committee will seek to secure from competent and authoritative sources all available historical and statistical data with reference to the currency and banking experience of Great Britain, Germany, and France. They will also make special examination of the Scotch, Canadian, and Swedish systems and the changes which have recently been adopted in Switzerland.

It is the intention of the full Commission to visit Canada at an early day for the purpose of making a special examination into the Canadian system.

In the prosecution of their work, the subcommittee will go abroad in the near future, sailing on the Kronprinzessin Cecilie on the 4th of August.

Another subcommittee, consisting of Senators Allison, Burrows, Teller, Money, and Bailey and Representatives Weeks, Bonynge, Smith, Burgess, and Pujo, will take up for immediate consideration the question of necessary amendments to the administrative features of our national banking laws. Secretary of the Treasury Cortelyou was in conference with the Commission with reference to the character of these amendments, and the subcommittee last mentioned expect to be able to report their recommendations to a meeting of the full Commission to be held in Washington on November 10.

The action of the Commission with reference to all questions has been harmonious and unanimous.

The question of the next meeting of the full Commission was discussed, and it was the opinion of all those present that the Chairman should call the next meeting of the Commission at Washington, on Tuesday, November 10, 1908.

MINUTES OF THE PROCEEDINGS OF THE SUBCOMMITTEE ON AMENDMENTS TO THE ADMINISTRATIVE FEATURES OF THE NATIONAL BANK ACT.

Hotel Imperial,

Narragansett Pier, R.I.,

July 25, 1908.

The members of the subcommittee are Senators Allison, Burrows, Teller, Money, and Bailey and Representatives Weeks, Bonynge, Smith, Burgess, and Pujo.

Present at the meeting: Messrs. Burrows, Teller, Weeks, Bonynge, Smith, Burgess, and Pujo.

The committee organized by electing Senator Allison Chairman and Representative Weeks Vice Chairman.

The committee took up the consideration of the suggestions made by the Secretary of the Treasury relative to the changes in the national bank laws, and determined to request the Secretary to complete the suggestions which he had made - as he had requested opportunity to do - and to submit the revised statements to the committee as soon as possible; but, if possible, as early as August 15.

The committee determined to propound a list of questions to national bankers, asking for their views on certain desired changes in the national bank laws; and a committee, consisting of the Vice Chairman, Senator Teller, Representatives Bonynge, and Burgess were appointed to attend the meeting of the American Bankers' Association, to be held at Colorado Springs the week of September 27.

After replies are received and compiled from the national bankers to the questions submitted, it is proposed that the committee give public hearings in some of the larger cities, to add to its information on these subjects.

At this point the subcommittee adjourned, subject to the call of the Chairman.

Duplicate File under Conant.

May 29, 1910.

THE FIRST AND SECOND BANKS OF THE UNITED STATES.

The difference between the character and status of the first and second banks of the United States, incorporated early in the country's history, and the conception of a central bank as developed under modern conditions in Europe, is brought out in a forcible manner in a volume just made public by the National Monetary Commission. The volume consists of two parts, -- a study of the first Bank of the United States, by Dr. John Thom Holdsworth, of the University of Pittsburg, and one of the second Bank of the United States, by Dr. Davis R. Dewey, the author of "A Financial History of the United States."

The essay of Dr. Holdsworth recounts the plan of Hamilton to found a bank for the purpose of aiding the government, which became law in 1791. It is declared by Hamilton that a national bank was not "a mere matter of private property, but a political machine of the greatest importance to the state." Thus conceived as a political machine, it is declared by the author that the bank "never threw off entirely its political trappings, and it finally died as the result of political enmities and jealousies." The capital of the bank, ~~was~~ which was fixed at $10,000,000, was allowed to be subscribed to the proportion of three-quarters in United States stock bearing six per cent. interest, and the President of the United States was authorized to subscribe on behalf of the government $2,000,000. An equal amount was to be loaned by the bank to the government, which was to be repaid in ten equal annual installments.

It is obvious, from these details, that the capital was raised more largely by bookkeeping transfers than by the actual payment of specie, at a time when specie was extremely scarce. The device by which Hamilton carried through the government subscription is defined as "an ingenious example of financial juggling." Shorn of technicalities, the government paid for its stock by bills of exchange on Amsterdam, then it borrowed these bills and gave its note for $2,000,000, payable in ten ~~xxxxxx~~ equal annual installments, with interest at six per cent. The practice thus instituted by the government itself of paying subscriptions with stock notes was followed widely, and in numerous instances with disastrous effects in the next fifty years. The central office of the bank was in Philadelphia, on the present site of the Girard National Bank, and of the first board of twenty-five directors eleven were from Pennsylvania and six from New York.

Hamilton was not in favor of branches, but they were soon established at the leading commercial centres of the country and entered into clearing and other relations with the local banks. The government soon availed itself of Hamilton's original project to borrow freely from the bank, and these loans proved to be larger and for a longer time than was at first expected, causing embarrassment to the Treasury and uneasiness to the bank before they were finally settled. This indebtedness amounted within four years to $6,200,000, or nearly two-thirds of the capital of the bank. The loan of so large a proportion of its funds crippled its services to commerce and manufactures and made it difficult even to continue the temporary loans required to facilitate the financial operations of the government. Ultimately the loan was repaid, partly from the proceeds of the sale of the government holdings of bank stock. As these shares were sold at a premium, in some cases as high as 45 per cent., the government made a profit of $671,860, exclusive of dividends received to the amount of $1,101,720.

The first Bank of the United States did not have the exclusive privilege of note issue, but customs duties were made payable in the notes of the bank, which gave them a wide circulation. The bank, moreover, exercised a salutary restraint upon the other banks by presenting their notes promptly for redemption when received over its counters. The passing of the political control of the country from the hands of the Federalists to those of the Democrats at the beginning of the nineteenth century, it is declared by Dr. Holdsworth, had no immediate effect upon the interests or fortunes of the bank. Though always regarded as a Federalist institution, and managed largely by men of Federalist leanings, its affairs were administered in the main with an eye single to business and profit, and it never became embroiled in political controversies as did its successor, the second Bank of the United States. Only once did the Treasury, under Democratic administration, apply to the bank for aid, and then it was as cheerfully and generously given as under earlier Federalist administrations.

Jefferson never gave up his antagonism to banks in general, and to the Bank of the United States in particular. He permitted Gallatin, his Secretary of the Treasury, however, to support the re-charter of the bank, and the failure of Congress to authorize it was a disagreeable surprise for the business community. The renewal of the charter was indefinitely postponed in the House on January 24, 1811 by a vote of 65 to 64, while in the Senate the bill failed by the casting vote of Vice-President Clinton. The bank liquidated its affairs as promptly as possible and its buildings and a large part of its assets were taken over by the private bank established by Stephen Girard.

In recounting the history of the second Bank of the United States, which was chartered in 1816, with a capital of $35,000,000, Professor Dewey pursues the plan of analysis by subjects rather than a narrative of events in the order of time. He points out that many of the difficulties of the bank and of the country were caused by the deficiency of specie and the excessive issues of notes by the local banks. During the period of expansion after 1811, and the speculative profits which attended specie suspension and unwise local legislation, state banking had assumed proportions which were beyond control. If the Bank of the United States had been organized when commercial operations were normal and banking methods were sound, the bank would undoubtedly have had a different history. Established, however, after the local banks had enjoyed a free license for their operations, it was well nigh impossible for it to do its work without clashing with local and selfish interests. The pressure of the bank and the national Treasury threatened to force resumption of specie payments by the local banks, but their resistance delayed resumption until the summer of 1817, after a conference in February with representatives of the banks of New York, Philadelphia, Baltimore and Richmond. The Bank of the United States itself made mistakes in speculative loans, difficult to avoid in an undeveloped country, and allowed the branches, especially in the south and west, to extend discounts beyond the margin of safety.

The political conflict between President Jackson and the bank is not discussed at great detail by Professor Dewey, because of the fullness with which these aspects of its career have been discussed in political histories. He declares, in summing up the lessons to be drawn from the history of the bank, that "the circumstances which gave rise to the establishment of the second bank were altogether different from those which have brought about a discussion of the question of a central bank at the present juncture; that the bank in its final operations was nothing more or less than a large commercial bank with practically the same functions as other banks established under state charters, and differed from them in little save size and enjoyment of a few special privileges; that the bank began its operations during a period of commercial demoralization and developed its practice during a period of crude banking methods, as measured by current standards; and finally, that the bank in its closing years, was subject to a political attack, violent, indiscriminating, and even unscrupulous in its character. It is difficult, therefore, to find in the experience of this institution, any lessons of importance which may be of special service in the preparation of a plan for a large national central bank at a later period, when business methods have been transformed by the railroad, the telegraph, and by the development of corporate enterprise, to say nothing of the change in banking law through the general substitution of national supervision for state control."

May 20, 1910.

MONETARY STATISTICS OF THE UNITED STATES.

The most complete collection of statistics regarding the financial and economic progress of the country during the past generation has been embodied in a large volume compiled by Dr. A. Piatt Andrew, now Director of the Mint, for the National Monetary Commission. The statistics are divided into four parts, -- those dealing with the general growth of population, wealth, business, production of minerals, leading food products, cotton, wool, and similar matters; those dealing with the banks; those dealing with the amount and movements of money and exchange; and those dealing with the Treasury and the public credit.

The banking statistics cover the entire history of the national banking system from 1867 to 1909, and the available facts regarding commercial banks, trust companies and savings banks. Among the data presented are the weekly statements of the clearing-house banks of New York City; loan and discount rates; balances due between banks; dividends paid by national banks; and statistics in regard to the movement of circulation.

The data in regard to money shows the export and import movement of gold, rates of exchange, both foreign and domestic, and the interior movement of money, both from New York and Chicago. The figures in regard to Treasury operations give the facts in regard to bond issues as well as receipts and disbursements, and the prices and net return of government bonds in England, France and Germany, as well as in America. Many of the figures presented go beyond the usual routine of such statistics and are intended to answer questions as to the effect of the crop movement on the money supply and rates of interest, and other similar problems which have been repeatedly raised during the discussions before the National Monetary Commission.

Duplicate

April 27, 1910.

EVOLUTION OF CREDIT AND BANKS IN FRANCE.

A striking review of the manner in which the Bank of France has attained the dominating position which it occupies in French finance and its relation to the joint-stock banks, has just been made public by the National Monetary Commission. The monograph on the subject is entitled "Evolution of Credit and Banks in France," and is written by André Liesse, Professor at the National Conservatory of Arts and Trades and at the School of Political Sciences. Professor Liesse takes up the evolution of banking in France in three periods, from 1800 to 1848, when the business of the Bank of France was restricted largely to Paris; the period from 1848 to 1875, when the bank became truly a national institution by the absorption of the departmental banks of issue, by its aid in the extension of the railway network, and by its masterly conduct of the negotiations for the payment of the great war indemnity to Germany; and from 1875 to the present time.

The narrative is very far from being a mere historical summary of the development of the Bank of France itself, but traces the manner in which the big credit companies grew up with the growth of French capital and its distribution at home and abroad, and the manner in which they have leaned in emergencies upon the central bank. The Bank of France appears as the friendly guardian of the market in tiding over the period of stress caused by the failure of the Union Générale in 1882, the collapse of the copper corner and the liquidation of the Comptoir D'Escompte in 1889; the reaction of the Baring failure in England in 1890; and the crisis of 1907. In the crisis of 1890 the Bank of England borrowed of the Bank of France 75,000,000 francs ($15,000,000) in gold, with which to relieve the stress in the English market. The Bank of France, it is declared by M. Liesse, "was not affected at all by this exportation of coin." The average reserve in fact in the year 1890 was about $500,000,000, composed almost equally of gold and silver. If the Bank of England had been able to issue notes for 75,000,000 francs, in order to meet the difficulties of the crisis, there would not have been, M. Liesse declares, the slightest need of an appeal to the credit of the Bank of France, and since the latter was willing to give credit to the Bank of England, the citizens of England would have done so equally by accepting its notes.

The pressure in the money market in the fall of 1906 was met by the Bank of France by the liberal discounting of English paper. This policy, it is declared, was much more economic, in the high sense of the word, than the rather archaic one practiced formerly of making discreet loans of gold to the Bank of England. In the following year, 1907, the crisis grew worse. Discount at the Bank of France went up again to 3½ per cent. and then to 4 per cent.~~, as may be seen by the preceding table.~~ The Bank of France intervened a second time, discounting English paper. The report of the operations of the bank for 1907 states that in this way a ready capital of more than 80,000,000 francs in American gold was furnished to the London market.

In another direction, the Bank of France opposed no obstacle to the shipments of French gold to New York, which were furthered by the bank's making its normal commercial discounts. Finally, the discount rate remained 3 per cent. lower in France than in England or Germany.

In this way, the action of the bank made itself felt, not only on the French market but also on the international, and particularly the English market. Making discounts on foreign paper must be considered, to-day, a very normal means of establishing useful relations between the different markets, and of applying the law of supply and demand of capital in an intelligent and profitable manner for the country which furnishes its capital. Not making foreign discounts is a deficiency which the Bank of England adds to its lack of elasticity of issue. The Reichsbank has a foreign "portfolio" which has increased in importance from year to year. The Bank of France has the right to discount foreign paper, and has used it very ably, thanks to the enlightened direction of its governor, M. Georges Pallain.

Commenting upon this series of events, M. Liesse declares that the alliance of all the banks of issue of Europe, which was suggested after the panic of 1907 by an eminent Italian minister, does not require to be consummated by any official action. There is no need of official intervention, of contracts with binding clauses, to create a solidarity between these establishments. This solidarity is established when necessary, either directly, if the banks of issue have the privilege of discounting foreign commercial paper, or indirectly, by the credit companies or the intermediary banks. The intervention of one or another of the banks of issue in favor of a foreign market is therefore free, and so much the more useful on that account, because this action is performed in response to a solidarity dictated by the positive interest that the bank has in intervening, since it derives profit from so doing.

Summing up what has been accomplished by the big credit companies in developing the industries and financial resources of France, supported as they have been by the central bank, M. Liesse says:

"They gradually extend their activity in France by means of numerous branch offices or agencies. The Bank of France follows the same movement, either of its own accord or by reason of conditions imposed by the government. The present organization of credit begins to take shape; the role of the credit companies grows in importance; they adapt themselves to the temper of the country and of their depositors; they engage preferably in discounting, in short-date operations; they make every effort to render available by means of suitable investments the capital entrusted to them, which they receive at sight in much greater amounts than on time. Finally, they take root on foreign soil and help to invest French capital (which would be idle in France) in foreign securities. France, always economical, invests abroad in this way savings to the amount of some thirty-odd billions. This situation makes France a creditor of many nations and gives it almost constantly a favorable exchange rate. It makes it possible for the Bank of France, thanks to the prudent monetary policy inaugurated by Léon Say, to accumulate a formidable gold reserve. The

Bank of France thus becomes a center of supply, not only for the credit of France, but for an important neighboring market, that of London."

Duplicate

March 25, 1910.

GERMAN IMPERIAL BANKING LAWS.

Special interest is given to the translation of the "Imperial German Banking Laws," which has been prepared under the authority of the National Monetary Commission, by the fact that an introduction ~~has been prepared~~ was written by Dr. R. Koch, who only recently resigned as governor of the Imperial Bank and has long been considered the foremost monetary authority in Germany. The laws themselves include the original bank act of March 14, 1875, which brought unity out of the heterogeneous mass of notes and systems of different types in Germany and the subsequent laws by which the charter of the Imperial Bank has been amended at intervals of ten years. Among the latter are included the law of June 1st, 1909, which resulted from the special inquiry instituted by the German Imperial Government during the year 1908. Dr. Koch, in his introductory review of these laws, declares that the conditions which prevailed in Germany, not much more than a generation ago, with regard to the circulation, -- coin, paper money and bank-notes, -- "afforded a striking picture of our political confusion." Efforts to secure a uniform coinage system, by co-operation among the German states, including Austria, had brought no satisfactory results. Paper money had been issued by the governments of several of the states, which became known as "wild bills," which could be passed beyond the limits of the states which issued them only with difficulty and loss.

Paper which was more acceptable, although not considerable in amount, was issued also upon special concessions by railroad companies, municipalities, and other corporations. Practically in Prussia only were conditions tolerable, where the Bank of Prussia, which was vested with the unlimited right of note issue in 1856, had been able to render great services to German commerce in the crises of 1857, 1866, and 1870 and had developed into a central note bank for the greater part of Germany. There were still, however, nine private note banks in the old provinces of Prussia, and other German sovereigns made very liberal use of their authority of granting the privilege of note issue, and often on a scale quite exceeding the amount required by the extent of their states. The effort of Prussia to protect herself by forbidding the circulation of these foreign notes was unsuccessful, especially in middle Germany, because of the varied and changing business relations of the territories. The circulation which was uncovered by bullion, excluding Bavaria, increased, according to the monthly records, from about 15,000,000 marks ($3,575,000) at the beginning of the fifties, to an average of 202,296,000 marks in 1867 and to 400,284,000 marks ($95,000,000) in 1873.

The far-reaching genius of the men who had brought about the political union of Germany soon realized that such conditions could not be longer endured~~, and set about plans for reform.~~ Already, the constitution of the North German Confederation of July 26, 1867, had provided for subjecting such matters to the supervision of the

Confederation. Further issues of notes by the states were suspended, except with the authority of a federal law. The coinage reform was first taken up as a preliminary to the unification of the banking laws. By the ~~coinage~~ law of July 9, 1873, the gold standard was adopted and a coinage provided for all of Germany uniform in character and denominations, although permitted in some of the states to bear the distinctive stamp of the local sovereign.

The coinage having been unified, the government set about the reform of the banking system on lines which suggest in some respects the history of the United States. Provision was made for reducing the circulation of government paper and a committee was appointed to investigate the subject of uniform and more careful restrictions upon the banks. The issue of notes below 50 marks ($12) was prohibited after July 1, 1875, and the banks were required to publish monthly reports. A bill embodying further reforms, including a duty of four per cent. on uncovered notes above a certain amount, was submitted to the Reichstag on November 5, 1874. The discussions on the subject, however, compelled recognition of the general desire for an imperial bank to be established in the public interest. So strong was this sentiment that the discussion was adjourned until a bill could be prepared, establishing the Reichsbank and providing for its gradual absorption of the note-issuing function throughout Germany. This bill became law on March 14, 1875, and with some modifications in 1889, 1899, and 1909, is still the fundamental banking law of the empire.

This act rested, according to the analysis of Dr. Koch, on a compromise of the central bank system with the system of a plurality of banks, which latter had its root in the existing conditions. First of all, it created for a number of years a transitional stage, freed from the most pressing evils, in order that ultimately experience would lead to the adoption of an adequate uniform system. New note privileges could be granted only by imperial legislation. The Reichsbank thus appears, though in a moderate sense, as the central note bank of Germany. The economic and political position on which its special rights and duties rest, is shown not only in the classification of its public duties but also in the close connection indicated by its name with the institutions of the empire. Its management must not be governed solely, or even chiefly, by considerations of gain. Thus, owing to its capital and the network of branches acquired from the Bank of Prussia in virtue of the authority given to it by the bank act, which secured the immediate support of the whole empire, the Reichsbank forms, especially in bad times, the stronghold for the credit of the country. It aids the whole system of exchange, not only by the ~~purpose~~ purchase of short time bills and other paper, but also by its collection, deposit and disbursement business, and chiefly by its enormously developed giro or transfer operations.

Thus, according to the narrative of Dr. Koch, Germany passed through somewhat the same transitional stages as are now being discussed in the United States, -- a currency issued by a great variety of institutions, which were not co-ordinated with each other in such a manner as to meet the pressure of crisis, and whose condition led to the demand for more drastic regulation by the Imperial Government and finally to the grant of general powers of direction over the money market to a single great institution.

Duplicate

THE REICHSBANK AND THE GERMAN JOINT STOCK BANKS.

An analysis of the manner in which the big German joint-stock banks have developed the commerce of Germany, while supported by the Reichsbank, the central bank of issue, is made in a special treatise on "Development of the German Banking System," which was prepared by Robert Franz, editor of "Der Deutsche Oekonomist," for the National Monetary Commission, and just submitted by them to Congress. It is declared by Herr Franz that the Reichsbank forms one of the principal supports of the German credit system and of German economic life at large. "In this capacity," he continues, "it has proved its value repeatedly, especially in the period of great depression at the beginning of the century. The collapse of a number of larger banks which until then had enjoyed a good reputation caused a profound shaking of confidence and threatened to precipitate a severe credit crisis. Such a crisis would have involved disastrous consequences for the entire business life of the country had not the Reichsbank at that time supported the tottering confidence by a liberal though at the same time prudent extension of credit."

Turning to the development of the joint-stock banks, Herr Franz declares that the business of industrial financing and stock issues was part of the program of the oldest joint-stock banks, founded as early as the middle of the last century.

The development of the railroad system beginning about the middle of last century, which caused a considerable demand for and circulation of capital, and the greater extension of state credit, induced the banks to turn to the flotation and issue business.

The period following the founding of the German Empire witnessed a vigorous development of German industry, especially of the mining and (beginning with the nineties) of the electrical industries, which required a continuous inflow of new capital. At the same time German foreign commerce, particularly with oversea countries, kept on steadily increasing. The banks furthered this development by forming stock companies, granting long-term credit, assuming shares and bonds, placing the new industrials on the stock market and selling them to the public. There is no doubt, Herr Franz declares, that but for their policy of furthering the industries, the economic development of Germany would have taken considerably longer than has been the case.

It is true that the larger part of the increase in capital is the result of industrial production. But normally the fresh increments of capital can be turned into industrial channels as reinvestments only through the medium of the banks.

The placing of capital in industrial investments in Germany proceeds as a rule as follows: The bank extends a certain amount of credit to the industrial corporation, which is used by the latter successively in proportion as its enterprise develops. Such "investment" credit, owing to its very nature and purpose, cannot be refunded within a short time. It is granted from the start with a view to being converted into capital of the industrial corporation (through the increase of capital stock) or into long-term amortization credit (through bond issues). In order to repay its debt to the bank the industrial corporation issues new stock or bonds. The bank must for the time being take over the additional new securities by changing the "book-credit" into "issue-credit." This, however, enables it to shift the risk, assumed by the granting of the original credit, to the wider spheres of the investing public, and to recover, above all, the invested capital. Only in this manner can the bank retain its power of action, and it must be admitted, Herr Franz declares, that as a general rule the German banks have operated in this regard with great skill and circumspection, so that they were able both to meet their own obligations and to satisfy the demands for short-term working credit.

In order to obtain the means for granting industrial credit and to dispose of the enormous amounts of newly created industrial ~~xxxxx~~ securities, it was and is necessary to attract in as large a measure as possible the surplus funds of the community available for capital investments.

For this purpose the joint-stock banks spread a network of deposit branches, destined to serve as reservoirs for the inflow of available funds, and at the same time as distributors for the industrial securities created. With the same end in view the large Berlin banks, either through the acquisition or exchange of stock (for permanent investment), entered into friendly alliances with the provinvial banks.

This latter development, representing a centralization of capital, though not of operation, is to be regarded as part of the general process of centralization applying to industry as a whole. It was particularly strong during the last decade, but seems to have abated somewhat during the last years.

The concentration in the German banking system, the growth of the large joint-stock banks, and the extension of their sphere of interest by means of branches and deposit branches, and by their alliances with medium-sized small banks in the provinces, was furthered by certain extraneous circumstances.

One of these was the stock exchange act of June 22, 1896, which, by restricting trading in options, secured considerable advantages to the strong, large banks at the expense of the weaker banks or private banking firms. It is probable that this development received its first powerful impetus as early as 1891. At that time several private banking houses failed and these failures revealed, in a number of cases, the wrongful conversion of deposits. This caused deep commotion among wide circles. Public interest became aroused on the subject of bank deposits, and the amendment of the existing ~~XXX~~ civil, criminal, and economic legislation was undertaken. The result was the bank deposit act of July 5, 1896. This did not, however, completely allay the suspicion once aroused, and the disastrous experience with small private bankers helped to no small extent to turn the confidence more and more to the large joint-stock banks, which offer a much greater security for the money and securities entrusted to them.

The most important factor, however, was the fact of the simultaneous capitalistic evolution of industry proper, which necessitated a parallel development in the banking field. It goes without saying that this evolution, considered in its entirety, cannot be ascribed to chance or the arbitrary action of individuals, but is largely the result of economic forces.

Herr Franz declares that it is the undisputed merit of the persons at the head of the banks that they appreciated those endeavors and supported them by advancing the requisite capital, oftentimes incurring great risks for the banks. The progressive industrialization of Germany and the large increase of its population caused on the one hand increasing imports of industrial and auxiliary materials as well as of foodstuffs, and on the other steadily growing exports of industrial products. As a result of Germany's share in the world's commerce shows a rapid growth.

Until the seventies of the last century the financial regulation of German foreign oversea trade had been almost exclusively in the hands of London banks. The establishment in 1870 of the Deutsche Bank at Berlin meant a turning point in this regard. The bank in its charter adopted the following program: "It is the purpose of the corporation to do a general banking business, particularly to further and facilitate commercial relations between Germany, the other European countries, and oversea markets." The founders of the Deutsche Bank had recognized that there existed in the organization of the German banking and credit system a gap which had to be filled in order to render German foreign trade independent of the English intermediary, and to secure for German commerce a firm position in the international market. It was rather difficult to carry out this program during the early years, the more so, because Germany at that time had no gold standard and bills of exchange made out in various kinds of currency were neither known nor liked in the international market. The introduction of the gold standard in Germany in 1873 did away with these difficulties, and by establishing branches at the central points of German oversea trade (Bremen and Hamburg) and by opening an agency in London, the Deutsche Bank succeeded in vigorously furthering its program. ~~Very much~~ Later the other Berlin joint-stock banks, especially the Disconto Gesellschaft and the Dresdner Bank, followed the example of the Deutsche Bank, and during the last years particularly, the Berlin joint-stock banks have shown great energy in extending the sphere of their interests abroad.

Duplicate

March 31, 1910.

RENEWAL OF REICHSBANK CHARTER.

The latest developments and discussions in regard to banking in Germany are embodied in a monograph just made public by the National Monetary Commission under the title, "Renewal of Reichsbank Charter." Senator Aldrich and the other members of the Commission had the good fortune to be in Germany at the moment when a special commission was sitting to consider the revision of the charter of the Imperial Bank, which is made at regular periods of ten years. They have had translated for the use of Congress not only the text of the discussions in this commission, made up of the ablest bankers and economists, but also much of the discussion which took place in the financial press before the enactment of the law of June 1, 1909, and the reasons given by the legislative committee for the provisions of this law. The subject was much discussed whether the strain imposed upon German banking facilities in the crisis of 1907 would have been mitigated if the Imperial Bank had possessed a larger capital. This view was dismissed by the committee which reported the new law with the demonstration that the capital and surplus of the bank were larger than those of the Bank of France, the Bank of Austria-Hungary, or the Bank of Russia, and were second only to the capital resources of the Bank of England. In deciding the question as to whether a further increase of the resources of the Imperial Bank was desirable, it was declared by the committee that it should be borne in mind that in the case of a central bank of issue, its own funds are of less importance than they are in the case of other banking institutions; they serve principally as a guaranty fund for the creditors of the bank while the working capital is created through the notes issued and the funds deposited in the bank. The experience of all the banks of issue prove this. As a guaranty fund for the creditors of the Reichsbank its present capital is fully sufficient. The bank does not require an increase of its resources for the task directly laid upon it as a bank of issue and for the sake of the bulk of its business resulting from this capacity.

The other point to which the greatest attention was given by the legislative committee was whether the system of limiting the volume of notes in circulation, by imposing a tax of five per cent. on the amount of notes above a fixed limit, when the notes were not fully covered by gold, was upon the whole a wise one. The committee found that the system had been shown to have worked perfectly well by the experience of the many years that have elapsed since the establishment of the Reichsbank. Although a certain indirect connection between the limit of untaxed note circulation and the action of the Reichsbank in regard to the discount rate must be admitted in so far as the exceeding of the contingent and the raising of the discount rate presuppose increased demands upon the Reichsbank, a direct influence on the discount rate through the fixing of the note contingent cannot be expected. In fact, the management of the Reichsbank has never allowed the tax imposed on the excess circulation to have any decisive influence on its discount policies. As therefore the discount policies of the Reichsbank would not be favorably affected by the elimination of the contingent, no reason was found for abandoning this system. On the other hand, it was declared by the committee, it seems altogether desirable to maintain the contingent system, as the exceeding of the contingent has more and more developed into a danger signal heeded by business men.

The former amount of the tax-free note contingent was not, however, regarded as sufficient. The figures for 1906 proved the inadequacy of the contingent, showing that it was exceeded seventeen times, with a maximum excess of 572,644,757 marks ($136,000,000), and this conclusion was strengthened by the events of the year 1907. That year showed no less than twenty-five instances, of which the excess reported on December 31st reached the amount of 625,974,363 marks, a maximum never reached before. At the same time it happened for the first time in 1907, by reason of the large demands of business, that the Reichsbank had a note circulation which even in its yearly average exceeded the contingent, by more than 58,000,000 marks. Although these two years could not be accepted as a general demonstration, because they were periods of exceptional financial strain, it had become evident that the old contingent of the Reichsbank was insufficient for the increased demands of business due to the increase of population and the accelerated economic development in Germany.

In establishing an increase the fact has to be reckoned with that the demands on the Reichsbank are regularly made to an especially large extent at the quarter days. The condition, resulting from custom, that at the beginning of a quarter large liabilities have to be met, -- for instance, in regard to mortgages, rent, interest, and salaries, -- causes at those times an extraordinarily heavy demand for instruments of payment, which it is the Reichsbank's unavoidable obligation to meet. In accordance with this view the new law increased the limit of authorized issues, covered by a reserve of one-third, to 550,000,000 marks, and in addition provided that this issue might be permitted to rise to 750,000,000 marks ($178,200,000) at the close of March, June, September, and December in each year.

Another important point in which the new law departs from the old charter of the bank is in making the notes of the bank legal tender. There was a strong disinclination to this policy when the bank was established, which is explained by the earnest desire then prevailing to do away with the existing paper régime and to place the metallic currency on a firm foundation. This aim has been realized to such an extent that at the present time Germany's metallic circulation, and particularly that of gold coin, is abundant for all demands of trade. On the other hand, bank-notes also are regularly taken in payment, and for payments of large amounts they are used almost exclusively. In view of the fact that the legal status of this mode of payment was somewhat uncertain, however, such institutions as had to make numerous payments, banks especially, generally felt obliged for precautionary reasons to provide themselves with a considerable stock of gold in order to be prepared for any demand for gold that they might have to meet.

In proposing this measure the new law followed the examples of England and France. In England the notes of the Bank of England have been legal tender since January 1, 1834. In France the notes of the Bank of France were invested with this quality by the acts of August 12, 1870, and August 3, 1875.

The conferring of the legal-tender quality upon the Reichsbank notes does not in any way affect the maintenance of the gold standard, as is proved by the example of the Bank of England. In order to emphasize this more strongly, the words "legally current German money" in the paragraph relating to redemption of notes, have been replaced by "German gold coin." This expresses beyond a doubt that even a single note of the denomination of 20 marks must be redeemed in gold, although the amount of 20 marks comes still within the limit up to which imperial silver coin is decreed a legal tender by the currency act of July 9, 1873.

Thus, the new law, while expanding the legal limit of the untaxed circulation, provides for direct redemption of notes in gold at the bank and gives uniformity, as far as possible, to the paper circulation. Another important provision of the law authorizes the bank and also the private banks of issue to purchase checks. Since the act of March 11, 1909, in relation to checks, made it possible for a holder of a check to obtain legal protection for his claim, just the same as the holder of a bill, the committee declared that the fundamental objections to the purchase of checks were removed.

By permitting their purchase by the Reichsbank the holder of a check payable in another city could get cash for it at any moment by having it discounted, whereas under the old method the amount was paid only after the check had been collected, -- that is, after a lapse of several days, and no liability was accepted by the bank for the presentation of the check for payment within the legal time limit. The discounted check, in accordance with its intrinsic purpose, would be presented for collection by the bank as quickly as possible and its equivalent put at the disposal of the party presenting it by means of the giro (his account current being credited with the amount), the necessity of a cash remittance being thus avoided. It is expected that the purchase of checks by the Reichsbank will stimulate the use of checks and in general promote monetary intercourse without the employment of cash.

Duplicate

March 26, 1910.

THE SWEDISH BANKING SYSTEM.

The method by which the issue of bank-notes in Sweden was transferred from independent local banks to a central institution is the subject of a monograph made public to-day by the National Monetary Commission. The document was prepared by Prof. A. W. Flux, who has given much attention to the economic development of the Scandinavian countries, and includes brief sketches of the banking systems of Norway and Denmark, as well as Sweden. Special interest attaches to the banking experience of Sweden, because she adhered to the system of isolated local banks of issue longer than any other European country except Switzerland. It is only since January 1, 1904, that the right to issue bank-notes in Sweden has been brought under the control of the Riksbank or Royal Bank, and it was in October, 1905, that Switzerland, after twenty years of discussion, authorized the creation of the National Swiss Bank, whose history is told in a monograph already made public by the Monetary Commission. Interest is also given to the history of banking in Sweden by the fact that the first use of the bank-note is attributed to John Palmstruch, under a charter granted to the Royal Bank on November 30, 1656. The exchange department of the bank conducted a deposit business, and under certain conditions depositors could transfer to others sums standing to their credit or could withdraw them, the document used for the purpose being designated a bank-note. The Royal Bank thus occupied from two and a half centuries ago a dominating position in Swedish banking, but notes were issued by another type of institution, known as the enskilda banks. These institutions were corporations whose capital was divided into shares, but the liability of the principal shareholders was not limited, although there might be associated with them silent shareholders with limited liability. The first of these banks was founded in 1831, and as late as 1857 only 12 were in existence, with total assets of about $15,000,000. Several efforts were made to bring them under uniform rules in regard to the issue of notes and the character of the assets held. By the mint law of 1873 the notes of these banks, which had formerly been redeemable in the notes of the Royal Bank, were made redeemable in gold, in accordance with the policy of establishing the gold standard firmly in Sweden. Notes for 5 crowns ($1.30) were suppressed at the close of 1879, in order to leave room for the circulation of gold coin. Both the Royal Bank and the enskilda banks grew rapidly with the expansion of business during the latter part of the nineteenth and the beginning of the present century. A movement for centralizing the note issue gained ground under these conditions and was embodied in a law in 1897. The aim of this law was to give greater security and uniformity to the note issue, without impairing the resources of the enskilda banks for granting local credit. The notes of the Royal Bank are legal tender and are redeemable in gold on demand at the head office. The capital of the bank is 50,000,000 crowns ($13,400,000), and the metallic reserve is required to be in gold. The minimum reserve is fixed at 40,000,000 crowns ($10,720,000), or 40 per cent. of the authorized circulation of 100,000,000 crowns, but any additional amount may be issued when fully covered by gold or foreign balances.

In order to protect the country against any reduction of credit facilities by taking away the function of note issue from the local banks, several duties were laid upon these banks and several privileges were granted to them. The number of branches of the Royal Bank was required to be so increased that there should be one in each of the 24 districts into which Sweden is divided for local government purposes, excepting the one immediately adjacent to Stockholm, which is served by the head office. The law of 1897 was subsequently modified, in respect to the privileges granted the enskilda banks, by a law of May 30, 1901. This law provided that the time for abandoning its note issues having been settled by arrangement between an enskilda bank and the Riksbank, and on condition that none of the offices open on January 1, 1896, should be closed during the term covered by the arrangement, unless with the permission of the Crown on the recommendation of the managers of the Riksbank, the enskilda bank might be granted, against approved collateral, loans not exceeding 65 per cent. of its notes outstanding on January 1, 1901, and an open credit not exceeding 10 per cent. of the same amount. The interest charge on these loans and advances was fixed at 2 per cent. below the three months' discount rate of the Riksbank, though not in any case lower than 2 per cent., and the usual commission on the open credit was remitted. Further, rediscounts up to 25 per cent. of the notes outstanding on January 1, 1901, might be granted at a rate not exceeding two-thirds of that otherwise charged by the Ricksbank.

At the end of each year, beginning with 1903, the amount of the maximum limit of each of these special privileges is decreased by one-eighth of its original amount, so that they lapse entirely at the end of 1910.

These concessions to the enskilda banks were so liberal that they led to the surrender of their rights earlier than the date fixed in the law for their definite termination. Several of the enskilda banks availed themselves of the privilege of conversion into joint-stock banks with limited liability, but those of both types continued to increase their offices and the volume of business done throughout Sweden.

At the end of 1900 the Riksbank had 19 offices, note-issuing banks, 183, limited-liability banks, 96, and people's banks, 32, a total of 330 offices. At the end of 1908 the Riksbank had 25 offices, the unlimited banks (including one people's bank), 199 offices, limited-liability banks with capitals of at least 1,000,000 crowns, 304 offices, and lesser banks, 51 offices, or a total of 579 offices. There was thus an increase in the eight years of 249 offices, to which must be added those of a number of institutions representing former people's banks, and a couple of exchange offices of larger banks not included in the above totals. No less than 59 new offices were opened in 1907, and 43 in 1908, so that the development seems by no means at an end. There was at the end of 1908 a bank office for every 9,300 inhabitants on the average, whereas at the end of 1900 there were over 15,000 inhabitants for each bank office.

The different banks quote rates, both for loans and for deposits, that are very nearly the same. The existence of branches of more than one bank in many districts insures this advantage of competition. The Riksbank's discount rate gives, in consequence, a measure of the rates current everywhere, though there remains some variation in the rates returned by the several banks in the monthly accounts. These fluctuations may perhaps represent, in part if not entirely, differences between the classes of business secured by the different institutions.

During the panic of 1907, heavy demands were made upon the Royal Bank, which reduced its foreign balances because the bank failed to impose with sufficient energy and promptness the check of an increased discount rate on the speculative spirit manifested in business circles. The rate was raised on November 9, 1907 to 6½ per cent., when the London rate was 7 per cent., and the Berlin rate 7½ per cent. The bank was benefitted, however, by the fact that a new Swedish Government loan had been arranged in France for about $13,000,000, against which the bank was enabled to sell drafts pending the need for the use of the money at home. In 1907, over 92 per cent. of the rediscounts of the other banks were made with the Royal Bank and in 1908, over 94 per cent. and about three-fourths of the inland bills held by the Royal Bank were obtained by rediscounting.

Duplicate

May 3, 1910.

THE BANK OF FRANCE IN ITS RELATION TO

NATIONAL AND INTERNATIONAL CREDIT.

A striking study of the part which the Bank of France plays in the international money market has just been made public by the National Monetary Commission, in the form of a translation of the work of Maurice Patron on "The Bank of France in its Relation to National and International Credit." It is pointed out that the banks acts essentially as a public institution, pursuing the essential objects of building up and protecting the national gold reserve rather than seeking profits for its shareholders. By increasing its gold reserve the bank, it is declared by M. Patron, is working against the interests of its shareholders and consequently against its own interests. There are two reasons for this: First the expense of maintaining an additional reserve and the cost of issuing notes against it represents a clear loss to the shareholders. If the holdings of gold were smaller, the amounts of assets and liabilities would decrease without interfering with the profit and loss account. In the second place, smaller holdings of metal would lead to frequent rises in the rate of discount, which are the main source of profit for a bank of issue.

In spite of these obvious advantages to the bank in getting rid of a part of its great stock of the yellow metal, the gold reserve has been allowed to increase until it amounts to about $700,000,000 and is the largest stock held in any bank in the world. Even the advance in the rate of discount which is occasionally made, it is pointed out, is not for the purpose of safeguarding the reserve, but to avoid the decrease of the money in circulation which would have resulted from the tempting and persistent offers from abroad where discount rates ruled much higher. With these great resources at its command, the Bank of France has, in the opinion of M. Patron, become practically the reserve reservoir of gold for the financial world. As far back as 1839, the bank lent to the Bank of England £2,000,000 in gold and again in 1890, at the time of the Baring failure, £3,000,000. The Bank of France had just endured without flinching the downfall of the Comptoir D'Escompte, one of the oldest of the joint-stock banks of Paris, but the Bank of England, confronted by like conditions, found it necessary not only to raise its discount rate to six per cent., but to ask for foreign help. The Bank of France was severely criticized in the Chamber of Deputies for making this loan, but this criticism did not deter it from extending similar aid in the autumn of 1906 and in the crisis of 1907 to the amount of 80,000,000 francs, which were forwarded to London in American gold eagles, in answer to a mere telegram. The bearing of this course upon the crisis in the United States gives special interest to the narrative of M. Patron of these events, which he sums up thus:

"It was at the time of this developing crisis that the Bank of France was unreasonably reproached with its indifference to the monetary situation in the United States, and with its refusal to give aid. The critics forgot that the bank was prevented by its statutes from the direct shipment of sums for which the Federal Government refused to become responsible, and that, nevertheless, it forwarded 80,000,000 francs in American coin, which merely passed through London. Certain negotiations took place at that time between the American Government and the Bank of France with a view to dealing directly without the intervention of the London market. It is only because that Government would not or could not offer such guarantees as the Bank of France considered adequate that it made use of the London market, which has a much greater interest than ours in the prosperity of the United States.

"The occasions which we have just mentioned are not the only ones in which the Bank of France has had to intervene. In the first days of May, 1906, it loaned 40,000,000 francs to the Bank of England in order that the latter might avoid raising the discount rate. In September, 1906, it sold several millions in American eagles, with the knowledge that they would at once make their way to New York. More recently, in the very midst of the crisis, the bank released many millions of eagles and sovereigns under similar conditions. It would therefore appear that this policy of relief has been definitely adopted by the Bank of France."

In view of the many occasions on which the Bank of France has thus proved the refuge of the great banks of other countries in averting disaster, interest is given to the suggestions of Signor Luzzatti, formerly Italian Minister of Finance, in regard to an international agreement between banks of issue and government treasuries for mutual support. As thus outlined, M. Patron contends that the Bank of France would be forced to adopt, as an obligatory rule of conduct, a measure which after all is employed only as an exception, and at such times as it deems opportune. It is easy to foresee, he declares, what would happen under such a system. France, financially the strongest country, would have very little to expect from abroad, while it would find its aid urgently solicited at the least alarm among its neighbors: its position as moderator, from being voluntarily assumed as it is now, would become obligatory and subordinate, and this would be evidently unacceptable. In summing up the present position of the Bank of France, with its reserve towering above that of any other great bank, M. Patron concludes that this reserve, admirably managed as it is, affords not only an insurance against crises, but also the surest guarantee against the recurrence of great wars. Upon this point he concludes thus:

"We have shown that the fighting power of a nation has now no limit other than the financial effort of which it is capable. It is not going too far to state that the formidable cost which a war would involve has more than once caused our possible enemies to recoil, and that in the settlement of political or diplomatic questions the nation which is richest in gold is always the one which commands the most respect."

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Duplicate

May 11, 1910.

THE ENGLISH BANKING SYSTEM.

A description of the mechanism of the London money market, in its relation to the Bank of England, the joint-stock banks, and the discount houses has just been made public by the National Monetary Commission in a monograph on "The English Banking System," by Hartley Withers, financial editor of the "London Times." Mr. Withers begins with an enumeration of the distinctive functions of the Bank of England, which he declares to be as follows:

1. Banker to the British Government.

2. Banker to the joint-stock and private banks.

3. (a) Sole possessor of the right to issue notes which are legal tender in England; (b) sole possessor, among joint-stock banks with an office in London, of the right to issue notes at all.

4. Provider of emergency currency.

5. Keeper of the gold reserve for British banking.

6. Keeper of the gold reserve which is most readily available for the purposes of international banking.

These various functions fit into and supplement one another, and though their diversity is sometimes pointed to as throwing too much responsibility onto one institution, it in fact enables the bank to carry out its duties with extraordinary ease, and with the least possible disturbance to the financial community. By the fact that it keeps the balances of the other banks, the Bank of England is enabled to conduct the payment of the interest on the British debt largely by transfers in its books. By the fact that it keeps the balances of the government and has the monopoly of the legal-tender note issue, the bank has a great prestige in the eyes of the general public, which it communicates to the other banks which bank with it.

A credit in the books of the Bank of England has come to be regarded as just as good as so much gold; and the other banks, with one exception, habitually state their "cash in hand and at the Bank of England" as one item in their balance-sheets, as if there were no difference between an actual holding of gold or legal tender and a balance at the Bank of England. It thus follows at times when an increase of currency is desirable, it can be expanded by an increase in the balances of the other banks at the Bank of England, since they thus become possessed of more cash to be used as the basis of credit. For currency in England chiefly consists of checks, and customers who apply to the banks for accommodation, by way of discount or advance, use it by drawing a check which is passed on and so creates a deposit; and expansion of currency thus consists chiefly in expansion of banking deposits. This expansion is only limited by the proportion between deposits and cash which the banks think fit to keep, and as long as they can increase their cash by increasing their credit in the Bank of England's books the creation of currency can proceed without let or hindrance.

~~It is contended by Mr. Withers that the ease with which the Bank of England provides emergency currency gives to the English banking system the advantage of extreme elasticity and adaptability. The bank is enabled to accomplish this by the fact that it acts as banker to the other banks and that every credit which they have in its books is regarded by them and by the rest of the community as "cash" to be taken as practically equal to so much gold. This cash This cash at the Bank of England in the hands of the rest of the bankers can be multiplied as rapidly as the Bank of England is prepared to make advances, and as the mercantile and financial community can bring it bills for discount or securities to be borrowed on. There is no legal restriction of any sort or kind, and the close relations between the bank and its borrowing customers enable the necessary operations to be carried through with a celerity which is unrivaled, at any rate in the Eastern Hemisphere.~~

Taking up the subject of the position of the Bank of England in the international market, it is declared that London is the only European center which is always prepared to honor its drafts in gold immediately and to any extent. The Bank of France has the right to make payments in silver, and uses it by often charging a premium on gold, sufficient to check any demand for it; and in other centers measures are taken which make apparently free convertibility of credit instruments optional at the choice of the central bank. Consequently the Bank of England has to be prepared to meet demands on it at any time from abroad, based on credits given to foreigners by the English banking community, and it has thus to observe the signs of financial weather in all parts of the world and to regulate the price of money in London so that the exchanges may not be allowed to become or remain adverse to a dangerous point. The difficulties of this task are increased by the extent to which the English banking community works independently of it, by accepting and discounting finance paper, and giving foreigners credits at rates which encourage their further creation. For the low and wholly unregulated proportion of cash to liabilities on which English banking works, enables the other banks to multiply credits ultimately based on the Bank of England's reserve, leaving the responsibility for maintaining the reserve to the bank. This it does by raising its rate when necessary, and so, if it has control of the market and its rate is "effective," [redacted] raising the general level of money rates in London.

When its rate is not effective, the Bank of England finds itself obliged to intervene in the outer money market, -- consisting of the other banks and their customers, -- and control the rates current in it. This it does by borrowing some of the floating funds in this market, so lessening their supply and forcing up the price of money. By means of this borrowing it diminishes the balances kept with it by the other banks, either directly or indirectly, -- directly if it borrows from them, indirectly if it borrows from their customers who hand the advance to it in the shape of a check on them.

The result is that so much of the "cash at the Bank of England," which the English banking community uses as part of its basis of credit, is wiped out, money, -- which in London generally means the price at which the bankers are prepared to lend for a day or for a short period to the discount houses, -- becomes dearer, the market rate of discount consequently tends to advance, the foreign exchanges move in favor of London, and the tide of gold sets in the direction of the Bank of England's vaults, and it is enabled to replenish its reserve or check the drain on it.

In summing up the relation of the bank to the English money market and to the international money market, it is declared by Mr. Withers that the prestige which makes a credit in its books as good as gold enables the banking community to expand credits and make check currency as long as it is prepared to lend credit. At the end of the half year it is sometimes applied to for fresh credits to the extent of over twenty millions sterling, chiefly in the form of advances for a few days. On one side of its account its holding of securities is expanded by this amount and on the other its liability on deposits is similarly swollen. At the end of 1902, the last occasion when the bank's weekly return was made up on December 31st, and so showed the full extent of the extra credit provided by it at the end of the year, the other securities rose from £27,647,000 on December 17th, to £47,736,000 on December 31st. The other deposits at the same time rose from £36,653,000 to £55,259,000, and this increase in the basis of credit was perhaps used by the other banks for the provision of five to ten times as much accommodation for their customers. A week later the other securities had declined to £29,625,000 and the other deposits to £41,073,000, though reinforced in the meantime by the payment of government dividends; the emergency credit had been wiped out, when no longer required, by the simple process of repayment to the Bank of England of the sums borrowed from it; and the bank's proportion of cash to liabilities, which had fallen to 28 per cent. on December 31st, had risen to 38-3/8 per cent.

Duplicate

THE REICHSBANK AND THE GERMAN JOINT STOCK BANKS.

An analysis of the manner in which the big German joint-stock banks have developed the commerce of Germany, while supported by the Reichsbank, the central bank of issue, is made in a special treatise on "Development of the German Banking System," which was prepared by Robert Franz, editor of "Der Deutsche Oekonomist," for the National Monetary Commission, and just submitted by them to Congress. It is declared by Herr Franz that the Reichsbank forms one of the principal supports of the German credit system and of German economic life at large. "In this capacity," he continues, "it has proved its value repeatedly, especially in the period of great depression at the beginning of the century. The collapse of a number of larger banks which until then had enjoyed a good reputation caused a profound shaking of confidence and threatened to precipitate a severe credit crisis. Such a crisis would have involved disastrous consequences for the entire business life of the country had not the Reichsbank at that time supported the tottering confidence by a liberal though at the same time prudent extension of credit."

Turning to the development of the joint-stock banks, Herr Franz declares that the business of industrial financing and stock issues was part of the program of the oldest joint-stock banks, founded as early as the middle of the last century.

The development of the railroad system beginning about the middle of last century, which caused a considerable demand for and circulation of capital, and the greater extension of state credit, induced the banks to turn to the flotation and issue business.

The period following the founding of the German Empire witnessed a vigorous development of German industry, especially of the mining and (beginning with the nineties) of the electrical industries, which required a continuous inflow of new capital. At the same time German foreign commerce, particularly with oversea countries, kept on steadily increasing. The banks furthered this development by forming stock companies, granting long-term credit, assuming shares and bonds, placing the new industrials on the stock market and selling them to the public. There is no doubt, Herr Franz declares, that but for their policy of furthering the industries, the economic development of Germany would have taken considerably longer than has been the case.

It is true that the larger part of the increase in capital is the result of industrial production. But normally the fresh increments of capital can be turned into industrial channels as reinvestments only through the medium of the banks.

The placing of capital in industrial investments in Germany proceeds as a rule as follows: The bank extends a certain amount of credit to the industrial corporation, which is used by the latter successively in proportion as its enterprise develops. Such "investment" credit, owing to its very nature and purpose, cannot be refunded within a short time. It is granted from the start with a view to being converted into capital of the industrial corporation (through the increase of capital stock) or into long-term amortization credit (through bond issues). In order to repay its debt to the bank the industrial corporation issues new stock or bonds. The bank must for the time being take over the additional new securities by changing the "book-credit" into "issue-credit." This, however, enables it to shift the risk, assumed by the granting of the original credit, to the wider spheres of the investing public, and to recover, above all, the invested capital. Only in this manner can the bank retain its power of action, and it must be admitted, Herr Franz declares, that as a general rule the German banks have operated in this regard with great skill and circumspection, so that they were able both to meet their own obligations and to satisfy the demands for short-term working credit.

In order to obtain the means for granting industrial credit and to dispose of the enormous amounts of newly created industrial XXXXX securities, it was and is necessary to attract in as large a measure as possible the surplus funds of the community available for capital investments.

For this purpose the joint-stock banks spread a network of deposit branches, destined to serve as reservoirs for the inflow of available funds, and at the same time as distributors for the industrial securities created. With the same end in view the large Berlin banks, either through the acquisition or exchange of stock (for permanent investment), entered into friendly alliances with the provinvial banks.

This latter development, representing a centralization of capital, though not of operation, is to be regarded as part of the general process of centralization applying to industry as a whole. It was particularly strong during the last decade, but seems to have abated somewhat during the last years.

The concentration in the German banking system, the growth of the large joint-stock banks, and the extension of their sphere of interest by means of branches and deposit branches, and by their alliances with medium-sized small banks in the provinces, was furthered by certain extraneous circumstances.

One of these was the stock exchange act of June 22, 1896, which, by restricting trading in options, secured considerable advantages to the strong, large banks at the expense of the weaker banks or private banking firms. It is probable that this development received its first powerful impetus as early as 1891. At that time several private banking houses failed and these failures revealed, in a number of cases, the wrongful conversion of deposits. This caused deep commotion among wide circles. Public interest became aroused on the subject of bank deposits, and the amendment of the existing civil, criminal, and economic legislation was undertaken. The result was the bank deposit act of July 5, 1896. This did not, however, completely allay the suspicion once aroused, and the disastrous experience with small private bankers helped to no small extent to turn the confidence more and more to the large joint-stock banks, which offer a much greater security for the money and securities entrusted to them.

The most important factor, however, was the fact of the simultaneous capitalistic evolution of industry proper, which necessitated a parallel development in the banking field. It goes without saying that this evolution, considered in its entirety, cannot be ascribed to chance or the arbitrary action of individuals, but is largely the result of economic forces.

Herr Franz declares that it is the undisputed merit of the persons at the head of the banks that they appreciated those endeavors and supported them by advancing the requisite capital, oftentimes incurring great risks for the banks. The progressive industrialization of Germany and the large increase of its population caused on the one hand increasing imports of industrial and auxiliary materials as well as of foodstuffs, and on the other steadily growing exports of industrial products. As a result Germany's share in the world's commerce shows a rapid growth.

Until the seventies of the last century the financial regulation of German foreign oversea trade had been almost exclusively in the hands of London banks. The establishment in 1870 of the Deutsche Bank at Berlin meant a turning point in this regard. The bank in its charter adopted the following program: "It is the purpose of the corporation to do a general banking business, particularly to further and facilitate commercial relations between Germany, the other European countries, and oversea markets." The founders of the Deutsche Bank had recognized that there existed in the organization of the German banking and credit system a gap which had to be filled in order to render German foreign trade independent of the English intermediary, and to secure for German commerce a firm position in the international market. It was rather difficult to carry out this program during the early years, the more so, because Germany at that time had no gold standard and bills of exchange made out in various kinds of currency were neither known nor liked in the international market. The introduction of the gold standard in Germany in 1873 did away with these difficulties, and by establishing branches at the central points of German oversea trade (Bremen and Hamburg) and by opening an agency in London, the Deutsche Bank succeeded in vigorously furthering its program. ~~Very much~~ Later the other Berlin joint-stock banks, especially the Disconto Gesellschaft and the Dresdner Bank, followed the example of the Deutsche Bank, and during the last years particularly, the Berlin joint-stock banks have shown great energy in extending the sphere of their interests abroad.

March 15, 1910.

INTERVIEWS ON SCOTCH BANKING.

Dependence upon the Bank of England for gold in case of need was one of the salient features brought out by the National Monetary Commission in its inquiries in regard to the Scotch banking system. Interviews with the chief officers of the Royal Bank of Scotland, the Bank of Scotland, the Union Bank, and the Commercial Bank were held by Senator Aldrich, Mr. Vreeland, and other members of the Commission in the summer of 1909, which have just been printed by authority of the Commission. The answers given at each institution in respect to the methods of Scotch banking were substantially similar. The circulation in Scotland is issued by eight banking institutions, the survivors of 19 which were in existence in 1845, when the British Parliament forbade the creation of any more banks of issue and fixed the limit of the circulation. The amount of the authorized circulation of the Scotch banks is only £2,676,350, or about $13,000,000. Above this amount, however, notes may be issued without limit, provided they are covered pound for pound by gold and the actual circulation ranges up to about £7,500,000. The Scotch law differs from the English law in allowing notes to be issued as low as one pound sterling, while the minimum in England is £5. It was explained to the Commission by Mr. Tait, cashier and general-manager of the Royal Bank, that weekly fluctuations in the circulation are chiefly due to the payment of wages. The seasonal fluctuations are at harvest time, at Christmas, and New Year, and to a much larger extent at the half-yearly terms of Whitsunday (May) and Martinmas (November), when rents are paid, interest on mortgages is collected, and half-yearly wages are paid.

The system of cash credits, which was a half century or more ago one of the chief features of the Scotch system, is still employed, but not apparently on so large a scale. It was stated by Mr. Tait that a customer may apply to be allowed to overdraw such amount as he may require from time to time up to a specified amount, and he and two or three sureties jointly and severally become bound to repay the amount that may at any time be owing with interest, on demand being made on them. Each obligant is liable to pay the whole sum, leaving him to obtain repayment from his co-obligants.

While the Scotch system is organized upon a basis independent of that of England, its policies are governed largely by those of the big British bank. It was stated by Mr. Tait that "the Scotch banks all allow the same rate, and charge the same rates for discounts and overdrafts, and these are fixed relatively to the Bank of England rate." The Royal Bank, he declared, had an account with the Bank of England which had been in operation since 1728, and it collects bills and checks for the Bank of England all over Scotland. This subject was set forth somewhat more fully by Sir George Anderson, general-manager of the Bank of Scotland, who said:

"In common with most of the other banks in London, all the Scottish banks represented there keep accounts at the Bank of England, on which operations are made as required, a minimum balance being usually left in the hands of the Bank of England to recoup them for trouble in keeping the account. An arrangement exists between the Bank of England and the Bank of Scotland for drawing drafts on each other and collecting documents, and the former act as clearing agents in London for the Bank of Scotland.

"The Bank of England is the banker of the government; is the largest issuers of notes, issuing its notes when required in exchange for gold bullion and paying notes in gold coin; and being the bankers' bank, the weekly returns as to its position form the best possible barometer of the state of trade and credit in the country. The rate of discount announced by the Bank of England from time to time serves as a guide to the other banks throughout the country in fixing their rates for loans and deposits."

The Scotch system, with its eight large banks, is essentially a system of concentrated control at the centre, and the distribution of credit through branches. The Scotch banks have 1,175 offices or branches, or an average of 1 for every 4,000 inhabitants. Economy in the circulation of gold is obtained by the use of the £1 notes which it was declared by Mr. Blyth, general-manager of the Union Bank, enabled the banks to dispense with keeping large balances in actual coin at the branches. The managers of the branches are known in Scotland as agents and have power to grant advances, but subject to the approval of the head office. It was declared by Mr. Bogie, general-manager of the Commercial Bank:

"The discretion allowed is dependent on the size of the branch and the nature of the business and the class of customer, and on the record of the agent. By our system of reports on advances (weekly, monthly, and quarterly) we keep in close touch with the advances and means of borrowers. The London branch is, of course, on different lines, and our manager there has greater powers than an agent at a branch in Scotland."

A (Copy) Chart - general Duplicate

(January 15, 1910.)

A set of charts, carefully prepared under the direction of the National Monetary Commission for putting in graphic form the progress of American and foreign banking during the past thirty to forty years, was made public by the Commission to-day. The number of the plates is twenty-four and much care has been taken in the arrangement of spaces, lines and coloring, to make them tell at a glance the story of the changes in banking conditions during the period covered. The subjects are arranged in a logical order of evolution, beginning with the progress in the number of national banks, state banks, and trust companies. They then deal with changes in relative capital of each class of banks and in the circulation of the national banks; changes in the circulation of national banks in their relation to the supply and price of government bonds; the relation of the Treasury balance to deposits of public money in the banks; the movements of the bank circulation in reserve cities and other cities; the relative fluctuations in the price and net return upon the public debt of the United States and that of Great Britain, France, and Germany; changes in discount rates in different markets; and the comparative stocks of gold in leading banks.

The first chart shows the progress in the number of national banks from about 1650 in 1867 through the gradual rise to about 3800 in the summer of 1893. Then comes the depression of the line, due to the failures and liquidations following the panic of that year, until the number in the summer of 1899 falls below 3600. Then ~~begins~~ comes a sharp upward turn, which began in the summer of 1899, apparently as the result of returning business activity, but was sharply accentuated by the act of March 14, 1900, which first permitted the creation of national banks with a capital between $25,000 and $50,000. This upward movement continues practically unbroken until a total of nearly 6700 banks is attained in the summer of 1908, after which the movement is slightly relaxed as the result of the panic of 1907.

Even more interesting in some respects are the variations of the line indicating the number of state banks. Starting below 300 in 1867, the number is barely above 600 in 1876 and shows a decline to 475 in 1878. From that date to the summer of 1885, there is a gradual upward movement until the number of state banks is only a little under 1000. Then comes a depression to about 850, which suddenly turns in the summer of 1886 into a rapid upward movement, which has never been permanently interrupted. It was in 1893 that the number of state banks began to overtake the number of national banks. The lines of increase in banks of both types had been roughly parallel down to about the summer of 1888, with the state banks nearly 2000 less in number than national banks. Then began "a stern chase" by the state banks to overtake the national banks in number, influenced apparently by the small profit to the national banks on circulation, which arose from the high price of United States bonds. By the summer of 1891 the distance between the two classes of institutions had fallen to less than 1100; by the summer of 1892, to less than 600; and by the summer of 1893, to a little more than 200. Finally, in the spring of 1895, in the face of national bank liquidations, the line of the number of state banks crossed that of national banks and began the upward movement which carries the line at an acute angle from about 3600 institutions in 1896, to 11,400 in the summer of 1908.

A somewhat different light is cast upon these figures by the second chart, showing the amount of capital and surplus funds of different classes of institutions. Here the state banks, many of them with capital much below the minimum permitted to national banks, lose the predominance which they derive from numbers. State banking capital and surplus funds in 1867 are shown to have been $100,000,000, while national banking capital and surplus funds were about $480,000,000. By 1880 these funds for national banks amounted to about $575,000,000, while for state banks they had risen only to about $110,000,000. Then came an upward curve in the line of progress of both classes, which culminated in 1893, with national banking capital of $930,000,000 and state banking funds of $325,000,000. The downward dip of the curve, after the panic of 1893, carried national banking funds to about $860,000,000 in 1899, while those of state banks were about $310,000,000. Then began the rapid upward movement of the past ten years, along almost parallel lines, leaving national bank capital and surplus funds in 1909 at $1,500,000,000 and similar funds for state banks at $720,000,000.

The difference between banking conditions in New York and other financial centers, is indicated by the chart of discount rates in Berlin, London, Paris, and New York for the twenty years ending with 1908. The Paris rates are the lowest, ranging above three per cent. only for brief periods at the Bank of France and for still shorter periods in the open market. The London rates, both at the Bank of England and in the open market show frequent variations, but their range, except in the autumn of 1907, is never higher than 4½ per cent., and in 1895 as low as two per cent. at the bank and below one per cent. in the open market. The Berlin rates show a higher tendency, but only at the close of the year 1899 and the early part of 1900 did they go above five per cent., until on the eve of the panic of 1907. The open market rate in Berlin did not at any time except in 1907 go above 4½ per cent., and in 1894 was at a point below two per cent.

The Commission, in dealing with the New York market, did not take the violent fluctuations in call money as a basis, but only the rate for commercial paper running from two to three months. Beginning in 1890 at a rate of about 5½ per cent., this New York rate fell a trifle below four per cent. in 1892, to mount far above six in the panic of 1893, when the maximum Berlin rate was just over four per cent. and that of London just over three. Then came the fall in the New York rate to three per cent., during the depression following the panic, when the Berlin market rate was under two per cent. and the London market rate was under one per cent. The New York rate returned to a little more than 3½ per cent. in 1897, and then advanced gradually to about 4.25 per cent. in 1900, and mounted upward after 1901 to about 5.4 per cent. in 1903. Then came a fall to 4.25 in 1904 and a rapid rise in 1906 which culminated in a rate of 6.2 per cent. in 1907. The New York rate, whether high or low, was in every case higher than the rates, either official or private, in London and Paris, and only during the period from 1897 to 1901, was it lower than the German official rate and during only a brief portion of this time lower than the German private rate. An interesting chart, which shows in detail the number of days during which high and low rates prevailed at the banks of France, England, and Germany, has a maximum line of seven per cent., which is never crossed in any case by the line of actual rates except at the Imperial Bank of Germany in the panic of 1907.

The internal movement of currency between New York and interior points, and the foreign movement of gold to New York from foreign countries and from New York abroad, is the subject of a diagram which shows that New York is frequently subject to severe pressure in both directions at the same moment. Another diagram, representing the movements of cash between New York and the interior in the form of a wheel, brings into striking relief the loss of currency by New York from August to December, 1907, and the great reflex current of incoming money during the winter and spring of 1908. The maximum loss to New York in any one month was in October, 1907, when the amount was $40,301,000; the maximum gain was in January, 1908, when the amount was $35,729,000. The largest monthly loss recorded in any other recent year was in October, 1906, when the amount was $23,783,000.

The last table of the series, giving the average gold holdings of the three principal European banks and of the United States Treasury, brings into relief the great increase in gold stocks in recent years. The United States Treasury, with over $1,100,000,000 of gold, stands in the front rank of holders of the yellow metal, offering a remarkable contrast with the conditions of 1895, when total Treasury holdings were under $140,000,000. The Bank of France, although showing less remarkable variations, discloses a gold stock which increased from $300,000,000 in 1892, to $590,000,000 in 1908. The Bank of England and the Imperial Bank of Germany do not show radical gains in gold, but rather the influence of the variation of the discount rate and the control of the exchange market to keep their reserves up to minimum requirements of from $150,000,000 to $200,000,000.

File Current

March 16, 1910.

INTERVIEW ON BANK OF FRANCE.

How the Bank of France has steered its course clear of political complications and has prevented financial crises by serving as a harbor of refuge for the joint-stock banks is told in a graphic manner in an interview with M. Pallain, the governor of the bank, which was made public to-day by the National Monetary Commission. The story was told in a conference held at the Bank of France when Senator Aldrich, Representative Vreeland and other members of the Commission were in Europe, holding similar conferences with the heads of the great note-issuing and joint-stock banks. The Bank of France was founded in the year 1800 and its charter was renewed in 1897, expiring in 1920. Almost the first question asked Governor Pallain was whether the bank was ever attacked in the controversies between political parties. He answered in these words:

"No charge has ever been made that the bank favored or aided any political party. There is never any claim that politics enters in any degree into the management of the bank. Except for the renewal of the charter in 1897, no legislation affecting the bank has been enacted since 1857. There is no sentiment for any change in banking methods nor for any new legislation. It should be added that neither the Governor nor Deputy-Governor is permitted to be a member of either body of Parliament."

The government does not own a share of the capital of 182,500,000 francs ($35,225,000), but exercises decisive influence through the appointment of the governor and deputy-governors and one of the boards of the bank. The governor and the two deputy-governors are appointed by decree of the President of the republic upon the proposal of the Minister of Finance. Their terms of service are not fixed, but usually extend over many years.

Some light is thrown upon the absence of political hostility to the bank by the number of its branches, the manner in which it aids small commerce, and the strength which it affords to the banking system of the country. There are about 500 banking offices scattered over France, the more important, to the number of 127, being known as branches, and the others as auxiliaries and agencies. The managers are remunerated by fixed salaries, which does not, however, prevent the bank from letting all the staff participate in the results of particularly productive years by exceptional allowances. There is also a pension system for employees, which guarantees to each agent entitled thereto at least one-half the annual salary after thirty years' service.

The bank is not limited to rediscounts, but has a line of clients of its own. It was stated by M. Pallain, that about 70 per cent. of the paper held bears the signature of some bank as one of the endorsers, but the number of merchants and manufacturers asking for direct discounts has recently been increasing. The average maturity of paper discounted during the year 1907 was twenty-six days and the average value of bills discounted was 732 francs ($141).

This low average, obtained from the mingling of bills for very large amounts with smaller ones, is due to the extent to which the bank discounts or rediscounts bills for very small amounts. The minimum limit admitted to discount was lowered in 1898 to 5 francs (96½ cents), and the number of small bills discounted has never ceased to increase since that time. In 1907 the number of bills below 100 francs ($19.30) was more than 3,500,000 in a total of 7,500,000. Anyone who is known to the bank can open an account, the minimum being only 500 francs ($96.50). After an account is once opened, the depositor may discount paper for as small a sum as 5 francs, provided it meets other requirements.

The bank has for many years charged the lowest rates in Europe almost consecutively for discounting bills. When M. Pallain was asked if it would be more advantageous for the bank, considered simply as a bank, to impose different rates under different circumstances and at different places, he made this answer:

"As a banking establishment, if we thought it advisable to apply different rates, we could easily become the masters of the market. But in our position of Bank of France, organized to serve the interests of public credit in a democratic country, we do not believe ourselves justified to use this option."

Discussing, later on, the method pursued by the bank to maintain its great gold reserve of more than $600,000,000, M. Pallain said:

"It is a principle consecrated by experience that the supreme means of defense for an issue bank, to protect its metallic reserve, is to raise the rate of discount, and we never lose sight of this principle. However, the extent of our reserves allows us to contemplate without emotion important variations of our metallic stock, and we only exceptionally have recourse to a measure which is always painful for commerce and industry. The stability and the moderation of the rate of discount are considered as precious advantages, which the French market owes to the organization and traditional conduct of of the Bank of France."

Taking up the relation of the joint-stock banks to the Bank of France, the question was asked whether, if the Credit Lyonnais needed money and brought to the Bank of France acceptable bills, the bank would discount them. The reply was:

"Certainly. We often do; and this possibility, always open, according to circumstances, is an invaluable resource for credit societies. The eminent founder of the Credit Lyonnais, M. Germain, a very competent man in these matters, admitted frankly that if the Bank of France did not exist he would close the Credit Lyonnais, -- in times of crisis."

M. Pallain added, in response to further questions, that in the joint-stock banks which the Commission would visit, they would find the liquid cash very small in proportion to the transactions. "In France," he declared, "we consider that the strength of a bank consists more in the composition of its portfolio, i.e., in the value of its commercial bills, rather than in the importance of its cash reserves." The reason for this was stated to be that for the French private banks the proportion of cash to liabilities is less significant on account of the facilities offered by the organisation of the Bank of France for the rapid conversion of good assets into ready money. The part played by the central bank towards the private establishments permits the latter, as has many a time been proved, to reduce to a minimum their cash reserves and to devote, without exceptional risk, a larger part perhaps than elsewhere to productive commercial operations. In the further discussion of this subject, the following colloquy took place:

"Q. I suppose the relations of the Bank of France with the other banks are cordial; there is no friction?

"A. We have as a principle to be on good terms with everybody, and better with certain persons.

"Q. Do the banks rely implicitly on the Bank of France to grant them credit when they require it?

"A. They know very well that in times of difficulty we are the supreme resource.

"Q. Does the amount and the character of credit granted to other banks depend on the amount and the character of their accounts at the Bank of France?

"A. There is no fixed rule, and although the balance of the account is not a matter of indifference, it is more especially the quality of the paper presented which fixed the extent of the credit. In periods of crisis, in 1830, in 1848, in 1870, in 1889, the general council of the bank did not hesitate to come to the assistance of establishments which were in difficulties, but which held assets of unquestioned character and value, by extending to them the largest possible credits."

Members of the Commission did not spare the most searching questions in regard to the standing of the Bank of France with the public and with other institutions. M. Pallain was asked point-blank, "Is the Bank of France regarded as a bank for banks or as a bank for the people?" To this he made answer thus:

"The Bank of France remained for a long time, indeed, the bank for banks, but since it has covered so much territory with its numerour branches; since the minimum amount of all its operations has been lowered; since it has opened deposit accounts to all; since it has tried to simplify and minimize the formalities required by its special charter, the industrial and commercial world has come to use the bank directly to a much larger degree. At the same time its credit has come out stronger, firmer, more popular from all the political and financial crises, so much so that to-day one can reply without hesitation that it is already and that it tends to become more and more, -- as you ask, -- the bank of all the French public."

In order to determine if the system of monopoly of note issue which belongs to the Bank of France was acceptable to the country as well as to the financial community, M. Pallain was asked if there was in any quarter any agitation for a change in this respect. He replied in the negative, but added that the people were always inclined to ask more from the Bank of France, -- to open new branches; to extend the benefit of its credit to a larger number of places; and to increase the facilities of every kind offered to its customers. Pressed still further to say if there was any demand in banking circles for extending the right of issue to other banks, the reply of M. Pallain to this question was as follows:

"The unity of issue was achieved in France in 1848, and at no time since then has there been any question, in responsible circles, of a possible return to plurality of issue. The same tendency is leading, little by little, to an absolute monopoly in England, Germany, and even in Italy. I think that it would also be interesting for you to examine the recent example of Switzerland, which had its note-issue system founded, as in America, on the plurality of banks and which has now substituted for this system one single privileged bank. This transformation has received popular approval by referendum."

Tell Conant

March 14, 1910.

THE BANK OF ENGLAND AND THE MONEY MARKET.

The changes in fashions and the extension of the week-end holiday have their effect, as well as important financial transactions, upon the changes of the bank-note circulation in England. This was brought out in an interesting manner in the conferences held by Senator Aldrich and other members of the National Monetary Commission with the governor and directors of the Bank of England, which are just being printed for distribution by the Commission. It was stated by the officers of the bank that there has been a steady reduction of late years in the volume of business conducted in London on Saturdays, and the amount of the notes withdrawn from the bank on that day is now as a general rule very much less than on the other days of the week. The balance outstanding at the close of the day generally shows, therefore, a material shrinkage.

On Mondays notes are withdrawn in larger quantities than usual in order to replenish tills after the reduction in the amounts held on the previous Saturday, whilst on Fridays also the withdrawals are above the average to meet the demands occasioned by weekly payments, such as wages, etc.

The increased total at the close of each quarter is occasioned by withdrawals to meet payments due on the four quarter days, Lady Day, Midsummer, Michaelmas, and Christmas.

The large total at the beginning of August, -- of late years generally the maximum for the year, -- is due to withdrawals for holiday and harvest purposes, whilst the low figures which usually occur in the middle of February may be attributed to the absence of any holiday demand, and to the fact that reaction after Christmas, coupled with the comparative absence of visitors to London, causes the retail trade to be less active than in the second and fourth quarters.

The conferences brought out the fact that the Bank of England, contrary to most banking institutions, is organized upon the principle of "One man, one vote," instead of giving votes to shareholders in proportion to their stock holdings. It is necessary, however, for a proprietor, as shareholders are called, to have £500 of stock in order to have a vote and as the stock is quoted at about 267, the market value of the amount required to give a vote is about $6,500. There is no limit to the number of shares which may be held by any one person, but added holdings do not give increased voting power. There are at present about 10,000 proprietors, and they are authorized to elect the governor and directors and to make by-laws for the conduct of the bank, provided the by-laws are not repugnant to the laws of the kingdom. The chief legal restriction upon the character of the directorate is that they must be "natural-born subjects of England or naturalized," but in actual practice the selection is confined to those who are or have been members of mercantile or financial houses, excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom. There is no inspection or actual supervision by the government, but the bank is required to furnish weekly statements of its position.

Although the bank exercises great power over the London money market, its branches are limited to 11, -- 2 in London and 9 in the provinces.

The Bank of England does not make such a specialty of discounting bills for small amounts as is the case at the Bank of France and the Imperial Bank of Germany. The average period of maturity of bills discounted is from 40 to 50 days, but upon the average their size was estimated by the officers at about £1,000. Two British names are required upon a bill discounted, one of which must be the acceptor, and four months is fixed as the maximum maturity except in a few cases, where six months are allowed. The various classes of marketable securities quoted on the London stock exchange, with the exception of mining shares, are accepted, and also with discretion, good securities which are not so quoted when their value can be ascertained.

All the large London banks, most of the Scotch, and some of the Irish banks have accounts with the Bank of England. Provincial English banks and branches of London banks in towns where the Bank of England has branches have local accounts with the bank. The relation of the joint-stock banks to the Bank of England was discussed very candidly with members of the Commission by Sir Felix Schuster, Bart., Governor of the Union of London & Smiths Bank. It was pointed out that the joint-stock banks did not lean quite so much upon the central bank as was the case on the Continent, but that they kept their cash balances at the Bank of England and would look to it in case of emergency. Discussing the actual position of the Bank of England at the centre of the system, Sir Felix made these observations:

"The Bank of England is the central reservoir of the whole banking system of the United Kingdom. Through their holding the balances of the joint-stock banks, of the clearing house banks, and the government balances, of course they have obtained very great power, and they can control the market by withholding advances, by fixing XX their rates, by borrowing from the market when they feel inclined to do so. Practically they have the whole control of the money market in their hands, and they are also in touch with general movements that are taking place; they can judge better than anybody else from the state of the balances of the joint-stock banks how trade is in the country, whether there is a large demand for money, whether those balances show a tendency to shrink, or whether they show a tendency to accumulate. * * * It is generally assumed that in times of trouble it is the duty of the Bank of England to grant accommodation to solvent parties who have good security to offer. The Bank of England does not openly acknowledge such a duty, which has never been officially imposed upon it, but it has always acted up to it, and were it not so its strength and raison d'etre as holder of the ultimate reserve and bankers' bank would be gone and other arrangements would become imperative."

This obligation of the Bank of England to support the market in emergencies was referred to by Sir Felix as one of the "implied" duties of the bank. In response to the question, "What steps taken are most effective in attracting ~~x~~ gold or in preventing its outflow?," Sir Felix replied thus:

"The raising of the discount rate, and not only of the nominal Bank of England rate, but of the market rate as well. You often have a condition which you describe as the open-market rate, that is one to two per cent. lower than that of the bank rate, and in those conditions the bank has no influence whatever. What the bank have to do under those conditions if they wish to attract gold and prevent its leaving is to pay more in the market for money than other people would; they must artificially raise the value of money outside; they immediately become borrowers and sweep up all the floating supplies at a higher rate than a discount broker would pay us. They do not do it themselves. In one instance they have done it direct, but in most cases they employ a broker. They give security for those loans and in a short time they sweep up the surplus funds, and that becomes effective in raising the discount rate. That again has an influence on the foreign exchanges. It is the foreign exchanges that regulate the outflow or influx of gold, and foreign exchanges can only be regulated by the value of money."