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63D CONGRESS } 1st Session } SENATE { DOCUMENT No. 232

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS

FIRST SESSION

ON

H. R. 7837 (S. 2639)

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

IN THREE VOLUMES

VOL. III

(INDEX AT END OF VOLUME)

WASHINGTON
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RESOLUTION BY MR. OWEN.

IN THE SENATE OF THE UNITED STATES,
November 6, 1913.

Resolved, That the Committee on Banking and Currency is hereby authorized to have printed the indexed hearings by the Banking and Currency Committee of the Senate on the pending banking and currency bills (S. 2639 and H. R. 7837), bound in paper, as a Senate document, * * *.

Attest:

JAMES M. BAKER,
Secretary.

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COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

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HEARINGS ON H. R. 7837.

WEDNESDAY, OCTOBER 8, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 11.05 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. Mr. Vanderlip, the committee will be glad to hear from you in regard to this bill, and I will ask that you give the stenographer your banking affiliations.

STATEMENT OF FRANK A. VANDERLIP, PRESIDENT OF THE NATIONAL CITY BANK, OF NEW YORK, N. Y.

Mr. VANDERLIP. I am president of the National City Bank, of New York. I have other banking affiliations as director. I suppose you only mean my official position?

The CHAIRMAN. I think that will suffice, unless the committee care to have the other affiliations. We will be glad to have your views on this bill.

Mr. VANDERLIP. I feel that there are two important things to be accomplished by any legislation—the mobilization of reserve and the creation of an elastic currency. I think this measure has gone a long way toward that, but has failed of accomplishing both of those things. I feel that the mobilization of the reserve has got to come about by what is practically a single reserve reservoir, and that the 12 reserve reservoirs which have been provided in the bill will not practically bring that about. I believe a single reservoir would be best, and any reduction from 12 will be an improvement. I think if you could reduce it to 4, it would probably work pretty nearly as well as 1, and would perhaps have some advantages over 1.

The CHAIRMAN. Is your reason for that because you think that if the regions were small the demands upon a particular region at seasonal periods would be too exacting on the local reserve bank?

Mr. VANDERLIP. Yes. There is no spreading of the conditions in the small regional reserve center. If the demands on all banks were of the same character and came at the same time there would be no object in having such an arrangement as we are here providing. The advantage of this comes through one bank having a strain on it at a time when another bank is flush, and an averaging of those conditions. It follows from that that if you establish a regional center in a geographical location, where all of the trade conditions in that circle are the same, where all the demands are coming upon the banks at the same time, and is of largely the same character, you will defeat your purpose. You will have a condition where there will be great danger of exhausting the resources of that bank, because conditions are the same throughout the territory of the bank.

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Senator HITCHCOCK. Do you care to be interrupted as you go along, or do you prefer to complete your statement?

Mr. VANDERLIP. I am perfectly willing to be interrupted.

Senator HITCHCOCK. Then I would like to ask you whether it is not true that in all European systems—take, for instance, France—the conditions are practically the same throughout that country in which that central bank is the central reservoir. There is no diversity of interest there, where they have a very small geographical extent of territory.

Mr. VANDERLIP. There is diversity over the whole nation there, whatever it is, and it must be considerable. You can not say that France, speaking from the point of demands for borrowing at the bank, is an absolutely homogeneous country. There is the wine-producing district, the agricultural districts, the manufacturing districts, and their demands all come at different times and are of a different character. The one central bank there covers all those demands and has the advantage of a flush condition at one point and a strained condition at another and equalizes those conditions.

Senator HITCHCOCK. But geographically France is not larger than some of our States.

Mr. VANDERLIP. But in its business requirements it is certainly larger than any of them, and those requirements are very seasonal. With us, however, the seasonal variation is very pronounced according to geographical location.

Take the central bank established in the territory around New Orleans. The borrowing there will come from cotton raisers very largely. It will all come at the same time. The pressure on New Orleans comes at one season of the year. Now, if that can be equalized by including in the territory of the New Orleans bank territory that is not similar in its climatic conditions or in its industrial or manufacturing conditions, so that the pressure for loans in one part of that territory comes at one season and in another part at another, you will have a far sounder situation and a situation that a reserve bank can stand up under; whereas if you make these areas too small, in that they are too similar in condition, you will endanger the bank and make it almost certain that it will have to go to the larger banks for help.

Senator HITCHCOCK. The reserve bank still has the resource of procuring currency.

Mr. VANDERLIP. But it may be credit, not currency, that it wants, and it must have the reserve of gold to support the currency. If the bank loans down to 33 per cent it can not get any more currency until it gets some more gold.

It seems to me there are many impressive reasons why there should be a fewer number of reserve districts.

The CHAIRMAN. If there is a certain number, would you think it advisable to have a Federal reserve board with power to require one branch to accommodate another?

Mr. VANDERLIP. The power of the Federal reserve bank to force one bank to rediscount for another is obnoxious, but it is absolutely necessary if we are to have the benefits of the central reservoir and if you are to have a number of regional banks. A central reservoir is the desideratum. That is what we must have. You have planned here to organize 12 banks, and recognizing that after all 12 reser-

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voirs will not do—that there must be one—then you undertake to pipe those 12 reservoirs together, and properly so. You must pipe them together. You undertake to pipe them together by giving control to this Federal board to force loans. I think the Federal board must have that authority, obnoxious as it is. The obnoxious character of it would disappear entirely with one central bank. It will disappear in a measure as you reduce the number of central banks. I believe that with four banks the management of those four banks would get together with a sufficient understanding of mutual conditions so that there would not have to be any arbitrary use of that power, but power must be lodged with the Federal board, because you must pipe the banks together, and you must make, in effect, one central reserve reservoir.

Senator HITCHCOCK. Would not that same argument go to show, really, there ought to be one central reservoir for all Europe, and that all those countries should unite?

Mr. VANDERLIP. It possibly might be better; but there are conditions of language and conditions of government which would prevent that. It would perhaps be better to have one government in Europe; but we would hardly undertake that.

Senator HITCHCOCK. Is it not a fact, however, that funds flow from one bank to another, according to the demands of trade and local conditions? If there is a stronger demand for money or credit in one country than another, is there not a tendency for the flow to go in that direction?

Mr. VANDERLIP. There is a tendency and it is a pretty free flow.

Senator HITCHCOCK. If that is the case in Europe, why would not that flow naturally result between these 12 banks if it is made voluntary instead of compulsory?

Mr. VANDERLIP. I think there would be very little likelihood of a voluntary flow for this reason: Let us say the condition at New Orleans, as we have been using that town as an illustration, becomes close, while in New York it is comparatively easy. The individual banks in New Orleans would then probably borrow from the individual banks in New York. I think the management of the Federal reserve bank in New York would say that that is the natural way for New York to relieve New Orleans; that is the natural channel through which credit should flow, from a community where the rate is low to a community where it is high, through individual banks. They would say, if the individual banks in their judgment did not think it wise to loan to the individual banks where the rate is higher, "then probably it is not wise for us, holding the reserves of the individual banks, so to loan." The individual banks would be perfectly free to loan to the individual banks in a high-rate community, if all the conditions of credit and business outlook were such as to warrant their doing so? Therefore the managers of the reserve bank in New York, or wherever a low-interest rate was prevailing, would feel, so far as it was wise, that the individual banks, members of their association, should make the loans to individual banks, members of the other association. But it would not be wise as a common practice for the managers of the reserve bank themselves to loan those funds and deplete its reserves for that purpose.

Senator HITCHCOCK. But you would empower a body to order it to do so?

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Mr. VANDERLIP. I would; yes. I would do it with great regret. It is obnoxious to think of forced credit, but you have got to obtain, in effect, a central reservoir, and you can not obtain it unless you can bring the water level of the supply reservoirs together.

There are other reasons why I think there should be a fewer number of reserve banks. Some of the gentlemen here regret to see the importance of New York emphasized. To anyone holding that view I would like to call attention to the fact that the more reserve banks you have the more you will emphasize the importance of New York. New York has a fixed minimum of size. You can not very well divide New York into two central reserve banks, and the greater the number the smaller will be all the banks outside of New York and the more pronounced will be the predominance of New York. Then, I think there is this further argument: The Federal reserve board will presumably be subjected to some political pressure—not political pressure; I do not mean political pressure, I mean local pressure, pressure arising from local conditions. That pressure would be very much relieved if the Federal reserve bank covered a wide territory, and thus became subject to the pressure of diverse local conditions and harmonized that pressure. If there is a reserve bank, let us say, in New Orleans, with a territory in which conditions are uniform, the pressure from that locality upon the Federal reserve board to compel loans from other banks would be governed simply by their view of their own local conditions. Therefore, if that Federal reserve bank in which New Orleans is located took in a very large territory where there were varied conditions, the reserve bank instead of the reserve board would be subject to the pressure from these different localities, and they would be harmonized in the bank, and the reserve board here in Washington would only have to consider the larger and in a less degree these local conditions.

Senator HITCHCOCK. Now, Mr. Vanderlip, as it is now, the bankers of the central reserve cities, and especially the bankers of New York City, respond voluntarily to these various seasonal needs in various parts of the country. Why, by the same argument would not the reserve bank of New York City respond voluntarily, by analogy?

Mr. VANDERLIP. They respond now voluntarily, and they will continue to respond voluntarily to as great a degree as it is wise for New York to be depleted. But the managers of the New York bank, I believe, would feel that the judgment of how much New York should loan to other places should rest with the individual bankers. If these bankers reached a point where they would not loan any more, it would be hardly the part of the organization holding their reserves to deplete these reserves by loaning.

Senator HITCHCOCK. If it is the custom of the banks in New York City now to make these advances to the various parts of the country when the seasonal demands arise, it seems to me when these New York banks are united in a reserve bank, holding the stock in that reserve bank, they would have then, jointly, naturally the same power that they have now individually.

Mr. VANDERLIP. They are not united to do a general business; they are united to hold their joint reserves. General business will still be done by the individual banks. It is, I trust, no part of this plan that general business is to be done by these Federal banks. In normal times the Federal reserve banks ought not to have any large

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amount of rediscounts. Their power should be conserved. They should run with very high reserves under normal conditions, and they should never have money making as a factor in their conduct. That point, by the way, I think is very important and if I may digress a moment, I believe the plan for dividing the earnings, after 5 per cent is paid upon the stock, in the proportion of 60 per cent to the Government and 40 per cent to the depositors of the bank, is absolutely wrong. There should be no division of earnings after the stock has received a proper dividend. It may be, and I believe it is, wise to give the stock 6 per cent instead of 5, but it should have no further participation in the profits. There should never be that factor in the management to make it endeavor to earn profits. The profits should all go to the Government after the interest has been earned on the capital stock for which the banks have subscribed. If there were to be a division, this method of division is wrong. It amounts to a payment of interest on deposits. The division is to be made of profits on the basis of the average deposit which a bank maintains. That is merely another way of saying we will give interest on deposits. You might find a bank under a strong incentive to work for profit in order to pay interest on its balances. The theory of the division is wrong, and any division at all is wrong.

Senator REED. You think, then, that after there has been a reasonable interest paid upon the money contributed by the banks, in the way of capital or reserves, all of the money should go to the Government?

Mr. VANDERLIP. I am perfectly clear on tha .tI believe a great element of danger will enter in the management of the banks if any other course is adopted.

Senator SHAFROTH. Do you believe that these reserve banks will earn anything above the 5 or 6 per cent?

Mr. VANDERLIP. I think it is impossible to calculate that. From such calculation as I have been able to make, I would rather doubt—well, no; let me say it is impossible to state. There are too many unknown elements. The Federal board is permitted to charge the banks interest on the Government deposits. How do we know what they will charge? They will pay it into the profits, whatever it is. The Federal board is permitted to charge so-called interest on the notes. What will the charge be? I do not know; nobody knows. It is impossible to figure the profits of these banks.

Senator SHAFROTH. It can be made profitable, or make really a very little profit, depending upon the administration they have?

Mr. VANDERLIP. Yes, sir.

Senator SHAFROTH. One person here the other day said it was impossible for any of these banks to make any money whatever, even to make the 5 per cent.

Mr. VANDERLIP. Well, that, of course, is hardly a correct view.

Senator SHAFROTH. Yes; it can not be, from the fact that the Government alone will have an account there, at the present time, of $285,000,000. Then the reserves of the banks amount to $400,000,000 or $500,000,000, and then this capital which is paid in amounts to $105,000,000. It is impossible to conceive that with $700,000,000 or $800,000,000 no return whatever can be made from them. But I would like to have your view; and, of course, as you said, it is a factor.

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Mr. VANDERLIP. There ought to be no difficulty in earning the 5 per cent. It is conceivable that the earnings might be very much more than that.

Senator SHAFROTH. Would not the tendency to have a division of 60 and 40 per cent, as indicated in the bill, be to make these banks do business with the regional or reserve banks?

Mr. VANDERLIP. It will have the tendency to put the whole management on a money-making basis. Rather than have them stand in the attitude of conservation, it will put them into the open market for investments at times when they ought to be carrying a very large reserve. Suppose the country bank to-day finds it is in an easy money market. If its customers are not able to absorb its loanable funds it goes into the commercial-paper market and buys commercial paper. In a little while conditions change, and they come around with their hat in their hand and say, " We are sorry; we made a mistake. We ought not to have bought this paper, and we want you to take it off of our hands." Now, we do not want the reserve banks to get into that situation. We do not want them, in case they have 70 or 80 per cent reserve and are under a compulsion to make earnings, to feel they must invest that money, and therefore go into the market, and then, if a change comes, find themselves unable to meet the responsibilities that are really on their shoulders. I am very much opposed to the banks being run for profit.

Senator SHAFROTH. Now, Mr. Vanderlip, one of the great desires of this bank is to provide for the raising and the lowering of the discount in order to influence the flow of gold. Will you give us your opinion as to whether that is practicable under this bill, and whether it is not necessary for a bank to go out into the market and attempt to corral securities or corral money in order to establish a condition of that kind?

Mr. VANDERLIP. The bill is not clear in its definition of the power of the bank to go into the open market. I find two opinions as to what the power of the bank is in that respect. One holds that the bank may go into the open market and buy prime commercial paper, although I believe it says " banker's bill " in the law.

Senator SHAFROTH. What is a " banker's bill "?

Mr. VANDERLIP. " Banker's bill " is really an English term—a bill that has been accepted by a bank, a bill that is drawn against a bank and has been stamped with its acceptance, or a piece of commercial paper that has been indorsed by the bank.

Senator SHAFROTH. Is there much of that paper in this country?

Mr. VANDERLIP. There is none of it in just that form. We have not anything in this country that we could properly designate, I think, as a " banker's bill."

Senator HITCHCOCK. Is an acceptance a banker's bill in Europe?

Mr. VANDERLIP. If it is an acceptance by a bank.

Senator SHAFROTH. You New York bankers ought to know about the way to get this gold into this country better than anybody else, and I would like just to have your views as to how that ought to be done.

Mr. VANDERLIP. In the first place, I would like to see the law made clear as to what the powers are that are given to this bank. It will be very obnoxious to the member banks to have the reserve banks competitors in the open market with them. Possibly that is

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necessary. I do not think it is myself, but, as I read the law, I have supposed that the banks could not go in the market and buy paper, except such paper as was indorsed by a member bank. But I am inclined to think I am in error on that point, as I find a good many other people who think the law provides that they could go into the market and buy your notes or anybody's note.

Senator SHAFROTH. I think the bill as originally framed did not take into consideration the necessity for going into the market in order to raise or lower the discount, and I think when attention was called to it they thought they could not establish a rate without that power.

Mr. VANDERLIP. The best way of doing that, in my opinion, has been suggested by Mr. Paul Warburg. He believes that a portion of the present 2 per cent bonds in circulation should be purchased by the Federal reserve banks, and the circulation retired; that these bonds should be converted into one-year notes of the Government, the banks agreeing always to renew those notes for 20 years on each maturity.

Senator REED. What banks do you mean?

Mr. VANDERLIP. I mean the Federal reserve banks. This would give the Federal reserve banks a large amount of one-year Government notes that would employ their money in times when otherwise they might have to compete in the market with member banks thus depleting their reserves, with the result that they would be able to meet their responsibilities properly when a strain did come. But it would give them this power: If they wanted to raise the discount rate, if they believed we were facing a dangerous situation, and that money rates were too easy and that a check ought to be put upon affairs and the discount rate raised, they would be able to sell those notes in the open market and deplete the open market of the reserves, drawing the reserve strength to themselves and disposing of those short-time notes. The effect would be immediate, and the discount rate would of necessity advance.

These notes would also be of great value in the period when gold exports were imminent or were going on and we did not want to lose gold. Such notes as these would be available in any market of the world at the very lowest possible discount rate, and if we were in a position where Europe could demand gold from us and we could not with ease part with the gold at the time, then the banks could sell these notes abroad and liquidate the pressing adverse balance, and in that way retain our gold and bridge over the strain. I believe something can be worked out in that direction which will give the banks the opportunity and the power to control the discount market to an extent. Of course it is only to a limited extent that the banks ever could control the discount market, but it will greatly assist them in controlling the gold movement.

Senator HITCHCOCK. That is a little after the English custom?

Mr. VANDERLIP. Yes; after the "exchequer bill" of the English Government.

Senator HITCHCOCK. Has the Imperial Bank of Germany that same method?

Mr. VANDERLIP. I can not answer positively. I think it has. I know the German Government issues short-term notes.

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Senator HITCHCOCK. In the sale of those notes would not the reserve bank always suffer loss?

Mr. VANDERLIP. It would apparently suffer loss, but it would be able to recoup itself by the loans that it would be able to make at a higher rate on the basis of the increasing reserve which it would have. It would sell the notes and bring in the reserve. The result of that action would be the depletion of the reserves of the outside banks and the increase in the rate, and probably this would later compel the outside banks to borrow. The reserve bank would not have to borrow, because it had largely increased its reserve by the sale of the notes, and, I think, in the double operation would recoup itself for the apparent loss of interest on the notes it sold.

Senator NELSON. What rate of interest would you have on those notes?

Mr. VANDERLIP. Three per cent.

Senator REED. Mr. Vanderlip, at the risk of repetition, I want to be sure that I understand you. Your proposition is that the present 2 per cent bonds running now for 20 years should be converted into bonds running for one year—short-time bonds? That is the first proposition?

Mr. VANDERLIP. My proposition is that a portion of them should be converted; some two or three hundred millions should probably be.

Senator REED. Then you doubt that the banks would agree to reconvert them into long-time bonds?

Mr. VANDERLIP. No, sir; that they, equally with the Federal reserve banks, should agree to accept the one-year notes at each maturity, not to demand payment, but accept in payment the new one-year notes.

Senator REED. That would be all right, as long as the Federal reserve banks hold these notes. But when they sold these notes in Europe to get gold, of course, the notes would then go into the hands of outside parties. What sort of plan would be devised then to avoid compelling the Federal Government, at the maturity of this bond, this one-year bond, from having to go into its Treasury to pay them?

Mr. VANDERLIP. The Federal reserve banks must be under contract to protect the Government from that. They must always stand ready to take new one-year notes to the amount which is necessary to redeem those maturing.

Senator REED. Then, the plan amounts to nothing more than this, that the Federal Government would issue these one-year notes and give them to the banks as a matter of accommodation, to be used by the banks, and the banks be, in turn, compelled to protect the notes at maturity and renew them indefinitely, so long as the Government desired?

Mr. VANDERLIP. Yes. The advantage of that to the bank is that the one-year note of that character would be the very highest type of banking security, whereas the 20-year bond would be an investment security, not a banking security.

Senator REED. I see. Now, how would you first get these bonds into the possession of the banks? The Federal Government now has 2 per cent 20 year bonds out; most of them are held by the banks, and most of them have been utilized for currency issues. What would be the method you would suggest?

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Mr. VANDERLIP. The Federal banks would buy at par a certain amount of these 2 per cent bonds that are now owned by the national banks and are at the Treasury as security for national-bank-note circulation.

Senator REED. Would they then retire the national-bank circulation?

Mr. VANDERLIP. They would probably substitute the new notes that are provided under this law.

Senator REED. I will call them asset notes.

Mr. VANDERLIP. Very good. They will substitute those notes. At first they might not have any commercial paper to secure such an issue of notes and they would put these new one-year Government notes under the——

Senator REED (interposing). But we still have not got the one-year Government notes; that is the first step.

Mr. VANDERLIP. Let me see if I can trace the matter. The Federal bank will buy from the national banks some of those 2 per cent bonds.

Senator REED. You mean the National Government?

Mr. VANDERLIP. No; the Federal reserve bank will buy some of the 2 per cent bonds the national bank now holds and has deposited with the Treasury to secure national-bank circulation.

Senator REED. Instantly, then, the currency that was issued upon that bond will have to be retired?

Mr. VANDERLIP. At that moment; yes. It might also be provided at that moment that the Federal reserve bank can take out these new notes, using either the 2 per cent bonds it has just bought as a basis to secure them or a new one-year note, into which it, at the moment, exchanges the 2 per cent bond—the one-year note of the Government.

Senator REED. That goes into the custody of the Government?

Mr. VANDERLIP. Goes into the custody of the Federal agent in the same way as commercial paper.

Senator REED. The one-year Government bonds or the old 20-year Government bonds into the custody of the Federal agent?

Mr. VANDERLIP. Yes. Now, as fast as the Federal reserve bank accummulates commercial paper it could substitute it in the hands of the Federal reserve agent for these one-year notes, leaving the one-year notes free in its hands, where it would be in a position to put them out when it wanted to raise the discount rate.

Senator REED. I am coming to that next step.

I have cleared up in my own mind this method. We have your suggestions on that. Now, the gold is flowing out of the country; we will assume the gold reserves are getting low here. Then you would simply take these one-year notes and send them to Europe and sell them, getting gold and bringing it back in?

Mr. VANDERLIP. Gold, but more probably exchange, which would amount to the same thing, and would stop the flow of gold.

Senator REED. And, then, you would put money in your bank, in the reserve bank, and the reserve bank would raise its rate of interest to the member banks desiring to borrow from it to a point that would recoup any such loss it had suffered by reason of purchasing this gold?

Mr. VANDERLIP. In that particular case it might or might not have a loss. It might be able to sell those on a 3 per cent basis, or it might

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not. If Europe was strong and was importing gold it is possible it could sell those notes for less. It would recoup just as you suggest.

Senator REED. You have got the Government one-year bond—that is the proper name by which to call it, I suppose—bearing 3 per cent interest, and it is now sold to a banking house in London, and it draws 3 per cent interest. It is simply the credit of the Government loaned to the Federal banks, extended to it.

Mr. VANDERLIP. Yes, sir; instead of a 2 per cent bond that the Government formerly was obligated to pay.

Senator REED. Yes. Now, does the Government pay that 3 per cent interest or does the bank pay it?

Mr. VANDERLIP. The Government would pay it.

Senator REED. Then the Government would have to stand the additional rate of interest under that plan. Do you think that would be just and equitable to the Government?

Mr. VANDERLIP. It does not make any difference whether the Government or the bank pays it. Let the bank pay it, if you prefer, because it comes out of the Government. I mean it only reduces the profits the bank will eventually turn in to the Government. Let the bank pay it, if you like.

Senator REED. Your plan would involve the banks taking care of the principal of that bond at its maturity and also taking care of its interest?

Mr. VANDERLIP. And the bank would be in a position to make a profit because it was able to lend the notes it had secured upon these new one-year Government notes, and receive interest on those notes. It would therefore be in a position to recoup the Government.

Senator SHAFROTH. Mr. Vanderlip, would the withdrawal or the refusal of the reserve banks to renew the 90, 60, and 30 days paper upon which they had advanced money or loans, have a tendency to control the flow of gold?

Mr. VANDERLIP. I do not think I quite comprehend your question.

Senator SHAFROTH. We will suppose there is a flow of gold to Europe, and there are notes that have been presented by the individual banks or drafts which have been discounted, and the regional banks desire to stop the flow of gold. Would there be a tendency to stop that flow by the banks saying they would not issue any more currency?

Mr. VANDERLIP. Anything that will raise the interest rate will tend to check the flow of gold.

Senator SHAFROTH. Well, will not the tendency to stop having so much circulating medium have that effect?

Mr. VANDERLIP. Any reduction of the circulating medium other than the normal redemption of bank notes would raise the rate of interest and would tend to check the flow of gold.

Senator SHAFROTH. Could it become effective, do you think, by the exercise of that power alone, on the part of the reserve banks?

Mr. VANDERLIP. No. The interest rate would have to be advanced too violently. It would have to be advanced too far, and even within any reasonable limits might not check the flow of gold. If European nations are in an exchange position to demand gold, even though the rate were very high here, they might still demand it, and the ability of the bank here to sell something abroad and produce a credit to meet exchange demands which the European nations hold against us

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is the effective way to stop the flow of gold. You can not stop a flow of gold permanently. If we buy more than we sell we have to pay for it some time. For a season, for a brief time, we can prevent that flow of gold. Or at a time when a depletion of our reserves is going to come with great severity upon us, we may be warranted in going to unusual measures to check the flow of gold at that moment. But we can not check the flow of gold for a long period if balances are against us.

Senator HITCHCOCK. Will you explain the exact method which the bankers in New York now adopt to check the flow of gold?

Mr. VANDERLIP. They have absolutely no method, Senator. We can advance the rate of interest a little, but we have no joint way of doing that. We may not legally even confer on the subject. New York City is the greatest free-gold market in the world. Anybody with credit in New York can get gold, and there is no way at all of effectively checking it.

Senator HITCHCOCK. You do adopt some methods occasionally?

Mr. VANDERLIP. No; we really adopt no method. If gold is going out and our reserves become impaired, if they fall below the legal limit, naturally, the interest rates will rise and the rise in interest rate tends to check the gold movement.

Senator HITCHCOCK. Can you explain how it tends to check the gold movement? What is the exact operation by which the movement is checked?

Mr. VANDERLIP. If funds are worth much more in New York than they are in London the banks, or the individual with funds, which they can have in either place, will choose to keep some part of their funds in the higher interest community. There would be the tendency to draw from New York, if the exchange situation warrants Europe in drawing, but to some extent this would be counteracted by the attractiveness of the rates in New York. If a bank can loan money in New York at a very high rate it will not draw it home at a low rate.

Senator NELSON. You mean a foreign bank?

Mr. VANDERLIP. A foreign bank; yes, sir. I mean if an English bank finds money at 6 per cent in New York and 3 per cent at home, and has a credit in New York, and believes the New York loan is secure, it will leave at least some portion of the money it could draw at the New York bank there in order to take advantage of that high rate.

Senator HITCHCOCK. What I want to find out is how the London bank maintains those funds in New York. Are they on deposit with the New York bank?

Mr. VANDERLIP. They are on deposit in the New York banks, and the New York banks have a fluctuating rate of interest, according to the call-loan rate. A London bank may also loan in the call-loan market in New York through its New York correspondent.

Senator HITCHCOCK. How many banks, international banks of that character, are there that use New York as a loaning market?

Mr. VANDERLIP. I am unable to say exactly, but a large number.

Senator HITCHCOCK. A large number?

Mr. VANDERLIP. Yes. Nearly every important European bank has a New York correspondent.

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Senator HITCHCOCK. Is that merely for the purpose of exchange, or for the purpose of taking advantage of the high rate in the New York market?

Mr. VANDERLIP. It is more for the purpose of exchange. They do, however, permit exchange to accumulate during a period of high-interest rates.

Senator SHAFROTH. You say that this is a fluctuating rate. Is your payment of interest to outside parties a fluctuating rate?

Mr. VANDERLIP. Not to domestic banks; it is to European banks.

Senator SHAFROTH. So that your rates may be 2, 2¼, or 1 per cent, varying each day?

Mr. VANDERLIP. Hardly each day. We would vary it, perhaps, fortnightly.

Senator HITCHCOCK. Can you give us any idea of the amount of European capital that is in use at any one time in that way?

Mr. VANDERLIP. I could not say exactly the amount.

Senator HITCHCOCK. Does it vary?

Mr. VANDERLIP. Undoubtedly.

Senator HITCHCOCK. It is varying with the exigencies of trade?

Mr. VANDERLIP. It varies with the exigencies of trade and the demands for money. If there is not a keen demand for money abroad, and if there is a keen demand for money in New York, a portion of the funds will stay in New York and be loaned there, and vice versa. We have in New York frequently loaned very large amounts to Germany in the last two or three years. Germany has paid 7 or 8 per cent—that is, the first-class banks there—and we have permitted funds to accumulate there and made loans because we could get a higher rate of interest there.

Senator HITCHCOCK. Are those funds in the shape of deposits?

Mr. VANDERLIP. Sometimes, and sometimes in actual collateral loans.

Senator HITCHCOCK. Do you think a regional bank located in New York would have a better opportunity to control that international situation than the New York banks now have?

Mr. VANDERLIP. Undoubtedly.

Senator HITCHCOCK. It would unify them?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Why are they not united now in that matter?

Mr. VANDERLIP. The Sherman antitrust law may be one reason. I know of no business whatever where the competition is keener or more complete than it is in the banking business to-day. We are as keen to compete in order to get the other man's customer and secure the deposits as you will find in any business whatever.

Senator HITCHCOCK. There has been some testimony here and before other committees in Washington to the effect that there really was no competition on a large transaction in New York; that there was a combination among the great New York houses, by which if one named a rate or terms the others abided by it, and the man or a concern was unable to get credit elsewhere.

Mr. VANDERLIP. I think that is wholly without foundation. It is true that a banking house which has been doing the financing for a corporation, and has carried that corporation along through bad years and good years, furnished them money when they could not sell

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bonds, and generally fathered them in a financial way—such a banking house feels that the financing of that corporation is its business and that other banking houses or banks ought not to interfere with it. To an extent that is respected. Your statement in regard to credits, however, I do not think holds good at all, because there is the keenest sort of competition, perfectly open competition, among the banks to gain deposits and credit.

Senator HITCHCOCK. There is a system of interlocking directors to some extent?

Mr. VANDERLIP. To some extent.

Senator HITCHCOCK. And a joint ownership in some other cases?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Now, surely that would result in rather a community of interest among those banks.

Mr. VANDERLIP. Even in those cases the keenness of the competition is surprising, as I have pretty good personal knowledge. I am on the boards of some other banks, but I know that the National City Bank will go after the business, and the other banks will go after the same business. Competition is very keen, and while there may be some community of ownership and some interchange of directors, it does not extend to the officials of the banks. They are working for the banks by which they are employed, and working very hard and very keenly.

Senator HITCHCOCK. Is there a standard rate of interest in New York as there is in London, fluctuating from time to time?

Mr. VANDERLIP. No, sir. There is a standard rate of interest that is paid by banks on the balances of other banks—the reserve deposits of other banks. That is 2 per cent. There is another rate of interest; that is the call-loan rate. That is the rate that money is loaned at on the stock exchange to the members of the stock exchange on stock-exchange collateral.

Senator HITCHCOCK. How is that rate fixed?

Mr. VANDERLIP. By competition, just as the price of stock is fixed. Brokers go in there and offer money to brokers who want to borrow it, and they compete for it.

Senator HITCHCOCK. Then, there are other rates besides that?

Mr. VANDERLIP. That rate fluctuates daily. Then there is the time rate on stock-exchange collateral, and the commercial-paper rate, the rate to commercial borrowers. Of course one of the great things for legislation to accomplish is to make it unnecessary for us to have to go into the call-loan market.

At the present time the one place that we have in this country to loan money to-day and get it back to-morrow, if you want it, is in the New York call-loan market. Call loan means a call loan in New York. Practically it does not mean a call loan anywhere else. In New York it means a call loan repayable at the option of the lender. If you make a call loan in New York to-day, you can call it to-morrow without any compunction.

Senator WEEKS. It is equally true that it is payable at the option of the borrower if he sees fit?

Mr. VANDERLIP. I mean that in New York a loan is payable at the option of the lender; elsewhere payment is theoretically at the option of the lender, but practically at the option of the borrower. It is the

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one place you can lend money and be certain you will get it back, and you can not always be absolutely sure then, because there are certain times when you can only get it back where the loan is shifted, and the loan can not be shifted.

Senator REED. Why is that system in existence in New York and not elsewhere?

Mr. VANDERLIP. Because the New York Stock Exchange offers the one great market for collateral security. If we loan on a stock actively traded in on the New York Stock Exchange, we know that the borrower can be forced to pay the money, because he can sell. We demand a margin of 20 per cent between the market price and what we loan, and under almost any conceivable conditions there will not be a drop of 20 per cent before you could compel the borrower to sell the collateral.

Senator REED. Do you regard that system of loaning large sums of money upon that class of security as an element of safety or of danger in the banking system?

Mr. VANDERLIP. An element of danger and unsound banking, but the soundest banking we can do under our present system.

Senator REED. If it is unsound, it ought to be stopped?

Mr. VANDERLIP. It ought to be, and no one is more anxious than the great banks of New York to aid in that situation.

Senator REED. Why do they not voluntarily stop it?

Mr. VANDERLIP. Because they have nothing to take its place. We have got to have a large amount of loans that we can certainly get when we want the money.

Senator REED. In other words, you feel that in order to make money that you must keep your capital employed up to a certain limit, and here is a place where you can employ more of it because you can demand it back quickly; is that the thought?

Mr. VANDERLIP. The bank of which I am president has $200,000,000 of net deposits; it must keep 25 per cent of that in cash. It pays interest on a large amount of deposits and upon all deposits obtained from other banks. It must therefore employ those funds in order to get an interest return. It keeps 25 per cent in cash, and it keeps a secondary line of reserve, amounting to 60 or 70 or 75 millions of dollars in demand loans, in loans that we can get back, unless the whole machinery of doing business on the stock exchange is clogged.

Senator REED. Now, Mr. Vanderlip, you say this is bad banking, but that it is necessary, however, under our present system, but that it ought to be done away with, and that implies, of course, something substituted in lieu of it. What is the system that could be substituted in lieu of it?

Mr. VANDERLIP. It implies a bank of rediscount, where banks can be certain that under any conditions they can rediscount their paper. That converts commercial paper into a quick asset, and permits it to take the place of call loans. If such a bank can be had, it will turn several hundred millions of dollars that are now employed in call loans and other stock exchange loans, into commercial channels. It will be of vast benefit to the commerce of the country.

Senator REED. Then, if I am not interrupting you?

Mr. VANDERLIP. Not at all.

Senator REED. I thought you had completed your answer.

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Mr. VANDERLIP. Yes; I had.

Senator REED. Then, if you had a place where you could take paper and get money on demand, you would loan your money out on 30, 60, and 90 days, and in that way use that part of your funds which you now loan on call loans?

Mr. VANDERLIP. Exactly.

Senator REED. And the thing that is necessary is some machinery whereby you can certainly turn a 30, 60, or 90 day piece of paper into cash at once?

Mr. VANDERLIP. That is the thing that is necessary.

Senator REED. Before I ask you as to the method, I want to have you tell us just what element of danger there is in the banking system, in your judgment, arising out of the present method of loaning money on call, and having it used on the exchange?

Mr. VANDERLIP. There is a disadvantage in that a very great sum of money, several hundred million dollars that ought to be devoted to the commerce of the country, is employed in carrying securities. That is a disadvantage and not a danger. The danger is that we are depending solely upon these call loans as our secondary line of reserve. Everything works all right so long as those loans can be liquidated, and they can be liquidated as long as they can be shifted from one bank to another, but there is nothing of a liquidating character about a loan on stock exchange collateral.

The ideal security for a bank is a self-liquidating loan. A loan to a merchant for goods that can be sold is a self-liquidating loan. Making self-liquidating loans is the business a bank ought to do. It ought not to loan on real estate, and it ought not to loan an undue amount of its funds on the securities of corporations, for they will not liquidate themselves; the only way the bank can get the money is to shift that loan to some other bank or have the owner of the security sell that security to somebody else.

Senator REED. Then, when trouble comes what happens to the bank which has a large amount of money loaned upon these call loans, the proceeds of which have been utilized upon the exchange?

Mr. VANDERLIP. When trouble comes the bank forces the borrower to sell. He must sell, perhaps at considerable sacrifice. All investors are disconcerted by this fall of borrowing needs; all investors are upset because the price of the securities has declined, and there is a general demoralization of the security market, which involves many people who have had nothing at all to do with the original loan.

Senator REED. It becomes a center of disturbance which may develop into a financial cyclone?

Mr. VANDERLIP. Yes, sir; and it is certain to extend to the commercial borrower.

Senator REED. And to what extent do you think that factor contributed to the trouble of 1907?

Mr. VANDERLIP. It was undoubtedly a considerable factor. Of course, the trouble in 1907 was occasioned by the banks, but really caused by our system of disconnected reserves which forced the banks to seek, properly enough, to protect themselves—for no one else was going to protect them—and they drew to themselves undue reserves. I am speaking of the country banks. They drew to themselves more reserves than were necessary, because they became alarmed. They

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put an impossible burden on the central reserve city banks, a burden that could not be borne under our system. The central reserve city banks did deplete their reserves; they did everything that was humanely possible under the system, but the system broke down and there was general suspension.

Senator REED. Then, of course, if there had not been this deposit by one bank with another, a large part of it finally terminating in New York City; if the money had not been there to have gone down, of course you would not have had that money to loan, you would not have had it out on call, and therefore, if the reserves had not been there in the first place——

Mr. VANDERLIP (interposing). You think the trouble would have been avoided? No, sir; it would not have been avoided unless you had had a central reserve reservoir; if you had had a law——

Senator REED (interposing). Would you not have avoided at least a part of it? Would it not have been minimized?

Mr. VANDERLIP. It would have been minimized. But if you had had a law requiring every bank to keep all its reserve in its own vault, the same sort of trouble might have occurred. That is, every bank would still have drawn to itself an undue amount of reserves at the expense of its neighbors, and would still have created—might largely have created—just the same situation.

Senator REED. You said "reserves." You mean it might have drawn to itself an undue amount of money?

Mr. VANDERLIP. Yes, sir.

Senator REED. Over and above the reserve?

Mr. VANDERLIP. Over and above the legal reserve; yes, sir.

Senator REED. But to the extent that the banks had their reserves in New York, to that extent this trouble was increased, because they had that much more money there to pull away from you at the very hour when you needed it? That is correct, is it?

Mr. VANDERLIP. That is correct. And I will say that I believe the reserve system provided for in this measure is superior to the existing system.

Senator NELSON. I am glad to hear you say so; that is my view.

Mr. VANDERLIP. I will say that although it means the loss of $50,000,000 deposits to the bank I represent, I believe it is sounder economically than the existing system, and I would be glad to see it in force.

The reduction of reserve which is provided, from 25 to 18 per cent, is essential and is not too much.

Senator REED. Why is that essential?

Mr. VANDERLIP. The reserve of 25 per cent has been carried because we carried the reserves of larger banks. If we are no longer to carry the reserves of larger banks, there is no longer the necessity for us to carry that excess reserve. As a matter of fact, if we no longer carry the reserves of larger banks I can see no reason why a city bank should carry more reserve than a country bank.

Senator BRISTOW. That is what was in my mind.

Mr. VANDERLIP. A city bank has more liquid assets than a country bank. It is in a position to recoup itself for any loss of cash more quickly. It has far more facilities, and why there should be any classification into country banks and central reserve city banks if

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the central reserve city bank is to carry no country bank reserves, I am unable to see.

Senator HITCHCOCK. While you may not have the reserves of these banks under the new system, you still have large country balances subject to withdrawal.

Mr. VANDERLIP. I doubt it, sir. I can see no reason, if the national clearing-house feature works, why one bank need keep a balance with another bank.

Senator HITCHCOCK. You still continue to pay the 2 per cent interest on balances?

Mr. VANDERLIP. Yes; but they will not keep it for that alone.

Senator HITCHCOCK. Is it not a fact that they have in New York all the time a much larger amount of money than in country banks and larger than the law calls for?

Mr. VANDERLIP. Yes, sir; because of the collection system. If you have a national collection system, a national clearing house, there will be very little, if any, need for one bank to keep a deposit with another. I believe that for a good while the small borrowing banks will prefer to do business with their old friends, and banking relations rather than go to the new reserve bank to rediscount, and there will be a tendency to continue the old relationship. And there may be, therefore, some considerable balances, but I look for the almost complete elimination of national bank balances with other banks.

Senator HITCHCOCK. Now, Mr. Vanderlip, is it not a fact that you pay 2 per cent on country balances?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. If the law prohibited you from paying 2 per cent on country balances, would there not be a very material reduction in the amount of balances that the country banks would keep in New York?

Mr. VANDERLIP. With the existing reserve provision?

Senator HITCHCOCK. Under the existing law; yes, sir.

Mr. VANDERLIP. There would be a considerable reduction.

Senator HITCHCOCK. Can you estimate how much that would be? What per cent it would be?

Mr. VANDERLIP. I would hardly want to venture a guess without giving it more consideration.

Senator HITCHCOCK. Does not that fact prove it is to secure the 2 per cent interest that the large balances are kept and that the New York banks give the 2 per cent in order to get the balances to use in New York?

Mr. VANDERLIP. No; it does not prove that, I think. It proves that the country bank is doing with its balance just what we are doing in the call market; it is providing a secondary reserve upon which it gets a low rate of interest, but which it can call and turn into money at any time it wants to. That is what we do with call loans; we sacrifice the interest rate to immediate availability, and the country bank keeps a balance at a lower rate than it could get otherwise, and even a higher balance than is made necessary by the legal requirements in order that it may get it quickly if it should want it.

Senator REED. Mr. Vanderlip, this bill provides for these reserve banks. It is safe to assume that one of them would be located in New York.

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Mr. VANDERLIP. I have not known whether it was safe to assume that or not. I am glad to hear it.

Senator REED. I think it is a reasonably safe assumption. Now, if that were done and this bill were enacted into law and that bank established, do you think, after a study of the bill, that that would provide a safe means, practical working means by which the banks of New York and that region could obtain money in time of necessity, so that it would take the place of your call loans and the system which is now in vogue? Would a bank have enough money? Would it have enough facilities?

Mr. VANDERLIP. There are two fundamental shortcomings in the bill that will prevent it working successfully to accomplish what you outline. The one is—a subject I have referred to—the fact that you have not got a central reservoir; you have 12 reservoirs. I believe that will work very much against its successful operation. The other is that you have not provided an elastic note issue. That is just a question of mathematics. Not to go into the subject of whether the Government or the bank should issue the note, I will say parenthetically I am perfectly clear in my mind that the bank and not the Government should issue the note. But passing that, you have provided that the 2 per cent bonds now in circulation can be redeemed, 5 per cent a year, into threes, and there has been a presumption that the bonds would be so redeemed and the $741,000,000 of national-bank notes would be retired.

I challenge that assumption. The 2 per cent bonds with the circulation privilege will be worth more than the 3 per cent bonds without the circulation privilege. A bank buying 2 per cent bonds at par, taking out circulation and losing from its reserve the 5 per cent redemption fund as the bill provides, will still make a profit of 1.18 per cent if it can keep the circulating notes out. That, with the 2 per cent the bank gets as interest on the bond, makes a return of 3.18 from the 2 per cent bonds, whereas the return from the 3 per cent bond is only 3 per cent. It is just a question of mathematics. The twos will sell higher than the threes. If the twos will sell higher than the threes they will not be exchanged; they will continue as a basis for the existing national-bank-note circulation. That existing circulation of nearly $750,000,000 is irreducible, and you will have no room for an elastic note issue. You will have to reduce the present national-bank notes in order to make room for elasticity. We have circulation enough now for any ordinary conditions. It is only under extraordinary conditions, or at least under the conditions of special claims of crop-moving periods, that we need any more than we have now. We probably have really a redundancy, and there will be no room for expanding and contracting currency until we retire some of the present national-bank notes and replace them with the note issue that will respond to the demands of commerce. Therefore, I say you have not provided an elastic currency, which is one of the essentials of a good measure.

Senator REED. I am not sure that I followed your mathematics on the 2 per cent and 3 per cent bond question. The present 2 per cent bond, of course, pays its 2 per cent, and then currency is issued upon it. Then the currency can be loaned out——

Mr. VANDERLIP (interposing). And we pay a tax on the currency of half of 1 per cent and we pay certain expenses of the comp-

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troller's office, and we have to put up, under this law, a 5 per cent redemption fund, which will not count as reserve. Therefore, on $100,000 of twos we would get $95,000 of loanable currency. The result of taking out the currency and loaning it in that way is a profit of 1.18. A bank buying twos at par, taking out circulation, depositing a 5 per cent redemption fund with the Treasury and not counting that in its reserves will make a total equivalent of 3.18 per cent on the bond.

Senator SHAFROTH. You deduct also the one-half per cent tax?

Mr. VANDERLIP. I am deducting also the one-half per cent tax.

Senator HOLLIS. What rate do you assume you will loan at?

Mr. VANDERLIP. Five per cent.

Senator REED. Following that suggestion of Senator Shafroth's, the interest rate, of course, varies?

Mr. VANDERLIP. I am assuming a 5 per cent interest rate.

Senator REED. If you take the 3 per cent bond, of course, you do not get any currency upon it?

Mr. VANDERLIP. You just get your straight 3 per cent.

Senator REED. So, you say, the present 2 per cent bond, with the circulation privilege, is a more valuable investment than the 3 per cent bond without it?

Mr. VANDERLIP. Yes, sir.

Senator REED. By 0.18 of 1 per cent?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. That is, to the bank?

Mr. VANDERLIP. To a bank; yes, sir.

Senator REED. Of course, that would indicate then—your objection is that this plan retires the national-bank note?

Senator NELSON. No; that it does not.

Mr. VANDERLIP. My objection is that it does not retire the national-bank note, which should be retired.

Senator REED. In other words, you mean the national-bank note should be issued upon the 3 per cent bonds?

Mr. VANDERLIP. No, sir.

Senator REED. Issued upon what?

Mr. VANDERLIP. I mean that at least some portion of the present mass of national-bank circulation should be retired. To do that you must refund or buy some portion of the 2 per cent bonds that are now under the national-bank note circulation.

Senator REED. This bill provides for the retirement of those bonds——

Mr. VANDERLIP (interposing). In 20 years. That is not soon enough.

Senator REED. Five per cent a year.

Mr. VANDERLIP. But the banks will not retire 5 per cent a year. If the bank finds the 2 per cent bond more valuable, it will not voluntarily give up the 2 per cent bond for the 3 per cent bond, and therefore I say that during the 20 years you will not get the retirement.

Senator REED. So this claim that these 2 per cent bonds are not worth their face would not seem to be very well taken, would it?

Mr. VANDERLIP. The bonds are worth their face to any bank that will hold them to maturity and that is certain to be able to keep out the circulation.

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Senator REED. Suppose that we keep out this $750,000,000 of bank circulation and that there is no change in the amount which we now have. Still is there not an element of elasticity provided in this bill when it is stipulated that promissory notes indorsed by regional banks can be turned into money? Is not that an element of elasticity?

Mr. VANDERLIP. It is an element of elasticity if people want more currency. There is no thing that the law has less to do with than the amount of money you carry in your pocket, and the amount of money that the people of this country carry in their pockets will not be influenced by your legislation. They will determine that, and the surplus they will redeposit in banks. If they want an increasing amount of currency they will get it. If they do not get it in the form of a bank note—which is the form in which they ought scientifically to have it—they will have it in gold. They will carry in their pockets what they need. They are the ones to determine the volume of currency circulation. They alone will determine it; the regional banks will not determine it nor will any Federal board. It will be the people themselves. And any surplus will always be deposited in the banks, and any demand for more will come out of the banks' reserves. You can not help that; you have got to start with that as something that is fixed outside of your deliberations.

Senator REED. I understand, of course, that the people are always going to carry around some money. They always have. But the question I am asking—and I am not sure I made myself plain; perhaps I did not grasp your answer—is this: If it is provided that any national bank or any member—I will use that term—desires money it can bring up its securities and turn them into money, and that would provide a means when that bank needed money for it to get it, would it not?

Mr. VANDERLIP. Let me ask you, what does a bank need with money? It has two needs: One is for reserve money and one is for money to pay out. The people will determine whether the bank is paying out money or receiving money. The bank will not determine that. For reserves under this bill it does not need all money; it only needs part money and part balances with a Federal reserve bank.

These notes, of course, would not count as reserve in any event, so the bank will only need notes if the people need more of them. If the people do not need more notes the bank can not make any use of them. It can not go and get these notes and put them in its reserve. They will not count there. The bank can only get rid of them if people want more money in their pockets.

Senator REED. That is the one time it needs them.

Mr. VANDERLIP. They have money enough in their pockets now, so it is only in the exceptional case that we will be using these new notes unless we retire some of the present notes.

Senator REED. Yes; but, of course, if we cut down our currency that is now out one-half it would follow that immediately they would begin using a large amount of this new money.

Mr. VANDERLIP. Yes.

Senator REED. I grant you that. But suppose we do not cut it down, still if we had a plan by which in the event of a demand for money that demand could be satisfied this bill would be elastic, or would provide an elastic system to that extent?

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Mr. VANDERLIP. For the peak of the load; yes.

Senator REED. It would not be elastic for all times, but for all abnormal times——

Mr. VANDERLIP (interposing). It performs about the same thing that the Aldrich-Vreeland bill would perform were the taxes there imposed not so heavy.

Senator REED. What you would prefer would be to retire a part of our present circulating medium, and, having cut it down, to at once create a necessity for some of this other money, and then that banks should issue—your preference would be that the banks should issue that additional amount of money?

Mr. VANDERLIP. My preference would be to retire a considerable amount of the present national-bank notes, to replace them with new notes, such as provided in this bill, and replace the 2 per cent bonds that secure these present notes with one-year Treasury exchequer bills.

Senator NELSON. Three per cent?

Mr. VANDERLIP. Three per cent.

Senator REED. And I believe you mentioned about $300,000,000?

Mr. VANDERLIP. That would be ample.

Senator HITCHCOCK. What is your ground for saying that, in your opinion, the present currency is redundant?

Mr. VANDERLIP. There is a constant redemption, of course, of the present bank notes, at certain seasons of the year. In the springtime they pile up on us in New York; they pile up everywhere. We all have too much money. The interest rate drops too low. There is not a proper redemption of them, and, if they are redeemed, they are put right out again.

Senator HITCHCOCK. Is there not a very well-known cause why those national-bank notes pile up on you in New York? Is it not because the banks of the interior are unable to use them in their reserves, and the only way they can make a proper use of them is to send them to you, where they would count as reserves? And when they reach you you can not count them as reserves and you send them to the Treasury to get something that will count as reserves?

Mr. VANDERLIP. And then the Treasury sends them out and they are at once paid out by the banks, and the circle goes on.

Senator HITCHCOCK. Yes; but it is because they do not count as reserves, and the bank is constantly striving to maintain a reserve that they send them to you?

Mr. VANDERLIP. Yes; that is an important factor in their redemption——

Senator HITCHCOCK (interposing). My point is this, that redemption does not necessarily indicate redundancy, but merely indicates a scarcity of reserve money.

Mr. VANDERLIP. That is true.

Senator HITCHCOCK. It seems to me that that does away with your statement——

Mr. VANDERLIP (interposing). I do not think it necessarily indicates a scarcity of reserve money, and it may indicate a redundancy.

Senator HITCHCOCK. Why otherwise would a bank, say, in my town, Omaha, send national-bank notes to you instead of gold certificates?

Mr. VANDERLIP. Because we will pay 2 per cent interest. The gold certificates do count as reserve.

Senator HITCHCOCK. That is the reason they keep them in Omaha?

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Mr. VANDERLIP. Yes.

Senator HITCHCOCK. And, therefore, the redemption of these national-bank notes—$300,000,000 a year, right from New York City—indicates no redundancy of currency, it seems to me, but a lack of reserve money; a struggle to get hold of reserve money. Is not that true?

Mr. VANDERLIP. It indicates a disposition to retain reserve money in their own vaults and get rid of money that will not count as reserve.

Senator HITCHCOCK. Before you proceed, do not the statements of all the national banks combined show that the actual amount of reserve money in all those banks during the past year has been down to a minimum?

Mr. VANDERLIP. Yes; almost at the lowest in our history.

Senator HITCHCOCK. Does not that indicate a lack of money, instead of a condition of redundant currency?

Mr. VANDERLIP. It may indicate a very expanded state of loans.

Senator HITCHCOCK. Have you any other reason for saying that, in your opinion, the currency is redundant?

Mr. VANDERLIP. I do not state that the currency is redundant, except at certain seasons. As we stand now, the volume of bank notes remains about the same, in spite of these redemptions, from month to month. It is no larger in October than it is in April. The need for currency is probably $300,000,000 less in the spring than it is in the fall, so it is either very redundant in the spring or lacking in the fall, one or the other. I presume we are about at an average balance, that we are lacking in the fall to some extent and redundant in the spring to some extent, but we have no conformity of volume to our needs.

Senator HITCHCOCK. Now, have you any estimate as to what degree of elasticity should be given to our whole volume of currency?

Mr. VANDERLIP. Why, really, it ought to be just the degree that the people want a bank note instead of a bank balance. The thing ought to be interchangeable. Anybody with a credit in a bank ought to be able to take that credit in the form of a balance on the deposit books of the bank or in the form of a circulating note. That is the ideal elasticity—the same elasticity as there is with a check. You write a check when you need it, and it is returned when you are through with it, when it is paid.

Senator HITCHCOCK. Assuming we have gold and currency combined of something like $3,000,000,000, gold currency and silver combined of $3,000,000,000, what per cent of that should be subject to contraction and expansion?

Mr. VANDERLIP. My estimate is—but I will say there is no way I know of making a very accurate estimate—that we need $300,000,000 more currency in the crop-moving season than we do in the springtime.

Is that about right, Senator?

Senator WEEKS. I did not understand that.

Mr. VANDERLIP. We need $300,000,000 more currency in the crop-moving season than we do in the springtime.

Senator WEEKS. We know about what the East, commencing with Chicago, ships South for that purpose, and I suppose $200,000,000 to $250,000,000. I am not quite sure.

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Senator HITCHCOCK. Do you mean by that, in the season when we need the least we have an excess now of $300,000,000?

Mr. VANDERLIP. We have an excess now of some part of $300,000,000. In seasons when we need it most we have a deficiency of some part of $300,000,000. I will not undertake to say just where the line is.

Senator HITCHCOCK. Let us divide it between the two and say $150,000,00. Then, why do you favor the tearing up of the whole bank-note systme as it now exists in order to secure an excess of $150,000,000 at certain seasons of the year?

Mr. VANDERLIP. It is just as important to secure the redemption of that $150,000,000 at the other season of the year.

Senator HITCHCOCK. Because it piles it up in New York?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose the law prohibited the piling of it up in New York?

Mr. VANDERLIP. The law can not prohibit all the things it undertakes to.

Senator HITCHCOCK. The law can direct where the national banks shalls keep their reserves.

Senator NELSON. Where they pile it up somewhere in the country; it does not do any harm where it accumulates in the country bank.

Mr. VANDERLIP. Would not the country banks have the same motives as the city banks if it finds it is very flush in funds? Would it not be apt to make loans it otherwise would not?

Senator HITCHCOCK. It is not the experience. The trouble always originates in New York.

Mr. VANDERLIP. The trouble rarely originates in New York, but is always exhibited there, because it come up along the line. The country bank calls on the reserve correspondent, and the reserve correspondent calls on New York. It is merely exhibited there as a culmination of the pressure.

Senator HITCHCOCK. The experience of France, even with their very expansive currency—the aggregate of the expansion and contraction, as I recall it, is something like only 8 or 10 per cent. Maybe it is only 6 or 8. The expansion occurs in January or February, and the contraction occurs in August, almost with a uniformity. The great mass of the banking currency of France remains always outside.

If the great body of our currency must be always outside, why have that part elastic? Why not allow the permanent part to remain as it is now and only provide an elastic cushion on top of it?

Mr. VANDERLIP. That is all you have done in this bill. The cushion is extremely thin—so thin it won't save you from jars.

Senator HITCHCOCK. You think it would not be taken up to any great extent?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Would not, in a short time, the growing needs of the country demand another increase of bonds, and would not increased needs of the currency arise and cause an elastic demand for this provision?

Mr. VANDERLIP. They will in time, if you want to legislate for the future instead of for the present. In this connection there is one great danger to which I want to call your attention.

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Senator SHAFROTH. Just before you leave that, you indicated this currency would not be taken up. How much paper do you estimate there is now of the kind specified in this bill as being required in order to issue currency upon?

Mr. VANDERLIP. I would not undertake to estimate it in dollars. I believe the supply is ample, or at least would soon become ample as we adjust our business practices to the needs for creating this type of paper. I think the discount provisions are wise and well considered.

Senator SHAFROTH. How much call money is there used in New York City, if you can give a rough estimate of it?

Mr. VANDERLIP. I have not the figures in my mind. I have one interesting figure in that connection. At the moment there happens to be $180,000,000 of outside bank money loaned on call in New York City, and I have known it to be as high as $300,000,000.

Senator SHAFROTH. It varies and fluctuates?

Mr. VANDERLIP. Yes. That is outside money loaned on commercial discounts.

Senator SHAFROTH. There would be, in addition to that, some New York discounts, would there?

Mr. VANDERLIP. Many millions.

Senator SHAFROTH. Do you think it is as much as a hundred million dollars?

Mr. VANDERLIP. More than that.

The CHAIRMAN. In the hearing, on page 773, is a table of those outside loans, Senator, which were gathered together by the comptroller's office.

Senator SHAFROTH. Yes; I will be glad to look at that; but I want to ask one more question in this connection: When your banks make a call for a loan—that is, a call loan—where does the man get his money from to pay you?

Mr. VANDERLIP. From another bank.

Senator NELSON. If he can get it?

Mr. VANDERLIP. Yes; if he can get it, or by selling the security. There is no other way. There are just two ways of getting it, either by shifting the loan or selling the securities.

Senator SHAFROTH. And then he has to sell at a sacrifice when he has to sell his securities?

Mr. VANDERLIP. Yes.

Senator WEEKS. Mr. Vanderlip, I would like to clear up something you have just stated. You say at present there are $180,000,000 of money loaned by New York for country banks on call loans. Does that include loans made for foreign banks as well?

Mr. VANDERLIP. I presume it does. That amount would not be an important part of it, however.

Senator WEEKS. You have stated that at times there is a considerable amount of money loaned for foreign banks, varying, of course, with rates.

Mr. VANDERLIP. Yes.

Senator WEEKS. Three or four years ago I was on a committee to look into the Canadian system, and the Canadian banks were very free to tell us how their loans were made and where they were made, and I was amazed at the amount of money they loaned to New York, or were loaning at that time. I do not remember the definite figures,

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but it would be a very large per cent of $180,000,000, loaned by banks of New York on stock-exchange collateral. I know it impressed me with the idea if the Canadian banks on some one day called all of their loans it would create a very serious condition in the New York market.

Mr. VANDERLIP. That condition is very serious. There is no reserve held against the possibility of those demands from the outside. If a New York bank loans on call, it loans a deposit and it keeps a reserve against that deposit, so that it has something there against that liability. But the outside banker loaning it can demand the whole of the loan and take it right out of New York, and it is a factor of very great danger and one that in time of trouble has several times been shown to be of great danger.

Senator BRISTOW. Mr. Vanderlip, I was interested in your statement to Senator Reed, that the 2 per cent bonds were worth par for circulation purposes. Why are they now selling below par?

Mr. VANDERLIP. Because the bankers, I suppose, do not know just what legislation we are going to have. They have seen a bill started without a provision for these bonds. This bill may now pass without any provision for the bonds. I, as one banker, do not want to accumulate bonds until I know something about the future legislation that will protect their value. I said, too, that they would be worth par for that purpose. They are worth par if a Government obligation paying 3.18 is worth par. If a Government obligation paying that was not worth par, these bonds would not be. They are worth more than par if a 3 per cent bond is worth par. Of course when a 3 per cent bond is not worth par, this new issue of bonds would not sell at par. The present 3 per cent bonds, without the circulation privilege, are quoted just under par now, and with any large addition to the volume of such bonds, I am certain they would go further below par. No foreign Government ever floats a bond at anything like that basis.

Senator BRISTOW. New York is the market place for these bonds, is it not?

Mr. VANDERLIP. Yes.

Senator BRISTOW. Are many of them being put on the market there now?

Mr. VANDERLIP. Not very many, because there is no one who is willing to buy them and there is no increase in circulation. The tendency now is to decrease circulation. The thing that always held up the bonds has been a constant demand for increase in circulation. Now that demand has ceased, and certainly no one wants to buy them for investment. The only market for the 2 per cent bond is made by the banks, and the banks not being clear as to the future are not disposed to buy. On the other hand, there is not a large disposition to sell at a sacrifice. The tendency is to hedge, and there is very little doing.

Senator HITCHCOCK. Suppose the bill provided that all of the national banks having circulation should continue to have circulation on a bond-secured basis, would there be a market?

Mr. VANDERLIP. The bill does provide for that.

Senator HITCHCOCK. There is no provision for retirement?

Mr. VANDERLIP. No forced retirement; only voluntary.

Senator HITCHCOCK. At the end of 20 years it is forced?

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Mr. VANDERLIP. Yes.

Senator BRISTOW. I can hardly understand your statement, then, that these bonds are profitable to the bankers if they retain the circulation privilege.

Mr. VANDERLIP. That is, you do not see, then, why the banks do not buy them?

Senator BRISTOW. I do not see why they want to sell them if they are profitable—more profitable than any other Government bonds will be.

Mr. VANDERLIP. Because they are not sure what this legislation is going to do.

Senator BRISTOW. Suppose the circulation privilege is going to continue for all these bonds?

Mr. VANDERLIP. They may, then, have in mind to retire from the national-bank system, and these bonds in the hands of any other holder than a national bank would not be worth par; they would be worth less than par.

Senator BRISTOW. Do you think the indication, then, is that the national banks expect to leave the system or fear others will?

Mr. VANDERLIP. Undoubtedly.

Senator BRISTOW. It is an indication of the unpopularity of the bill?

Mr. VANDERLIP. There are many indications of that.

Senator WEEKS. Would not you say "uncertainty relating to the bill" rather than "unpopularity"?

Mr. VANDERLIP. I think there is both among bankers.

Senator BRISTOW. Do I understand you then, Mr. Vanderlip, that, in your opinion, the reason the 2 per cent bonds are now sold for 95 is that country banks or national banks are contemplating the sale of these bonds and offering them for sale with a view of getting out of the national banking system?

Mr. VANDERLIP. Or fear other banks may go out of the national system and there will be more of these bonds for sale than the banks can absorb, and in the hands of holders other than banks they are worth very much less than the present price.

Senator BRISTOW. Of course, I suppose you will come to that, but I would like to follow that up now or at some other time, as to why these banks expect to go out of the national-banking system.

Mr. VANDERLIP. They object to forced subscription of capital; they object to the risk that that capital will perhaps not earn 5 per cent, or if it earns 5 per cent it will pay less than their other investments. They object to joining a bank if it may be forced against its will to loan to another bank. The country bank objects to the national clearing-house measure, which I believe will be of great economic advantage to the country, but which I recognize will cost the country bank some profits in its collection business, just as I believe that the new reserve requirements are superior to the present reserve requirements, although the change will cost my bank $50,000,000 of deposits.

Senator NELSON. Do you mean $50,000,000 of deposits or $50,000,000 of profits?

Mr. VANDERLIP. Oh, deposits. It takes us a long time to make $50,000,000 of profits. [Laughter.]

The CHAIRMAN. You recognize the difference?

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Mr. VANDERLIP. It is a class of deposits, too, Senator, that is the least profitable of any we have. I believe we will make up for those in various ways, some ways, perhaps, that will not be altogether to the satisfaction of those who want to see the importance of New York reduced as a financial center. I do not believe this measure will so reduce New York.

Senator REED. What are those ways? I am interested right now. [Laughter.]

Senator NELSON. He wants it out at Kansas City.

Senator REED. No; I want to be frank, because when a man jests here, he is liable to be misunderstood. I would not make war on New York. I would like to know what might happen under this bill, and, incidentally, if I could move it to Kansas City, I would, if Senator Nelson did not keep it from us and take it up to St. Paul.

Mr. VANDERLIP. To-day the National City Bank keeps $70,000,000 of demand loans. Under this new requirement I do not see that it would have to keep any, or at least a very much smaller amount. That will release, then, some considerable portion of that $70,000,000, which we can devote to other purposes. We can use it for commercial loans, and that will be one field where the city banks will become more active. I believe we will go out in the country for commercial business.

The CHAIRMAN. And it is a much more profitable business, is it not?

Mr. VANDERLIP. It is a very much more profitable business. And I think, too, that the city banks would come in competition with the country banks for this commercial business. We are restrained from coming in competition with the country banks now, for two reasons: We do not want to interfere with our correspondent, our client who keeps his money with us, and we do not want to go into his field and take business away from him. Furthermore, we can not offer quite equal terms to the borrower, because we have to charge for the collection of all of his checks. Under the new arrangement, having no relations with our correspondent bank, his deposit having been withdrawn and placed in his own vault or the Federal reserve bank, we would have no compunctions, certainly, against invading his field and going after commercial business. Further than that, we can offer to the country commercial borrower the same terms for collecting his checks as his local bank could offer. So I think we will become competitors for business in a much wider circle.

Then, this will release some part of this $70,000,000, which we can use for financial operations. I do not look upon this measure as a blow at the size and the future of New York banks, providing you will fix up some of these things which, as I am trying to indicate, will, I believe, keep it from working and fulfilling the mission you want it to fulfill.

Senator REED. If your bank to-day wanted to buy paper in the country, there are plenty of places it could go to buy paper that you need not conflict with any of his customers, are there not?

Mr. VANDERLIP. Buying paper is one thing and having deposit relations with the borrower is another. Of course we buy paper by the millions, right along. We buy that from the commercial-paper brokers and have no relations with the maker of the paper. With our customer, we loan in return for his keeping a balance.

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Senator REED. You mean, then, that the result of the bill may be you will have more money to loan on commercial paper?

Mr. VANDERLIP. Yes.

Senator REED. That, after having known a merchant, we will say, in Pittsburgh, who desires, at times, large accommodations, he would deposit perhaps in your bank a portion of your own funds. Instead of putting them in his bank and having his bank carry them over there, he would carry them there himself?

Mr. VANDERLIP. Yes.

Senator REED. And thereby would establish banking relations with you, and when he needed an accommodation he would come to you for it?

Mr. VANDERLIP. That is exactly what will happen, I believe. And it will be an advantage to the merchant. One of the aims of this bill, as I understand it, is an equalizing of the interest rates. It will raise the rates in the cities and lower them in the country, and we will get a higher average interest rate than we do now. We have had to take a low interest rate on the great mass of call loans. We will be able to devote that to commercial purposes and get a higher average rate than we do now, and I welcome the change.

Senator REED. Just in proportion as your bank will do business with individuals through the country, and comes thereby in competition with the local bank, the borrower will get a benefit in that competition?

Mr. VANDERLIP. Yes.

Senator REED. And he is the most numerous class.

Senator WEEKS. Do you know what the average interest you get on stock-exchange loans is, and what would be the average you got on commercial loans for the past year, or a period of years?

Mr. VANDERLIP. I do not believe I could give you the commercial loans.

The CHAIRMAN. I put a table of those interest charges in the record, running through from 1906 to date.

Senator WEEKS. You mean on different classes of loans?

The CHAIRMAN. Yes.

SENATOR WEEKS. I would like to have Mr. Vanderlip give it to us.

Mr. VANDERLIP. In 1909 the average was 2.74; 1910 the average was 2.95.

Senator REED. What is that on?

Mr. VANDERLIP. Call loans.

Senator NELSON. Par money?

Mr. VANDERLIP. Par money. In 1911 the average rate was 2.60, and in 1812 the average rate was 3.70, and for 9 months of this year the average was 2.92. The average for the 4 years and 9 months has been 2.98.

Senator WEEKS. Without figuring the cost of doing business, just what do you have to get to break even?

Mr. VANDERLIP. 2.66. You are speaking of bank deposits?

Senator WEEKS. Yes.

Mr. VANDERLIP. We pay 2 per cent on bank deposits. We can only loan 75 per cent of these deposits. We must loan at 2.66 in order just to break even, to say nothing whatever of expenses.

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Senator WEEKS. Then, eliminating the cost of doing business, you have made a profit during the years which figures in that of 0.32 of 1 per cent?

Mr. VANDERLIP. That would be so if we had loaned all of our bank balances on call. We loaned a large part of them on call, but not all, and the average rate would be higher.

Senator REED. How is the ordinary commercial rate in New York City? What does it run?

Mr. VANDERLIP. Four to five and one-half per cent, I would call an ordinary rate. When it reaches 6 it is considered very high. When it reaches 4 it is pretty low. That is about the range for the commercial borrower.

Senator NELSON. That is the time borrower?

Mr. VANDERLIP. Yes.

Senator BRISTOW. Do you now handle a great deal of commercial paper from the country?

Mr. VANDERLIP. Yes.

Senator BRISTOW. A gentleman in my town complained to me, referring to a personal incident for illustration, that last fall, while he had been getting money in New York (he was a wholesale merchant) at certain seasons of the year at from 3½ to 4½ per cent, they were now charging him 6. Do I understand you to mean that if you did not have these reserve deposits and were not loaning on time loans you would handle more of that kind of business?

Mr. VANDERLIP. You understand me to say that if we have a central bank, at which we can rediscount commercial paper, making commercial paper a liquid asset, we will then have no necessity for devoting a large amount of our funds to call loans on stock exchange collateral, and can divert the funds now used for that purpose to commercial loans.

Senator BRISTOW. Yes; I understand now, I think. That is, this commercial paper you can turn into cash at any time?

Mr. VANDERLIP. Yes; under the proposed plan, if it works.

Senator BRISTOW. By going to the Federal bank?

Mr. VANDERLIP. Yes.

Senator BRISTOW. And that makes that valuable because it will carry a higher rate of interest than you have been getting on stock-exchange loans?

Mr. VANDERLIP. Exactly.

Senator BRISTOW. Suppose the farm mortgage could be cashed in at those Federal reserve banks just the same at any time you wanted to. Would that be desirable?

Mr. VANDERLIP. It would be most undesirable, just as it is most undesirable to permit those banks to rediscount loans made on stock-exchange collateral. The liquidating character is different. There is nothing liquidating about a farm loan.

Senator BRISTOW. But if the Federal bank will discount the farm mortgage for you, just as it rediscounts a piece of paper, it would not make any difference to you?

Mr. VANDERLIP. Not until the bank got involved. It might then.

Senator BRISTOW. You think the Federal bank might get involved?

Mr. VANDERLIP. I know it would.

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Senator NELSON. There is this difference, Senator, that I want to call to your attention, although I am in favor of farm loans. They have in New York a market for stocks and bonds, and I know of no market equivalent to that for farm mortgages.

Mr. VANDERLIP. That is exactly the difference.

Senator NELSON. If you had that same market for farm mortgages as you have for stocks and bonds on the New York Stock Exchange, then I should regard farm mortgages as liquid as those others.

Mr. VANDERLIP. Neither should be acceptable for rediscount.

Senator NELSON. In times of stringency, the only liquid loans are bills drawn upon products—bills of lading drawn upon products that are salable.

Mr. VANDERLIP. Yes; that is substantially so.

Senator NELSON. The product pays your bill.

Senator BRISTOW. The commercial paper, however, is not exactly that kind of security.

Mr. VANDERLIP. It should be a self-liquidating loan that is made to a person who will receive the money to pay it off as a result of the completion of the cycle of the trade he is engaged in.

Senator BRISTOW. That takes in a very small part of our business, does it not, as a country?

Mr. VANDERLIP. No; I think it takes in a very large part. It is true the borrowings of the manufacturer for an extension of his plant would not come within that definition. If he borrows to build a new building, you might just as well loan a farmer on his real estate mortgage. That is capital invested. If he borrows to buy raw material, if he borrows to pay labor, all of which is going to work out in the manufacturing product, so that when that product is sold he can repay his loan, that is the proper type of security to put in the rediscounts of the reserve bank.

Senator BRISTOW. Suppose he borrows to buy a herd of cattle, which he expects to feed and turn off.

Mr. VANDERLIP. An ideal loan.

Senator BRISTOW. But under this bill, under the 90-day provision, it is not available, because you can not make 90-day notes for that purpose.

Senator SHAFROTH. Oh, yes you can. That is perfectly available.

Senator BRISTOW. No. They make their notes for six to nine months, as a rule.

Senator SHAFROTH. Oh, well, they can cash them after the expiration of three months.

Senator BRISTOW. Oh, yes; but it is not available at the time it is made.

Senator NELSON. The same rule, Mr. Vanderlip, would apply to a merchant in the interior who buys a big bill of goods in New York from the wholesaler, and he expects to retail those goods, and he expects to pay for the goods out of the proceeds of his retail sales; would it not?

Mr. VANDERLIP. That is a typical example of a bank loan.

Senator NELSON. That would be like the other case you put, of the manufacturer?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Mr. Chairman, I suggest the hour of 1 o'clock has arrived when, according to our resolution, we are to recess.

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Senator NELSON. I would like, Mr. Chairman, to have Mr. Vanderlip permitted to go through and indicate what he thinks are the defects in this bill, and what he thinks ought to be the proper form of the bill.

Senator HITCHCOCK. You mean instead of having the questions?

Senator NELSON. Yes. Let him make one clear statement, and then ask the questions afterwards.

The CHAIRMAN. If that is the pleasure of the committee, when the committee reassembles after the recess, we will do that. The committee will now take a recess until 2.30 o'clock p. m.

(Thereupon, at 1.05 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

STATEMENT OF FRANK A. VANDERLIP—Continued.

The CHAIRMAN. You may proceed, Mr. Vanderlip.

Mr. VANDERLIP. I will adopt the method of taking the bill up section by section.

I object to the number of reserve districts. I explained this morning the reason for that. I believe that one would be the ideal thing. If that is not possible, any reduction below 12 is better than 12. I believe it would work much more satisfacoritly with no more than 4. There would be a more intimate relation and better understanding between the managements, and with the four city centers, their geographical extent would be sufficient to express varying conditions, and for many reasons they would be preferable to 12. I still think that 1 would be preferable to 4.

I note that the bill says that—

> No Federal reserve district shall be abolished or the location of a Federal reserve bank change except upon the application of three-fourths of the member banks of such district.

I think it would be an improvement to say one-half. It would be be very difficult to get three-fourths to agree to a change which a majority might clearly see would be an improvement.

I am not going to confine myself entirely to offering objections to the bill, but discuss it generally. There is a very general objection, on the part of many bankers, to being required to subscribe to the stock. That is not pleasant, but I believe it is necessary in order ever to get a bill into operation. I think one bank would be waiting for another, and without the required subscription to the stock it would be very difficult ever to get the reserve bank started. The amount of the stock issue subscription seems to me correct.

Senator REED. What page are you dealing with?

Mr. VANDERLIP. Page 3. There certainly should be no bank organized with less than $5,000,000 capital, and I believe it is desirable to increase that amount and no thave too small Federal reserve banks.

Senator NELSON. If we had four we could easily increase that?

Mr. VANDERLIP. If you had four you could have a capital of $25,000,000, if all the national banks came in.

Senator POMERENE. When you speak of the amount, you mean the amount of the capital stock of the original bank, and not the amount which the member bank is required to subscribe?

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Mr. VANDERLIP. I referred to the amount that each member bank is required to subscribe when I said the amount seemed correct. I have no objection to the 20 per cent of the stock of a member bank being the amount it must subscribe. There is, of course, objection to that on the part of the banks that feel that that is a forced use of their capital at a lower rate than they are in the habit of earning.

Senator HITCHCOCK. What would you think about organizing one or two at the present time on a voluntary basis, allowing the others to come along naturally?

Mr. VANDERLIP. I am afraid that on a voluntary basis you would have every bank waiting to see what would happen, and you would not get anywhere. This is not a house that you can build a story at a time. The principles which must be involved in correct legislation are so interrelated that you must recognize and embody practically all of them to have a workable system.

Senator HITCHCOCK. What would you think about making it obligatory upon banks of a certain capital, say, $250,000, and optional with smaller ones?

Mr. VANDERLIP. That would probably save the national banking system from a great depletion of national banks. I believe if the bill passed in its present form a great number of small banks would certainly go out of the national banking system, and possibly a great many large banks would also. In some States there would undoubtedly be a tendency to turn national banks into State banks and then take time to consider whether they would join or not.

The bill leaves it optional with State banks. It is therefore quite possible for a national bank to convert to a State bank charter and take its time to see how this thing works.

There is no longer left any reason why a bank should be a national bank instead of a State bank, except a small profit that it can make during the next 20 years on note circulation. That is almost a negligible thing. But there is no other reason that I see where there is an advantage in a national charter over a State charter.

There are many reasons why a State charter is more advantageous than a national charter, and I should think there were likely to be many banks which would surrender their national charters and take out State charters, some, perhaps, immediately, and join the Federal reserve banks and others which wait and see how the thing works.

The CHAIRMAN. Mr. Vanderlip, if the country banks were to withdraw their reserves and not send them to New York, would they not have their money at home to lend at a higher rate and therefore make a profit out of it?

Mr. VANDERLIP. I do not quite comprehend your question.

The CHAIRMAN. You stated that from your own bank $50,000,000 would be withdrawn?

Mr. VANDERLIP. Yes.

The CHAIRMAN. Where they now get 2 per cent. Since they would have a place where they could get money if necessary—out of the reserve bank—would they not be able to use the money they have now tied up at 2 per cent and lend it in their own neighborhood at a higher rate?

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Mr. VANDERLIP. With the reduction in the reserve requirement the country banks could extend their loans a good deal. That reduction would lead the country banks to extend their loans.

The CHAIRMAN. Then it would be beneficial for them, would it not?

Mr. VANDERLIP. I think in a reduction in the reserve requirement down to a point that is safe for the bank to run on so that it may extend its loans would be beneficial for them.

The CHAIRMAN. And if the country banks had a place from which they could get money instead of, as now, relying upon the central reserve cities, they would rely upon the central reserve bank and in that way could lend the money which they now have tied up at 2 per cent.

Mr. VANDERLIP. Yes; the country banks would undoubtedly be pretty well situated and satisfied if the Senator's suggestion that banks of $250,000 be compelled to come in and the smaller banks not be compelled to come in.

Senator WEEKS. All of that $50,000,000 to which you referred would not be available to loan, because the country bank would have to transfer a certain part of it to the reserve bank.

Mr. VANDERLIP. There is only 3 per cent; the difference between 15 and 12 per cent.

I was going to say that the country bank would probably welcome the organization of such a system which would be imposed only on the larger banks, leaving them to operate outside the system, and with the assurance that the larger banks, through the facilities of the system, would always be in a position to rediscount for them. The average country banker would rather do this business with his old correspondents than take the chances of having to rediscount with the new Government organization, which will impose a good many regulations that might be trying to the borrower.

Senator HITCHCOCK. Would not there be another advantage in that—that a country bank in a western State, doing business through a correspondent, would rediscount paper with the correspondent, and that correspondent, if necessary could rediscount that paper with the reserve bank. The reserve bank would naturally discount a good deal of paper for the larger western banks that would in turn discount for the smaller banks?

Mr. VANDERLIP. Undoubtedly.

The CHAIRMAN. The country banks would get the benefit of the system without bearing any of its burdens?

Senator REED. Not all of the benefits.

The CHAIRMAN. They could get the accommodation they wanted from the reserve city banks.

Senator REED. They still would be required to keep in their own vaults their full reserve when this system was working. They could not put it into the central bank or the regional bank and have it earning anything.

The CHAIRMAN. The suggestion of Senator Hitchcock, as I understand it, would involve the keeping of the reserves as they are at present if those banks did not come in?

Senator HITCHCOCK. Yes.

Senator REED. Of course they lose some advantage. But they would have this advantage: They would get relief through the relief

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which could be given to the larger banks, the larger banks in turn accommodating them.

Senator HITCHCOCK. I do not see why they should not be permitted to keep their reserves with the regional reserve banks as well as with a member bank.

Senator BRISTOW. A number of country bankers who have appeared before us say that 5 per cent reserve is not enough for them to keep in their vaults; that they require more than that. Most of them say they carry from 8 to 10 per cent.

Mr. VANDERLIP. Under the new conditions they probably would find that they would not need as much in their vault as they need now; that is, if they were close to a reserve bank or a branch of a reserve bank where they could quickly get additional currency. There might be banks where 5 per cent would not be enough. On the other hand I think there are many banks where 5 per cent is more than necessary, and when I come to the section about reserves I should strongly recommend that the banks be not compelled to keep 5 per cent in the vaults, but to keep as small an amount as they choose, and that they ought to have an option as to where they keep it.

Senator WEEKS. If that option were given to banks in a center like New York, they would keep substantially all the reserve in a reserve bank?

Mr. VANDERLIP. Substantially all of it; only keep till money. We would prefer to carry a bank credit than the actual cash.

Senator SHAFROTH. You could borrow part of it back, also?

Mr. VANDERLIP. Yes; that is, the member banks could borrow it back and use it in other transactions. Two-thirds of the deposited reserves the reserve banks could use in the ordinary transactions of their business.

The CHAIRMAN. His suggestion was as to the country banks, which are required to carry 5 per cent with the reserve bank, 5 per cent in their own vaults, and 2 per cent optional; that they have practically 7 per cent optional, so that they could use that without its being a violation of the rules, and 5 per cent could be loaned.

Mr. VANDERLIP. Now, Mr. Chairman, passing on to the election of the directors of Federal reserve banks, it is provided that all the banks shall be divided into three groups of equal number, and as nearly as may be of similar capitalization in each group. Taking the country as a whole that would result in groups of 2,464. The first group would represent $67,000,000 of capital; the second group, $142,000,000 in capital; and the third group, $836,000,000 in capital. You therefore propose to give the same voting power to representatives of $67,000,000 in capital that you give to representatives of $836,000,000 in capital. I question whether that is fair or not. In any event I see no permanent purpose in this division into groups.

In the first election each group is to elect one director, as I understand it, and thereafter only one director is elected at a time, because the terms eventually become three-year terms and all the groups will be voting for one candidate. As I read the bill this division will only apply to the first directors elected.

The power of the Federal reserve board to remove, at its discretion, the directors of class B is objectionable. It is declared that they may remove if it appears at any time that any such director does

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not fairly represent the commercial, agricultural, or industrial interests of his district. I do not see exactly how a Federal reserve board is to be a good judge of whether the director fairly represents those interests or not. In any event, it is obvious that the control which the Federal reserve board will have over the local Federal reserve banks might be subject to bad use, as long as it can remove the three directors that it appoints, and can also remove three other directors that have been elected. It is true that the removal of those directors would be followed by the election of other directors by the stockholders, but it seems to me an unnecessary power, and I know that bankers generally regard it as one of the distinctly unsatisfactory features of the bill.

Senator SHAFROTH. Would not the fact that the three directors had to be reelected by the stockholders act as a deterrent on the part of the Government or the administration in removing them unless there was good cause?

Mr. VANDERLIP. I can imagine a Federal board telling those three men to shape their views to coincide with the views of the Federal reserve board or they would be removed, and rather than be removed they would shape their views that way. I think this might allow a malign influence.

Senator SHAFROTH. That would not be a removal on the ground that they did not represent the commercial, agricultural, and industrial interests of the districts they represented.

Senator NELSON. It is discretionary; it would be simply their judgment that they did not represent them.

Mr. VANDERLIP. And there is no appeal from that.

Senator NELSON. There is no trial of that issue. They could simply assign that as a reason, as a ground, without any foundation in fact.

Senator SHAFROTH. I do not believe they would do that.

Mr. VANDERLIP. Section 7 provides for the division of earnings. It tends to make the bank managers run the banks for profit, as I understand that the way the earnings are to be divided is that they are proportionate to the deposits.

Senator HITCHCOCK. Does not that tend to the mobilization of reserves?

Mr. VANDERLIP. I do not comprehend that it does in the least.

Senator HITCHCOCK. If you offer an inducement for the banks to keep substantial deposits there, that certainly intensifies mobilization. A bank might keep its required reserve and nothing more, but if it has an inducement to keep more, if there is any virtue in mobilization, this encourages mobilization.

Mr. VANDERLIP. I think that this reserve might better be employed as a basis for commercial loans in its community.

Senator HITCHCOCK. That is assuming that the reserve has been fixed at the ideal point, and it is assuming that it can make the loans in its own community. Suppose it has a surplus. Instead of lending that surplus and that deposit, it has an inducement to put that in the reserve bank.

Mr. VANDERLIP. It would no longer deposit it in other banks.

Senator REED. One of the arguments which has been made for this or some similar measure has been that there is a shortage, at times,

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of money in one section of the country and a surplus in another, or a shortage in one community and a surplus in another, and it has been argued that if this surplus, wherever it existed, went into a center, then it would be in a position to be loaned out to the part of the country that wanted that money. You do not think there is much in that argument, I take it?

Mr. VANDERLIP. No; that is not exactly the correct theory in this bill, as I see it. The surplus will not be put in as a reserve, but in the discount market, to buy commercial paper, where the interest rate is high and the need is great.

Senator REED. Not as a reserve, but the idea, to express it a little more fully, as it has been urged here with persistence, has been that there is always enough money in the country to do the business of the country, but that it piles up in some one city, we will say, in New York City, at a given period of the year and that at the same time they need money in some other part of the country. It has been said that if a proper bill were drawn it would make that money available at all times where it was needed.

Now, assuming that the reserve bank has in it simply legal deposits, that is, legal reserves, and that there was a profit to be realized from the operations of that bank, and that there was a surplus of money in the banks of some section of the country, the question is whether they would then be deposited and the reserve bank be put in a position to discount paper which came in from other banks and relieve the situation of that community?

Mr. VANDERLIP. The situation would be relieved in two ways. A bank in a community where there is a plethora of funds would keep its reserve with a reserve bank, but would use its surplus of loanable funds to buy in the discount market, paper that originated in a community where there was a deficiency of funds. The bank in the community where there was a deficiency of funds would be able to rediscount at the reserve bank, and make good any depletion that that demand for funds had caused in this reserve. So that a proper measure will operate in those two ways, the creation of a discount market, and the creation of a central reserve reservoir; and the institution that can rediscount for the banks whose reserves are depleted, having all the reserves in this reservoir, has a basis for this power so to rediscount.

Senator REED. You would apply that simply to the reserves and not to the surplus over the reserves?

Mr. VANDERLIP. The banks in the district where there is easy money will probably not keep any more than their legal reserve with the reserve bank. They will employ that in the discount market. If they can not loan it in their own community they will go where they can get a higher rate.

Senator REED. That would be true to-day. Now, the question is——

Mr. VANDERLIP (interposing). It is not altogether true to-day, Senator.

Senator REED. If we apply this system, is there any advantage in having the reserve bank always in a position to receive surplus moneys from one community and buy the paper of another community where they need that money?

Mr. VANDERLIP. That is not the business of the reserve bank. The surplus moneys of one community should be invested in the discount

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market in the purchase of paper originating in the other communities. The business of the reserve banks is to hold the reserves and to rediscount for reserve purposes the paper of member banks, but not to invest here and there, according to whether money is easy or not.

Senator REED. Then we come to the proposition that you do not think there is very much in the argument that the central bank, the reserve bank, would become the market place in which the surplus of one community would be transferred to the other place?

Mr. VANDERLIP. I think it would be very bad banking, and if it did become the market place, the market place would be the discount market, and that you can not create without a central bank. In order to have a discount market you have got to make liquid the commodity you sell there; that is, commercial paper. You can only do that by having a central bank, to which the purchaser can go to rediscount. A central bank is necessary for the creation of a discount market, and the discount market is the place where surplus funds will be invested.

Senator WEEKS. Let me ask you if you do not think the greatest difficulty in our situation in the past has been that under our law New York and the central reserve cities have really been put in a position of creating central banks, and that those banks have been given the power to recoup their resources in case of a strain, so that New York has really been the clearing house of all their troubles?

Mr. VANDERLIP. We have a one-armed central bank. We have held the reserves and had no power to issue notes, and the moment circulation was diminished we have had to give up our reserves. It has been an impossible rôle to play. It has been like creating a central bank without creating a note-issue privilege.

The CHAIRMAN. It also compelled you to lend on the stock market, did it not, on call loans?

Mr. VANDERLIP. We are absolutely compelled to do it. There is no desire whatever for the banks of New York to loan upon stock-exchange collateral. Why should they want to loan at 3 per cent when they could otherwise get 4 or 5 per cent? They are compelled to do it, because they are compelled to have this secondary line of reserve. They are compelled to place their funds where they can get them back quickly.

When a New York bank buys a piece of commercial paper, that paper has got to lie in its portfolio until it matures. There is nothing the New York bank can do with it. It will not do to invest its funds in commercial paper. It must invest in something it can turn back into money if its country correspondents demand money. So we have hundreds of millions of dollars invested in call loans.

Senator WEEKS. Do you believe, Mr. Vanderlip, that you express the views of New York bankers generally on that subject?

Mr. VANDERLIP. In just what particular?

Senator WEEKS. I mean in the particular that it is undesirable to loan so much money on stock-exchange collateral.

Mr. VANDERLIP. I think so.

Senator BRISTOW. Mr. Vanderlip, if you did not pay interest on these reserve deposits, you would not have to make these loans in orders to keep even, would you?

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Mr. VANDERLIP. Well, we are doing business for profit. That is the object of running a bank.

The CHAIRMAN. You have to do that in any event in order to have quick assets; in order to have a quick reserve you have to do that?

Mr. VANDERLIP. Yes. I do not care whether it is bank deposits or anything else; you have got to have a quick reserve. Our legal limit is 25 per cent. If we get a call that takes us below it, we are in an illegal position and we have got to be able to recoup ourselves. We can not sit still and wait for a commercial note to mature. We have got to get money. In order to do that we must have some of our funds in call loans.

Under the new plan our commercial paper is available for money. Now when we make a commercial loan it must mature. Under the new plan we will have two ways of converting it into money—one to sell it in a discount market and the other to take it to the reserve bank and rediscount it.

Senator BRISTOW. Having these millions upon which you are paying 2 per cent, it becomes imperative that you get some return, does it not?

Mr. VANDERLIP. It is imperative, anyway, Senator, that we have invested some of our funds that we can quickly realize on. Suppose the New York banks had no bank deposits, but merely commercial deposits, and suppose the reserve was fixed at 25 per cent, or any other amount. The desire to make money will tend to make us loan down to the legal minimum of 25 per cent. If we have any sudden call from any customers and get below our limit, it is necessary to recoup ourselves. In order to do that we have to have some investment we can dispose of. We can not dispose of commercial paper.

All we can do is to sit and wait for the commercial paper to mature. So we must either carry an investment or make a loan on call that we can get back. You get commercial paper which has the quality of being turned into cash and you do away with this necessity, and there is no motive but necessity for investing in call loans.

Senator REED. You could carry a sum much larger than your legal reserve and use that, but that would cut into your profits very materially?

Mr. VANDERLIP. Yes, sir. If you are running a bank for profit, you would run with as low a reserve as permissible.

Senator NELSON. The other alternative would be that these $180,000,000 that you have in call loans—the other alternative would be to keep that money in your vaults?

Mr. VANDERLIP. Exactly; and the figure is much larger than $180,000.000. That figure is what out-of-town banks are loaning in the call-loan market at the moment.

Senator NELSON. If you could not have a secondary reserve, you would have to have an immense primary reserve?

Mr. VANDERLIP. You have got to have it in one or the other.

Senator HITCHCOCK. I think you testified that the average rate was 2.96.

Mr. VANDERLIP. The average for the last five years.

Senator HITCHCOCK. And your own deposits cost you 2.66?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. So that your net earnings are one-third of 1 per cent?

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Mr. VANDERLIP. That would be the case if we invested all our bank deposits in call loans.

Senator HITCHCOCK. Just take it for illustration; there is a margin of one-third of 1 per cent?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose you stop paying interest and simply invested these country bank deposits in perfectly good bonds which fluctuate very slightly. Why would not the country be better off, and you be better off?

Mr. VANDERLIP. Bonds fluctuate very slightly, unless they are forced upon the market at a time when there are no buyers. Suppose we are in the position of having invested the reserves of the country in bonds, and the country wanted those reserves from all New York banks that had done that. Our position would be very precarious. We would have to sell the bonds in order to get money, and there would be no buyers. We would have to take losses.

Senator HITCHCOCK. Suppose you invested only one-half of your reserves in 4 per cent bonds; you would be better off, as far as interest was concerned: you would have a larger amount of cash.

Mr. VANDERLIP. We do invest some part of the bank surplus in bonds. The National City Bank carries about $30,000,000. I regard that as a proper investment for a portion of a bank's capital. I do not regard it as a proper investment for any considerable amount of a bank's deposits.

Senator HITCHCOCK. What would be the effect if the law prohibited you from paying interest on reserves?

Mr. VANDERLIP. It would be rather a happy effect for the New York banks, I should think. If the reserve law were the same as it is at present, we would hold less of the money of the country banks.

Senator HITCHCOCK. More would be kept at home, would it not?

Mr. VANDERLIP. Not very much more. They keep at home all they need. It is as I have said. In the event of the establishment of this central reserve bank, a New York bank would keep about all of its cash with the central reserve bank. A bank would rather have a sound-bank credit than to be burdened with cash, if it does not need the cash. I do not believe that a country bank would keep any more cash than it needs.

Senator HITCHCOCK. Is there not an inconsistency in arguing against a reserve bank dividing its earnings, as a party at interest, on country bank balances, and yet advocating the paying of interest on country bank balances by New York banks?

Mr. VANDERLIP. The function of the two is entirely different. The New York banks are run for profit: that is why they are there. If conditions are such that they can not make profits, they will not be there. The Federal reserve banks ought to be run for the conservation of the resources of the country.

Senator HITCHCOCK. Because the New York banks are run for the purpose of making money it has been deemed disadvantageous to have the large balances pile up there under the form of investment, but because the reserve banks are run for the benefit of the country it seems to be desirable to pile up reserves there and mobilize the balances of the other banks. So it seems to me your arguments ought to be reversed, and you ought to be in favor of not allowing the New

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York banks to pay interest, and you ought to be in favor of having the reserve banks pay interest.

Mr. VANDERLIP. I would prefer to have the surplus funds invested in the discount market, so that the money will find its way into some other channel, in fact, where the demand is greater and the interest rate higher.

Senator REED. How would you reach this stock-exchange call loan proposition? Would you do it by prohibiting the loaning of money upon stocks as collateral?

Mr. VANDERLIP. I think nothing could be more foolish.

Senator REED. How would you do it?

Mr. VANDERLIP. I would do it by providing a place to rediscount commercial paper, so that banks can have their commercial paper liquidable, and they will then need no prohibition. They will loan where they will get the highest rate. As long as commercial paper will pay a higher rate than a stock-exchange loan they will loan through buying commerical paper.

Senator REED. Suppose the stock-exchange rate went up, would they not be in danger of going there and investing their money unless they were prohibited from doing it?

Mr. VANDERLIP. Is there anything criminal in a man's owning security and borrowing on it?

Senator REED. Not the least; but we are speaking of the objection which you described as dangerous this morning, namely, the loaning of money on call upon stock-exchange securities, which you said was an element of danger. We want to avoid that. I am asking you to tell us, as a practical man, how that can be avoided. We have already spoken now of the plan for providing a place where banks can cash their commercial paper, which removes a part of the temptation that now is before the bank; indeed, we might say the necessity which is now before the bank.

I want to know how we can absolutely prohibit that kind of business. Is there any way you can do it? A moment ago you characterized my suggestion as a very foolish one.

Mr. VANDERLIP. Oh, no; I did not know you made that suggestion. I characterized as foolish a suggestion that would prohibit any loaning upon corporate securities. It would not only be foolish; I think it would be disastrous.

Senator REED. I did not make that suggestion. I asked you a question.

Mr. VANDERLIP. Yes.

Senator REED. Then you leave the banks free——

Mr. VANDERLIP (interposing). I leave the banks free. Now, they are under necessity to do this, but under the new condition they will not be under a necessity. And they never will do it unless the stock-exchange loan pays more than the commercial loan.

Senator NELSON. And, as a rule, they do not?

Mr. VANDERLIP. As a universal rule they do not now.

Senator REED. But you see no objection, if a man wanted to borrow money of a bank and came down and wanted to give his note for 1 day or 30 days presenting as collateral the stock of the Steel company or a railroad company——

Mr. VANDERLIP (interposing). I see no objection to that form of loan. I see great objection to it becoming the predominant thing

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and the only basis for the secondary reserves which is our present situation, but I see no objection to that type of loan.

Senator REED. In other words, if a bank had some of that, but had some place to go and cash its commercial paper when it needed money no danger would exist beyond the short time call loans?

Mr. VANDERLIP. That is the exact statement of it.

Senator BRISTOW. Now, Mr. Vanderlip, in answering Senator Hitchcock when he suggested that if you had this money that you have in call loans invested in good 4 per cent bonds, it would be more profitable than carrying, as you do now—when you get only about one-third of 1 per cent—your objection was that you could not realize cash on the bonds?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Now, if you could take those bonds to the Federal reserve bank and get cash would it not answer the same purpose?

Mr. VANDERLIP. I would consider that absolutely wrong in principle.

Senator BRISTOW. Now, why?

Mr. VANDERLIP. For this reason: It is simply a shifting of the loan, and there is no way of immediately liquidating that loan. The only way holders of such a loan can get their money is by shifting it from one place to another. The thing that should be the basis of all loans at the central bank should be their inherent self-liquidating quality.

Senator BRISTOW. You expect the central bank to collect this loan and you be relieved entirely—the Federal bank collects this paper which you rediscount there, does it not?

Mr. VANDERLIP. Practically, yes.

Senator BRISTOW. And you have nothing more to do with it?

Mr. VANDERLIP. No; we have rediscounted it. It is in their portfolio, and when it becomes due it will be paid at whatever point has been provided in the note, supposing there was no intervention on the part of the discounting bank. It might be that the bank discounting the note would want to have the note in its possession and get it paid and would substitute some other note of a longer maturity a few days before its own maturity.

Senator BRISTOW. How is that? The bank that discounted it would take another note, and they would take that other note up.

Mr. VANDERLIP. It would be quite likely, if it wanted to take up its loan at the central bank. It would then substitute a new note for a maturing note, and it is to be presumed it would do that a day or two before the maturity, so as to have the note in its own hands when it matured.

Senator BRISTOW. And then, if it wanted to extend that note, or collect it——

Mr. VANDERLIP (interposing). It would be free to do what it chose.

Senator BRISTOW. That would be very convenient for the bank that was in the same city where the Federal bank was, but it would be very inconvenient for a bank that was 1,000 miles away from that city.

Mr. VANDERLIP. There never ought to be that distance intervening. There should be many branches. I have no objection to multiplying branches as much as you choose, within reason. I think no banks should be more than overnight from a branch, and in the practical

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working out, it should probably never be but a few hours away from a branch. It would be with the branch that this paper would be lodged.

Senator BRISTOW. Now, in the country a vast amount of this bankable paper is not expected to be paid, and is not paid; it is renewed from month to month. I think that is not true in the cities so much. But would not this system put that country bank that does not have this three-months' paper under a very great disadvantage as compared to the city branch?

Mr. VANDERLIP. Yes, sir; it would put that country bank at some disadvantage as compared with a State bank doing business in that city, because the State bank would say to the customer, "We will make a nine-months' loan to you." The national bank would say, "We will make a three-months' loan, and we will renew it." The customer would say, "Maybe they will renew it and maybe they won't. Perhaps it would be better to make this for nine months, and I will go to the State bank." There is going to be that disadvantage, and that is one of the reasons why there will be a change of small banks into State banks.

Senator NELSON. In that connection, would there be any harm in extending this paper from 90 days' to 6 months' maturity—not all of it, but a certain proportion of it, I mean. Would there be any harm in allowing the bank to take a certain proportion, say 25 per cent. of 6-months' paper——

Mr. VANDERLIP (interposing). In principle I should rather be against that. I believe there is enough 90-day paper for all the needs. Take a bank that makes all of its loans for 6 months. Naturally half of that bank's portfolio is always 90-day paper, if it does a business that is the same the year around, a business that is continuous. I believe there will be ample 90-day paper.

The CHAIRMAN. I remind the committee that the table I put in the record shows there is over $36,000,000 of 90-day paper available.

Mr. VANDERLIP. You must remember that the rediscounts of national banks now are comparatively small. I believe the figures show $109,000,000 as the highest they have been in a long time. The average country bank never borrows; it is only the exceptional bank that borrows. I think there will be no shortage of 90-day paper.

Senator WEEKS. Well, under the present system the reserve banks have discouraged borrowing, which has kept the natural borrowings down to a minimum.

Mr. VANDERLIP. The borrowings will naturally be much larger under this system. It is not considered very good practice for a bank to borrow except in the South, where it is the general practice.

To go on with the detailed suggestions, on page 13 it is provided that there shall be—

> a sinking fund to be held for the reduction of the outstanding bonded indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury.

That is leaving very broad discretion with the Secretary of the Treasury. It seems to me it might be better to amplify what the ideas of Congress are in regard to the reduction of the debt. I would rather see it made more definite as to just what the ideas of Congress are with reference to the reduction of the debt.

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Senator REED. You would want the law to prescribe?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. What would you say, Mr. Vanderlip, to a proposition to try to pay the national debt in connection with this legislation?

Mr. VANDERLIP. I think it very desirable to pay the national debt. The objection which some have raised to this, that there would no longer be any basis for note circulation, disappears with this measure, and it would seem a most appropriate time to consider the ultimate retirement of the national debt.

Senator WEEKS. Is not that basis of note circulation the only reason the sinking funds have not been made applicable to the payment of the debt, and has there been any other single reason why the debt has not been paid?

Mr. VANDERLIP. I think there is no other single reason, and I think there has been a good deal of neglect on the part of the Treasury Department in not keeping up the sinking fund.

Senator NELSON. It would be a good plan to devote the whole of this sinking fund to the retirement of our national debt?

Mr. VANDERLIP. Admirable.

Senator NELSON. And put it in specific terms in the bill?

Mr. VANDERLIP. Yes, sir; rather than leave it to the discretion of a bank. We already have laws providing for sinking funds, but for years they have not been very carefully observed.

Senator REED. Would you use any means of retiring the debt except the employment of a sinking fund?

Mr. VANDERLIP. I think it is always an admirable thing for a country with a surplus revenue to devote that to the retirement of its debt, rather than incur unnecessary expenditures.

Senator NELSON. There ought to be a provision in the bill that when the surplus exceeds a certain amount it shall be devoted to the payment of the debt.

Mr. VANDERLIP. That would be a wise provision.

Senator NELSON. Would not $100,000,000 be ample? I mean, whenever it exceeded $100,000,000——

Mr. VANDERLIP (interposing). $100,000,000 is less than the Treasury has usually had as a free asset.

Senator NELSON. What would you put the figure at?

Mr. VANDERLIP. Making a very offhand guess, without any study of the subject, I think $125,000,000 would be an ample Treasury free asset.

Senator NELSON. Or, put it a little higher and say $150,000,000. Whenever the surplus exceeded $150,000,000 the overplus should be devoted to the retirement of the national debt from time to time. Would not that be a good plan to put into the bill?

Mr. VANDERLIP. I think it would.

Section 10 of the bill provides for State banks being converted into national banks, or for State banks becoming members of the Federal reserve bank without being converted. They are permitted to do this upon a regulation provided for——

Senator REED (interposing). You refer to the last three lines on page 15, "under such rules and regulations as it may prescribe"?

Senator NELSON. It is lines 21 and 22 on page 15.

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Mr. VANDERLIP. I am now looking on page 16 at line 16. It reads:

Such by-laws shall require applying banks not organized under Federal law to comply with the reserve requirements and submit to the inspection and regulation provided for in this and other laws relating to national banks.

That word "regulation" needs more definition, it seems to me. It is going to become very important under what terms you will admit State banks to membership in the central reserve banks. If they are to have all the regulations that apply to a national bank, they might as well be converted into national banks and there is no need of permitting them to become members.

Senator NELSON. Let me interrupt you by stating that one of the bankers here—I do not recall his name—made an objection to that word "regulation." He held the effect of it was to compel them to do just what the national banks did in every respect, and on that account he objected to the word.

Mr. VANDERLIP. That would be my own opinion. If they are to be regulated so that in every respect they must do just as a national bank, then they might as well be a national bank and there is no point in permitting a State bank to become a member. I think that ought not to be left to the Federal board to determine either. I think the law ought to be pretty specific, so we will know what a State bank can do and under what terms it may become a member.

Senator REED. Then, too, if there were a regulation made by the Secretary of the Treasury, I presume there is nothing in this bill—I see nothing—to keep the next Secretary of the Treasury from changing the regulation.

Mr. VANDERLIP. Nothing.

Senator REED. There would be rather an uncertain tenure?

Mr. VANDERLIP. Yes.

Senator NELSON. How would it do to substitute the words "submit to the inspection and supervision"; substitute the word "supervision" for the word "regulation"?

Mr. VANDERLIP. As I remember it, Mr. Glass in his exposition of the bill said that the reserve requirement, the capital requirement, and the examination requirement were all that this meant. If that is so, it ought to say so. It does not say so in the bill.

Senator HITCHCOCK. Then, a State bank, like a foreign exchange bank in New York City having branches, could become a member under this system?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. That would be a considerable advantage over a national bank?

Mr. VANDERLIP. Very much. And the thing you are in danger of doing here, is passing a bill that will make all national banks turn State banks, and, instead of consolidating the banking business under the national charter, you are going to disperse it. If there were some way of attracting State banks into this scheme rather than putting a premium on national banks going out of it, the ultimate success would be very much more probable.

Senator WEEKS. If you were managing a State bank and this bill were put up to you as the law, you probably would hesitate about going in until you had seen how it was working?

Mr. VANDERLIP. Being in the fortunate position of having an option whether to go in or not, I would wait. I would take advan-

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tage of my position and see how it worked. I would see what this word "regulation" meant. I would see what the success of the measure was likely to be.

Senator WEEKS. Naturally, if other men felt in the same way, we need not expect to see State banks go into the system at once?

Mr. VANDERLIP. Not at once.

Senator REED. You said that the foreign exchange bank which has branches would have an advantage over the national bank?

Mr. VANDERLIP. Yes, sir.

Senator REED. If you let it come in?

Mr. VANDERLIP. So will any State bank organized under the laws of New York, because they have much more liberal privileges than national banks.

Senator REED. How are we to equalize that so that the national bank will not suffer by virtue of that situation?

Mr. VANDERLIP. By seeing if you can not extend some privileges instead of putting all your attention on new prohibitions. That seems to me to be one direction that the committee's thought ought to take, so as to undertake to attract State banks into this system.

Senator REED. Yes; but what I am speaking of is this: Here is a bank with a lot of branches. That gives it an advantage. Now, we bring that bank into the system and give it the advantages of this system. Now, we have created an institution that is empowered to do the very thing that all national banks are denied the right to do. Would you suggest extending to national banks the right to have branches?

Mr. VANDERLIP. I certainly would suggest it, in the cities in which they are located. There is no conceivable reason, to my mind, why that should be prohibited. As a matter of fact, the act does not at present prohibit it. There has been a ruling of the comptroller; there has never been a court decision on the subject. But it would be highly desirable if the national banks could have branches within the city where they are located.

Senator REED. And you would limit it to their city?

Mr. VANDERLIP. I would.

Senator HOLLIS. Why limit it?

Mr. VANDERLIP. It is a question on which there are certainly two points of view. The strength of an institution that is practically under one control, is very much greater than that of an institution with branches all over the country. There would be this on the other side: There is such political prejudice—a prejudice that seems to me very unreasoning—against it that I have almost ceased to think it possible to talk about having general branches for a bank.

Senator REED. But you think that if they were limited to the city in which the principal bank exists, that would be placing such a limitation upon their extent as to meet, at least in a measure, the objection that they might grow too large and their influence become too commanding? Is that the thought?

Mr. VANDERLIP. That is my thought; and it would come as a surprise to the national bankers, because it would be the first advantage they had been offered since the creation of the system, I think. It would be a most happy thing to offer the national banks something in addition——

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Senator REED (interposing). Would you limit the number they could maintain?

Mr. VANDERLIP. Not at all.

Senator REED. You would just limit it territorially?

Mr. VANDERLIP. There is one bank in London that has 100 branches in the city of London.

Senator SHAFROTH. Would that be satisfactory to the other banker?

Mr. VANDERLIP. You are legislating for the national banks, and it would be very satisfactory to them.

Senator SHAFROTH. All of them? Or would there be a rivalry against the one bank that had so many branches?

Mr. VANDERLIP. Then they would have to do better banking and compete successfully. No; I think that, on the whole, national banks would be glad to have that privilege.

Senator BRISTOW. It would reduce the number materially, would it not?

Mr. VANDERLIP. Yes.

Senator REED. Is there not a control which the Federal Government exercises over these banks which meets some of the objections which ordinarily pertain to combinations, namely, that the Federal Government can limit the amount of capital of a bank if it wants to, and it otherwise has a very complete control over it? That would be an offset.

Mr. VANDERLIP. Yes.

Senator REED. I am not committing myself to that, but I am suggesting the thought.

Senator NELSON. Now, Mr. Vanderlip, Canada has some 18 or 19 chartered banks, my recollection is, and they probably have over a thousand branch banks.

Mr. VANDERLIP. Yes.

Senator NELSON. Scattered all over. I do not know, but they have 2,000. I have heard the criticism made that those branch banks—for instance, out in the prairie Provinces in Alberta, Saskatchewan, and Manitoba—that they pull in the money in that country and send it down to the head banks at Toronto and Montreal, and drain the country. Then if they apply for loans to those branch banks, as a rule, they can not get any satisfaction, especially if money is a little tight, until they hear from the head bank at Toronto or Winnipeg. In other words, the system, as developed in Canada to that extreme, I do not think has worked as well as it might. What is your information on that?

Mr. VANDERLIP. I fancy a true analysis of that situation would show that those complaints were not well founded. We have heard the same complaints made that in certain Southern States they deposit money in New York and can not borrow any when they want it. I have looked up the record and find that they borrow five or six or seven times as much as they deposit. I presume you will find that these small western communities borrow very much more from the reserve city banks than they actually deposit in the banks.

The action of a bank with many branches is to equalize the supply of loanable funds, and the funds will flow where the interest rate is the highest. The interest rate will be highest in the smallest community, and I expect you will find that the Canadian banks have worked to the benefit of those few small communities rather than taken their funds and loaned them to the centers.

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Senator HITCHCOCK. How do you interpret this paragraph now in relation to branch banks? Can a State bank having branches come in?

Mr. VANDERLIP. I am unable to interpret it and no one can interpret it until he can interpret the meaning of the word "regulation," and that must lie in the mind of the Secretary of the Treasury or the Federal reserve board.

Senator REED. You think, I take it from your remarks in regard to this section and the preceding one, that when a man comes to invest his money or go into a great system that involves his money, he ought to have fixed rules of law which prescribe his rights and specify his obligations that he should not be required to depend upon the individual opinion of some man, however good that man may be.

Mr. VANDERLIP. I wish I had the power to state my views as precisely as that. That is exactly what I think.

Senator REED. And you would apply that to the entire currency system, would you not, except where you come to the point of passing upon the question of whether a particular piece of paper is good or bad?

Mr. VANDERLIP. That is making the statement a little too sweeping. In general, however, wherever it is possible to put the specific thing in this bill, I would do so rather than leave it discretionary upon a board.

Senator POMERENE. What have you in mind as proper conditions or regulations upon which the State banks should be admitted into this system?

Mr. VANDERLIP. If you want to get the State banks into the system, then I would say have the capital the same as a national bank under similar conditions. Have the same examinations and the same reserve requirements. If you stop there, you must recognize that there will be more advantages under the State charter than under the national charter. If you impose all the conditions of the national charter on the State bank it would not accept them and would not come in. You have your choice.

Senator REED. That leaves us with the question still unsolved?

Senator NELSON. No; he has put in the limitations there. Capital—this provides for reserves——

Mr. VANDERLIP (interposing). Capital, reserve, and examination.

Senator NELSON. As to capital you would include an exception?

Senator REED. You said if you made their requirements too stringent on them and cut them off from their present rights they would not come in; if you made it too liberal, as I understood, Mr. Vanderlip, then the national banks might go in——

Mr. VANDERLIP (interposing). That is exactly what they will do.

Senator REED. Now, that leaves the question unsolved. The question is how we can keep the national banks in, and induces the State banks also to come into this system?

Mr. VANDERLIP. By liberalizing the terms of the national charter and the regulations under which national banks are operated so that they can compete fairly with the State bank.

Senator POMERENE. In what respect?

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Mr. VANDERLIP. In respect to branches, in one particular; in respect to doing a trust business in another. I do not know that I would undertake to enumerate the advantages that a State bank has over a national bank, but those are different in various States.

Senator BRISTOW. But not loaning on real estate?

Mr. VANDERLIP. Never.

Senator NELSON. Nearly all the State banks can do that.

Senator REED. You are giving some very interesting testimony here, but we have come to a point now that is very greatly troubling me, whether this bill is not going to send all the national banks out of the system and into the State bank system, or else so limit the rights of State banks coming in that they will not want to come in. Now, I do not know if you are prepared to make your suggestions as to what advantages could be given to the national banks that are of a practicable and reasonable character, but I wish before you leave you would try to give us those suggestions.

Mr. VANDERLIP. I shall be very glad to submit those in detail.

Senator WEEKS. And at the same time the provisions which you think would induce State banks to come into the system.

Mr. VANDERLIP. Yes.

Senator HOLLIS. Do you not think, Mr. Vanderlip, that the mere name of national bank is of some value to them?

Mr. VANDERLIP. It is of some value in a small community. It is of no value in New York City, for instance, or any of the great cities.

To take up section 11, relative to the Federal reserve board: Here is the point, I suppose, that most bankers raise as the principal objection to the bill. It is a pretty general feeling that the bankers contribute capital for these reserve banks, should have representation on the Federal reserve board. I, myself, believe it would be very good, if they had a minority representation on the board. However, if that is impossible I particularly object to the constitution of the board in its present form.

I believe it is bad to have ex officio members on that board and to have ex officio members whose duties are already sufficient to engross their time fully. This will be a very important board; it will be a man's size job to be a member of this board. He ought to be devoting all his time to it. He ought to have experience. The board should have continuity. If you put Cabinet officers on that board they will of necessity go out with each change of administration, and may go much more frequently than that. They are fully engrossed, if they are properly looking after their other duties, and they can not, I believe, perform in a creditable manner the duties of this Federal reserve board.

If it is going to be constituted entirely by Government appointment, I would increase the salaries, I would have longer terms, and I would have the men appointed devote their time to this work exclusively. Continuity of management is a great thing. You might have a change of the majority of the board on the change of a President. You make the thing the toy of politics in this way. It ought to be removed from politics as far as is the Supreme Court. I think it would be about as proper to appoint the Attorney General to the Supreme Court, because he happens to be in the Cabinet, as it is to put the Secretary of Agriculture on this board.

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Senator REED. But don't you think the experience of the Secretary of Agriculture ought to be of value in handling a financial proposition of this sort? [Laughter.] But, Mr. Vanderlip, seriously, under the plan you suggest would you exclude the Secretary of the Treasury?

Mr. VANDERLIP. That is debatable. I should prefer to see a board of inspection created that was headed by the Secretary of the Treasury and that embraced the comptroller and any other Government officials you chose, which had the power of inspection anywhere down the line to see that the law was being obeyed. There are some reasons for putting the Secretary of the Treasury on, because he has the depositing of the Government moneys. There are other reasons; but this makes the whole board rather subservient to the Secretary of the Treasury.

The bill frequently says that things shall be done by the board under direction of the Secretary of the Treasury. This board ought to be superior to any Cabinet officer. It is not an appendage of the Treasury; it is a great organization. Members should be of the highest caliber; men that were paid salaries sufficient to attract and keep able men. Now, keep men; there is the point. You develop a good men here at $10,000 a year and I will hire him at $25,000. You want to pay men so you can keep them here. You want continuity of management.

Senator REED. It is true that this bill as drawn does frequently, as you say, say that certain things shall be under under the direction of the Secretary of the Treasury. But I call your attention to the fact that this bill requires that every dollar that is now in the Federal Treasury, except that held on special deposit, shall at once go into the banks, and every dollar hereafter gathered in by the Federal Treasury must at once go into the banks. And, of course, the special deposits, most of them, can speedily be removed there by using the gold and silver certificates to withdraw them. Now, if the Secretary of the Treasury is not to have a broad discretion, do you not think that provision ought to be changed so that the discretion would be vested in the Government to put all or part of its money in?

Mr. VANDERLIP. That would be much more desirable than to give the Secretary of the Treasury the power that is given here, where it says that the manager of the Federal reserve board shall be subject to the supervision of the Secretary of the Treasury and that the manager of the Federal reserve board shall be the active executive officer of the Federal reserve board.

The CHAIRMAN. You would strike out "Secretary of the Treasury" in that line?

Mr. VANDERLIP. I certainly would.

Senator REED. And you would modify the other section allowing the Secretary of the Treasury to have some discretion about putting the people's money into this institution?

Mr. VANDERLIP. I would not expressly object to that. I think nonpartisanship is not accomplished when you say that not more than two shall be of the same political party; it rather emphasizes that the other two shall be of the same political party. I do not believe that helps the measure much.

Senator BRISTOW. Is not that an invitation to put partisans on the board?

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Mr. VANDERLIP. Why, it is almost a command.

Senator HITCHCOCK. Would not the board be a good place to put our ex-Presidents? [Laughter.]

Senator REED. Barring one, you would answer "Yes," would you not?

Mr. VANDERLIP. I was thinking of that one. [Laughter.]

Senator BRISTOW. Some of us might think he was the very man to put there.

Senator WEEKS. Seriously, Mr. Vanderlip, you refer to paying the members of this board large salaries. Now, there is a standard of salaries in connection with the Government service which must be maintained, and it would probably be impossible to compete with the National City Bank in paying salaries to a board like that. Don't you think the honor of being a member of that board coming to a man who is fit to be a member would be sufficient so that he would accept such a place and serve, notwithstanding the fact the salary was not commensurate with the kind of service?

Mr. VANDERLIP. Undoubtedly there would be a tendency that way. The Government has a great advantage in that respect.

Senator NELSON. Would you not get superior men in that way?

Mr. VANDERLIP. Superior men at a smaller salary than at a larger one?

Senator NELSON. Than if you just made it a question of salary?

Mr. VANDERLIP. I should not make it just a question of salary by any means; I would make it so that the salary from somewhere else would not counterbalance the salary and the honor together.

Senator HITCHCOCK. A Cabinet salary?

Mr. VANDERLIP. It ought to be as high as a Cabinet salary, I should think. You want men for this position who are capable of earning large salaries. You want men who have earned large salaries, or who have been successful. You do not want unsuccessful men, financially speaking, in this business. You want men who have been successful.

Senator BRISTOW. Now, Mr. Vanderlip, do you think political appointments are made with a view to whether a man has been successful or not?

Mr. VANDERLIP. I do. I think they are frequently made with a view to the fact that he has not been successful.

Senator BRISTOW. That he has failed in the last campaign and needs a job. [Laughter.]

Senator REED. We can call them political appointments if we please, but the Supreme Court of the United States and all the Federal judiciary are appointed by a political power and confirmed by another branch of political power. And yet, speaking of the question at large, we have a very superior class of men in those positions, and that is because the position is regarded as one of great honor and not a position of profit, is it not?

Mr. VANDERLIP. Undoubtedly.

Senator REED. We have got to go to one source or the other for these guardians of this contemplated system. Either we must go to the banks, which may have a selfish interest, or we must go to the Government, or we must go to both.

Senator NELSON. The great business men are merchants?

Senator REED. Yes.

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Mr. VANDERLIP. I am not nearly so much afraid of malign political influence as I am of lack of wisdom. I want to establish a continuity of management here. I want to see men qualified by experience. I am not so much afraid of the political side of this thing. I am very much afraid of the inexperience side of it.

Senator REED. And therefore willing to have always at least a majority of men on this board who are connected with banks and who are familiar with it?

Mr. VANDERLIP. Certainly, a majority; and I would say, as far as possible, men of long experience. Of course, some new men might get on.

Senator POMERENE. I am glad to hear you say you have faith in your Government.

Mr. VANDERLIP. Thank you.

Senator REED. Generally speaking, there has been a good deal of loose talk about politics, just as there has been a good deal of talk about banks. Sometimes it is justifiable and sometimes it is not justifiable. Do you think that any President of the United States would be likely to make these appointments without having a proper regard for the importance of the place that he is charged with the responsibility of filling?

Mr. VANDERLIP. When I look ahead I have a good deal of faith. When I look back, and see some of the appointments that have been made, my faith is shaken a little. I do not mean recent appointments; I mean looking back historically at men who have filled important places.

Senator REED. Let us take the position of the Secretary of the Treasury. Some of us have differed with the policies of the Secretary of the Treasury, but as a general rule they have been a pretty sincere type of men, have they not?

Mr. VANDERLIP. Yes; as a general rule.

Senator REED. And, making allowances for inexperience, they have done pretty well as a general proposition, have they not?

Mr. VANDERLIP. Yes.

Senator REED. Now, do you know any other way by which these men could be selected except by the banks or by the country?

Mr. VANDERLIP. No. We do not want to return to the old Spartan way of selecting by lot, I suppose. They should be selected one way or the other—by the banks or by the Government.

Senator REED. Are there not objections to banks selecting, which would be an objection to the bankers themselves? That is to say, if your bank had a friendly representative upon this board might it not be of great advantage to your bank? Pardon me for using your bank for illustration, but I was using it as an illustration of a class.

Mr. VANDERLIP. I think it might. But I shall hope it shall have a friendly representative upon this board, and that all banks will have a friendly representative upon the board.

Senator REED. I meant more than that. I meant a representative who might be specially interested in the bank. That woud not be right, of course, but are not there just as many objections on that side as there are on the other when you come down seriously to talk about it, and that is what we are trying to do this afternoon?

Mr. VANDERLIP. I do not think there are quite as many, but personally I shall be satisfied with a political board if I am assured of its

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continuity—that the members will be devoting their entire time to it and that every precaution is taken to make it of the highest possible type.

Senator REED. I think I agree with you on that, that the board ought to devote its entire time, unless it is the Secretary of the Treasury.

Senator HITCHCOCK. What discretionary power do you think that board should have to regulate the volume of currency?

Mr. VANDERLIP. I think it should have none. I will come to that point later, when I come to that part of the bill. But it seems to me completely wrong that it might refuse a bank the privilege of taking out currency. Personally I think there should be no tax on that currency. So far as the Government is concerned, it is merely taking it from one pocket and putting it into the other. The people are the ones to determine the volume of currency. No one else can determine it. They will use bank notes, or they will use gold reserve; it does not make any difference to them. They will have in their pockets a given amount, and they will determine that amount. A bank note that does not count in the reserve is of no value whatever to the bank. It is only of value to the person who can use it in his pocket. I think there is no danger in giving these central banks the power to issue all the currency that the people will use. The banks can not use that currency. The people will use the currency. The currency is of no value in the hands of the banks, as it does not count as reserve.

Of course, to digress a moment, there is the trouble with your dual system of State banks and national banks, concerning the question of reserves with the State bank, and that is a trouble that you want to find some way, if you possibly can, to eliminate. I think the best way would be to construct a system so that it would be attractive to all State banks to come in. There is grave danger to the whole system; there is grave danger to the Treasury Department and to the Government in permitting a large amount of these notes to find their way into the reserves of State banks.

Senator HITCHCOCK. That is permissible in Germany now?

Mr. VANDERLIP. Suppose such a situation exists here. We have many millions of these new notes held in the reserves of the State banks, and suppose something happens that alarms the holders of those notes to an extent where they think it will be wiser to convert them into other forms of reserve money, into gold and lawful money. You might get a presentation of the whole mass within a short time. The redemption of them would be an almost impossible thing, for the amount would be so large. And in proportion to the size of it the danger is great. I know of no way you can prevent a State bank holding those bank notes in its reserve except to induce the bank to come into the national system, where you can properly bar them from the reserves.

Senator HITCHCOCK. I suppose it could be prevented in those banks, where they were subjected to the same laws which the national banks are subjected to.

Mr. VANDERLIP. That will apply to those who come in, but remember that there are $12,000,000,000 of deposits in State banks now, against $8,000,000,000 in national banks. Under this bill, I believe State banks will increase and national banks will decrease,

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as it stands, so that the chance of getting a very great mass of these bank notes into the reserves, for the support of this $12,000,000,000 of deposits, is serious.

Senator HITCHCOCK. Under this bill, as it stands now, how considerable do you interpret the power of the reserve board to be, as to the contracting or expanding of currency?

Mr. VANDERLIP. The bill is not clear as to whether this rate of interest, so-called, could be changed after notes were outstanding. I think there is a good deal of confusion about the rate of interest. It is not clear whether the Federal board could charge a different rate in different sections of the country or a different rate at different times to the same bank, or change the rates after notes were outstanding. I do not believe they should have either the power to refuse the notes or the power to tax them.

Senator HITCHCOCK. You think that whenever securities were presented to the reserve bank and it had the necessary gold reserve it should issue them?

Mr. VANDERLIP. The gold reserve is the limit.

Senator HITCHCOCK. Now, has not Germany, with practically that same law, rather gotten into difficulties?

Mr. VANDERLIP. Germany has saved itself from the greatest difficulties. The Reichsbank management is a monument to what can be done with a scientific banking system.

Senator HITCHCOCK. The Reichsbank notes are made reserve for the other banks in Germany?

Mr. VANDERLIP. That I am not familiar with.

The CHAIRMAN. And they are also made legal tender.

Senator HITCHCOCK. Yes; they are also made legal tender.

Senator REED. How much reserve in gold should there be held as against notes issued?

Mr. VANDERLIP. I think the reserve provided for of 33⅓ per cent is ample.

Senator REED. You think that is much safer than now?

Mr. VANDERLIP. Yes.

Senator REED. And if made a little higher the system would be a little safer, would it not?

Mr. VANDERLIP. Undoubtedly. And if you will put a tax on deficiency of reserve instead of taxing the notes you will control the issue. There is the place to put the governor—a tax on the deficiency of the reserve?

Senator HITCHCOCK. That would be better; it would be permanent.

Senator REED. Make it graduated, though.

Mr. VANDERLIP. Yes; make it a graduated tax.

Senator HITCHCOCK. It would not be left to the option of some board?

Mr. VANDERLIP. No; and it ought not to be.

Senator HITCHCOCK. I agree with you there.

Mr. VANDERLIP. Now we come to this much-debated clause of the power to compel loans. I believe that is a necessary power as long as you have more than one central bank. The power to permit loans I do not consider is a necessary power to give to the Federal board. If these banks choose to loan to one another, very good. As a matter of fact, they will not choose so to loan. The management of the bank will leave it to the members of that bank to deal with the

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members of another bank where the interest rate is high, thus having individual banks discount for individual banks rather than for the central bank to discount for the central bank in the high interest rate community.

Senator REED. There has been a matter, and your answer suggests the thought again, that has been bothering me a good deal. There have been a number of bankers here who have objected most strenuously to the provision that one of these reserve banks should advance moneys to another reserve bank, and they have said that is very wicked and very wrong, and yet in the same breath those gentlemen will advocate one central bank. Now, if all the money was put into one central bank, then that management would necessarily have to loan money to all of the member banks all over the country. And if there are 12 of these banks and the idea of one bank is so admirable, it seems to me the closer we draw the twelve banks together the nearer we are approaching the idea of one bank.

Mr. VANDERLIP. Certainly. The greater the decentralization here, by making numerous reserve centers, the more arbitrary the power you must give to the reserve board. If you make one reserve center you have to give no power to the Federal board at all, because the thing is accomplished. But with numerous centers arbitrary power, obnoxious as it is, must be given to the reserve boards in order to pipe those reserves together.

Senator REED. The more cooperation you have, the nearer you come to the strength that lies in one central institution?

Mr. VANDERLIP. And that is what you really are all after. You may not quite know it, but I think that is what you really all want.

Senator NELSON. That provision there, in effect, makes one central bank?

Mr. VANDERLIP. Certainly; except that in practical operation it will never work. Now, instead of saying that this is an obnoxious provisions and ought to be taken out, I am forced to admit I do not believe it is strong enough. It will never work. Why won't it work? Because loans can only be made at from 1 to 3 per cent above the highest rate prevailing. That, in the first place, is not very clear. I suppose it means above the highest rate prevailing in the community that is going to borrow. Why should a New Orleans bank borrow from New York at 3 per cent higher than it is loaning? It won't work; they won't do it.

Senator HITCHCOCK. Maybe that means 3 per cent higher than the reserve board is charging for currency.

Mr. VANDERLIP. Well, you have to look a long ways to read that meaning into it. At any rate it is not a clear law.

Senator NELSON. It has to be an interest charge to accommodate the banker. It is to accommodate the banker who has to pay it.

Senator REED. What is the highest rate at which he pays the interest?

Senator NELSON. Not less than 1 or above 3 per cent of the highest rate prevailing in the districts immediately affected.

Mr. VANDERLIP. But what does "rates prevailing" mean? Is it the rates charged by the central banks?

Senator REED. Manifestly, then, if New Orleans had a 6 per cent rate and New York had a 4 per cent rate and New Orleans wanted money from New York, under that provision the rate would at least have to

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be 7 per cent to New Orleans, which is a rate higher than anybody pays down there. Now, why in the name of common sense would anybody want to borrow money under those terms? It was just as Mr. Vanderlip said.

Mr. VANDERLIP. They won't; the thing will not work.

Senator REED. All of which leads to the conclusion we ought not to look to this bill any further?

Senator WEEKS. Are you going to discuss the desirability of the same discount rate in all regional banks?

Mr. VANDERLIP. I will discuss it.

Senator WEEKS. Let me ask you a definite question: Why should not a bank in Oklahoma, having a piece of paper that comes within the requirements of the law, get a rediscount of that piece of paper on exactly the same terms that the New York bank would do with the same quality of paper?

Mr. VANDERLIP. As a matter of abstract right, I think it should. As a matter of prevailing interest rates in those two communities a similar piece of paper will bear a higher rate in an Oklahoma community than it will in New York, because of many reasons I do not need to go into.

Senator WEEKS. If we are going to make a national law, should it not be country-wide in its provisions?

Mr. VANDERLIP. I do not think it should necessarily be country-wide as regards the same discount rate for all of these banks.

Senator HITCHCOCK. Is not the present divergence of interest rate due to our peculiar system, which we are now proposing to abandon?

Mr. VANDERLIP. Not altogether. The more settled communities will have the lower rates in any banking system.

Senator NELSON. In that connection, we must not overlook the fact that paper discounted from Oklahoma might bear interest at 7 per cent, while paper discounted up in New York might only draw 4 or 5 per cent.

Mr. VANDERLIP. That is perfectly true.

Senator WEEKS. Is not that true to-day? But would it not equalize those rates in years to come if the discount rate should be made the same?

Mr. VANDERLIP. Never entirely.

Senator WEEKS. I agree with you never entirely, because developing sections would always carry a higher rate of interest.

Senator REED. Mr. Vanderlip, how are we going to adjust this proposition: Let us say that the prevailing rate for commercial paper in New York is 4 per cent; that the prevailing rate in my part of the country is 6 per cent. Now, the New York banker wants money, and he brings up 4 per cent paper and gets $100,000 on $100,000 worth of 4 per cent paper. The banker in Kansas City wants $100,000 and he brings up 6 per cent paper and just gets $100,000, yet his paper draws a greater rate of interest.

How is that to be adjusted in this law?

Mr. VANDERLIP. Why, he gets the interest on his paper.

Senator REED. He collects it himself?

Mr. VANDERLIP. He collects it himself. He has discounted the note and has gotten that.

Senator REED. Then the central bank has to collect this interest for him if they collect the securities. On the other hand, he can take

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money there and take up his own securities. Now, is not that the way it will practically be done, instead of the central bank collecting the securities? Will not the bank secure the money and pay the note and take back the collateral while it has not matured?

Mr. VANDERLIP. Very likely. The average bank will dislike to have a customer know that it has rediscounted his note, and they will be glad to get the notes back before the day of maturity, in order to have the customer pay it over its own counter and hand the note to him.

Senator HITCHCOCK. Would he not know it has been rediscounted?

Mr. VANDERLIP. Yes, he will; because it will have to be indorsed; that is true.

Senator NELSON. But if you place the circulation on the discount value of the paper, would not that be a fairer basis than to take it on the mere face value of the paper?

Mr. VANDERLIP. That is what you will do, sir. It will operate that way. The amount of money you get is the discount value of the paper.

Senator NELSON. Yes; but it is not clear in the bill, if you will notice.

Mr. VANDERLIP. I had presumed that would be the way it would work. In any event, it is a rather insignificant difference.

Senator NELSON. I know it is a small difference, but would not that be the principle applied?

Mr. VANDERLIP. I think it would.

Senator BRISTOW. Let me get that clearly in my mind. I do not know whether I comprehend that fully. Take Senator Reed's illustration: What is the value of that paper? They are both good, one is as good as the other, but the Kansas City paper bears 6 per cent and the New York paper 4. It is taken to the Federal bank for discount. What is to be the discount value of the two papers? Is the one drawing 6 to be more than the one drawing 4?

Mr. VANDERLIP. If those were discounted notes they are both worth, at the date of maturity, $1,000 each, if they are $1,000 notes. The man who has discounted them got less than $1,000—the one by 4 per cent the other by 6. That is where the variation came in. The $1,000 note that was discounted at 6 per cent produced less than the $1,000 note discounted at 4 per cent.

Senator BRISTOW. But they are not discounted. In fact, that note bears 4 per cent, one of them does, and the other bears 6. Out in our country where we take six months' paper, why it may run three months, and in New York it may be a 90-day note.

Mr. VANDERLIP. Let us suppose the New York bank has these two pieces of paper and goes to a central bank and borrows at 5 per cent. What it will really do will be to convert this 6 per cent note to a 5 per cent basis and the 4 per cent note to a 5 per cent basis. The central bank will take those notes on a 5 per cent basis. The 4 per cent it would take a little under par and the 5 per cent a little over par.

Senator NELSON. That is exactly the way it will work.

Senator BRISTOW. Yes; I can see that. I can see no objection to that system, provided that the value of the note given it by the increased rate the interest is taken into consideration.

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Mr. VANDERLIP. It certainly would be.

Senator BRISTOW. Otherwise it would be very unjust to a certain part of the country.

Mr. VANDERLIP. It would be taken into consideration.

Senator HITCHCOCK. That raises another question, Mr. Vanderlip. You said, and I entirely agree with you, you should not only include 90-day paper, as stated in the bill, but out West and down in the South 6 months and perhaps 9 months paper, which is commercial paper to the same extent, growing out of certain transactions. But up in those countries where 6 and 9 months paper is given the interest is not deducted in advance, and how are these notes to be discounted under those circumstanes? The interest is generally payable at maturity.

Mr. VANDERLIP. Just as I say. If it is a nine-months note at 6 per cent, and you are disposing of it on a 5 per cent basis, you will get more than the face of the note for it.

Senator REED. What you mean, in a word, is this, that the bank will do just what your bank will do. If the interest has been paid, it will take that out of the note. If the note is still drawing interest, it will take that fact into consideration and arrive at the actual value.

Mr. VANDERLIP. And that value will be either above the face or below it, as the basis upon which it is being discounted varies from the rate the note bears.

Senator HITCHCOCK. Then some of the notes taken in that way may have the interest already paid, and on the other notes the interest may be payable at maturity.

Mr. VANDERLIP. Yes. Now, on page 22, section E, it is provided that the Federal board may reclassify——

Senator HITCHCOCK (interposing). You did not say anything about those reserve requirements. You are passing that over. Do you think the Federal board should have the power of suspending the reserve requirements?

Mr. VANDERLIP. I passed that over because I am doubtful; I have a feeling it should not. But I have heard some arguments lately in favor of it. The balance of the opinion, in my mind, is that it should not have that power, but I see some rather impressive reasons why it should have it.

Senator HITCHCOCK. This means they have the power not only to suspend the reserve requirements as far as the 12 banks are concerned, but to suspend the reserve requirements of the national banks and even the reserve requirements of State banks.

Mr. VANDERLIP. Yes.

Senator BRISTOW. Unless I am interrupting Senator Hitchcock, what is the use of any such power as that, when we are supposed to have a system that can bring relief in any kind of an emergency?

Mr. VANDERLIP. I do not believe it is necessary. Of course it is not necessary now, as bad as our present system is. But in reality we sometimes disobey the law now. We do invade our reserves. It would be wiser, perhaps, to have somebody with power to suspend that reserve requirement rather than have all of the banks more or less break the law. But even that I am not sure of. On the whole, I should be opposed to that, but I can see some reasons on the other side.

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Senator BRISTOW. And are you not providing, or endeavoring to provide, at least, facilities here by which it is never going to be necessary for you to break the law?

Mr. VANDERLIP. It do not think it would be necessary. I think it is positively unnecessary to have this provision on that score alone.

Senator WEEKS. Do you recall the arguments which you have referred to which were in favor of this provision, why it should be in the bill—by whom they were made?

Mr. VANDERLIP. They rather take this form, that a reserve that is fixed by law is simply an irreducible amount of money. It is of no value at all for paying the depositors, and you have no leeway whatever between the minimum that you are probably going to loan out and the legal point that you must not go below—that the suspension of reserve requirements under pressure would permit you to pay out a certain amount of your reserve to relieve the situation around a bad corner. I do not think that is very much of an argument, and, perhaps, I have not presented it very well.

Senator WEEKS. Do you agree that under this system, if it is established, or the system that is contemplated, we can practically eliminate the amount of reserve which would be required of banks, permitting them to follow, practically, the policy that is followed in European banks?

Mr. VANDERLIP. In the end, I think you could. There ought really to be no legal-reserve requirement, but in this country we have grown so accustomed to it I think it is dangerous to abandon it all at once.

Senator WEEKS. That is, in the course of 5, 10, or 15 years we can greatly change the reserve requirements of this law?

Mr. VANDERLIP. I think so, undoubtedly.

Senator HITCHCOCK. What would be the effect on the public mind if the reserve board should announce the suspension of the requirements of the reserve banks when they come down to 33⅓ per cent?

Mr. VANDERLIP. That depends upon what the condition of the public mind was before they announced that. I could imagine circumstances under which it would produce a feeling of relief to the public mind.

Senator HITCHCOCK. The whole world has reached the conclusion that central banks should have a larger reserve than 33⅓ per cent. All the central banks of Europe have a much larger reserve, and this bill has adopted a smaller one than at present need be. Now, take a condition where they have reached the limit. The reserve board lets down the bars altogether. What would be the effect on the public mind?

Mr. VANDERLIP. It would have to be a very serious situation when they did that, and, generally speaking, whenever they did do it confidence in the whole system would be pretty well destroyed and would have been destroyed when they did it.

Senator HITCHCOCK. It would tend to confirm the fear and really aggravate it?

Mr. VANDERLIP. Yes.

Senator REED. What was the effect in 1907, when the Comptroller of the Currency notified the banks they need not keep any reserve against the Government deposits?

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Mr. VANDERLIP. It did not have any effect, because the banks thought they knew at what points they ought to keep reserves, and they kept them there.

Senator REED. There never was a proclamation of the right to do so?

Mr. VANDERLIP. There was a proclamation of the right that they need not keep reserves against the Government deposits. Of course the comptroller has no more right than you to change the law.

Senator REED. No; I understand.

Mr. VANDERLIP. His proclamation was that they need not keep reserves against the Government deposits.

Senator NELSON. They need not keep that money over their deposits?

Mr. VANDERLIP. No.

Senator REED. That did not affect the public mind at that time?

Mr. VANDERLIP. No; it was rather a technical matter that the public mind did not grasp.

Senator HITCHCOCK. Was there any reason to keep a reserve against them?

Mr. VANDERLIP. There is the same reason, so far as the Government is concerned, but no reason so far as the bank is concerned. The reserve is to help pay deposits, and the fact that you have secured the deposits does not change the reserve.

Senator NELSON. It does not relieve their paying?

Mr. VANDERLIP. No, sir.

The CHAIRMAN. Did not the suspension of the reserve in the English system in 1847, 1857, and 1866 abate the panic on those three great occasions?

Mr. VANDERLIP. Undoubtedly. I presume that the drawing of some parallel between them and the present conditions was what led to putting this in, but I doubt the wisdom of the parallel. I would rather say not.

Senator REED. Do you think really it is a good thing to have a reserve you do not use, that you do not invade?

Mr. VANDERLIP. I think it would be a better thing to have no regular limits on your reserve at all, but I believe it would be dangerous now. We have grown too accustomed to a regular limit to remove that altogether.

Senator NELSON. And, besides, Mr. Vanderlip, under this new system, without a reserve requirement you would not have capital enough for these banks?

Mr. VANDERLIP. No.

Senator NELSON. That is just part of their capital that comes from this reserve provision?

Senator POMERENE. The reserves here are 12 and 18 per cent. What would you say as to the wisdom of providing that this board might, by unanimous vote, reduce or raise those reserves?

Mr. VANDERLIP. By no means. I would not give to that board the discretion to change the whole basis of the banking system. We would not know where we stood at all.

Senator POMERENE. The thought is these figures are fixed and, to a certain extent, it is problematical as to whether they are fixed at

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the proper point. Now, that being so, if the experience of future years should indicate that the reserves were too high or too low, for that matter, then they might be raised or lowered?

Mr. VANDERLIP. I would rather let the board make representations to Congress and have Congress handle it.

Senator NELSON. I want to call your attention to an ambiguity in this paragraph, to suspend for a period not exceeding 30 days, and to renew, and so forth, any and every reserve requirement specified in this act. Now, there are two distinct reserve requirements: One is the requirement of the member banks, and then there is the other reserve requirement of the regional banks of 33 per cent. So that this would cover both classes of reserves, both the reserves for member banks and the reserves required of the regional banks, the issuing bank. In the case of the regional bank it is 33 per cent, and in the case of these others, so far as the reserve is concerned, it would be 5 per cent at the end of 36 months. So you see this would cover both.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Yes; or the gold reserve—that the bill does not require but probably will—it may change that.

Senator NELSON. Of course. It is ambiguous. It would cover both classes of reserve.

Senator WEEKS. You do not keep reserves on Government deposits now?

Mr. VANDERLIP. Yes, we do.

Senator WEEKS. Are you required to by order of the comptroller?

Mr. VANDERLIP. No.

Senator WEEKS. That order has never been rescinded, that they need not keep reserves against Government deposits?

Mr. VANDERLIP. I think not.

Senator WEEKS. Then, the comptroller's order was a permanent one, rather than a temporary one to meet that contingency?

Mr. VANDERLIP. I believe so.

Senator NELSON. Further, in that connection I call your attention—commencing on line 21, it is provided that "it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified," etc. What do you think about that provision?

Mr. VANDERLIP. I believe that is a correct theory of the control of the situation—the taxing of deficient reserves, rather than the taxing of notes.

Senator NELSON. And you would apply that to the 33 per cent required, and not to the reserves that member banks put in?

Mr. VANDERLIP. Oh, yes. The member banks I would leave alone.

Senator NELSON. That is what I mean.

Senator BRISTOW. This puts a tax on the deficiency of the gold reserve in the Federal reserve banks?

Mr. VANDERLIP. Yes; the reserve carried by the Federal reserve banks.

Senator REED. What would be the use of levying a tax on that? If you had a system here that was paying, say, 5 per cent to member banks on their capital investments and the balance of it went to the Government, and then there was a profit, and we levy a tax on going below 33 per cent gold reserve, we collect it from our own pockets.

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Mr. VANDERLIP. If you endanger the 5 per cent dividends, you would find the management of those banks very keen.

Senator REED. Yes; if you endangered the 5 per cent dividends. When you reach that point, and up to the time you reach that point, it would be taking money out of your own pockets.

Mr. VANDERLIP. Yes.

Senator REED. Would it not be well, in that case, if it went below, to collect that tax out of the 5 per cent—commencing there?

Mr. VANDERLIP. Possibly. That is an ingenious suggestion. Section E, on page 22, gives the board power "to add to the number of cities classified as reserve and central reserve cities under existing law," etc. I can not see what the distinction between reserve and central reserve cities will be under this act. None of the banks hold reserve deposits, and I see no force in such a distinction. Then it goes on further and says that they have the power to designate the banks therein situated as country banks, at its discretion. That is, they could go into a central reserve city and designate a particular bank as a country bank, as I read this. That is certainly a power they never should have.

Senator HITCHCOCK. If they made it optional for the national banks to come into the system and a number stayed out it might be necessary in central reserve cities?

Mr. VANDERLIP. Those that stayed out would have to surrender their charters.

Senator HITCHCOCK. I say, if it is made optional.

Mr. VANDERLIP. Oh, yes; if it is made optional, that is true. But it is not made optional, and if you made it optional you never would get anywhere with the system. That is the unfortunate part of it.

Senator O'GORMAN. What is that last statement?

Mr. VANDERLIP. If you made it optional whether or not a bank should come into the system you would never get the system started.

Senator O'GORMAN. What is your judgment, as a citizen, not as a banker, as to whether it ought to be optional or compulsory?

Mr. VANDERLIP. It would be vastly better to have it optional, if there were any hope of making it work. Looking at it as a citizen, and not as a banker, I see that bankers are very conservative and unimaginative people. They would like to wait and see. You give them permission to join when they choose and they will all wait for the other man to start it. They will wait to see how it works.

Senator O'GORMAN. Suppose it was compulsory, what do you think would happen?

Mr. VANDERLIP. I fear that a great number of the national banks would be converted into State banks.

Senator O'GORMAN. About what percentage of the national banks do you think may surrender their charters?

Mr. VANDERLIP. That is very difficult to say until the law is in completed form. I think many of the small banks would, and I can see very distinct advantages in the large banks surrendering their national charters, taking out State charters, and then joining the system as a State bank.

Senator O'GORMAN. That is upon the assumption that this bill would be enacted as it is now?

Mr. VANDERLIP. Yes, sir.

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Senator O'GORMAN. I suppose I do not exaggerate the situation when I state that there is no member of this committee, no single member, who favors enacting this bill as it stands to-day.

Mr. VANDERLIP. I have directed my remarks to the bill as it stands.

Senator WEEKS. What do you think of the proposition which has been made to the committee, to reduce the period from one year to three months during which the national banks should have the privilege of deciding whether they are coming in or forfeit their charters?

Mr. VANDERLIP. I should say that would be a very short time.

You found the national bankers very slow to comprehend the provisions of the bill, I understand, from many of them who have been before you, and I think the national bankers as a rule would not comprehend the thing sufficiently to arrive at an intelligent decision.

Senator WEEKS. In your opinion what would be the effect of shortening the time; would it force more out or force more in?

Mr. VANDERLIP. That is hard to say; I do not know.

Senator WEEKS. You think it would not be wise or just?

Mr. VANDERLIP. It would not be just. They ought to have time in which to digest this thing.

The CHAIRMAN. They ought to have time to read it?

Mr. VANDERLIP. Yes.

The CHAIRMAN. They have not read it yet?

Mr. VANDERLIP. So I understand.

Senator WEEKS. Your fear that the banks will come in unless it is made compulsory is justified by the experience under the Aldrich-Vreeland bill? The currency associations were not formed until the Treasury Department brought pressure to bear, and as a result of that pressure the associations were formed?

Mr. VANDERLIP. Yes.

Senator WEEKS. There was no proper reason why they should not have been formed, but there was no initiative about it?

Mr. VANDERLIP. Yes.

Senator NELSON. What would you think of making it optional with the small country banks having a capital, say, of $100,000 or less—making it optional with them? Would that mar the plan?

Mr. VANDERLIP. If you reduce that to $50,000 or less, I do not know that it would seriously mar the plan. But just where would these banks that would not come in keep their reserves?

Senator NELSON. I do not know. You would have to have some plan for that. You would have to make——

Mr. VANDERLIP (interposing). The very small banks are not essential to the working of this plan.

Senator NELSON. The $25,000 bank?

Mr. VANDERLIP. Yes; and even the $50,000 banks.

Senator NELSON. We have about 2,000 of them, I think.

Mr. VANDERLIP. We have more than that, I believe.

Senator HITCHCOCK. Suppose you provided that a small bank which had subscribed no capital might have the right to discount paper at a regional reserve bank, provided it has kept its reserve there and has otherwise complied with the law?

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Mr. VANDERLIP. That would be, perhaps, unfair to the banks which had been compelled to subscribe capital, but it would be workable.

Senator WEEKS. In that event you would be conferring a benefit upon the country banks without exacting any return?

Mr. VANDERLIP. Exactly.

Senator REED. Mr. Vanderlip, suppose the law required these banks engaged in interstate commerce to keep a certain reserve in these reserve banks and did not require any bank to put up any part of its capital stock; what do you think would be the result of that?

Senator O'GORMAN. Where would you get the capital?

Senator REED. They would have reserves there mighty quick. As far as capital is concerned, to-day capital is almost a mere bagatelle. We are talking about compelling people to come into this system. The Government does have one power that is tremendous, and that is its control over interstate commerce. Suppose you established a system and simply said that any institution that engaged in interstate commerce in the banking business must put a certain amount of its deposits in these central banks to be established by the Government for the purpose of rendering secure our financial system.

Mr. VANDERLIP. Have not the courts decided that banking is not interstate commerce?

Senator REED. I do not know. I am asking you that, as the thought occurred to me here. It was not matured.

Mr. VANDERLIP. I am not a lawyer, but I think that is true.

Senator REED. My opinion is that whenever notes go from one place to another, or checks, that that is interstate commerce. Senator Nelson would know, I think.

Senator HOLLIS. They could compel them in the way of——

Senator NELSON (interposing). I think the courts have held that insurance policies are not interstate commerce.

Senator REED. I know they have held that.

Senator NELSON. Insurance policies written in one State and payable in another.

Senator BRISTOW. Mr. Vanderlip, do you not think that any system which we may have devised, which would have to resort to such drastic measures as that, would not last very long, and would soon be superseded by another?

Mr. VANDERLIP. I think it would be very indefinite.

Senator BRISTOW. Do you think such a system would last very long?

Mr. VANDERLIP. It would be started under very poor auspices, at least. I should object to the provision——

Senator REED (interposing). We are asserting here now our rights, at least our desire, to control the banking system of this country within certain limitations, and we are talking about saying to all the national banks that have been organized and had their charters for 20 years, that they must come into this system or they must go out of the national-banking system. That is tolerably radical, but I am not saying the other thing could be done. That is the thought which occurs to me here.

Senator NELSON. There is a grave question, a very serious question, where a bank has a charter that has run for 10 years, say, a charter which they took out for 20 years, and the bank has not

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violated any law; there is a grave question whether you can have that charter forfeited simply because they will not go up to this new trough and drink water out of it.

Mr. VANDERLIP. I object to the power given to the Federal reserve board, as stated at the bottom of page 22, to perform the duties, functions, or services specified or implied in this act. That word "implied" might be made to cover almost anything we have ever thought of.

The CHAIRMAN. What page?

Mr. VANDERLIP. Page 22, the last line on the page. I will take up now the Federal advisory council, as referred to on page 23.

Senator BRISTOW. What do you suppose that means, in that last paragraph on page 22, "to perform the duties, functions, or services, specified or implied, in this act"?

Mr. VANDERLIP. I suppose it means that the Federal reserve board would be able to demonstrate that they had almost any powers they were of a mind to conceive.

Senator POMERENE. That would be given a legal significance, meaning such powers as are legally implied for the purpose of carrying out the provisions of the act.

Mr. VANDERLIP. This is a pretty broad, blanket power, I believe. I do not like it.

Taking up now the question of the Federal advisory council, if bankers are not to be permitted to have any representation on the Federal board, then I should emphasize in every way possible the importance of this Federal advisory council. For instance, it is provided here that they shall receive no compensation for their services. I can see no reason whatever for that. Why should they not receive compensation if the banks choose to give it to them?

It is provided that they will meet four times a year or oftener if called together by the Federal board not if called together by themselves. I think if you make a Federal board that is composed entirely of Government representatives and permit the members of this advisory council to sit at all the deliberations of the board, to take part in the discussions and debates—not to have any votes, but to give the Federal board the advantage of close, intimate touch in the discussion of all questions with the advisory council—it will be a very good thing.

Senator WEEKS. Should its hearings be public?

Mr. VANDERLIP. Not necessarily. They are not exactly hearings; they are general discussions which the Federal board may have; I mean, they are official meetings. I would empower this council to call for any sort of information. I would give them the power to call for any sort of information that the Federal board itself might call for. I would put them on a parity with the Federal board—almost make them a part of it—but give them no vote. Give the Federal board the advantage of that relationship.

Senator WEEKS. What do you think of the value of an advisory board—a volunteer board, practically so—which has no ultimate responsibility?

Mr. VANDERLIP. I think it of very little value as this section is drawn. I think it could be made of considerable value.

Senator POMERENE. Without any provision of that kind, do you not feel that if there is any matter that comes up which seriously

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affected the banks, that they would have their representatives wait upon this board for the purpose of presenting their views?

Mr. VANDERLIP. It is very different having a representative waiting on the board from having a representative with full rights sit at the table where the meeting is going on.

Senator POMERENE. That is true if they are to sit and take part in the final deliberation. They would be like Delegates in the House of Representatives.

Senator NELSON. Delegates from the Territories, without a vote.

The CHAIRMAN. Would you give them unlimited debate? [Laughter.]

Mr. VANDERLIP. No; I think there should be a cloture rule. [Laughter.]

I now come to a very important and somewhat technical matter. Section 14 provides that the Federal reserve banks may receive for collection all sorts of checks and drafts drawn upon solvent banks.

The national-bank act at present says a reserve shall be kept upon the deposits. There is no definition there of gross deposits and net deposits, but the distinction which has grown up not by law, but by regulation, is very important. Grass deposits are the total deposits to the credit of the depositors in the bank. Net deposits are the deposits after certain deductions, among which are all items that are in the process of collection. For instance, if a bank in New York has $10,000,000 of deposits, and a bank in Pittsburgh deposits a million-dollar check drawn on a Chicago bank, the gross deposits of the New York bank would be $11,000,000, but in figuring the reserves we would deduct that $1,000,000 check until it had been collected, and we would figure reserve on $10,000,000, which is the amount of net deposits.

Under the present practice the reserve of the Pittsburgh bank is increased a million dollars, although the New York bank is not keeping any reserve against that deposit, and that constitutes a reserve for the Pittsburgh bank until it collects the money.

There is nothing said in this bill about gross deposits and net deposits. If reserves were figured on gross deposits, and these Federal reserve banks undertook all the collection business of the country, as they certainly will under these provisions, there would be a mass of deposits with them which would, in fact, only be items in process of collection but against which they would have to keep reserves. That mass of items in process of collection would be so great that it would use up a large part of the reserve bank's available funds to keep a reserve against it. I think the reserve banks should be permitted to deduct from their deposits items in process of collection, just the same as national banks now deduct in that way, and it would be more nearly correct and not permit the depositing bank to count uncollected items in its reserve until they are collected, although at the present time the depositing bank does count in its reserve all deposits created by the uncollected items, although the bank receiving them on deposit keeps no reserve against this amount but deducts it from gross deposits.

This point is very important, because if reserves were to be figured on the gross deposits of Federal reserve banks it would swamp the Federal reserve bank.

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Senator HITCHCOCK. On the other hand, is it not permissible under this bill for the Federal reserve bank to charge to a member bank having deposits checks when they are received in the Federal reserve bank?

Mr. VANDERLIP. It must, without charge, credit at par checks drawn by member banks on it, checks drawn on member banks that are members of its region, or checks drawn by member banks of any other region upon the central reserve bank of that region. Those must all be credited at par. It can charge for checks drawn on member banks of other regions, checks drawn by member banks upon member banks of any other region, or checks drawn upon any solvent bank. The charge for the collection does not cure the thing. If these are counted as deposits they have to keep a reserve against them; it will consume a large part of the reserve if they have to keep a reserve against these uncollected items.

Senator HITCHCOCK. I think that while it is true that checks would come in constantly, in large volume, which would go to the credit of a member bank, yet the same member bank would be charged with checks that came in the same mail. That would reduce the deposits?

Mr. VANDERLIP. Certainly it will. Just as fast as collection is made of the deposit, the deposit is reduced.

Senator HITCHCOCK. No; I think you misunderstood me. The checks coming into the reserve bank, drawn on a member bank, when cashed by the reserve bank would be charged to the account of the member bank.

Mr. VANDERLIP. That is true, but what about checks coming in drawn by members on other banks? Suppose there is deposited by a New York bank in the central reserve bank in New York a check drawn by a San Francisco bank on another member of the San Francisco Federal reserve bank? That is going to take some time to collect.

Senator HITCHCOCK. That would be a different situation?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. As far as the member banks of the central reserve banks are concerned——

Mr. VANDERLIP (interposing). They ought to clear every day.

Senator HITCHCOCK. And it ought to be counted in their deposits?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. It ought to be counted in the reserve in the deposit also.

Senator WEEKS. It will be necessary to give prompt notice to the banks that certain charges have been made against its account, otherwise it might overdraw very frequently?

Mr. VANDERLIP. Exactly. Section 15 is translated in different ways by different people. I have supposed that it meant that the Federal reserve bank could go into the market and buy paper that had the indorsement of a member bank somewhere in the system. I have been told that is not what it means; that it can go into the market and buy any paper.

Senator NELSON. Anywhere.

Mr. VANDERLIP. Anybody's paper.

Senator O'GORMAN. That is for the purpose of regulating the discount rate?

Mr. VANDERLIP. Yes; to flatten rates or to accumulate bills to sell at a time of threatened gold exports.

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Senator O'GORMAN. Can you suggest any better way of regulating the discount rate?

Mr. VANDERLIP. I suggested this morning, at some length, the idea of converting part of the 2 per cent bonds into one-year Treasury notes, which should be renewed, as often as they matured, by the Federal reserve banks that would hold them. They would have in their possession 200 or 300 million dollars' worth of such notes that they could offer in the market whenever they wanted to control the rate and that could be used to great advantage in the gold situation.

Senator O'GORMAN. Just as the Government has done in the past in that respect.

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Why should not the Government do that direct? It seems to me that is a very cumbersome way to secure gold.

Mr. VANDERLIP. How would the Government secure gold?

Senator BRISTOW. Sell bonds direct.

Mr. VANDERLIP. The Government would have no machinery for that. It would not want to sell bonds. Of course it might sell short-time notes, but it is not the special concern of the Government whether gold is exported at a certain time or not. It is of concern to the banking situation, and not a concern of such moment that the Government ought to take action. These bankers, however, ought to have the power so that they could in some measure check the outflow of gold. You can not check it to any great extent; you can only dam it up a little; you can hold it up for a while, possibly until a crop movement brings you credits so you do not have to have any gold movement. That is only a slight, but it is a very important, power.

Senator WEEKS. If the reserve banks were given the power to invest in foreign bills and made a practice of doing it to a considerable extent, could not they regulate the flow of gold by purchasing or selling foreign bills?

Mr. VANDERLIP. That is provided for in here. It is extremely important, but of the 12 regional banks that would probably only be done by the one in New York. There might be two or three which would engage in the purchase and sale of foreign bills, but it is rather doubtful if banks operated by people who were not familiar with foreign exchange would trade in foreign bills.

Senator WEEKS. That is still another argument in favor of reducing the number of banks?

Mr. VANDERLIP. Yes; they are almost numberless.

Senator SHAFROTH. Mr. Vanderlip, I want to ask you about the raising of the discount rate. I have not gotten it clear in my mind whether this would be to the advantage of the people to do that or not. Of course, there is a certain amount of benefit that comes to a nation in getting gold into it, but if you raise the discount rate and make the people pay higher interest for accommodations it is a dilemma that has two features to it, one a bad feature and one a good feature.

Mr. VANDERLIP. You may be rendering a great service to the people by checking too great expansion and free loaning.

Senator SHAFROTH. You mean by the increased discount rate?

Mr. VANDERLIP. By the increased discount rate.

Senator SHAFROTH. But the man who wants money never goes there.

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Mr. VANDERLIP. Therefore he is not the correct man——

Senator SHAFROTH (interposing). You say the rate can not be controlled absolutely, anyway?

Mr. VANDERLIP. Oh, no; only slightly.

Senator SHAFROTH. I agree with you that whatever is absolutely needed in foreign countries is going to get there if they willing to bid for it more than we are, and for that reason I do not see but what there is almost as much loss to the people by reason of attempting to regulate the discount rate as there is benefit

Senator NELSON. Mr. Vanderlip, I want to call your attention to line 6 on page 27. What do you understand by the term "prime bankers' bills," as distinguished from bills of exchange, the words below? What is a prime bankers' bill?

Mr. VANDERLIP. A prime bankers' bill has the indorsement of a banker.

Senator NELSON. You mean acceptance?

Mr. VANDERLIP. Acceptance or indorsement.

Senator NELSON. And a bill of exchange is a bill that has not been accepted yet?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. Now, would this include what I call finance bills, as distinguished from commercial bills? You know the difference?

Mr. VANDERLIP. A finance bill is drawn against securities, not drawn against commercial transactions.

Senator NELSON. But it has an acceptor?

Mr. VANDERLIP. Oh, yes; it has an acceptor, just as a commercial bill.

Senator NELSON. Would this include a finance bill as well as a commercial bill?

Mr. VANDERLIP. I should think not.

Senator NELSON. You do not think so?

Mr. VANDERLIP. No, sir.

Senator NELSON. It would not do to include that, would it?

Mr. VANDERLIP. I think not.

Senator BRISTOW. Do you think that section 15 offers the regional banks an opportunity to go out and transact a general banking business?

Mr. VANDERLIP. I do not know, but I am very sure it ought to be made perfectly clear whether or not it is permitted to do so.

Senator BRISTOW. What do you think; should it or should it not?

Mr. VANDERLIP. I think it should not be. Of course, it has to have something to make its discount rate effective. If you do not adopt this one-year Treasury note plan, I am not certain but what it is necessary for the bank to do this open-market business to make its rate effective. It must have some power to do that. It is obnoxious to be creating an institution with our own capital which is going into a market to compete with us.

Senator O'GORMAN. You will observe by the language of section 15 that it is not designed that that power will be used always. It is only to be used in the contingencies which will be governed by the rules and regulations of the Federal reserve board. Can you not confide the exercise of that power to the judgment and discretion of the Federal reserve board?

Mr. VANDERLIP. We would first confide it to our own representatives and directors in the Federal reserve bank, and I should say we

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would be willing to confide it to them rather more than to the Federal reserve board. We create a majority of the directors of the Federal reserve bank, and we ought to be able to control the competition of the bank.

Senator O'GORMAN. Suppose a provision substantially similar to the first paragraph of section 15 were in this act, you would advise the elimination of this reference to the reserve board establishing rules and regulations?

Mr. VANDERLIP. I do not see any reason why it should establish rules and regulations.

Senator O'GORMAN. Except that it is in keeping with the general tenor of the entire bill that they will exercise a supervision and control over all reserve banks.

Mr. VANDERLIP. I have not especially found fault with the powers given to the Federal reserve board there. I have merely voiced the objection that is very common among bankers, to the Federal reserve bank competing with existing banks. The feeling on the part of many bankers is that the Federal reserve board should never buy any paper that did not have the indorsement of some member bank of the system. Then you are not in direct competition with the banks.

To come to the note issue, I believe it is fundamentally wrong to have the Government issue the notes. I think they should be an obligation of the Federal reserve banks. While I am perfectly clear that it is improper and unscientific, I will admit that I believe it will work in this form. There is danger that this guaranty of the Government will sometimes embarrass the Government. That is the chief practical objection to the working of this thing. It is unsound in theory for the Government to issue these notes, but I think the only really serious trouble that could ever come out of it would be that the Government might be embarrassed in carrying out the responsibilities here imposed upon it.

Senator POMERENE. Under what conditions have you in mind?

Mr. VANDERLIP. Under conditions where the Federal banks are down to the limit of their reserves, a large amount of notes coming in for redemption because of some fear of the inability of the banks to redeem them, and the fact that there is not gold enough to cover the notes, the only cover for them being a loan upon commercial paper.

Senator HITCHCOCK. Five per cent?

Mr. VANDERLIP. They have 5 per cent reserve deposited with the Government. That is an insufficient reserve.

Senator POMERENE. If these are in fact Government notes, it would reduce to a minimum such conditions as you have described?

Mr. VANDERLIP. I think so.

Senator POMERENE. Assume for the time being that this bill was so changed as to make them obligations of the member bank instead of the Government; it is true the provisions of this bill are sufficient for the protection of those notes, so as to insure their redemption?

Mr. VANDERLIP. Probably. I presume you meant the obligation of the Federal reserve bank instead of a member bank.

Senator POMERENE. The regional reserve bank.

Mr. VANDERLIP. I can imagine, with a large number of regional banks, instances of mismanagement—perhaps the exercise of too

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optimistic views by the board of some bank—so that it would be in a position of difficulty in redeeming these notes. The community where these notes were circulated, even though it knew the bank that issued them was rather weak, would not be concerned with that bank at all if the Government were guaranteeing the notes. I think the community ought to be concerned if the bank issuing the notes becomes weak enough so as to raise some question as to its ability to redeem these notes promptly. I certainly can imagine a condition where one of these banks would not be able to redeem these notes promptly. It is very probable. The risk of the guaranty is very small, but if it is nothing there is need for it. If there is any risk, the Government ought not to assume it. There is no more reason why the Government should be liable for notes than for deposits.

Senator POMERENE. You have here the security of the reserves, the double liability, the capital of the bank, and the fact that there is a first lien upon the assets of the bank. That ought to make it pretty secure.

Mr. VANDERLIP. It ought to make it quite secure enough for the note holder. It makes it absolutely secure, I believe. Therefore, why add the guaranty of the Government to it?

Senator POMERENE. If it is absolutely secure, what risk is the Government taking?

Mr. VANDERLIP. It is not taking any risk, if it is absolutely secure. It is probably secure, and, therefore, a guaranty is wholly unnecessary.

Senator WEEKS. Suppose we got into a serious war and it were necessary for the Government to issue its Treasury notes, as it did in the sixties, do you not think that having these notes at that time with practically a Government guaranty, would be an important consideration?

Mr. VANDERLIP. Very important; yes; important to the Government in that it would make it difficult for them to issue notes as they did in the sixties with a guaranty. It would be much better for the Government to let the bank notes stand by themselves.

Senator SHAFROTH. Would it be any worse than to have bonds issued to carry on a war?

Mr. VANDERLIP. Very much worse; inexpressibly worse.

Senator SHAFROTH. You mean because the rate at which they would buy the bonds would be above par?

Mr. VANDERLIP. No; I mean because an emission of fiat money entails for the country that issues it instead of selling bonds to pay the expenses of the war a burden of rising prices and increased expenses.

Senator SHAFROTH. That depends on whether they can maintain the gold reserve.

Senator REED. Mr. Vanderlip, you say that if this currency is secure, it needs no Government back of it. If it is not secure, it should not have the Government back of it. Now, is not one of the great elements in floating any currency the confidence that the people have in the ultimate redemption of that currency?

Mr. VANDERLIP. Yes, sir.

Senator REED. And just in proportion as you increase that confidence you decrease the likelihood of the currency being attacked or raided or beaten down in the market. Therefore, if the Government of the United States puts its indorsement upon all currency

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that is issued, does it not add to that currency a great element of stability and value?

Mr. VANDERLIP. I do not believe in this case that it does add very much. And I do not believe that it is desirable to add any. I believe that these banks ought to be under the compulsion of so conducting themselves that the public would have absolute confidence in this currency.

Senator REED. Do you not think that in establishing any financial system that the confidence of the public is, after all, one of the very great elements?

Mr. VANDERLIP. Yes, sir.

Senator REED. Now, do you not believe, Mr. Vanderlip, that taking the average citizen of the United States he regards anything that the Government stands back of as the safest and best security on earth?

Mr. VANDERLIP. Yes.

Senator REED. Well, if that is true, then why not give to this system that added stability, particularly when you say it can be done without really jeopardizing the Government?

Mr. VANDERLIP. I say it can probably be done without jeopardizing the Government, but if it ever did jeopardize the Government it would be a very serious matter.

Senator REED. Why, certainly. And if we are going to enact a bill here that is so bad that the structure will fall so heavily as to bear down the Government or greatly injure the Government, then we are embarking upon a most hazardous undertaking.

Mr. VANDERLIP. I do not think you are going to do that. And I do not think this bill, in all human probability, if enacted, would ever involve the Government; but the principle of having the Government issue these notes is wrong. The guaranty of the Government is an unnecessary and illogical thing. The notes will float perfectly well without any guaranty.

Now, practically, I tell you my opinion is that the thing will work. It is wrong, it is unscientific, it is not a correct way of approaching this subject, but I think it will work, and the strong probability is that the Nation's credit will never become involved. But I can readily conceive of circumstances under which it will become involved, and I think you would be doing the wrong thing to issue the notes in this form.

Senator NELSON. One question there, Mr. Vanderlip. I think, as a matter of general principle, you are right, but don't you think that in time of financial stress and disturbance, where the holders of these bills knew that the Government was back of them, there would be a less disposition among them to make a run and try to obtain gold for their paper?

Mr. VANDERLIP. There might be.

Senator NELSON. Would there not be less likelihood of a rush to the bank or the Government vaults, saying, "I want gold for this paper," if the holders knew the Government was back of it?

Mr. VANDERLIP. If they were to rush to the vaults and get gold, they ought to rush to the vaults and get gold. That is the position this bank ought to keep itself in.

Senator NELSON. No; I mean would not the people when they got frightened, as they were in 1907, when they got scared and ran for their deposits—suppose they got scared in the same manner about

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this new currency; wouldn't they be less likely to make a run for the gold if the Government were back of the bills than if it were simply a bank?

Mr. VANDERLIP. They would be somewhat less likely to. On the other hand, the banks would be much less likely to get in a position that would cause such a run if the whole responsibility was upon them.

Senator HITCHCOCK. Mr. Vanderlip, the very fact that men sit around a table seriously discussing the safety of these notes seems to me a reason why we should not issue any more of them than necessary for the purpose of elasticity, and leave that bank currency which we already have and which is beyond any question.

Mr. VANDERLIP. It is beyond any question of security, but it has disabilities that are very serious and which should cause its removal.

Senator HITCHCOCK. Its disabilities relate only to its inelasticity, and that can we provide for in the future.

Senator SHAFROTH. And the fact they can not act as reserves.

Senator REED. We can make them act as reserves in this bill.

Senator POMERENE. Mr. Vanderlip, I do not share your views as to the riks to be run by the Government issuing these notes, but I do want to make them as absolutely secure as it is possible to make them— if there is any thing more secure than absolutely secure. I have this thought in mind: You suggested a few moments ago that the earnings of the regional reserve bank over and above the dividend should be converted into sinking fund for the redemption of the bonds. Now, why would it not be wise to set apart a portion of those earnings as a security or guaranty fund against possible loss upon any of these notes which might be issued by the banks?

Mr. VANDERLIP. That would be rather an unnecessary tying up of gold, because it would be set aside in gold if it were set aside at all.

Senator POMERENE. That is, you think these notes are so absolutely secure it would not be necessary to have that additional guaranty?

Mr. VANDERLIP. I do not believe it would.

Senator NELSON. Would you have these notes redeemable in gold, or gold and lawful money?

Mr. VANDERLIP. I should think they ought to be redeemable in gold. And, by the way, the bill is out of harmony in that respect, in that the banks——

Senator NELSON (interposing). What page are you referring to, please?

Mr. VANDERLIP. On page 32 it is provided that the Federal reserve banks must "maintain on deposit in the Treasury of the United States a sum in gold equal to 5 per cent of such amount of Federal reserve notes," etc. On the preceding page it says, line 20, "shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided."

The redemption fund is provided to be in gold, and the responsibility on the Treasury for redemption out of this fund is stated to be in lawful money. If the words "lawful money" were changed to "gold," in line 20 page 31——

Senator O'GORMAN (interposing). Mr. Vanderlip, the relation there is so close that there would be no room to doubt that the expression "lawful money" on page 31 would mean gold, because it has to be taken out of that 5 per cent.

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Mr. VANDERLIP. If there is no room to doubt it, then these notes are redeemable in gold at the treasury.

Senator NELSON. Should not the banks who issue this currency provide the necessary gold, and not cast the burden upon the Federal Government in any event?

Mr. VANDERLIP. They are providing it.

Senator NELSON. No; they are not; if you leave the words "lawful money" in it, because the banks can redeem in lawful money, and that throws the burden on the Government. The regional bank redeems in greenbacks, and the man who gets the greenbacks would walk up to the Treasury and demand the gold.

Mr. VANDERLIP. Gold is the proper money for ultimate redemption.

Senator NELSON. And as long as you leave the words "lawful money" in there you ultimately cast the gold burden on the National Government, do you not?

Mr. VANDERLIP. You do, if "lawful money," as Senator O'Gorman says, means gold here.

The CHAIRMAN. It lacks two minutes of half-past 5, the hour at which the committee adjourns, under a previous resolution. The chairman would like to know what the wish of the committee is with regard to meeting to-morrow morning.

Mr. VANDERLIP. I am at the service of the committee.

Senator NELSON. We should like to have you with us.

Senator REED. I move, with a view to expediting the hearings, that we meet at 10 o'clock.

The CHAIRMAN. The Iowa bankers were invited to be here to-morrow.

Senator NELSON. The Senate meets at 12, so we had better meet at 10.

Senator WEEKS. Mr. Dawson of the Iowa bankers is here, and the other two representatives will be here to-morrow, but I am inclined to think they will subordinate their wishes to the desires of the committee about appearing to-morrow or the next day.

Senator BRISTOW. I think it is very important we have Mr. Vanderlip with us to-morrow. I have a lot of questions I want to ask him.

The CHAIRMAN. With that understanding then, the committee when it adjourns, will adjourn till 10 o'clock.

But before the committee adjourns I should like to have it noted on the record that the statement of the Senator from New York, that not a single member of this committee was in favor of this bill in its present form, must not be understood to mean more. Some members of this committee think the bill should be amended; it must not be construed to mean more than that.

Senator WEEKS. Haven't you a large number of amendments yourself?

The CHAIRMAN. I have several amendments myself.

Senator WEEKS. That is what the Senator from New York said as I understood it.

The CHAIRMAN. I thought there might be some other inference drawn from it.

(Thereupon at 5.30 o'clock p. m. the committee proceeded to the consideration of executive business, and afterwards adjourned to meet to-morrow, Thursday, October 9, 1913, at 10 o'clock a. m.)

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THURSDAY, OCTOBER 9, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE.
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

The CHAIRMAN. Gentlemen, the time is so short that I think that even although the members are not present we had better proceed.

Senator NELSON. Yes; Mr. Vanderlip's statements are so important we want to be sure to get them.

The CHAIRMAN. We ought to have them, but we have only two hours until 12 o'clock, when the Senate meets, and this afternoon the Iowa people will be here expecting to be heard. So if we do not let Mr. Vanderlip go ahead we may not get his views at all. There are a number of other gentlemen who have been notified to appear.

Mr. VANDERLIP. Is it your wish that I should proceed?

The CHAIRMAN. Yes.

STATEMENT OF FRANK A. VANDERLIP—Resumed.

Mr. VANDERLIP. The provision for a national clearing house, on page 34, I believe can be of great economic value to the country and a great economy in the conduct of the business of the country. I believe it is a feasible thing, always remembering what I said yesterday about figuring net deposits, for if the reserve banks undertake these collections and keep a reserve against the items in process of collection they will be swamped.

The CHAIRMAN. It would be necessary to have the banks, then, keep a margin to cover their own exchanges—the special exchanges on them—would it not? Do you think that would be necessary in addition to the reserve?

Mr. VANDERLIP. I think uncollected exchange items ought not to count in a reserve, and no reserve ought to be carried against them. You ought to be able to reduce your gross deposits by the amount of uncollected exchanges. That rule ought to apply right down the line, and uncollected exchanges ought not to constitute balances that could be counted as reserves.

I think that a full comprehension of the working of this national clearing house would clear up, in the minds of many bankers, some objections that they see to the bill. Bankers are inclined to feel that they will have to keep accounts for exchange purposes, and object to the removal of their reserve balances from central reserve city banks, because they feel that they will still have to keep balances there for exchange purposes. I suspect they do not fully appreciate the function of this national clearing house and the method by which that will supply them with exchange without the necessity of keeping central reserve city balances.

If a Kansas City banker wants to remit to New York it can be done with a check on the central reserve bank of which the Kansas City bank is a member. It does not need to have a balance——

The CHAIRMAN (interposing). You mean the Federal reserve bank, do you not?

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Mr. VANDERLIP. Yes; I mean the Federal reserve bank. It does not need to have a balance in New York with another bank that it can draw a draft upon, because its check on the Federal reserve bank of which it is a member is at par in New York. It will be credited at once. Presumably there will be telegraphic clearances between the several Federal reserve banks, so that everything that is provided to be deposited at par—that is, checks or drafts of member banks on their Federal reserve bank, checks of member banks on other member banks, any checks on member banks or checks drawn by member banks of another region on their reserve bank—will all clear in one day. Those items that are to be deposited at par will clear in one day by the aid of telegraphic clearances between the several Federal reserve banks, and the result will be some small balance to be remitted one way or the other between the Federal reserve banks, in the same way that a city clearing house operates.

I do not, therefore, see the necessity of banks having to keep bank balances with other member banks in order to remit exchange. The clearing-house feature seems to me very important. It follows the lines of the best practice in Europe. I believe it is feasible. I think it will work a great economy in the commerce of the country and a great saving in the cost of doing that class of business.

Senator WEEKS. Do you think that country banks will be able to carry on all of their domestic exchange business through the reserve banks so that it will not be necessary for them to keep any deposit in the larger centers?

Mr. VANDERLIP. There is a certain class of business that is not provided for in the functions of the Federal reserve banks. The collection of a due promissory note, the collection of coupons, drafts drawn upon individuals, and items of that character, would still have to be made through a bank. The bank will do that either for a correspondent who keeps a balance with it to recompense it for the work, which is the present system; or it would do it for a fee, which is the European system, and which would in the end be quite as satisfactory probably, if the fees were properly adjusted. The Federal reserve banks, through their clearing-house function, will collect any check drawn on any solvent banker. That takes in all bank paper, but promissory notes, coupons, due bonds, and matters of that character would still have to be collected through a bank in the locality where they were payable.

Senator WEEKS. Could you make any estimate of the amount of that business—of what it would cost or how much of a deposit would be necessary in order to continue it under the present arrangement?

Mr. VANDERLIP. For the average country bank it would be very little. The only thing that I think of that would be of importance to the country banks would be that if the country bank entered the discount market and bought notes that were payable elsewhere it would have to have some arrangement for having remitted or deposited to its credit the proceeds of those notes at maturity.

Senator WEEKS. Now, there is this one facility of the larger banks which the country banks make use of now very largely, and that is the use of the credit department of the large banks. I presume it is your experience and the experience of the managers of all large banks that their country correspondents ask them to O. K. commercial paper whenever they buy it, unless they are very familiar

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with it. Now, it has always seemed to me that that was of material advantage to the country bank, and that he would not want to give up that facility entirely and would necessarily keep more or less money in such banks as he has been doing that kind of business with.

Mr. VANDERLIP. Undoubtedly the country bank will keep deposits with certain city banks for that and other reasons. I believe that it will be the disposition of the average country bank, which seldom borrows, to look to its old-time friend—the bank—that it has been with for a long time as a place to borrow rather than the Federal reserve bank—for a time, at least.

I believe that there will be the advantage that you speak of, an advantage in getting credit information, which will lead to at least one balance with whatever bank the country bank regards highest in the line of obtaining credit information. I do not believe that these balances of country banks will disappear altogether, but, of course, they will be on quite a different basis. At the present time country banks maintain balances for the purpose of having collections made and for the purpose of securing collections to be made by them. That is a very important element in securing bank accounts. For instance, Philadelphia, adopting a practice of collecting free, or at least with very small charges, has accumulated a great amount of country balances, although those balances do not count as reserves, for reserve city banks. Still Philadelphia collects so cheaply as against the charge made in New York, that large balances have accumulated there. Under this arrangement there would be no need of a balance there for the purpose of collection or with the object of securing collections upon which the depositing bank could make a profit. There would still be some reasons for balances, and the one you mention of credit information will be an important one.

Senator WEEKS. I think you place those reasons at a lower estimate than any witness that has been before the committee, and it is something the committee will have to consider, because I think many members of the committee—I have myself—have had in mind that it will be necessary for the country banks to keep considerable deposits in the large centers, or certainly in one large center. And whether it would be desirable to allow any part of that to be used as reserve, at least temporarily until they had acquired new habits and new methods——

Mr. VANDERLIP (interposing). That is permitted temporarily by the bill.

Senator NELSON. Three years. Now, I want to get at one point there. In the part of the bill referring to the reserve on deposits, would the phrase that checks, drafts, bills, etc., in process of collection shall be deducted from the——

Mr. VANDERLIP (interposing). Gross deposits?

Senator NELSON. Gross deposits—something of that kind——

Mr. VANDERLIP (interposing). That will do it.

The clause in regard to refunding bonds I have already discussed pretty fully. I have said that I do not believe it will work in the way that has been anticipated, because the 2 per cent bonds will have greater value in the hands of a banker taking out circulation than the 3 per cent bonds. A suggestion that has occurred to me would be to convert all the twos at once into threes with the circulation

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privilege and with a tax of 1½ per cent instead of one-half per cent. That would leave the result the same to the Government in so far as the bonds were used for circulation purposes, and it would give the banks the option of using the bond for circulation on the same basis that a 2 per cent can be used, or of selling it as a 3 per cent straight investment bond, if there were a market.

There would be a disadvantage to the Government if the banks did sell them and there ceased to be circulation. There would be a compensation for that disadvantage in that, so far as the national-bank notes were reduced, there would be room for the new notes to be issued, and the Federal reserve banks would make a profit on the new notes, which profit would in turn go back into the Government's pocket.

Senator WEEKS. I assume you would agree that the circulation tax should be increased if they should issue circulation on these new bonds, so that the net return would be exactly the same as on the twos?

Mr. VANDERLIP. That is what I said, that the circulation tax would be 1½ per cent instead of one-half per cent. But the Government would in the end be compensated for any loss through the earnings of the bank.

In taking up the section in regard to bank reserves, I will say that my general calculation has shown that there will be a pretty sharp contraction in the central reserve cities at the end of the first 60 days. It would not be so sharp, however——

Senator O'GORMAN (interposing). What do you mean by the first 60 days?

Mr. VANDERLIP. The first 60 days after——

Senator O'GORMAN. After the new system is in operation?

Mr. VANDERLIP. After the new system is in operation and reserves can be transferred.

That contraction, although sharp, will not be so sharp but that it can be met, I think, without exceptional difficulty. At the end of three years there will be a possible expansion of $1,500,000,000 to $1,700,000,000. To reach such an expansion means that all the Federal reserve banks will have loaned down to the full limit so that they have only 33 per cent reserve, and that member banks would have loaned down to the legal minimum. It is not at all presumable that such a condition would arise.

That figure looks very large, but as we look back and note that in the last three years national-bank loans have expanded $700,000,000, I do not regard the possibilities of expansion as excessive. I see no reason to anticipate that the expansion would be to the limit, that banks would not still be managed conservatively as they have been, and I should say that the possibilities of expansion were not dangerous, but, on the other hand, were ample.

With respect to the reserve requirement, the law says that banks shall keep a certain minimum in their vaults——

Senator POMERENE (interposing). Before going to that would you object to a question? You say there would be a contraction within the 60 days. Now, for what reason?

Mr. VANDERLIP. For the reason that the central reserve city banks have to repay balances to both the reserve city banks and the country

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banks, and the contraction will come from the great reduction of central reserve city balances, which have to be paid out in full in cash. That will be compensated for in part by the reduction of the reserve requirements in the central reserve cities, but it is not fully compensated for.

In this connection, I fail to see, as I said yesterday, why a central reserve city bank need keep any more reserve than a country bank after the time has past that it keeps any reserve for a country bank. I do not see why the reserve requirements should not be the same all around. As a matter of fact, the city bank is more liquid than the country bank, and why it should have to keep 50 per cent more reserve—18 per cent instead of 12 per cent—although it has no reserve responsibilities whatever to the other banks in the system, is not clear to me.

Senator NELSON. It is on exactly the same footing as the country banks after the 36 months; it is no longer the reserve agent for any country banks.

Mr. VANDERLIP. Exactly.

Senator POMERENE. That is one of the thoughts I had in mind when I suggested yesterday the propriety of giving to this board, subject, perhaps, to the approval of the President, the right to reduce or to increase these reserves, realizing all the while that when we fix a reserve arbitrarily, without practical experience under the new system, it is necessarily somewhat problematical.

Mr. VANDERLIP. There is certainly force in that view. It is problematical whether we can hit on the right reserve. I believe we may sometimes come to the point where we will not have to have any reserve requirement at all, but leave that to the judgment of the banker.

The CHAIRMAN. But you are very clear that the reserve which is to be kept in the vaults of the bank may be left optional, either to be kept in the vault or with the Federal reserve board.

Mr. VANDERLIP. There can be no doubt about that. Why should you force a bank to keep in its vault money which it does not need and which it would prefer to keep with the central reserve bank?

The CHAIRMAN. There is a variable requirement in regard to banks, is there not?

Mr. VANDERLIP. There is; and it occurs to me that there might be some banks with deposits fluctuating so rapidly that the amount you say must be kept in their vaults may not be sufficient.

The CHAIRMAN. And in some cases it may be much larger than necessary?

Mr. VANDERLIP. Yes; that would particularly be so with the large city banks.

The CHAIRMAN. The banks which are in immediate proximity to the reserve banks?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. Do you think this matter might very well be provided for by having a minimum figure mentioned, or contained in the bill, but conferring upon the reserve board a discretion to modify that requirement in a given case?

Mr. VANDERLIP. Personally I dislike too much discretion to be given to this reserve board, at least for the present. Banks like to know what it is they are facing; they like a definite law rather than

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a regulation which may be changed without discussion or notification.

Senator O'GORMAN. But you have rather intimated that it would be well to have such a discretionary power lodged somewhere to cover a given situation.

Mr. VANDERLIP. It would be well to look forward to a time when we can change these requirements if we have discovered they are not right. Whether that had best be left to the discretion of the Federal reserve board or whether it is a question to be brought back to Congress is a matter for a difference of opinion.

I should have said, Senator, in speaking of the reason for the contraction in central reserve cities, that those banks also, in common with all other banks, must pay in capital to the central reserve bank. That is another reason for contraction.

Senator POMERENE. My thought as to that was that perhaps this bill should be so amended as to permit of the taking of the commercial paper at once and rediscounting it for the time being so as to avoid the necessity of paying so much cash into a vault and keeping it there as dead capital.

Mr. VANDERLIP. The language of the bill leaves it open to question whether a central reserve city bank could discount before it began to deposit.

Senator POMERENE. I think that is true, but it seems to me it ought to be modified.

Mr. VANDERLIP. I think a central reserve city bank should be able to discount before it begins to deposit, because it has to meet drafts immediately on the law becoming effective.

In section 22, which fixes the reserve which Federal reserve banks must keep, it is declared to be 33⅓ per cent of its outstanding demand liabilities. I have already spoken of the necessity of calculating net deposits, but I think demand liabilities ought to be more fully defined. For instance, a bank might have borrowed abroad; it is perhaps hardly presumable that it would have borrowed on demand, but it might. You would not want it to keep a reserve against such a liability. I would rather see that section expanded to indicate what the total is upon which reserves are to be calculated.

Senator NELSON. Suppose you put into this "from circulating notes and net deposits"?

Mr. VANDERLIP. That covers the case.

Senator NELSON. In lieu of the language in the bill.

Mr. VANDERLIP. Yes, sir.

Senator NELSON. And then somewhere in the bill define what net deposits are.

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Why do you think it ought not to be necessary to keep a reserve against a liability made abroad?

Mr. VANDERLIP. I think it ought not to be necessary; I am afraid it might be necessary here.

Senator WEEKS. Why do you think it ought not to be necessary?

Mr. VANDERLIP. It is true that if it were a demand liability there perhaps might be a necessity for a reserve.

The CHAIRMAN. But the assets against a foreign demand of that kind are of such a character that that in reality is a species of reserve against it; it not that true?

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Mr. VANDERLIP. I think so—the collateral that probably would be lodged against such a loan.

The CHAIRMAN. The collateral is of such a character that it is really a liquid collateral, and for that reason you do not think a reserve necessary?

Mr. VANDERLIP. Yes.

Senator WEEKS. Why do you think there would necessarily be collateral against such a loan?

Mr. VANDERLIP. It might be either way. If there were no collateral and it were a demand obligation, I suppose it is fair to say that there should be a reserve against it.

Senator POMERENE. What is the fact from a practical standpoint; is there usually collateral against these obligations?

Mr. VANDERLIP. From a practical standpoint I doubt if there would be a demand obligation of this sort. But I think I should say that if the bank borrowed abroad it would probably not borrow on demand.

Senator O'GORMAN. But if you would exclude the foreign demand liability you would afford a ready means to bankers to evade this requirement. If they had reached their limit here in this country, they could then transcend it by securing this accommodation abroad.

Mr. VANDERLIP. That would be possible.

Senator O'GORMAN. And there would be no limitation.

Mr. VANDERLIP. I think. on further consideration. that demand liability in the form of foreign borrowing, at least without collateral, ought to have a reserve against it.

I have no fault to find with regard to the clause concerning bank examinations, except that I feel that central reserve city banks seem to be regarded as needing more careful supervision than country banks, and more numerous examinations are provided.

Senator O'GORMAN. Let me ask you this, Mr. Vanderlip: You have several times spoken of central reserve banks; you mean the Federal reserve bank?

Mr. VANDERLIP. No, sir; I mean the banks in designated central reserve cities.

Senator O'GORMAN. The existing banks?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. Under existing law?

Mr. VANDERLIP. Yes, sir. That law is, curiously, continued without any reason for it.

Senator NELSON. Yes; they keep up the distinction in this law, as I think, unnecessarily.

Senator POMERENE. And you see no reason at all for that distinction in this bill?

Mr. VANDERLIP. No reason for it.

Senator O'GORMAN. If you have the one system?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. And if we do not, as suggested yesterday, provide for the national banks that may not want to come into this system?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. On that point, Mr. Vanderlip, if I get your idea, if this change in our banking law is to accomplish any good. it ought to mean the creation of a uniform and a single system.

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Mr. VANDERLIP. Undoubtedly; that is the ideal to be worked for.

Senator O'GORMAN. We can not have half the banking system under this plan and half under some other plan.

Mr. VANDERLIP. You can not so have it and have it anything like a success; and I fear this plan will emphasize the difference rather than draw the banks together.

Senator O'GORMAN. So, then, assuming we have one plan operating upon all national banks, at least, you see no particular reason why the central reserve banks should be continued?

Mr. VANDERLIP. If the plan of reserves herein provided—that these reserves shall be either in the vault or in the Federal reserve bank—is carried out, then there is no reason for the distinction between a country bank, a reserve city bank, and a central reserve city bank. If you change this so as to permit some of the reserve deposits to be left with national banks, then there would be reason for the distinction.

Senator NELSON. And this bill obliterates that?

Mr. VANDERLIP. As the bill stands; absolutely,

The national banks do not object to examinations; they object to continuous examination. We do not want so many that we have to keep open nights in order to be examined; and I think a good many examinations are being provided here for the present reserve city banks.

We have, in addition to the examinations provided here, an examination by the clearing house, which might or might not be continued. It has been, I believe, the most effective and thoroughgoing examination that the banks have ever had. We also have examinations by our directors.

There is this thought also in connection with the examination of banks doing a large foreign business: Foreign bankers will refuse to reconcile for examination purposes as many as nine times a year, which might be necessary under this bill.

The CHAIRMAN. They will refuse to do what?

Mr. VANDERLIP. To reconcile their accounts; that is, to O. K. the account up to a definite date. It is too complicated. It is usually done every six months, and you can not get foreign bankers to meet this new condition. They simply won't do it, so your examination, in that particular, might be ineffective in spite of anything either the examiner or the bank could do. There are rather too many examinations provided here, I think, although I am making no plea whatever for scant examination.

Senator O'GORMAN. Mr. Vanderlip, as I read this provision, the minimum number of examinations is two, the power being confided to the reserve board to order others if necessary.

Mr. VANDERLIP. There are examinations by the comptroller, examinations by the board, and there may be examinations even by the Secretary of the Treasury.

Senator O'GORMAN. Is there any reason to apprehend that there will be an unnecessarily large number of examinations each year? Will it not depend upon the view that the reserve board and the Secretary of the Treasury may take as to the necessities of a given situation?

Mr. VANDERLIP. I think that is possible. I think, however, there are too many examinations actually provided for. It says here that

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the Federal reserve board as often as it deems best, and in any case not less frequently than four times each year, shall order examinations of national banking associations in reserve cities. Why discriminate against reserve cities?

Senator O'GORMAN. What line are you reading from now?

Mr. VANDERLIP. Page 41, line 14.

Senator O'GORMAN. That relates to reserve cities. But, from the view that has been expressed lately, we may abandon these reserve-city definitions entirely if this plan or any similar plan is adopted. I had in mind a moment ago a provision in the first few lines on page 40 which speaks of examinations of national-bank associations at least twice a year.

Mr. VANDERLIP. It is distinctly desirable that there should be power to have a special examination of any bank concerning which there is any doubt. But to have regularly at least four, as is provided here, and possibly more, I think is bad.

Senator WEEKS. How much does it cost the national banks for the examinations that are now made?

Mr. VANDERLIP. I think it costs our bank about $3,300.

Senator WEEKS. A year?

Mr. VANDERLIP. For each examination; and I believe the fees of the New York examiner are something like $35,000.

Senator BRISTOW. How many examiners are there?

Mr. VANDERLIP. Only one; he has assistants, of course. There is one examiner in New York.

Senator BRISTOW. Only one, and he pays his assistants?

Mr. VANDERLIP. He pays his assistants. I think his net fees are about $35,000.

Senator O'GORMAN. Who appoints him?

Mr. VANDERLIP. The President, on the recommendation of the Comptroller of the Currency.

Senator BRISTOW. The Secretary of the Treasury, does he not?

Mr. VANDERLIP. I think not; I think it is the President.

Senator BRISTOW. Is he made an exception?

Mr. VANDERLIP. No; it is the Secretary of the Treasury.

Senator BRISTOW. Upon the recommendation of the comptroller?

Mr. VANDERLIP. Upon the recommendation of the comptroller.

Senator BRISTOW. Is that accurate—the Secretary of the Treasury or the comptroller?

Mr. VANDERLIP. I am informed he is appointed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

Senator O'GORMAN. We are probably getting away from the features of this bill, but it is instructive. What charges are made to the banks for these examinations?

Mr. VANDERLIP. A charge on the percentage of the bank's business. I can not give you the exact percentage, but my recollection is that the fee the National City Bank pays is in the neighborhood of $3,200.

Senator POMERENE. A year?

Mr. VANDERLIP. For each examination.

Senator O'GORMAN. Can you roughly estimate about how much is paid annually by all the city banks in the city of New York for these examinations?

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Mr. VANDERLIP. If my information is correct that the examiner receives net in the neighborhood of $35,000, it would be that plus what he pays to a half dozen other men that he employs at more moderate salaries. It would be in the neighborhood, then, of $45,000 or $50,000.

Senator O'GORMAN. Does he fix the salaries of his subordinates?

Mr. VANDERLIP. He employs them and pays them out of his gross receipts.

Senator O'GORMAN. Are his gross receipts affected by his activities in examining and reexamining?

Mr. VANDERLIP. His gross receipts are based upon the number of examinations, but the number of examinations is provided by law to be two a year.

Senator O'GORMAN. Arbitrarily fixed at that?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. So he could not, if he wished, enlarge the number of examinations?

Mr. VANDERLIP. He sometimes gets in three a year; we have had three in a year, but I think that is a lapping over. We have had three in a calendar year, but I think the average is two a year.

Senator O'GORMAN. What is the average compensation of his assistants?

Mr. VANDERLIP. I do not know, but I would presume from $1,200 to $1,800.

Senator O'GORMAN. And they are fairly well-equipped accountants?

Mr. VANDERLIP. Fairly well-equipped accountants. There may be one or two that would get $2,500. I know nothing about that personally.

Senator O'GORMAN. What does the chief examiner do for his $35,000?

Mr. VANDERLIP. He superintends the work and is responsible for the reports.

Senator O'GORMAN. Then it is a sort of farming-out process?

Mr. VANDERLIP. Hardly that.

Senator O'GORMAN. The examiner is compensated by the various banks whose accounts he examines, and he in turn employs such assistants as he may require?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. In a big bank, you know, the chief examiner has to go there with his assistants, and it practically, for the time being, suspends the business, does it not?

Mr. VANDERLIP. It does not suspend, but it interferes with it greatly. We walk into the bank some morning and find all of our cash sealed, and we can not open anything except with the consent of the examiner or some one who is in charge. And if we have that happen four or six times a year it gets to be rather trying. That is not necessary.

I want all the examination necessary to insure the soundest banking and the most complete observation of the law; I have no objection whatever to that, but I do not want to hamper business unduly to accomplish that.

Senator WEEKS. You have an auditor in your bank?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Who is examining all the time?

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Mr. VANDERLIP. All the time, unexpectedly taking departments; he is working all the time with a force.

Senator NELSON. I have always thought, Mr. Chairman, that this was an anomaly in our law, for bank examiners to be paid by the respective banks. It seems to me that they ought to be paid a regular salary by the Government and not have the banks pay for these examinations. The pay is based upon the size of the bank and the volume of business, and the disposition has been—take it out in the West—for these examiners to get over the ground as rapidly as possible.

The CHAIRMAN. Some of them have as high as 200 banks to examine.

Senator NELSON. Yes; and the disposition is to go over these banks as rapidly as possible, and instances have occurred where they have done it in a very perfunctory and reckless manner. I think it would be a most wholesome reform to have these men on a salary.

Senator SHAFROTH. Is there not something in this bill on that?

The CHAIRMAN. Yes. Mr. Vanderlip, I wanted to ask you something about the examinations by the clearing-house examiners. How often do they make these examinations?

Mr. VANDERLIP. Once a year, and they are extremely thorough. They are very ably done. We have taken great care to secure there the best possible staff. The examiners are highly paid, and are a very capable class of men.

The CHAIRMAN. How many men are employed by that force?

Mr. VANDERLIP. About 10 men.

The CHAIRMAN. About 10 men under one man?

Mr. VANDERLIP. Yes, sir; and a number of them are fairly highly salaried men, too.

The CHAIRMAN. What is paid the chief examiner?

Mr. VANDERLIP. I do not know that there is any objection to making that public. It is $20,000.

The CHAIRMAN. And are his subordinates paid as the subordinates of the national-bank examiner—$1,200 to $1,800?

Mr. VANDERLIP. Much more.

Senator O'GORMAN. What is their average pay?

Mr. VANDERLIP. There are men who get around $5,000.

The CHAIRMAN. And they act in concert with the chief examiner?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Are those examinations made on his own motion or at the suggestion of members of the clearing house?

Mr. VANDERLIP. On his own motion entirely, and the result of the examination is never revealed to members of the clearing house unless there is cause for criticism. There is the utmost secrecy maintained in regard to those examinations until there is cause for criticism. If there is cause for criticism, that criticism is made to the clearing-house committee, and in that case it is most confidentially treated. I have been chairman of the clearing-house committee, and I am familiar with that. This year I am not chairman, and I have not heard a lisp of any criticism. Nothing whatever has leaked from that committee to me, although I was chairman of it last year. I do not know of a single criticism that a clearing-house bank examiner has made.

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The CHAIRMAN. Then those clearing-house examinations are not open to the review of the different member banks?

Mr. VANDERLIP. By no means.

The CHAIRMAN. They do not know, from those examinations, where stocks were located?

Mr. VANDERLIP. They have not the slightest knowledge. They do not hear anything except the report that the bank is in a sound condition and being properly conducted, if that is the case. If there were ground for criticism, it would first be taken up with the bank to see if the bank would itself correct it upon the complaint of the examiner. Frequently that has been done and great good has been worked. It is only after the examiner has been unable to harmonize his views with the views of the management of the bank that the matter comes to the clearing-house committee. It is treated in the utmost confidence by the clearing-house committee.

Senator POMERENE. Suppose a man were a borrower in excess of what was a proper amount at two or three different banks, would that fact be made known to those several banks?

Mr. VANDERLIP. It would be made known to those banks, probably by the bank examiner. That is, in the case of the bank he was examining, if he found a loan there from some one who had loans in numerous banks he would explain that to the bank under examination. Whether or not he would also go to a bank not under examination and call their attention to the fact I am not certain.

Senator BRISTOW. In regard to these examinations; of course, you were in the Treasury Department, and you had a very wide experience. Do you not think the present system of paying bank examiners inevitably tends to haste and inefficient examinations?

Mr. VANDERLIP. Undoubtedly a bank examiner is desirous of completing as many examinations in a year as he can, since his compensation depends upon the number he completes.

Senator NELSON. That has been apparent to me for a great many years, out in the West.

Senator POMERENE. I was going to ask one more question along the line I was interrogating you upon. Suppose that the cashier of bank A would have reason to believe or have curiosity to learn whether a certain particular borrower did not have large amounts borrowed at other banks in the city. Would he be privileged to inquire of the bank examiner as to whether or not this borrower had accommodations at other banks; and if so, where and to what amount?

Mr. VANDERLIP. He would be privileged, I think, to make the first part of that inquiry; has the borrower unduly expanded his loans. I do not think he would be privileged to ask where. I do not believe that the bank examiner would give him any information as to the condition of any other bank, even though the inquiry were based on the desire to learn the condition of one of his customers.

Senator O'GORMAN. Would such information be acquired through your clearing-house association?

Mr. VANDERLIP. No, sir.

Senator POMERENE. I had reference to the examiner employed by the clearing house, and from him you could get the information to the extent you have indicated?

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Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Did you, as chairman of the clearing-house committee, know or have knowledge of what other banks were loaning, unless there was complaint that there was an overloan?

Mr. VANDERLIP. I had no more knowledge of the business of any other bank after the examination was completed than you have at this moment, if the examiner certified that the bank was solvent and being conducted on sound lines.

Senator WEEKS. And you did not know what particular stocks and bonds they were loaning?

Mr. VANDERLIP. I had not the slightest information. The only report the examiner makes in the case of a sound bank is that he has examined the bank under such a date and found the condition satisfactory.

Senator POMERENE. Is this examiner under bond?

Mr. VANDERLIP. I should not think so; he has no fiscal responsibility.

Senator NELSON. You mean the clearing-house examiner?

Senator POMERENE. Yes.

Senator NELSON. He does not handle any funds.

Senator HITCHCOCK. The United States examiners are bonded.

Senator NELSON. Yes; they give bonds. They are appointed as quasi public officials, and then the public does not pay them. They are paid by the banks.

Senator POMERENE. The secrecy of a borrower's business would depend entirely upon the honor of the man who was employed in the position of examiner?

Mr. VANDERLIP. Yes. I have, after large experience with them, the utmost confidence in their honor and in the fact that these examiners would regard as absolutely confidential any information that came to them.

Senator BRISTOW. Who have usually been appointed as bank examiners in New York by the comptroller?

Mr. VANDERLIP. They have usually been of good experience; perhaps not of very wide banking experience. As I think back, I do not recollect that examiners have usually had a very large banking experience. Our present examiner there is an excellent accountant. He had no banking experience, I think, up to a year or two ago, when he was for a time employed by the First National Bank. He later left that employment and returned to the position of examiner.

Senator O'GORMAN. Is that the official examiner?

Mr. VANDERLIP. Yes, sir; Mr. Starek.

Senator POMERENE. Give his full name.

Mr. VANDERLIP. Charles Starek.

Senator BRISTOW. Whom did he succeed?

Mr. VANDERLIP. I am not sure.

Senator O'GORMAN. What was his position in this bank?

Mr. VANDERLIP. No official position.

Senator O'GORMAN. What was the character of his employment?

Mr. VANDERLIP. I am not aware as to what his duties were.

Senator O'GORMAN. Clerical work or the work of an accountant?

Mr. VANDERLIP. I think the work of auditor and accountant.

Senator O'GORMAN. What is the usual pay of an auditor and accountant in a bank?

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Mr. VANDERLIP. An auditor would probably, in a large bank, receive as much as $10,000.

Mr. O'GORMAN. Is this a large bank?

Mr. VANDERLIP. The First National Bank of New York. Let me say that the fee in New York has always until rather recently been divided between two examiners. Recently one of the examiners, Mr. Rorebeck, has been dropped and we have now only one examiner there.

Senator NELSON. And he gets $35,000 a year in fees, less what he pays out for his help?

Mr. VANDERLIP. I think plus what he pays out. As to that fee I have no accurate information. That is what I have been told.

Senator O'GORMAN. When you speak of that figure you have in mind the net income of the present auditor and examiner?

Mr. VANDERLIP. Yes. If there were two examiners——

Senator O'GORMAN (interposing). That would be divided?

Mr. VANDERLIP (continuing). It would be divided between the two. There have hitherto been two examiners; there is now only one.

Senator O'GORMAN. Why, if you know, was this change made. Why was Mr. Rorebeck dropped?

Mr. VANDERLIP. I have no knowledge.

Senator O'GORMAN. When did that take place?

Mr. VANDERLIP. Since the beginning of the present administration.

Senator HITCHCOCK. When the examiner comes to your bank, how many assistants does he bring?

Mr. VANDERLIP. About six.

Senator HITCHCOCK. Do they all have a knowledge of the affairs of your bank, when they have completed the examination?

Mr. VANDERLIP. Everything we have is opened to them; under present day conditions our correspondence is given to them.

Senator HITCHCOCK. Do they have a knowledge, for instance, of your loans and collateral?

Mr. VANDERLIP. Absolutely.

Senator HITCHCOCK. All of the men?

Mr. VANDERLIP. All of them; yes, sir.

Senator HITCHCOCK. So that the knowledge of the affairs of the bank is not entrusted simply to a United States examiner and the clearing-house examiner, but to all of these assistants?

Mr. VANDERLIP. All of these assistants have access to the affairs. Whether or not the work may happen to be so divided that one man counts the cash and another checks collateral, I can not say. There is no reason, so far as the bank is concerned, why every one of the bank examiner's staff should not have information about anything in the bank.

Senator O'GORMAN. Have you ever known a case where any of these assistants to the bank examiner have made any improper use of the information they acquired in the examination of a bank?

Mr. VANDERLIP. I never have.

Senator POMERENE. Under the present national banking law, as I understand it, the examiners make their reports to the Comptroller of the Currency, and I assume that under your State banking laws

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in New York the examiners there would make reports of their examination of the State banks to the State banking department?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Neither one of them would have any means of knowing what the condition of the other set of banks was?

Mr. VANDERLIP. As a matter of fact I think they do cooperate.

Senator POMERENE. What I was thinking to get at was this, that the examiner employed by the clearing-house association would have the means of knowing the condition of all the banks, both State and national, while, primarily at least, the examiner of the national banks would only know the condition of the national banks, and the State examiners of the State banks.

Mr. VANDERLIP. That is quite true.

Senator O'GORMAN. Mr. Vanderlip, from your knowledge of banking conditions in New York, do you think the examinations can be conducted efficiently with one bank examiner?

Mr. VANDERLIP. I think almost any piece of business can be conducted efficiently with one head, if he properly organizes his business.

Senator O'GORMAN. Is it usual for the examiners to participate in the examination of each bank?

Mr. VANDERLIP. It is usual, yes, sir; and I should think it was practical.

Senator O'GORMAN. So that each examination requires his personal presence?

Mr. VANDERLIP. Theoretically it does, and I think practically he is there.

Senator O'GORMAN. Is it possible for one examiner to be present at the examinations being conducted at each bank in the city of New York in a year?

Mr. VANDERLIP. I am very certain that that has been possible in the examination of the National City Bank, and that he has been present.

Senator O'GORMAN. How many national banks are there in the city of New York?

Mr. VANDERLIP. There are 52 central reserve banks in New York, Chicago, and St. Louis.

Senator WEEKS. There has been a recent order of the comptroller which prevents bank examiners from engaging in any other examinations and doing any other work. Do you think that is desirable, as far as the examinations of banks other than national banks is concerned?

Mr. VANDERLIP. Before I answer that question I will answer Senator O'Gorman. There are 36 national banks in New York.

Senator O'GORMAN. In the city of New York?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. How many days does it take to examine your bank?

Mr. VANDERLIP. Ordinarily, about a week. We have had an examination recently, however, that has extended over two or three weeks.

Senator NELSON. Your bank?

Mr. VANDERLIP. In our bank; yes, sir.

Senator O'GORMAN. And that occurs twice a year?

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Mr. VANDERLIP. Yes. Now, I will answer Senator Weeks's question. I suppose a bank examiner would naturally be pretty busy conducting the duties of his position. Banks have found it rather desirable sometimes to have a bank examiner come in to make a special examination at the instance of directors, and directors have chosen national-bank examiners to do that work because they believed they would do it more efficiently.

Senator WEEKS. You mean directors of State banks?

Mr. VANDERLIP. Yes, sir. I see no great harm in it.

Senator O'GORMAN. Would you find that directors of State banks were also directors of national banks?

Mr. VANDERLIP. I was thinking of directors of State banks who had need for the national-bank examiners.

Senator O'GORMAN. Even there it is necessary, where, at the instance of the directors of a national bank, an examination has been conducted?

Mr. VANDERLIP. Yes; and that independent examination conducted by the national-bank examiner. Of course, it is the practice of New York banks to make at least one and sometimes two examinations a year by the directors. Sometimes it is done in person by the directors and sometimes they delegate it to a chartered accountant or others who will make a very thorough examination.

Senator WEEKS. What I am trying to get at is this, without any criticism of the department. There is a recent order, which, I understand, prevents a national-bank examiner from examining State banks, trust companies, or other institutions. He has to devote his entire time to the examination of national banks. In a community like New York, where there are a great many trust companies, it seems to me you are only getting a partial statement of the conditions of the banks in the community, unless the same man is going to be privileged to examine all the banks.

Mr. VANDERLIP. That is an advantage we gain from the clearing-house examination.

Senator WEEKS. From the Government's standpoint it is somewhat important and advantageous to have some man who will be familiar with the affairs of State banks and trust companies as well as national banks.

Mr. VANDERLIP. I think it would be very advantageous.

Senator WEEKS. Then if that is so the recent change made probably would bring less net knowledge out of the result of those examinations?

Mr. VANDERLIP. I should think so.

Senator HITCHCOCK. Mr. Vanderlip, do you think that the interlocking of directors in those 36 national banks is a source of complaint?

Mr. VANDERLIP. I think it is a source of strength, a source of good management, a source of a better understanding of the credit situation.

Senator HITCHCOCK. Then they have a knowledge of each other's affairs?

Mr. VANDERLIP. They have, to some extent.

Senator HITCHCOCK. That has been charged as one of the serious things in New York which has tended to establish a banking monopoly to the detriment of those who were seeking credit.

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Mr. VANDERLIP. It has been so charged, but I do not believe there has been a single instance cited of harm having been done. I will challenge anyone to show an instance where interlocking directorates has led to unfairness to a borrower.

Senator HITCHCOCK. Then it has been charged, too, that it was practically impossible to finance a new railroad company, for instance, for the reason that the sources of credit in New York are so largely controlled by the great owners of the railroads. You have, for instance, as an illustration, the case of Mr. Dave Moffit, out in Denver.

Mr. VANDERLIP. We have had the illustration of the Western Pacific, which was built paralleling the Central Pacific. Money for that was found in New York.

Senator HITCHCOCK. But afterwards the Western Pacific was forced to a compromise and a settlement with the Central Pacific, was it not?

Mr. VANDERLIP. No, sir; there never has been a compromise or settlement.

Senator HITCHCOCK. Was that the Gould line you are referring to?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Did it happen that Gould had one such bank, and that he was able in some independent way to finance the system?

Mr. VANDERLIP. I would not say an independent way. That was financed, I believe, through Blair & Co. They are very important bankers. There is no trouble whatever in getting a sound thing financed in New York if there is money there to finance a sound enterprise.

Mr. Stillwell complained that his Oriental road could not be financed there. It could not. It could not have been financed anywhere, in my estimation, if anybody had sound judgment about the building of such a road.

Senator NELSON. Where was that road to be built—in China?

Mr. VANDERLIP. From Kansas City to Mexico, generally speaking.

Senator HITCHCOCK. There was a time when some very unsound railroads were financed in New York, because there was apparently no combination of banking interests. What new development is this that has enabled the banking interests to discriminate and to exclude some propositions when they come to them?

Mr. VANDERLIP. I should not think there ever was a time that unsound business could be done in New York because there was no combination. If there are people in New York with capital which they are ready to put into an unsound enterprise they can be found to-day as readily as they could any other time.

I believe there is no such discrimination, or no such combination. The charge can not be sustained that a sound commercial enterprise, a sound proposition for railroad building, can not be put through in New York because it might compete with some existing business.

If it will so compete as to endanger its own success, certainly it can not be done if the people in control of the capital have sound judgment. But the fact that it would compete with some existing enterprise, which enterprise was financed by the strongest house in New York, would not be a barrier against finding capital for it if it is essentially sound in itself and will not have its own future endangered by the competition which it will encounter.

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Senator REED. You mean if there is room for two?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Suppose a project was undertaken to finance a railroad to compete with the Jim Hill system and such a project came to the attention of what we will call the Morgan banks. Would not those banks inevitably feel interested in discouraging that project?

Mr. VANDERLIP. I can say that the National City Bank has financed a railroad project in the Southern Railway field, the Southern Railway Co. being a Morgan enterprise, and this project being directly in competition with the Southern Railway Co.

Senator HITCHCOCK. How lately was that?

Mr. VANDERLIP. It is now in process of building.

Senator HITCHCOCK. About how large a project is it?

Mr. VANDERLIP. $10,000,000 or $12,000,000.

Senator NELSON. It is not long ago since the New York banks financed the extension of the St. Paul road to the coast, in competition with the Northern Pacific and the Great Northern, which are commonly called Morgan roads?

Mr. VANDERLIP. The National City Bank financed that extension.

Senator REED. As I understand you, Mr. Vanderlip, the test is this—as you put it—whether there is room for two enterprises. If there is room for two enterprises, then you claim that there would be no barrier; if there is not room for two enterprises, then nobody but a foolish person would put his money into a competing line when the competing line would never pay?

Mr. VANDERLIP. That is exactly what I mean. There is no such thing as a strong interest putting out a ban on the financing of a new railroad proposition and saying to New York financiers that this new road must not be financed because it is going to compete with an existing railroad that has been financed by this strong interest. The thing is not done. It does not exist. It is not true.

Senator HITCHCOCK. You mean the heavy railroad owners are interested in the banks of New York?

Mr. VANDERLIP. They are interested in the banks; yes. But the banks are run primarily by themselves. The bank officers solely are in charge of the conduct of the bank.

Senator BRISTOW. That is, you claim that a railroad may be interested in a bank, and be a most important factor in the management of that bank, and still that bank would pay no attention to the affairs of that road as far as financing its competitors is concerned?

Mr. VANDERLIP. No such condition exists. There is no bank that I am aware of in which a railroad is an important factor in the management of the bank. The relation is the other way around.

Senator NELSON. It is the railroads which need the banks?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Take the firm of Kuhn, Loeb & Co., they are heavily interested in the Union Pacific?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Would it not be natural that they would discourage a system competing against the Union Pacific?

Mr. VANDERLIP. Naturally they would discourage any competitive system, but Speyer & Co. would not, and Morgan & Co. would not.

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Senator HITCHCOCK. Would not Kuhn, Loeb & Co. have such large interests in banking institutions as to make their influence potent?

Mr. VANDERLIP. That is exactly the thing that does not exist. I do not think there would be the slightest hesitation on the part of other firms perfectly competent financially to finance a road in competition with another road that was financed by another institution, if the sound judgment of the firm was that the road would be successful in spite of the competition.

Senator HITCHCOCK. Then if Speyer & Co. would finance something that would seriously endanger a great interest of Kuhn, Loeb & Co., Kuhn, Loeb & Co. would retaliate, would they not?

Mr. VANDERLIP. Undoubtedly. But not for the purpose of retaliation. They would not retaliate in that way. If there were some territory in which Speyer & Co. were interested, and if there were sufficient business to make the new road successful, I do not doubt but what Kuhn, Loeb & Co. would finance that, and they would do it now or after such a situation as we have outlined. That is not retaliation; that is good business. There is plenty of banking capital, there are plenty of individual banking houses to finance good business.

Senator HITCHCOCK. Then when witnesses come before this committee and say that there is a combination in New York they are mistaken?

Mr. VANDERLIP. They are mistaken. It is a figment of their imagination. They probably have read newspaper headlines and heard statements, and they do not know the truth.

Senator HITCHCOCK. When they come and testify of their own knowledge and experience?

Mr. VANDERLIP. Then I advise you to analyze very carefully that experience and check it up, because the combination does not exist.

Senator BRISTOW. Now, Mr. Vanderlip, you claim that the men who run the New York banks, and who control them, are different in the moral and mental make-up than the average banker of the country?

Mr. VANDERLIP. I make no such claim whatever. Nothing can be further from my mind.

Senator BRISTOW. Do you think the average banker would finance a proposition if it was detrimental to his largest stockholder and the most important depositor?

Mr. VANDERLIP. To his largest stockholder; no. To his most important depositor, perhaps, yes. It would be then a case of weighing the advantage between the deposit and the advantage of financing that enterprise.

Senator BRISTOW. And if the advantage of the deposit was greater than the advantage of the enterprise, he would not finance it?

Mr. VANDERLIP. Probably not. But in no case, sir, is a deposit of sufficient importance to prevent any banker from financing an important enterprise, a very important enterprise.

Senator O'GORMAN. In that connection, let me ask you this question. At the present time, perhaps during the memory of those now engaged in the banking business, is there not a keen competition for business between banking interests in the city of New York?

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Mr. VANDERLIP. I believe there is no line of business in the country where competition is more keen.

Senator O'GORMAN. Would not that competition be keener in New York to-day than in any other part of the United States?

Mr. VANDERLIP. I think so.

Senator O'GORMAN. Because of the great volume of money in New York?

Mr. VANDERLIP. Yes, sir.

Senator REED. How much money does your clearing house carry?

Mr. VANDERLIP. The clearing house carries no money, sir.

Senator REED. They have no deposits of any kind?

Mr. VANDERLIP. They have no deposits of any kind; that is not the function of the clearing house. The clearing house does have in its vault a certain amount of gold which is merely there in the nature of being in a warehouse, so that we do not have to move gold about. There are never any deposits.

Senator REED. Who puts up that gold?

Mr. VANDERLIP. Any banker who would prefer to have a piece of paper, a clearing-house certificate, for $10,000 instead of $10,000 in cash.

Senator REED. Really, the bankers put up a central deposit of gold?

Mr. VANDERLIP. No, sir. There is no deposit at all. That is purely a warehouse function for banking purposes, to aid us in paying balances between the banks, and permitting us to give an order on this warehouse instead of carting the gold about the streets.

Senator REED. Where is the gold kept?

Mr. VANDERLIP. In a vault in the clearing-house building.

Senator REED. Where does the gold come from to get into that vault?

Mr. VANDERLIP. From any banker who chooses to deposit gold there and take up certificates to represent it.

Senator REED. In settling your balances you use these certificates?

Mr. VANDERLIP. Yes, sir.

Senator REED. I inquired about the amount that was kept.

Mr. VANDERLIP. My recollection is that there is about $90,000,000. That figure will not be exactly correct.

Senator REED. Now, I want to come back to matters that concern this bill, and I asked that question simply for the purpose of knowing how much gold there might be in the one place.

Mr. VANDERLIP. That has no relation whatever to the reserves of the banks, or the money market. That is only a physical convenience.

Senator REED. In settling your balances, instead of counting out gold to each other, you simply check against this gold?

Mr. VANDERLIP. Yes, sir.

Senator REED. And settle it in that way?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. It is simply a warehouse where you can keep gold on which you can draw, instead of keeping it in your vault?

Mr. VANDERLIP. Yes, sir.

Senator REED. You do not have to draw gold from there; you send the certificates around and have a little balance left?

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Mr. VANDERLIP. Yes, sir.

Senator REED. I want to ask you about a matter of great importance in this bill concerning which I do not think you have been questioned before. How much gold reserve do you think ought to be kept in the regional banks?

Mr. VANDERLIP. In normal times perhaps as much as 80 per cent.

Senator O'GORMAN. How much?

Mr. VANDERLIP. Eighty per cent. That is a very difficult question to answer, and my reply is a sort of shot in the dark. In normal times these banks ought not to be used for conducting the current business of the country. They ought to run with very strong reserves. They ought to be under no compulsion to earn money, and they ought to conserve reserves in order that they may be enabled to make these rediscounts when necessary.

Senator O'GORMAN. The larger the gold reserve the safer the whole structure would be, in your opinion?

Mr. VANDERLIP. The larger the gold reserve carried, the safer. I can not say the larger legal minimum.

Senator O'GORMAN. Where do you think the law ought to put the minimum?

Mr. VANDERLIP. I think the law as it is drawn, with a minimum of 33⅓ per cent is all right. As a matter of fact, I do not believe in legal minimums, anyway. I believe that should be left to the conservative conduct of good managers of banks.

Senator O'GORMAN. Do you not think there ought to be a sentence of penalization for going below a certain point, in order to encourage keeping above that point?

Mr. VANDERLIP. A penalization in this case is not a very effective sentence. You penalize the earnings that come out of the Government.

Senator O'GORMAN. That is what we discussed yesterday. Now, you have examined this bill with reference to the possibility of inflation, have you not?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. I believe you said you thought there was a great power of inflation in it. Of course, a 33⅓ per cent gold reserve would be some check on paper inflation, and the larger the gold reserve the greater the check; is that not true?

Mr. VANDERLIP. Just what do you mean by paper inflation?

Senator O'GORMAN. I mean this money that is to be issued from time to time upon collateral, notes, etc.

Mr. VANDERLIP. Please do not confuse inflation of credit with inflation of currency. You can not have an inflation of currency if you have ample redemption facilities. Gold will not be held in people's pockets; the currency can not be held in reserves. It will be deposited in banks by the men who do not want it in their pockets, and it will be retired. There will be in the way of the correct operating of that principle the fact that these notes may find their way into the reserves of State banks. Were it not for that, there would be as great conformance to business needs in note issue as in deposit balances. And deposit balances ought to be readily interchangeable with notes according as the customer wants credit as a deposit balance, or wants it as a note. There is no more reason for the Govern-

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ment charging interest on these notes or guaranteeing these notes than there would be for the Government to guarantee the deposits in these banks.

Senator REED. I know that is a favorite theory with bankers, but nevertheless I hardly think that it is practical at this time to expect that sort of theory to be carried out.

Now, I want to direct your attention to this thought as bearing upon that theory. You say that if a man has a bank credit of $10,000, he has the right to issue his check against that credit, and that that is simply a method by which he uses that bank's credit, makes it available, and if the bank, instead of giving him a bank credit and check against it, was to issue to him bank bills and let him put them in his pocket and carry them away, that that is only a bank credit. That is the argument. Now, in the practical operation is there not a tremendous difference?

I get a credit with your bank for $10,000, and I put my check book in my pocket, and I draw checks. There is only one place in the world to redeem those checks, and they do not pass current from hand to hand. They may pass to one man that I happen to know and will accept my check because he happens to know me, but to all practical purposes those checks go back into the bank within 24 hours after they are issued, on the average, and the transaction is closed. But if you give me $10,000 of your bank notes, and I put them in my pocket, they may travel all around the United States and be in circulation six months or a year before they get back to your bank. Is that not true?

Mr. VANDERLIP. That is not true unless there is need for them for just that purpose.

Senator REED. Let us see if that is sound. I question the soundness of it most emphatically, although I do not want to get into a financial argument with you, for I would be on very doubtful ground. Do you not confuse the term "need" with the man? A man is engaged in a lot of wild-cat circulation. He is booming railroads that may never develop into paying propositions. He is buying acre property and laying it out into town lots and building houses, for which there will never be a real demand, and he needs money mighty badly.

Mr. VANDERLIP. He needs credit, not money.

Senator REED. He needs something that will pass for money, and therefore if he got hold of these notes he would be engaged in transactions in which he could constantly be using them; and yet, is it not true that as a matter of fact, the very existence of that money tends to promote this wildcat speculation, and is that not the trouble with all inflation, and is it not true of a bank note, as it is true with any kind of other money that circulates?

Mr. VANDERLIP. Let me see if I can not make this very simple and clear. Let us suppose a community has no outside financial connections. This community is doing its business with the exact amount of currency in its pockets that it wants and a certain amount of reserve in its banks. A wildcat real estate operator buys some outlying land and cuts it up into lots and builds houses on them that will not sell. At no time during this process has that community got any more money in its pockets than it had before, no matter how much money in the form of circulating notes this man might have succeeded in

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drawing from a bank on sound collateral. He could not get the notes without sound credit. He has bought a piece of land and paid for it, we will say, with $10,000 of notes. What will any man who receives the notes do with them? Will he carry them around with him? Not at all. You know what he will do with them. He will take them to his bank and deposit them. They are of no value to the bank's reserve, and therefore they will be redeemed.

Senator REED. You see the trouble with that illustration is that you leave out of it, I think, two important propositions. In the first place, you have not got a circumscribed community. You have got an enormous country, and the note starts on its course. Then, I think, that you leave out of your argument another very important consideration, and that is that while there may be no more money, but there is something that performs all the functions and uses of money.

Mr. VANDERLIP. Oh, but these notes do not.

Senator REED. They do, while they are out passing from hand to hand; and, as long as they are out, they might just as well be in money. And then I think you leave out of consideration the fact that when that man begins to build those houses he has bought from the lumberman an unnecessary amount of lumber, and he has boomed the lumberman's business. The lumberman who sold his lumber buys from the sawmill, and he has boomed the sawmill man's business. The sawmill man goes out to buy more timber land, and he has boomed the land business. He hires a lot of men to cut down trees, and they have boomed the lumber-camp business. All these things have boomed the grocery business, the dry-goods business, and the wholesale business, and you have, after all, a vast structure of business and credits based upon an original bad investment, and all of it carried on because there is plenty of this stuff circulating around that they call money.

Mr. VANDERLIP. Based exactly as you say, on an original bad investment—not based on the issue of notes. The bad investment could have gone on exactly the same with the plan of deposit credits instead of notes.

Senator REED. There is just the point I raised. This man comes down with security to the bank, with his own note, and he puts it up and the bank issues this thing that circulates as money. If the banker did not have the right to do that, he would have to look in his till, and if he did not have good hard money there the transaction would stop. And I can not see why—because we all admit that wild inflation brings wild results—why the bank note that goes and circulates three months, six months, or a year and gets out in almost unlimited quantities can not produce exactly the same result that it would if the Government could issue wildcat money.

Mr. VANDERLIP. That is because you believe men will carry more money in their pockets if there is facility for turning a bank credit into a bank note. I hold they will not. That is an absolutely fixed quantity, determined by the habits of the people. There will be no more money in the people's pockets under any scheme of note issue where there is an adequate redemption facility back of it. Those notes will come right back into the bank—right back for redemption—the moment there is any redundancy of them. I think you confuse an issue of notes with an overissue of credit.

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Senator REED. Perhaps I do. I wanted to suggest the idea to you with a view to perhaps modifying yours, but I see I am not going to be able to do that.

Mr. VANDERLIP. I am very earnest and honest in my opinion.

Senator REED. I know you are, and I am just as earnest in mine; and I will pass on to something else, where, whether we can agree or not, I can get your view. I want to ask you about the value of the currency system to the whole financial structure, to this large reserve which the Government now has, against which it issues gold certificates and which it holds back from the banks.

Mr. VANDERLIP. I do not regard the gold back of gold certificates as a gold reserve at all. The Government is acting as a warehouseman.

Senator REED. Well, call the Government a warehouseman. Is it of value to our financial system? Does it add to its stability?

Mr. VANDERLIP. Certainly it does, because it represents the gold certificates that are in the bank reserves. It is also true that there are many in the hands of the people. They are there to a much larger extent than they should be, because you have reduced the size of the gold certificate, which, in my opinion, was quite a wrong thing to do. The $10 gold certificate is now largely in the hands of the people, when it ought to be in the reserves.

Senator REED. The mere fact, I take it, that there is piled up an immense amount of gold, although there are gold certificates out against it, has a very steadying effect upon our financial system.

Mr. VANDERLIP. Not the slightest in that sense.

Senator REED. In what sense?

Mr. VANDERLIP. It is the fact that these certificates are in the hands of the banks, are in the reserves of the banks, that has the steadying effect, and the knowledge that the certificate is backed by gold. The function of the Government is merely one of physical convenience, just as I said in discussing the warehousing function of a clearing house, with its clearing-house certificates issued against the gold. It is thus possible to have this gold in the form of convenient paper instead of actual coin, and that is the only function the Government is performing.

Senator REED. I am just trying to get one question settled—whether it is a good thing in our financial system to have that gold piled up in the vaults of the Treasury of the United States.

Mr. VANDERLIP. It is neither good nor bad.

Senator REED. It is utterly useless?

Mr. VANDERLIP. No; it is not utterly useless, because it is a great convenience to the business of the country. We could not do business freely with actual money. Of course we could do it, but it would be an annoying thing.

Senator REED. I think this: I think that in view of the fact that gold is the ultimate money of redemption the world over, the mere fact there was a large amount of it in the vaults of the Treasury of the United States, although there were gold certificates that were out against it, would have a tendency to inspire confidence in our ability to take care of ourselves.

Mr. VANDERLIP. It would have a tendency to inspire great fear if they thought you were going to use that gold for any purpose

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other than the purpose of placing it in a warehouse for the redemption of the certificates out against it.

Senator O'GORMAN. Right there, Mr. Vanderlip, is it not of great importance, in considering the security of our credit, that in the United States, whether in the Government vault or in the vaults of our banks, we should have the actual physical possession of a large quantity of the gold of the world?

Mr. VANDERLIP. Certainly it is, but it is not of importance whether that gold is in the bank or whether it is in the Treasury and the representative of it, the gold certificate, is in the bank. It is not the fact that that gold has been collected in the Treasury that is important, but it is important that in this country, in the reserves of the banks, and elsewhere, there is either the gold or the representative of it—the gold certificate.

Senator REED. It is important that you have it in the country.

Mr. VANDERLIP. Very important; tremendously so.

The CHAIRMAN. Mr. Vanderlip, I want to ask you a question: Suppose the Government were to take the gold which is now in the Treasury as a current fund and place it in the redemption division as a reserve fund, and issue against that the Treasury gold notes, payable in gold at Washington, and put them out in small denominations as legal tender, would it not have a beneficial effect on the gold reserve of the United States?

Mr. VANDERLIP. Well, of course, you are presuming the calling in of the gold certificates.

The CHAIRMAN. No.

Mr. VANDERLIP. Why, it would have a most disastrous effect, for you to take the gold that is back of the gold certificates out of the Treasury.

The CHAIRMAN. I am not proposing anything of the kind; I made no such suggestion. What I said was that suppose the current gold that is there as a part of the general fund we have now in the Treasury, as part of the current fund, over $100,000,000 of gold, and I was suggesting that the Treasury issue in lieu of that a Treasury gold note of small denomination, payable in Washington City, but taking the gold itself and putting it in the redemption division as against those notes issued in that way.

Mr. VANDERLIP. I can see no essential difference between that note and the gold certificate, but in making them payable in small denominations you encourage their use in the hands of the people instead of retention in the reserves of the banks. That is where the gold should lodge. The money in the hands of the people should be bank notes, and the gold certificates should lodge in the banks. Your plan would merely give a Treasury note dollar for dollar, payable in gold, instead of a gold certificate dollar for dollar.

The CHAIRMAN. It would have the effect, would it not, of putting these notes out in the hands of the people, where they would not come back for redemption, and in that way leave this additional gold as an additional reserve against the outstanding greenbacks?

Mr. VANDERLIP. It would have that effect; yes.

The CHAIRMAN. And in that way it would strengthen the position of the Government as far as redeeming those notes is concerned?

Mr. VANDERLIP. The position of the Government would be strengthened, so far as redeeming the greenback was concerned.

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Senator REED. How could you redeem the greenback? That is gold put away and gold certificates issued against it.

Mr. VANDERLIP. He does not propose to issue gold certificates against it.

The CHAIRMAN. It is not to be a warehouse receipt, but simply an issue, dollar for dollar for gold, payable at the Treasury in Washington, in gold.

Mr. VANDERLIP. Yes.

Senator NELSON. The volume would be measured in the volume of the gold?

The CHAIRMAN. But the gold would belong to the United States, and not belong to the holder of the notes, unless he would come in and bring them for redemption. They would not be a warehouse receipt.

Mr. VANDERLIP. No. But the notes you issued would be on a parity with the greenback—that is, they would have a claim of the same nature as the greenbacks against the total fund, dollar for dollar, of gold, to be represented by Treasury notes, plus $150,000,000 now back of the greenbacks and plus the free gold.

The CHAIRMAN. Yes; a claim against assets or funds of the United States.

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Mr. Vanderlip, I read an interview with you in the newspaper four or five weeks ago, in which you stated in New York there was a demand, in your judgment, for $2,000,000,000 for the purpose of developing water power in the United States. Can you tell what, in your judgment, is the legitimate demand for development of all kinds in the United States?

Mr. VANDERLIP. In the first place, I would like to correct the impression as to what my exact statement was. You probably read an address I made in regard to the development of the electrical industry of the country.

Senator SHAFROTH. Yes.

Mr. VANDERLIP. I stated that in the next five years I believed the total electrical development, power stations, water power, railway electrification—all things incidental to the electrical business—might properly consume $2,000,000,000 capital. I believe that is a conservative estimate. I do not say they will, because I doubt if that amount of capital is readily available for that purpose.

Senator SHAFROTH. What, in your judgment, is the total demand for all enterprises that could legitimately be considered as good enterprises in the United States in the next five years?

Mr. VANDERLIP. I would not want to make an offhand estimate of that. I do know that the needs for railroad development are perfectly tremendous. I believe so great an authority as Mr. Hill stated they would equal $1,000,000,000 a year. That would seem to me to be a pretty high estimate. Certainly it is more than they are likely to get, but there will certainly be several hundred millions a year, right along, necessary for railroad development.

Senator SHAFROTH. Well, in other lines do you think that there will be in fact a great deal?

Mr. VANDERLIP. We are now spending a vast amount the country over on building good roads. There is need for a large sum for municipal loans and other loans of that character. All sorts of in-

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dustrial development will go on and will require capital. It is quite impossible to say, with such information as I have at hand, what would be a fair estimate of the total.

Senator SHAFROTH. Now, Mr. Vanderlip, the difficulty with the national-bank notes at the present time in seeking redemption at Washington is due to the fact that it is not constituted a legal reserve of the bank, is it not?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. That is the reason it comes to Washington?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. And that redemption now amounts to pretty near the total issue every year?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. If this bill goes into effect and all the State banks come into operation under it, the State banks would no longer use the national-bank notes as reserve.

Mr. VANDERLIP. No; the State bank which would become a member bank, presumably, could no longer use these notes as reserve, though it is not specifically so stated in the bill. There is merely the word "regulation," which is open to any construction you may choose to put upon it.

Senator SHAFROTH. What is required of the reserves here in this bill is that it shall be the same as that now required for the national banks to keep in their vaults.

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Which, I take it, would not include the notes that are issued in this system here.

Mr. VANDERLIP. That is certainly presumable, and would surely be desirable.

Senator SHAFROTH. Then, if State banks come in there will be an enormous demand for more reserve money, will there not?

Mr. VANDERLIP. No; not a very enormous demand for more reserve money, because part of the reserves, which they now presumably keep in cash, could be kept as balances with reserve banks. I am not aware, and I think no statistics are available, as to how many national-bank notes are in the reserves of State banks. I think it is not considerable.

The CHAIRMAN. That is reported.

Mr. VANDERLIP. That is reported? I was not aware of that. At any event, I do not believe it is large.

The CHAIRMAN. That is not large.

Mr. VANDERLIP. No. That, as you say, would not make an enormous new demand for reserves.

The CHAIRMAN. The national-bank notes in State banks and national banks combined would not exceed $75,000,000. That is the reason why I was asking you about building up this reserve, because I thought it would prove to be an expedient to retire that amount of national-bank notes, taking up the 2 percents, and putting the 2 per cent bonds then in the redemption division as 3 percents, and issuing a legal-tender note in lieu of these national-bank notes, payable in gold at the Treasury, which might be used as reserves by the member banks.

Mr. VANDERLIP. I have two or three rather important suggestions I want to make before the hearing closes.

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The CHAIRMAN. It is 20 minutes to 12 now, and I think we had better proceed.

Senator REED. Mr. Chairman, Mr. Swinney is here, and I wanted him to have at least 30 minutes.

Senator BRISTOW. We will meet this afternoon.

Senator REED. But he is leaving on the 3 o'clock train.

The CHAIRMAN. The committee can meet at any time it wishes, or might continue the session.

Senator NELSON. We might meet at half past 1 o'clock.

Senator REED. I was going to suggest that in view of the fact that he does have to leave, and I think has a short message to deliver, possibly we might hear him now.

Mr. Vanderlip is not going to be able to get through, and as Mr. Swinney will only take a few minutes, I was going to suggest we hear him now, if that will be satisfactory to Mr. Vanderlip.

Mr. VANDERLIP. It is perfectly satisfactory.

Senator NELSON. You can be with us this afternoon?

Mr. VANDERLIP. I am entirely at your service.

Senator REED. However, as it has been suggested that we meet at half past 1 o'clock, suppose we let Mr. Vanderlip go on for the present.

The CHAIRMAN. I remind the committee that there are some gentlemen here from Iowa, bankers or business men from that State, who have been advised they could be heard to-day.

If it is agreeable to the committee, we will hear Mr. Swinney now.

Senator REED. The final suggestion was that we meet at half past 1 o'clock and hear him then.

The CHAIRMAN. Very well; that will be the order if there is no objection.

Mr. VANDERLIP. I can finish in five minutes myself, unless you have questions to ask me.

The CHAIRMAN. All right; proceed, Mr. Vanderlip.

Mr. VANDERLIP. In regard to the section on farm loans, I do not believe in a commercial bank having real estate mortgages. Practically, however, the limitation in here, that no bank shall use more than 25 per cent of its capital and surplus for this purpose, makes it safe. I recognize the competition that national banks are under with State banks in the West, and the fact that these loans are perfectly secure, as a rule. They may be perfectly secure, but they are also perfectly unliquid. I do not believe in encouraging that type of business for commercial banks, but even with that view, I do not think that the clause as here drawn will lead to any disaster, and the limitation is a proper one.

Senator WEEKS. Won't you add to the suggestion also that it limits the commercial bank on demand deposits?

Mr. VANDERLIP. Of course that is what I mean. A commercial bank having demand deposits ought not to devote any considerable amount of its resources, at least, to investment in unliquid assets in making unliquid loans. Taking up the savings-bank feature, I have paid no great attention to that, because in any event it probably would not interest the large city banks. In one particular it is so drawn that it could not interest the large city banks. It states that the amount segregated as the capital of the savings departments shall in no case be less than $15,000 or a sum equal to 20 per cent of

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the paid-up capital and surplus of the national bank. That would mean that the National City Bank, in order to establish a savings department, would have to segregate $11,400,000 of its capital to do so. This 20 per cent ought to be changed, if you desire at all to encourage the large banks to have savings-bank departments. It means a segregation of too much. A $15,000 limitation is probably wise, and perhaps at the other end you might have a $200,000 or $500,000 limitation. But to say that the bank, no matter how large, if it desires to start a savings department, must segregate 20 per cent of its capital and surplus is equivalent to saying a large bank never will do it.

Senator BRISTOW. Your suggestion would be, after "$15,000," in line 6, to strike out "or than a sum equal to 20 per cent of the paid-up capital and surplus of the said national bank," in the next two lines, and then make it read "not less than $15,000 or more than $200,000"?

Mr. VANDERLIP. No; I would let it be as much as any one wants it to be, but if you feel that a large banker should not be governed by the $15,000 limit, then I would say that banks of a million capital should segregate 5 or 10 per cent. But to make them segregate 20 per cent practically prohibits them from ever undertaking the business.

Senator REED. What is the use of making any limitation at all?

Mr. VANDERLIP. None at all that I see.

Senator REED. What is the use of saying a bank should set aside 20 per cent in the savings-bank business? Why not prohibit them from doing it at all?

Mr. VANDERLIP. Oh, but it is done, to a very large degree. Every report of the comptroller shows that.

The CHAIRMAN. There is now $820,000,000 invested in savings-bank departments.

Mr. VANDERLIP. $820,000,000, according to the last call?

Senator REED. What is the amount held on deposit?

Mr. VANDERLIP. That is the same thing.

Senator HOLLIS. Half of them have savings-banks departments. now. Just about half.

Senator REED. I do not believe they have any legal right to establish a savings-bank department.

Mr. VANDERLIP. The comptroller winks at it.

Senator REED. Then, he is not following the law.

Senator NELSON. I do not believe the small country banks would avail themselves at all of this. They prefer the present system. It has worked well.

Mr. VANDERLIP. On page 45, line 11, the power is given national banks to act as trustee for mortgage loans. Taking that in connection with this section, I presume that means farm-mortgage loans. It ought to be cleared up. I should be glad to see it extended, so that a national bank may act as trustee for any mortgage loan—that is, corporate mortgages. That is one of the things that a trust company does that a national bank can not do, and it is very profitable to the trust companies. I see no reason why a national bank should not act as trustee in such cases. The language is not clear, however.

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The provision in regard to foreign branches is a very desirable thing. It is impossible for any national bank to engage in foreign business now. I have given careful consideration to the subject of banking in South America, and have found it was quite impossible for us to engage in business as the laws now stand. There are other reasons, too, that make the development of this business difficult. I think the law is not clear where it says a certain amount of capital shall be set aside. I do not know just what that means—set aside.

Senator NELSON. What page are you on?

Mr. VANDERLIP. Page 50, line 4; whether there shall be the complete segregation that is provided for in the savings-bank clause, where all capital segregated shall be used to pay all deposits of the particular department where it has been segregated, before any of it is used to pay other deposits or not. That is not fully enough explained; it does not tell exactly what is meant.

Senator NELSON. Would you weaken the foreign department if you limited it?

Mr. VANDERLIP. Very much. And if you do not limit it, the "setting aside" means nothing.

Senator NELSON. Ought not that to be left optional with the banks?

Mr. VANDERLIP. I think it ought; yes. As a matter of fact, if you have a foreign branch, your whole credit is really involved in its success or failure.

Senator NELSON. And ought to be involved?

Mr. VANDERLIP. And ought to be involved. There ought to be no setting aside whatever. The Aldrich bill permitted the formation of a specific foreign bank, the stock of which could be owned by the parent bank. That made the two somewhat distinct, but did not involve the capital of the national bank any more than to the amount of the capital held in the foreign bank. I do not recommend that particularly as the course to be followed; at any event, I call your attention to this as not being clear.

Senator NELSON. It seems to me the foreign branch bank should be on exactly the same basis as the domestic bank.

Mr. VANDERLIP. I should think so.

Senator REED. And then they ought to have some means of inspecting that foreign branch bank.

Mr. VANDERLIP. That is provided and should exist, of course. The Federal reserve board is given power to refuse the application for a foreign branch if there are reasons—that is, for any reasons it sees fit. All those grants of power when you do not know how a board is going to act or what may be intended are uncertainties in the minds of the business men. You do not know what to think of the law when you do not know just what the law means.

Senator SHAFROTH. It can not be worse than it is now, where they have no law.

Mr. VANDERLIP. Oh, yes. A very unsound banking system, I suppose, could be worse.

Senator SHAFROTH. I means as to the discretion given to the board.

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Mr. VANDERLIP. That is perfectly true, although it might permit one of our competitors to have a foreign branch and to say to us that we could not, and we would not like that.

Senator SHAFROTH. There is no authority now to establish a foreign bank?

Mr. VANDERLIP. None whatever.

Senator HITCHCOCK. Can you not accomplish the same thing through a correspondent there?

Mr. VANDERLIP. By no means.

Senator HITCHCOCK. Suppose those interested in your bank organize a private bank in London; can you not do business with each other, practically?

Mr. VANDERLIP. Let us think about that. Those interested in our bank. That means a good many hundred people, interested in different relations. Say we attach the ownership of a foreign bank to the stock of our bank, in some way. What shall we do? There would at once arise a complicated situation. You have got to have the interest of the foreign branch on all fours with the interest in the parent institution. You must not make it possible for a few insiders to own the foreign branch and juggle the United States bank for their benefit. That would not be wise or desirable. The interests of the two must be on all fours; they must, in some way, be part of one another. It may be either by a branch, provided here, with a clear understanding as to what "setting aside the capital" means, or by the establishing of an entirely distinct foreign bank, all of the capital stock of which is owned by the national bank that considers it a branch.

Senator HITCHCOCK. Can a State bank in New York have a branch in London?

Mr. VANDERLIP. It can and does. Several of them now have; also in Berlin and Paris.

Senator HITCHCOCK. That is one of the advantages they have, the State bank, in New York City?

Mr. VANDERLIP. Yes.

Senator NELSON. It seems to me, Mr. Vanderlip, in order to help our foreign commerce, our branch banks in foreign countries, for instance, in London, ought to be of such a character that the acceptance of that bank which would represent the foreign bank in this country, should be of such value that their acceptance would be as good as the acceptances of the foreign bank.

Mr. VANDERLIP. And to have it of value, you must have all of the capital stock back of that acceptance—the whole strength of the bank must be back of it.

Senator NELSON. Yes; the whole strength of the bank must be back of it. For instance, I had a case here of importing coffee——

Senator O'GORMAN (interposing). Senator Nelson, I call your attention to the fact that it is now nearing 12 o'clock, when the Senate meets, and you want to be there.

Senator NELSON. Yes; I will not ask any further questions now.

The CHAIRMAN. The committee will stand adjourned until half past 1 o'clock.

(Thereupon, at 11.55 o'clock, a. m., a recess was taken until 1.30 o'clock p. m.

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AFTER RECESS.

Senator REED. Gentlemen of the committee, you all know Mr. Swinney, the president of the First National Bank of Kansas City. Will you permit me to ask Mr. Swinney one or two question in order to put certain facts in the record?

Senator WEEKS. Before you begin will you let me refer a matter to the committee?

Senator REED. Certainly.

Senator WEEKS. Mr. Wilson Gilbert, who was president of the New York Clearing House in 1907, has indicated that he would come before the committee if he were invited. He is an old man and in somewhat infirm health and does not feel like making the trip unless he is wanted. I suggested the other day to the chairman that perhaps he was a man from whom we could get valuable information. If the committee desires it and wishes to secure him I think it might be well.

The CHAIRMAN. You might bring that up when we have a quorum.

Senator WEEKS. I have to go away early, and will ask you to bring it up.

Senator REED. Personally I am in favor of hearing him.

Senator BRISTOW. Yes; I am very much in favor of hearing him. I think we ought to get all the information we can.

STATEMENT OF EDWARD F. SWINNEY, PRESIDENT OF THE FIRST NATIONAL BANK, KANSAS CITY, MO.

Senator REED. Mr. Swinney, you are president of the First National Bank of Kansas City, Mo.?

Mr. SWINNEY. Yes, sir.

Senator REED. And what is its capital stock?

Mr. SWINNEY. $1,000,000.

Senator REED. What is its surplus?

Mr. SWINNEY. $1,000,000; and undivided profits, $1,000,000.

Senator REED. What do its deposits ordinarily amount to?

Mr. SWINNEY. About $27,000,000.

Senator REED. They run very much higher than that, I think, at times?

Mr. SWINNEY. Yes.

Senator REED. How many country banks are depositors with you?

Mr. SWINNEY. Between 700 and 800.

Senator REED. And, generally speaking, over what section of territory are they spread?

Mr. SWINNEY. We cover the West largely—Kansas, Missouri, Nebraska, Texas, and Oklahoma, principally.

Senator REED. What amount of deposits do you keep in eastern banks, or in other banks, and where? I do not mean all the time, but as a general proposition.

Mr. SWINNEY. Well, we keep our reserves, of course, in the three central reserve cities.

Senator REED. St. Louis, Chicago, and New York.

Mr. SWINNEY. Yes. Our reserves with those reserve banks will run from $5,000,000 to $7,000,000.

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Senator REED. Now, Mr. Swinney, you told me there were one or two matters about this bill to which you would like to call the attention of the committee.

Mr. SWINNEY. Well, Mr. Vanderlip has covered the proposition so thoroughly that it hardly leaves anything for me to say.

The CHAIRMAN. Do you substantially agree with Mr. Vanderlip in his views?

Mr. SWINNEY. Largely; yes, sir. But what I am going to say on one or two matters—one especially—shows that men in the same business look at matters from a different standpoint on account of the fact that they do business in different localities.

I wanted especially to speak of these country banks having to keep their entire reserve either in their vaults or in the regional bank. As it is to-day we use our reserve as working cash, and are able to manipulate it from one city to the other as we need it. Mr. Vanderlip, though, in his talk this morning, seemed to think that would all be done away with, on account of the regional banks being general clearing houses for all of the national banks doing business with them. If that is the case, perhaps it could be worked, but it strikes me that when they got started on it they would find that the national banks doing business with these regional banks would have such an enormous amount of business it would simply flood the institution.

I did not bring this memorandum with me for the purpose, but happened to have it, and will refer to it just to give you a little idea of that. In our institution alone we in one day handled 25,518 country checks—checks on country banks. Now, that is not an unusual day, but we take it off once a year. We do not take it off on the largest day, but any day in the week. Now, if every bank in Kansas City piled that into the regional bank, and the banks all around the country in the same proportion, you see they never could get through the business.

Senator REED. Mr. Swinney, you have a tabulation that you showed me of that one day's business, which you say you took off merely as a bank record?

Mr. SWINNEY. Yes, sir.

Senator REED. And it was not a selected day, but just a day that you took an account of your business, and that was done some months ago?

Mr. SWINNEY. December 18, 1912.

Senator REED. Will you put into the record that day's business, in order that we may have some gauge to go by?

Mr. SWINNEY. The entire thing?

Senator REED. The entire day's business.

Mr. SWINNEY. Well, through the mail that morning we received on ourselves 1,707 checks, amounting to $900,000. I won't give you the odd figures.

Senator REED. You will put the tabulation in later, will you?

Mr. SWINNEY. Yes. On other Kansas City banks there were 2,826 checks, amounting to $1,000,000. Of out-of-town checks—those from the country—there were 15,119, amounting to $1,600,000. Total checks received in the mail, 19,654; total amount, $3,500,000.

We received over the counters 1,651 checks on ourselves, amounting to $1,500,000. On other banks we received 9,413 checks, amount-

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ing to $1,000,000. Out-of-town checks, 8,865, amounting to $1,000,000. Total checks over the city, 19,929, amounting to $3,600,000. The total business for the day was $9,098,000. The total number of checks handled that day was 45,454, and the total amount of cash handled was $353,127.85.

Senator REED. What was the amount of business you did through the bank that day by checks?

Mr. SWINNEY. $9,098,000.

Senator REED. And how much was cash?

Mr. SWINNEY. $353,000. The cash decrease that day was $150,000.

Senator REED. Does that complete the tabulation you have?

Mr. SWINNEY. There are a lot of other matters there. It shows the changes in various items, how much was eastern and how much was western. We sent to the East 2,568 checks, amounting to $817,000. Indirectly we sent 1,451 checks amounting to $166,000.

Senator REED. I should like to have that tabulation printed in the record.

The CHAIRMAN. Let it go in the record.

(The statement referred to is as follows:)

Checks handled Wednesday, Dec. 18, 1912.

	On this bank.		On other Kansas City banks.		Out-of-town items.		Total.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
Received by mail.	1,707	$918,753.84	2,826	$1,021,798.35	15,119	$1,610,446.74	19,652	$3,550,998.93
Received over counter	1,651	1,542,758.39	9,413	1,029,791.05	8,865	1,057,893.07	19,929	3,630,442.51
Paid through clearing house	4,339	1,822,918.01	.....	.....	1,534	93,646.76	5,873	1,916,564.77
	7,697	4,284,430.24	12,239	2,051,589.40	25,518	2,761,986.57	45,454	9,098,006.21

	Number.	Amount.
Total number checks handled	45,454	.....
Total amount of checks handled	.....	$9,098,006.21
Total amount of cash handled	.....	353,127.85
Cash decreased	.....	150,672.15
Deposits decreased	.....	53,174.42
Total number of individual checks	4,482	1,876,460.04
Total number of individual credits	816	1,732,565.35
Individual balances which changed	1,765	.....
Individual accounts	6,669	.....
Sent for credit charged on country books	.....	562,886.99
Total bank drafts on us	3,059	2,486,805.17
Total bank credits	796	3,210,923.81
Bank balances which changed	624	.....
Country bank accounts	772	.....
Certificates of deposit outstanding	1,752	.....
Holders of certificates of deposit	1,185	.....
Sent eastern banks:		
Direct	2,568	817,761.05
Indirect	1,451	166,632.17
	4,019	984,393.22
Sent to country for credit:		
Direct	5,753	483,742.65
Indirect	888	28,796.44
	6,641	512,539.09

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Checks handled Wednesday, Dec. 18, 1912—Continued.

	Number.	Amount.
Sent to country for returns:		
Direct	7,853	$865,356.98
Indirect	955	50,710.59
	8,808	916,067.57
Sent to country clearing house	1,999	90,239.14
Paid under instructions	257	50,548.58
Railroad items payable here	3,670	208,215.07
Total direct items	22,100	2,515,863.47
Total indirect items (including 1,178 items, $43,430.19, through other Kansas City banks)	3,294	246,139.20
Exclusive of railroad and other items payable here:		
Sent direct from Kansas City to point on which drawn	19,351	2,300,536.01
Sent through intermediate point	2,116	202,703.01
New York drafts written (130)		99,753.56
Chicago drafts written (65)		271,325.99
St. Louis drafts written (31)		184,629.24
Cashier's checks written (18)		11,704.34
Certificates of deposit written (19)		19,581.26

Senator WEEKS. How much of that business would go through the reserve bank, Mr. Swinney? What part of it?

Mr. SWINNEY. As I understand it, all of it except what was on ourselves.

Senator WEEKS. What would be the relation between that amount of business and the total business of Kansas City?

Mr. SWINNEY. Well, I would say we do perhaps a fifth of the business of the town.

Senator WEEKS. You naturally assume that there would be branches in every considerable city of these reserve banks anyway, and, of course, one in Kansas City, so that one bank would be doing the whole exchange business of Kansas City if this bill becomes a law?

Mr. SWINNEY. Yes, sir.

Senator WEEKS. And not necessarily the exchange business of any other locality?

Mr. SWINNEY. They would have to do all tributary to Kansas City.

Senator WEEKS. You are doing that, are you not?

Mr. SWINNEY. But under this bill we would not do it.

The CHAIRMAN. How many employees do you have to handle those checks?

Mr. SWINNEY. We have about 135 employees.

The CHAIRMAN. Handling those checks?

Mr. SWINNEY. In the bank, all told.

The CHAIRMAN. I mean handling those exchanges.

Mr. SWINNEY. I could not say about that. Of course, it is divided among the different departments. I could not tell you.

Senator HITCHCOCK. You have only 135 altogether?

Mr. SWINNEY. That is all, sir.

Senator HITCHCOCK. Is not that a very small number for the size of the bank you have?

Mr. SWINNEY. I expect it is the smallest in the United States in proportion to the business.

Senator HITCHCOCK. There is one bank in Missouri, much smaller than yours, with 200 employees. Can you explain that?

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Mr. SWINNEY. No; I can not. We manage to take care of the business.

Senator REED. I can explain it. Mr. Swinney knows how to establish a system. He is too modest to say.

The CHAIRMAN. Perhaps Missourians are about twice as efficient, too, as Nebraskans.

Senator REED. No; I would not say that. I might say that if it were not for my regard for Senator Hitchcock.

Mr. SWINNEY. Regarding the capital of the proposed regional banks, I will say in the first place that I am thoroughly in hopes you gentlemen can get to some kind of proposition that will be workable regarding the regional banks. We all realize, perhaps, to start with, there will have to be many changes. There never was a business in the world, no matter how long you worked on the proposition, that when you got it started you did not have to make changes. And I am sure some of you gentlemen have seen, even since I have been here, that it is advisable to make changes; things have come up that you had not suspected before.

The matter I was getting at is this, that the small country bank has no use whatever for the regional bank. Their paper is not of a class that could be used for that, and really I believe it would be better if banks of say less than $50,000 were not required to take stock in this regional bank.

And right there I will say also that, while no man wants to be forced, to be told he must do a thing, at the same time I believe that in this bill you will have to use the word "must" to ever get it through. I am free to say that I would not go into it if I did not have to until I found out how it worked.

Senator BRISTOW. Mr. Swinney, don't you think it would be very much better for us to provide a remedy for the things complained of, without having to resort to a system of coercion, compelling men to do things they do not think they ought to do?

Mr. SWINNEY. That is exactly what I say, Senator; but still, at the same time, how would you ever get it started if you did not do it?

Senator BRISTOW. Suppose we had a Federal reserve bank established here in Washington, governed, if need be, by a board similar to this board that is created in this bill. Let that be a bank of discount, and a bank of issue, and perform the functions that are intended to be performed very largely by these regional banks. Let it have branches out through the country. Then suppose we let any bank that wants to have its paper discounted transact business with that bank without having to put up any capital stock or be a member of anything.

Mr. SWINNEY. I do not think there is anything in the world the matter with our banking system regarding the banking part of it; it is only the currency part of it.

But I really believe, to make and have a safe currency proposition and a credit proposition which would be elastic, that you must have something of this kind. I really do not believe, Senator, that would work. I do not believe it could work successfully where the Government has to deal directly with the individual.

Senator BRISTOW. Well, suppose the bank dealt through its branch banks with the individual banks?

Mr. SWINNEY. Oh, I see. That simply gets to a Federal bank.

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Senator BRISTOW. A Federal bank, yes; a Federal reserve bank.

Mr. SWINNEY. Well, if the Government wants to go into the banking business that is a different proposition.

Senator BRISTOW. Is it not in the banking business when this bill passes?

Mr. SWINNEY. Well, indirectly, but not directly.

Senator REED. I wanted to ask you about obtaining the capital for these banks. Let us assume that the 12-bank idea is accepted, or four banks or six banks. In any event this bill provides for each bank paying in 10 per cent of its capital stock. Assuming that 10 per cent is to be paid in, when and how, in your opinion, should it be paid in to least disturb the financial market and still permit this plan to be carried into effect?

Mr. SWINNEY. I do not believe I have expressed myself on that subject, but I think that 12 banks would make the proposition unwieldy. I believe that, to begin with, anywhere from 3 to 5 banks would be plenty, and if we should need any more we could add to the system. I think that 4 or 5 banks, new institutions, could be handled in a better way than could 12.

As to the payment, if there should be, say, 5 banks, you would put into those banks, say, 25 per cent to start with——

Senator REED (interposing). Twenty-five per cent of the 10 per cent?

Mr. SWINNEY. Yes; 25 of the 10; and then, as the national bank does now, pay in so much monthly. As you know, a national bank now pays in, I believe, 50 per cent and then 10 per cent every month.

Senator REED. And would that furnish money, do you think, rapidly enough, so that the bank would have plenty of money on hand to transact the business and increase the capital as the business increased?

Mr. SWINNEY. I think it would prevent them having too much money, perhaps.

Senator REED. And that would be done in that way, by the banks paying in a part at a time on their capital stock, with less disturbance to financial conditions than would result if you paid it in all at once?

Mr. SWINNEY. Of course it would. Some banks, I suppose, to pay their reserve in would be required immediately to discount paper. There is no doubt but what some of them would—perhaps not a great many of them.

Senator REED. Or contract loans?

Mr. SWINNEY. Yes.

Senator REED. Now, Mr. Swinney, there is one matter here that has been much discussed, and you have referred to it—I will say to the committee frankly that I was talking to Mr. Swinney the other night and he mentioned this matter to me—and that is the use of your present reserves. There has been a prevalent idea that a bank when it carried its reserve over to another national bank was not able to check that reserve out, utilizing it as an absolute balance, and at the same time maintain the reserve and comply with the law.

Now, you stated to me that that was done every day, and I wish you would tell the committee how it is done and the law complied with.

Mr. SWINNEY. Well, by transfer of reserves. As it is, under this law you make your reserve just as inelastic as our national currency

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is to-day. It specifies that you must have so much reserve in your bank and it must remain there. What I was saying to you, Senator, was that if we have money in the three reserve centers and we want to transfer from St. Louis to Chicago or New York, we can do so by checking from one to the other. But, as I said, Mr. Vanderlip's proposition does away with all of that, if such a thing should go through.

Senator REED. As I understood you in that conversation—and I am more anxious to get the point than I am about the way I get it—assuming you had to have as a reserve under the law in other banks $6,000,000, just for an arbitrary figure, and you had $2,000,000 in Chicago, $2,000,000 in New York, and $2,000,000 in St. Louis. You would just have your reserve. As I understood you, if you wanted to draw on St. Louis for the entire $2,000,000, drawing it all out, you could do so; and then that same day, by increasing your fund in Chicago or New York to an equal amount, you would still have complied with the law, and nevertheless you would have been able to use that money.

Mr. SWINNEY. Yes; simply transferring your reserve from one point to another.

Senator REED. So that, as a matter of fact, you do, to a large extent, get the use of your reserve under present conditions?

Mr. SWINNEY. Yes, sir; it is a working reserve that we can transfer from one point to another.

Senator HITCHCOCK. I just want to ask you a question right there, Mr. Swinney. The provisions in the bill which make checks of member banks upon the reserve bank go at par would probably enable you to draw your check upon the reserve bank and have it accepted at par in New York, although your reserve bank was located in St. Louis, would it not?

Mr. SWINNEY. I will say this, that if that proposition goes through it would be a mighty good one for the banks.

Senator HITCHCOCK. Would there be any need of your carrying the balances in New York if your check on the St. Louis regional bank were taken at par in New York?

Mr. SWINNEY. None whatever. To give you an idea of that, in 1911 we had to ship $10,000,000 East to make our transfers good. In 1912 we shipped $10,300,000. In 1913, up to October 1, we shipped $8,200,000. We would get rid of all that expense if this proposition should go through.

Senator REED. You have a table there, have you not, showing how much money you have shipped during certain years?

Mr. SWINNEY. Yes.

Senator REED. How is that table expressed? Are the figures carried out?

Mr. SWINNEY. They are in thousands.

Senator REED. So that if that table were printed, and it were understood that these figures represented thousands, it would express the right idea?

Mr. SWINNEY. I will say also that this table not only gives the money we have shipped to the East and from the East, but it gives the amounts by months that we have shipped to the country and received from the country.

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Senator REED. I should like to have that printed.

The CHAIRMAN. Let it go in the record.

(The statement referred to is as follows:)

Currency shipments.

[NOTE.—The amounts given in the following statement are expressed in thousands of dollars.]

TO THE COUNTRY.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.	Total.
1911..	358	587	489	357	387	432	546	718	970	906	786	654	7,190
1912..	280	512	411	500	353	344	536	1,058	1,279	1,100	882	1,022	8,277
1913..	388	723	551	418	469	579	750	1,040	1,191	.....	.....	.....	6,109

FROM THE COUNTRY.

1911..	781	356	816	700	371	630	365	273	243	218	293	250	5,296
1912..	521	229	288	386	420	574	417	259	164	344	362	494	4,458
1913..	874	401	503	448	472	537	376	264	296	.....	.....	.....	4,171

TO THE EAST.

1911..	1.619	414	1,032	797	829	1,165	880	597	462	611	619	990	10,015
1912..	1,179	582	525	806	879	1,515	1,050	270	415	802	1,180	1,142	10,345
1913..	1,432	634	953	930	760	1,294	1,050	596	632	.....	.....	.....	8,281

FROM THE EAST.

1911..	.....	.....	.....	.....	.....	.....	.....	100	.....	.....	500	100	700
1912..	.....	300	.....	.....	.....	.....	.....	350	.....	250	300	300	1,500
1913..	500	450	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	950

Senator HITCHCOCK. You would not be compelled to ship that currency to New York?

Mr. SWINNEY. It would fall to the lot of the regional bank.

Senator HITCHCOCK. You would not be under any necessity of having an account in New York at all, would you?

Mr. SWINNEY. No, sir; not under this proposition, as I understand it.

Senator HITCHCOCK. Would not that be a great benefit to the country?

Mr. SWINNEY. Well, I do not know. I am a sort of old-fashioned banker, and we have had these associations for a great many years, and there may be a great deal of sentimentality about it, but I should hate to destroy all those connections.

Senator HITCHCOCK. Now, would the regional bank be put to a similar expense in making shipments?

Mr. SWINNEY. More or less; yes, sir. The trend from our country is to the East for money.

Senator HITCHCOCK. It must come back some time; it can not always be going in that direction.

Mr. SWINNEY. The trend is in that direction pretty much all the time.

Senator HITCHCOCK. Where do we get it from? Where does the West get it from?

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Mr. SWINNEY. Oh, it comes through the pockets of the people into the banks.

Senator REED. Senator, you have evidently entirely overlooked Senator Tillman's picture of the cow that was printed in the Record. You notice the money all goes in one direction through that cow.

Senator HITCHCOCK. I am not an expert on cows, but I wanted to ask whether you thought the regional banks would be put to a considerable expense in making a shipment of currency for members.

Mr. SWINNEY. In shipments of currency and collections—yes, sir; to a very large expense, but still, I think, they could afford to do it for the free deposit which they would get.

Senator HITCHCOCK. It would not be really as large an expense as that which is now borne by the members?

Mr. SWINNEY. No; you would simply transfer the debtor and creditor balance.

Senator HITCHCOCK. So Mr. Vanderlip was correct when he said that the banks of the United States would no longer keep their balances in New York, for the reason that customers would be satisfied with a check upon the regional reserve bank?

Mr. SWINNEY. No; they would have no use for New York then.

Senator NELSON. But the country banks complain of this clearing-house paragraph. They say that it deprives them of a great deal of their source of revenue.

Mr. SWINNEY. It would be very unpopular with the country banks, Senator.

Senator HITCHCOCK. Have you any estimate of the proportion of national banks in Kansas which would come into the system?

Mr. SWINNEY. Well, I can not say. I think that, with some changes in the bill, pretty much all of them would.

Senator HITCHCOCK. Take the bill as it is now.

Mr. SWINNEY. No; they would not come in.

Senator HITCHCOCK. Would half of them come in?

Mr. SWINNEY. I do not believe half of them would. Of course, Kansas has a very good State law, and so has Missouri.

Senator HITCHCOCK. How would those banks which stayed out of the system conduct their exchanges and care for their reserves?

Mr. SWINNEY. Exactly as they do to-day.

Senator HITCHCOCK. So that they would continue to deposit their reserves in the reserve centers, but they would only be State banks?

Mr. SWINNEY. Yes.

Senator NELSON. They would be guided by State laws in each case as to the amount of reserves and where to keep them.

Senator HITCHCOCK. Well, they would not have the privilege of using the regional bank for exchange, and they would have to draw New York drafts just as they do now——

Mr. SWINNEY. You mean those who were not members of the regional bank?

Senator HITCHCOCK. Yes.

Mr. SWINNEY. Now, my proposition—I want to be understood on that. When I said that I did not believe smaller banks should be required to take stock in the regional bank I did not mean to give the impression that they should not be required to do business with it

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and keep their reserve there. I believe they should keep their reserve there just the same as if they held stock.

Senator HITCHCOCK. I do not think you have discussed this yet, but I should like to ask you, as a practical proposition, if you join this new organization and subscribe for 20 per cent of your capital and pay one-tenth of it and transfer to the reserve centers the proper proportion of the country-bank balances which you now have, where are you going to procure that money?

Mr. SWINNEY. We would have to draw it out of New York.

Senator HITCHCOCK. What do your country-bank deposits amount to of your national banks?

Mr. SWINNEY. About $8,000,000.

Senator REED. All together?

Mr. SWINNEY. All the national banks.

Senator HITCHCOCK. How much of that $8,000,000 would you be required to turn over to the reserve bank, probably?

Mr. SWINNEY. Oh, I figure—I thought I had the figures, but I have not—that we would have to pay over to the regional bank somewhere between $3,500,000 and $4,000,000.

Senator HITCHCOCK. In what length of time?

Mr. SWINNEY. At the end of the working season—36 months.

Senator HITCHCOCK. How much would it be in 60 days after the banks formed?

Mr. SWINNEY. Well, not to any great extent would you have to check on banks, because we could take our excess currency out of our vaults to start with.

Senator HITCHCOCK. You keep a large surplus over your reserve?

Mr. SWINNEY. No. Your required reserve in the vault would be less, and therefore you could take the cash out of the vault first and put it in the regional bank.

Senator HITCHCOCK. Now, to what extent do you think you would be under the necessity of contracting your loans?

Mr. SWINNEY. Why, that is very hard to say. It would just depend upon whether we have any business from national banks. If the entire $8,000,000 would go out, you can see we would have to contract our loans very largely.

Senator HITCHCOCK. What are the total country bank deposits in the other national banks of Kansas City?

Mr. SWINNEY. $32.000.000; that is the total.

Senator NELSON. Is that in your bank?

Mr. SWINNEY. No; that is the total of country national bank deposits in Kansas City.

Senator REED. You say the country national banks. Now, what are the total deposits of all banks in Kansas City? Can you give that?

Mr. SWINNEY. What do you mean by that?

Senator REED. The State banks and trust companies that deposit with the banks of Kansas City.

Mr. SWINNEY. I have not that.

Senator HITCHCOCK. Now, assuming that your national banks in Kansas City would be required to turn over the full $32.000,000 of country bank deposits to the reserve bank of that district; where would that $32,000,000 come from?

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Mr. SWINNEY. It would have to come out of the eastern exchanges which we have, and the cash out of our vaults, and quite a reduction of loans.

Senator HITCHCOCK. What would the borrowers do when those loans were called?

Mr. SWINNEY. Well, the banks would either have to go to the regional bank and borrow or have them to pay.

Senator HITCHCOCK. To what extent do you estimate that would contract the loans in Kansas City?

Mr. SWINNEY. I have some figures that were made by our clearing-house manager, but I do not know that they are correct. He estimates that for the first 60 days in Kansas City the loss of deposits would be $11,000,000.

Senator HITCHCOCK. Does he say anything about the contraction of loans?

Mr. SWINNEY. No; he could not figure on that at all, because he was figuring on the amount of money that would have to be paid out.

Senator HITCHCOCK. Now, assuming that the contraction of loans occurs not only in Kansas City, but in Omaha, St. Paul, Minneapolis, Cincinnati, and all the other 40 or 50 reserve cities of the country; what would be the effect on business of that in the aggregate?

Mr. SWINNEY. Just as I said in the beginning, Senator; I do not agree with Mr. Vanderlip. I think it would be a serious proposition to the country to have to withdraw from the business the amount of money that would be required. To a certain extent you eliminate the national banking system, which would make greatly against business, I believe. I do not believe that anybody cares to go and put himself on record as having to borrow money right away to start this proposition, which would be done, unless you cut loans.

Senator HITCHCOCK. Now, have you any recommendation to make as to any amendment to this bill so as to mitigate that possible contraction?

Mr. SWINNEY. Well, we hear that there is a pyramiding of deposits, and that it finally gets into New York. I would suggest that banks in reserve cities be allowed to keep one-third of their reserve with central reserve cities, but in no central reserve city to exceed 2 per cent. For instance, we have 18 per cent—6 per cent in the vault, 6 per cent with the regional bank, 2 per cent in St. Louis, 2 per cent in Chicago, and 2 per cent in New York.

Senator HITCHCOCK. And yet you said you would have no use for New York exchange, possibly.

Mr. SWINNEY. Under this other proposition is what I spoke of.

Senator HITCHCOCK. But it would be kept there simply for the purpose of not disturbing the banking business of the country unnecessarily?

Mr. SWINNEY. Yes, sir.

Senator HITCHCOCK. That would give relief to the central reserve cities, but it would not relieve the 48 or 49 reserve cities?

Mr. SWINNEY. Well, let the country banker do the same thing on exactly the same proposition. He could keep 4 per cent of his deposits there, 4 per cent with the reserve agent, 4 with the regional bank, and 4 in his safe, which would be 12 per cent.

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Senator NELSON. That would keep up the volume of reserves to some extent that we have now?

Mr. SWINNEY. It cuts it down considerably.

Senator NELSON. But it would perpetuate the system.

Mr. SWINNEY. Yes, sir.

Senator REED. If I understand, now, Mr. Swinney, speaking about the immediate contraction, the first thing the banks of Kansas City would have to do would be to take an amount equal to 10 per cent of their capital stock and transfer that to a regional bank which, let us say, is located in St. Louis——

Mr. SWINNEY. Which would be $875,000.

Senator REED. From what bank?

Mr. SWINNEY. The national banks; the capital of the national banks.

Senator REED. If the State banks and trust companies came in it would be a very much larger sum?

Mr. SWINNEY. Yes, sir.

Senator REED. Now, that you would have to take out of your vaults or you would have to call loans in order to get it. Then the next proposition would be you would have to take an amount equal to 6 per cent of your deposits, and that you would either have to take out of your vaults or withdraw from New York, St. Louis, or Chicago. And if you withdrew from them, of course, it would contract their currency to that extent and they would have to contract loans to get the money. Now, you have in these banks in Kansas City $38,000,000, did you say?

Mr. SWINNEY. $32,000,000.

Senator REED. $32,000,000 of country bank deposits, and that largely represents their reserves, does it not?

Mr. SWINNEY. Largely; yes.

Senator REED. So that if those country banks were to be required to put up their reserve, not with you, but with the regional reserve bank, they would have to draw that money away from you?

Mr. SWINNEY. Yes, sir.

Senator REED. And the result would be that whatever amount was taken away in the aggregate would have to be deducted from the loans that are made by the Kansas City banks?

Mr. SWINNEY. Or borrow from the regional bank.

Senator REED. Or else they would have to discount at the regional bank. That would look like a very radical contraction if it were put into effect at once.

Mr. SWINNEY. Yes, sir; it certainly would, and it would cause quite an upheaval in the credits of the country in my opinion.

Senator REED. Now, if this system were put into effect gradually, and you were required to put in only, say, 2 per cent of your capital at first, adding 2 per cent of your deposits and the amounts thereafter to be gradually increased, that would at least give more time for readjustment?

Mr. SWINNEY. Oh, yes; the more gradual you could make it the better it would be.

Senator REED. Now, Mr. Swinney, I want to ask you one other question, and that is one I asked Mr. Vanderlip and which he has not yet answered. What inducement or reason is there for a bank re-

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maining a national bank after this bill is enacted, if it goes through in its present form?

Mr. SWINNEY. None whatever, except to get credit—a place to use credit; that is all.

Senator REED. That is, with the regional bank?

Mr. SWINNEY. Yes.

Senator REED. But that is now opened by this bill to every bank and trust company in the country that has a certain amount of capital and which conforms to certain conditions.

Mr. SWINNEY. Oh, with the bill as it stands at the present time I am confident it would be to the interest of the banks to go into the State system.

Senator REED. To go into the State system?

Mr. SWINNEY. Yes; because they could get so many more privileges.

Senator REED. Can you suggest to us any improvement that might be made to this bill which would keep the national banks in the national banking system?

Mr. SWINNEY. Well, just as I have said, this reserve proposition, to a country bank, of which I am one, is one of the main points of the contention with us, and one which would come nearer driving them out of the system than anything else. That is the way they feel about it.

Senator REED. Well, if we modify that, still the advantage would be with the State bank and trust company, because they have a wider range of business, and of course if we modified as to one we probably would as to all. What is there in the way of an advantage which could be given justly to a national bank in order to have it maintain its charter and continue as a national bank? Do you think of anything that could be done? He used to have an advantage on the matter of currency.

Mr. SWINNEY. At one time he had that advantage.

Senator REED. What is there left, and what can be done?

Mr. SWINNEY. Nothing except that the only advantage they would have is that there had always been just a little sentiment in favor of a national bank, considering it, you might say, as a Government institution, especially in a new country.

Senator HITCHCOCK. What is the total of capital of national banks in Kansas City?

Mr. SWINNEY. $8,750,000.

Senator HITCHCOCK. Suppose a subtreasury were located in Kansas City, with the provision that the national banks there might procure currency at any time at a reasonable rate of interest from the Government, to the extent of 75 per cent of their capital, which, in that case, would be something like $6,000,000, would it not?

Mr. SWINNEY. Yes, sir.

Senator HITCHCOCK. Possibly a little more. Would that facility afford to the banks of Kansas City a means, in seasons of extra demand, for something to accommodate their customers?

Mr. SWINNEY. You open up there a very wide subject, Senator. I have not time to take the matter up, but it is only in one season of the year when we need credit, and that is only for about six or eight weeks in the fall of the year, and a clearing-house proposition

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whereby they could join together and get currency, in my opinion, is as good as anything we could have. Take, for instance, in 1907 when we banded together in Kansas City, as they did in other places. We issued, against the law there, I might say, a currency, and in two weeks that currency was going as good as a national-bank bill. There was no question raised about it. Senator Reed will tell you the same thing. It passed there, and we had occasion to make up a pay roll for the Sante Fe Railroad of $100,000, and we used $50,000 of that and sent it out into Kansas, and it went right straight through.

Senator BRISTOW. It circulated all over the State?

Mr. SWINNEY. Yes, sir.

Senator HITCHCOCK. We had the same experience in Omaha, but there seems to be an objection that I can hardly appreciate, which is made by some bank, to being compelled to show their hands to each other in forming a currency association to guarantee others' obligations.

Mr. SWINNEY. There is nothing in it, I think. It is simply a supposition. We might take the same thing right here on this money that the Treasury is putting out now. You might say the banks did not care to show their hands. We met in Kansas City and agreed what each one would ask for, submitted our collateral one to the other, and it never caused any trouble. Nobody thought anything about it. If they would get that proposition to working, there would not be any question about it.

Senator HITCHCOCK. That is the Vreeland-Aldrich Act?

Mr. SWINNEY. Partly; only partly.

Senator HITCHCOCK. Under that Vreeland-Aldrich Act banks in any community or neighborhood having an aggregate of $5,000.000 of capital, and numbering 10, can form a currency association, guarantee each other's paper and secure this additional bank note circulation.

Senator REED. These were not bank notes; they got Government money.

Senator HITCHCOCK. That was a direct loan of the fund of the Treasury, and the Treasury might or might not have a balance to its credit. I am talking about a permanent arrangement for procuring, direct from the Treasury, from the United States, notes, which this bill provides shall be furnished to the banks through the machinery of regional banks. I am wiping out the regional banks, and suggesting to you an arrangement whereby the Treasury can furnish this currency direct to the individual national banks in, say, 50 cities of the United States where subtreasuries might be located.

Mr. SWINNEY. Well, if such a thing could be worked, Senator, I think, as I say, I would believe it a good proposition. But we could never work it. I do not think you could work it here in Washington.

Senator HITCHCOCK. Will you explain why?

Mr. SWINNEY. I do not think you could ever get a proposition of that kind through here.

Senator HITCHCOCK. I am assuming that it would go through.

Mr. SWINNEY. Assuming it could go through, as I said in the beginning, the main thing we are after is to try to get an elastic currency, or a currency that we can use a few months in the year, and

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a proposition of that kind, to my mind, if it could be put through, would be as good as you could ask for.

Senator HITCHCOCK. It is only a few months in the year when your banks would borrow that currency, and that particular season is in the fall?

Mr. SWINNEY. Yes.

Senator HITCHCOCK. In New Orleans it would be another season, and in the San Francisco region it might be another, so that in the aggregate the Government would not be advancing at any particular time a very tremendous sum of money, but the currency would be elastic in the neighborhood where it was called for. At the end of the particular period the banks would take up their securities, pay back, either in gold or United States notes, and you would pay the interest, and that would end the transaction. Do you think that would work?

Mr. SWINNEY. It would suit me exactly.

I have only a few moments, gentlemen, and there are just one or two other things I desire to call to your attention.

I am going to suggest a change, on page 40, in regard to bank examinations. It says:

> The Comptroller of the Currency shall so arrange the duties of national-bank examiners that no two successive examinations of any association shall be made by the same examiner.

That is different from our present form, and really I do not think it is a good proposition. I believe a man who examines a bank once and then comes to examine it again in six months is much more capable of doing it than if he had never been in the bank before. He becomes familiar with the credits and workings of the bank.

I go now to page 41, beginning at line 14, where it says:

> The Federal reserve board shall, as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities.

With our clearing-house examinations which we have in Kansas City, and which they have in other places, I think that is out of reason. Two examinations are ample, and the comptroller can have as many more as he wishes. That is the law now.

Here is another proposition in regard to the Federal board. We all talk about the power of the board, but here is one place where they should be given discretion which they are not given. It says:

> The Federal reserve board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of 10 member banks the Federal reserve board shall order a special examination and report of the condition of any Federal reserve bank.

Now, if you take 10 banks in the country and they should get to a place where they did not like something a regional bank had done, they could make that application and the Federal reserve board would have to make the examination. Why not use the word "may" instead of "shall"?

Senator REED. You think a few fellows might be disgruntled and make an unnecessary disturbance?

Mr. SWINNEY. Ten men could make a request for an examination of a Federal bank, and then in three or four weeks make another

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request, and keep on examining that bank right along. The Federal board does not seem to have any discretion whatever there. By changing that word from "shall" to "may," I think you would cover that point.

Senator REED. On what page is that?

Mr. SWINNEY. On page 41.

Senator SHAFROTH. Will you read the language of it again?

Mr. SWINNEY (reading):

The Federal reserve board shall at least once each year order an examination of each Federal reserve bank, and upon joint application of 10 member banks the Federal reserve board shall order a special examination and report of the condition of any Federal reserve bank.

Senator NELSON. It is peremptory; there is no doubt about that.

Senator SHAFROTH. The only thing is if 10 large banks want an examination, why is it not proper that it should be done, and that it should not be left discretionary?

Senator NELSON. It says 10 banks; it does not say 10 large banks.

Senator SHAFROTH. Or 10 small banks.

Mr. SWINNEY. If they were doing it to annoy a bank, it strikes me the Federal reserve board ought to be given discretion as to whether they should order an examination or not.

Senator NELSON. It would depend upon what the application presented. If it presented facts that would warrant the board to go ahead and make an examination, they would undoubtedly make it, and if the application was simply a matter of pure cussedness they ought not to be compelled to make the examination. I think Mr. Swinney is right on that subject.

Senator REED. At least that ought to be limited in some way.

Mr. SWINNEY. That is all I have to suggest, Mr. Chairman, and I thank you for giving me the privilege of appearing before you.

The CHAIRMAN. We are much obliged to you for coming before us, Mr. Swinney.

STATEMENT OF FRANK A. VANDERLIP—Continued.

Senator BRISTOW. Mr. Vanderlip, I understood you to say that you believed national banks ought to be permitted to establish branches. You limited it to the cities where they were located, but I inferred that in your judgment you thought that limitation was not really necessary, but probably you thought you could not get more than that because of the prejudice against it. Do you believe there ought to be such a limitation?

Mr. VANDERLIP. I would not use the word "ought." There is no inherent right of a national bank to have branches. I think it would be desirable for the bank to have branches in the city in which it is located, and desirable not altogether from the bank's point of view, but desirable from the point of view of the citizens of the city, from the point of view of properly conducting the bank's business, and of giving to all the citizens of a large city the facilities of a large bank.

In regard to branches elsewhere than in the city where the bank is located I think, from the bank's point of view, the weight of evidence would be that it would react in its favor if it had a right to

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have branches anywhere. I think there are some factors of weakness on the side of a bank having branches, but on the whole I think many large banks would welcome the opportunity to have branches. I do not regard it as their right.

Senator BRISTOW. That would reduce the number of national banks, would it not?

Mr. VANDERLIP. I should think it would very much reduce the number of fly-by-night private banking institutions in a city like New York, where we have banks started that get the money of rather ignorant depositors and frequently fail to pay it back.

Senator BRISTOW. Why would it reduce that kind of banking especially?

Mr. VANDERLIP. Because it would bring the branch of a well-known bank in competition with a little private bank, or with a little State bank, or even with a small national bank, and it would give the strength of a great institution to that branch, just as much as to the parent bank.

Senator BRISTOW. Do not your State laws protect the people from these spurious banks?

Mr. VANDERLIP. No, sir; they do not protect the people from a private bank.

Senator NELSON. You have private banks in New York?

Mr. VANDERLIP. There are a great many private banks on the East Side of New York City.

Senator NELSON. Protected under your State law?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. We have abolished them in Minnesota.

Senator BRISTOW. It would add to the power and strength of the large banks, would it not?

Mr. VANDERLIP. It would add to their size; I am not certain it would add to their power and strength. There is great strength in having all your resources under one roof.

Senator BRISTOW. Is not a big bank more powerful than a small one: does it not control vaster resources?

Mr. VANDERLIP. Yes; but a bank is not so very powerful, except to do the right thing, because, no matter how big you are, you are not powerful enough to make a bad loan.

Senator REED. And make it into a good one.

Mr. VANDERLIP. You could make the loan, but you could not collect it.

Senator SHAFROTH. I have known banks to make loans to parties who would pay nobody else but the bank. I have known of that frequently. Is that not a good influence, a good power to exercise?

Mr. VANDERLIP. The bank probably had collateral which made that necessary.

Senator SHAFROTH. I have seen them do it without collateral.

Mr. VANDERLIP. They probably wanted to establish some connections in the future. Of course, there was probably some hope of reward in it.

Senator BRISTOW. Do you think that the democratic system of banking that we now have—that is, where it is so widely diversified, where there are so many different individuals engaged in it, is it desirable or undesirable?

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Mr. VANDERLIP. The whole question of the respective merits of a general branch banking system, and the present democratic principle, is a clearly debatable one, with some excellent reasons on each side.

The branch system will tend to equalize rates. It will take the funds of a low-interest community into a high-interest community. It tends toward stability. It gives to a new community a sound bank. It gives to the managers of branches experience that would be valuable in a new community, where otherwise a bank might be organized by people without banking experience.

The Democratic principle gives a local interest in the bank, gives the management to people who thoroughly understand local conditions and local character, and keeps the money of the community in the community where it originates, which may be good for the particular community, but is not, I would say, for the best good of the whole country if there is a surplus of funds there. Those, I think, are the chief arguments on each side.

Senator BRISTOW. Do you think it is desirable, especially in the banking business, that the bank should have the local friendship and good will of the people with whom it comes in daily contact in the management of its business?

Mr. VANDERLIP. It is always desirable for a bank to have the friendship and good will of the community where it is doing business. It is not at all impossible for a branch of a great bank to have that friendship and good will if that branch has been conducted in a broad-minded way.

Senator BRISTOW. But it would rob that bank largely of the individuality which it now has, would it not?

Mr. VANDERLIP. Undoubtedly. It makes it a part of that great bank.

Senator BRISTOW. It would be more mechanical in its operations than it is now and have less personality in it?

Mr. VANDERLIP. I would say, perhaps, it would be less sentimental.

Senator BRISTOW. Do you not think it would take from a great many men the opportunity of initiative in the building up of a business of their own?

Mr. VANDERLIP. I do. I think there is a distinct advantage on the Democratic side in interesting the best men in the local community in the conduct of the bank. That, perhaps, is the great argument for our present system as against the branch-bank system, and it is an argument of weight.

Senator BRISTOW. The branch banking system existing in European countries will result in very large banks?

Mr. VANDERLIP. There is one bank in England with 600 branches.

Senator BRISTOW. And how much in deposits?

Mr. VANDERLIP. About $400,000,000. That is the London City and Midland, which is now the largest bank in the world.

Senator BRISTOW. And there are other banks that approach that bank?

Mr. VANDERLIP. Yes, sir; both in England and on the Continent.

Senator BRISTOW. What are the deposits of your bank?

Mr. VANDERLIP. Recently it has been running about $250,000,000 gross and around $200,000,000 net.

Senator BRISTOW. You have the largest bank in the United States?

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Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. If the branch banking system that prevails in England prevailed here, it is fair to presume that your bank would be very much larger than it is now, would it not?

Mr. VANDERLIP. If we had embraced the branch-bank idea, I should say it is fair to presume it would be larger. You see, the banking resources of the country have grown very much more rapidly in percentage outside of New York City than in New York City.

Senator BRISTOW. There is another matter that I am interested in having your views on, Mr. Vanderlip. I have observed that the gentlemen who have been before us so far—the bankers—are very tenacious for commercial paper to be made a basis for currency, additional currency that is issued, and rediscount, etc. It seemed to me that they have more interest in the enactment of legislation that preserves or maintains or promotes the branch of the business which is conducted in that way, by short-time loans. Now, we have got just so much currency and money. Most of you gentlemen seem to resent the idea of long-time paper, mortgages, or securities of that kind from being used in this way, which is a distinct advantage to the security. It makes it more desirable and therefore will have a tendency to lower the rate of interest. The more of the country's resources or its money that is used in handling commercial paper, the smaller amount of it there will be used in these investment loans, will there not?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. England is pointed to principally as a model country by some people. Now, in a country like ours, where we are a producing Nation more than a commercial Nation, do you think it is to the best interests of the country as a whole to favor the commercial end of our affairs more than the productive part of our affairs?

Mr. VANDERLIP. No question that has been asked would permit me to make an answer that I am clearer about or that I feel more certain that my answer will be right.

Any other conception than a conception that you say the bankers have generally given here, that commercial paper should be favored, is a misconception of the function of a bank. It is no part of the function of a bank holding deposits repayable on demand to use those deposits in any form that will tie them up in an unliquid shape. The test of a proper bank loan is the self-liquidating character of that loan within a reasonable period. I have already explained my view of a self-liquidating loan, and I think you are familiar with that. That is the test of sound banking. You can vary it to some extent by employing some of your capital in the purchase of real-estate mortgages, and, as I have said, the section that will permit a country bank to employ half of its capital in the purchase of such mortgages is not altogether sound, judged on a scientific basis, but I believe is not dangerous. A city bank can use some of its funds in investing in corporate securities. They are better for the purpose of investment than some real-estate mortgages, not because they are more liquid—in that respect they are exactly the same as a real-estate mortgage—but because they have a larger market. But neither is the ideal investment for a bank.

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Banks are the great debtors of the country, not the creditors. You asked me what our deposits are, and my answer means that we have subject to demand between $200,000,000 and $250,000,000. We are the great debtor of this country. No institution in America owes so much money on demand as the National City Bank. Therefore the National City Bank must keep its investments in liquid form in order to meet that demand obligation. It is not because of any discrimination against the character of a real-estate mortgage that we do not take it, in so far as the safety of that mortgage goes. The discrimination comes entirely from the lack of liquidity, the fact that it can only be turned into money by selling it to somebody else; that it will not in course of manufacture or transportation or consumption or the distribution of goods in any form liquidate itself. That is the ideal loan, and when a bank gets away from that it is getting on dangerous ground. It can get away from that by putting some modest percentage of its capital into real-estate loans or by taking a note of a railroad corporation or some large industrial corporation, but any loan that will not liquidate itself is not ideal, and if it is taken to a large extent is a dangerous element in the assets of a bank.

Senator BRISTOW. Now, Mr. Vanderlip, I can see the force of your argument, if the bank's business is confined to these deposits due on demand. But, contrary to the law, as Senator Reed suggests, national banks have gone into the savings-bank business, and the money which is deposited in the savings department of these banks is used in the commercial business, and objection has been made here that to deprive them of the savings-bank department would be unjust, and that the provisions of this bill would take out of the commercial business the deposits in the savings department of the national bank.

Mr. VANDERLIP. You have raised a fair point there, and it is proper to take out of the commercial deposits deposits that are held on time and devote them to some other class of business. We have, of course, great savings banks in New York. Their loans are wholly of the type of business that I am describing as undesirable business for a bank.

Senator WEEKS. For a commercial bank?

Mr. VANDERLIP. For a commercial bank; yes, sir. A savings bank in New York never invests in commercial paper; it always invests in real-estate mortgages or the bonds of corporations.

Senator NELSON. There is another thing, Senator Bristow. You seemed to make a distinction a while ago between what you call commerce and trade and production. Now, we must not overlook the fact that commerce is the handmaid of production. The moment the farmer takes his wheat to the elevator and sells it and it is shipped that moment it enters the field of commerce, so that commerce is the necessary handmaid and appendage of production. It would not do a manufacturer any good to manufacture goods and leave them in the warehouse. He has got to put them into trade, so that production and commerce must go together, hand in hand.

Senator BRISTOW. I understand that, Senator, but in a country as vast as ours is, with undeveloped resources, it seems to me, with my limited experience and observation and study of the subject, that we can not shape our financial legislation after that of a country like England, whose business is commerce and very little production.

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We have, it seems to me, got to take that into consideration and give great weight and encouragement to that line of investments that will result in production. If you do not have production here you will not have commerce, because we are not situated as England is. And that is why I have, in the questions I have been asking, given more consideration to these investment securities than others, because it seems to me, when the national banks, which are commercial banks, which are supposed to deal in commercial paper and credits that relate to commerce, are permitted to draw from the normal and natural resources which would go to the banks that handle this other kind of security, then you have got to give an opportunity for the national banks to invest in those securities, or you will discriminate against those securities. It is proposed here to permit trust companies and State banks, which can invest their funds in this other kind of securities, to become a part of this system. And they go into the commercial business. It seems to me that if we are going to merge all of these banks into this system so that they are all in commerce, then they ought to be permitted to go into the other line of investments, or you discriminate against the one and encourage the other. Do you think, Mr. Vanderlip, considering this from the standpoint of commerce and the handling of commercial paper, that a trust company or savings bank ought to be permitted to become a member of it?

Mr. VANDERLIP. I think it is extremely desirable to have all banks doing a commercial business become members. If trust companies do a commercial business in addition to their trust business they should, if possible, be induced to become members. There is no reason why a savings bank should be a member.

Senator O'GORMAN. There is no likelihood of a State savings bank seeking membership?

Mr. VANDERLIP. I should see no reason why they should, at all.

Senator O'GORMAN. Do you think it would be a wise policy to confer the benefits proposed in the new banking system upon the State banks and trust companies which are denied the national banks?

Mr. VANDERLIP. The corollary of that proposition is that national banks will surrender their charters and take out the more liberal State charters.

Senator O'GORMAN. What would you think of enlarging the present functions of the national banks in order to create some uniformity with respect to the functions of the two classes of banks that come in under this system?

Mr. VANDERLIP. I think that will be necessary if the national banking system is to be saved.

The CHAIRMAN. I would like to put in there at the end of Mr. Vanderlip's remarks an abstract of the powers exercised by each of the State banks under the 48 States, which will give the committee access to the precise powers which they enjoy.

Senator O'GORMAN. Suppose we should enlarge the power of the national banks and yet not confer all the powers now enjoyed by State institutions in order to bring about this uniformity that I speak of, do you think it would be practicable to have the reserve board establish by resolution certain restrictions and limitations upon the powers now given State institutions under State law?

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Mr. VANDERLIP. It would be perfectly practicable, but the nature of those restrictions established by the board would determine whether or not the State banks joined the system. This particular matter should be covered by specific statute as completely as possible.

Senator O'GORMAN. I understand you would have to make it fairly attractive to the State banks.

Mr. VANDERLIP. If there were any practicable way of separating the functions of a commercial bank from those of a trust company, it would be desirable. I see no way in which you can do that. I think there are pretty sound arguments why those functions should not be united in the same institutions—not determining reasons why they should not, but there are some reasons why the functions of a trust company and a commercial bank should not be united. You are, however, facing the problem of driving your national banks to surrender their charters and take out State charters where those functions are united, and I am inclined to think you will have to liberalize the charter of the national banks to approximate the powers of the State bank or you will lose the national banks from the system.

Senator O'GORMAN. Other things being equal, what, in your judgment, is the advantage in having a national bank charter now instead of a State bank charter?

Mr. VANDERLIP. Do you mean now or under a provision of such a nature?

Senator O'GORMAN. Now; ignoring the pending bill.

Mr. VANDERLIP. There is some profit in taking out national-bank notes, and there is considerable profit in holding the deposits of other banks. There is some small sentimental reason in the confidence that the examination gives to a bank holding a national charter. Those are the principal reasons.

Senator O'GORMAN. Then, among other reasons, you think there is some prestige attached to the national charter?

Mr. VANDERLIP. I think there is in a small place. I do not think there is in a great city like New York. There was formerly some profit for banks in Government deposits, and there is now a little, with the interest rate charged, but not much.

Senator NELSON. There is one thing, if you will allow me, Senator, to call your attention to, in this connection, and that is while scientifically it may be proper enough, it may be the right thing, to separate a savings bank and a trust company from a commercial bank, it is utterly impossible in these small country towns, towns of 1,000 to 10,000 people. A bank there, in order to be successful, and to accommodate the wants of the people, must be prepared to do all kinds of that business—commercial business, savings business, and in some form a trust business—and a bank can not exist without doing it. There is not enough business in these towns to keep a bank alive doing just one kind of business. It has got to be done altogether. You realize that fact, do you not, Mr. Vanderlip?

Mr. VANDERLIP. Perfectly.

Senator O'GORMAN. Now, Mr. Vanderlip, what would you suggest, in your judgment, ought to be the modifications in the charter of the national bank with respect to the increased functions that might be conferred on national banks?

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Mr. VANDERLIP. Senator Reed has already asked me that question, and I have suggested I would like to consider it carefully and communicate promptly with the committee my views.

Senator O'GORMAN. I would be very glad to have you do it.

Mr. VANDERLIP. I will do that promptly, after having given it careful consideration.

Senator O'GORMAN. I think, in the same connection, if you will give your views as to what powers now enjoyed by State banks and not conferred on national banks might be curtailed without making this system unattractive to the State banks, it would be beneficial to the committee.

Mr. VANDERLIP. Yes; I thing I comprehend the point.

Senator O'GORMAN. Of course, the general idea is, as I have already suggested, that if these two systems of banks are to come in under this new system, we must, as far as possible, have uniform privileges and rights enjoyed by State as well as by national banks.

Mr. VANDERLIP. Yes.

Senator BRISTOW. We have asked a number of witnesses to prepare amendments to the bill which they would recommend and furnish them to us for our consideration when we take the bill up. Why would it not be well, in connection with these requests, for Mr. Vanderlip to submit a modified bill as he thinks it ought to be.

Senator O'GORMAN. If you will take the time to do it, it will aid the committee.

Mr. VANDERLIP. I know of nothing so important for me to do. I will do it with great pleasure.

Senator NELSON. I want to suggest to you, Mr. Vanderlip, about the number of regional banks. If you do not have one, it seems to me if you have more than one it ought to be five; it ought to be one for each of the central reserve cities we now have, and one for New Orleans and one for San Francisco. That, it seems to me, ought to be the plan, if you have more than one. I think one is best, as you do, but it seems to me if you do not have one, then you ought to have that distribution.

Mr. VANDERLIP. It would be vastly better than 12.

Senator O'GORMAN. I did not get that last question of yours, Senator Nelson.

Senator NELSON. I said if you limited the number of national banks, reduced it from 12 to a minor number——

Senator O'GORMAN (interposing). You mean regional banks?

Senator NELSON. Regional banks. I think the reduction should be to five, and I put it on this ground: We have three central reserve cities, New York, Chicago, and St. Louis. They should undoubtedly be regional bank centers. Now, in addition to that, I think New Orleans ought to be one place and San Francisco, on the coast, the other. That is my notion about it.

Senator O'GORMAN. In your judgment, Mr. Vanderlip, would five regional banks, under the general features of this system, be preferred to one national discounting reserve bank here in Washington, with branches throughout the country?

Mr. VANDERLIP. No; I would much prefer one.

Senator O'GORMAN. Why?

Mr. VANDERLIP. I think there are profound reasons.

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Senator O'GORMAN. Will you state them, if you have not already done so?

Mr. VANDERLIP. I have already gone into that pretty fully.

Senator O'GORMAN. Then I will not ask you to state it again.

Senator BRISTOW. As I understand, I think, having your question in mind, Senator O'Gorman, Mr. Vanderlip suggested that one would be preferable, but he did not understand fully just the kind of Federal reserve and discount bank that you suggested to one or two other witnesses. Senator O'Gorman suggested on another occasion, as I remember it, that we have one Federal reserve and rediscount bank, supervised by this board.

Senator O'GORMAN. By a Government board, with a supervisory council for the bank.

Mr. VANDERLIP. That brings a new element into the matter. That makes the Government officials judges of the paper that is being rediscounted, and I would disapprove of that.

Senator BRISTOW. How is that?

Mr. VANDERLIP. I say that brings a new element into the situation, that makes the Government officials judges of the paper that is to be rediscounted. In the system that is built up in this bill there is a board of nine men, three of whom are bankers, directly elected by bankers, and three of whom are business men, directly elected by bankers, to pass on the paper that the central reserve banks are to rediscount. That I regard as a very important feature, that you shall have bankers pass on this paper. I think there would be grave objections to having Governmental officials passing on the paper offered for rediscount. Those objections are on the ground of the training and the experience of the officials.

Senator BRISTOW. Well, I can see the force of that suggestion. But suppose these Government officials are bankers that managed the central banks; that it is their business to run that bank, and the branches are conducted by men who are bankers and whose business it is to pass upon the paper which they discount.

Senator O'GORMAN. And are familiar with the conditions of the several localities.

Senator BRISTOW. And must be familiar with the conditions. Do you not believe that if this board has the responsibility of the managing of the Federal reserve bank, and comes in relation with the banks of the country, with which it is doing business, that you will get better service out of them than if they are simply a board here supervising at a distance, which they necessarily would, the operations of the 12 banks, and to whom complaints are made and controversies are taken up and discussed? They necessarily would not be familiar, as they should be, with the questions that will come before them.

Mr. VANDERLIP. You will get better service out of your Federal reserve board; yes; but the total of service you get out of the Federal reserve board and out of the board of the regional banks, as it is provided to elect them, by the bankers, six out of nine, at least, would be greater than the service you would get out of such a board as you suggest.

Senator BRISTOW. What part of the service which these gentleman would render would be more efficient, do you think—the duties that they would perform? There would be, we will say, a branch at

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Kansas City, this Federal reserve and discount bank, and probably one at Wichita, Kans., and one at Omaha, where the reserve banks are now. The business of these men in charge of these Federal branches would be to accommodate the banks in the community, whether they were members or not.

Mr. VANDERLIP. You have very well outlined the objections to the branch banking system in the earlier questions that you asked. Could you not apply those same objections to such a proposal as you now make?

Senator BRISTOW. No; it is not a banking institution, except it deals with banks and banks only, and it is there to help the banks when they need help upon their application.

Mr. VANDERLIP. And to be a judge of the credits of those banks and of the collateral they offer. I think a board selected from among bankers—made up of practical bankers in part—will render that service and will execute that judgment better than will a board of Government officials.

Senator BRISTOW. Even if those officials were the same bankers?

Mr. VANDERLIP. Yes; even if the officials were the same bankers, because they will become dissociated from the active work. Of course, if they were the same bankers, certainly for a time they would probably perform the functions in the same way, but they would not be the same bankers. You can be pretty certain of that.

Senator NELSON. Let me suggest what I think would be a solution to the matter suggested by Senator O'Gorman: Have one central reserve bank, under control of the Government boards, and have a discount committee; have provision made for a discount committee, consisting of nine, appointed in the same manner as these managers of the regional banks, and let that committee pass upon discounts, subject, as the regional banks are now, to the supervision of the central board. Could it not be solved in that way?

Mr. VANDERLIP. That seems a very sound and practical suggestion, to meet the particular point.

Senator O'GORMAN. What would be the difference in the judgment of those nine men, constituting the so-called discount committee, sitting here in Washington, and the judgment of seven men, constituting the officers of the Federal reserve board?

Mr. VANDERLIP. I do not think you have understood the suggestion as I understood it at least. The suggestion is that this discount committee is composed of bankers, elected by bankers, but its function is only to pass on the question of credit, and the Federal board would be constituted as you suggest, and would be the power operating the bank.

Senator NELSON. The discount committee would be constituted in the same number as the managers of the regional banks. That is, there would be three of the discount committee Government appointees and six would be bank appointees.

Mr. VANDERLIP. And the duty of that discount committee would be to pass on the character of the collateral offered, and the Federal board would then take up the question of loans.

Senator BRISTOW. Now, Mr. Vanderlip, I am going to be perfectly frank with you as you have been with the committee. What I am trying to get away from is the power which certain great dominating

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interests in this country have to veto security that I think is good but which interferes with their business and their interests, and I do not believe there would be any objection to a central bank in the United States if there was not a belief that I think well-grounded and wholly justified, with all due respect to your opinion, that there are certain interests in this country that do control credits and can veto a legitimate and proper loan, if that loan will interfere with their interests. I may be mistaken, but I believe that nine-tenths of those who are studying the question believe a central bank with branches, that would not interfere with the legitimate conduct of the banking business we have, but supplement and strengthen it, would be very desirable; and if it could be gotten away from any possibility of such control, so that no doubt can rest in the mind of one of suspicious mind, I think we would all be for it.

Senator NELSON. Now, you see under this plan, Senator Bristow, of a central institution, the discount committee would pass on the quality of the paper, but whether the loan should be granted by the bank and currency issued, would be under the control of this general board.

Senator HITCHCOCK. Senator Bristow, let me ask you a question. In referring to the loans that you have in mind there, are you not forgetting that those loans are generally for the purpose of big enterprises, and are in the form of a permanent advance on bonds, whereas the only paper that can be put up with the reserve bank, whether a regional bank or a central bank, is commercial paper which is liquidating?

Senator BRISTOW. Yes; but you know I have very pronounced objections to the plan that is outlined here in limiting the paper that is to be given advantages under this system to this commercial paper. I think that is unjust and discriminatory against other investments.

Senator HITCHCOCK. What I object to is the 90-day paper, which is specified in this bill.

Senator BRISTOW. Yes.

Senator HITCHCOCK. You feel and I feel, as we both live in the West, that we have commercial paper out in our region which I might say is indigenous, which is characteristic of our region. It is much longer than 90 days. It is 4, 5, or 6 months paper——

Senator NELSON (interposing). Or for a year.

Senator HITCHCOCK. Or it may be for a longer time. But it is to all intents and purposes commercial paper, by reason of the fact that it liquidates itself out of the transaction from which it arises—that is, paper which represents loans to men who have cattle and feed those cattle during the winter and market them in the spring, and the funds thus received liquidate the paper.

I think if the bill is so extended as to cover that class of paper it would be an improvement.

Senator BRISTOW. That would be a very great improvement. I admit that. I will not take up the matter of the subtreasuries, because that is Senator Hitchcock's special notion, and I think a very good one, and he can present that very much better than I can.

I am very much interested in the statements made by Mr. Fowler before the committee the other day, and the statement which he suggested, if it were practicable, would seem to me to be a very good one—that is, of leaving the banking situation just as it is, so far as

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the organization of the banks goes, and permitting a bank to issue currency.

Senator NELSON. On its assets.

Senator BRISTOW. On its assets, when it is needed. And he illustrated it, when being interrogated by Senator Nelson. His idea was in this way, that if a customer came to a bank and wanted to borrow $10,000, he gave his note for the $10,000. That was a loan which the bank was perfectly willing to make.

Senator NELSON. A good loan.

Senator BRISTOW. A good loan. He wanted a part of it in cash and a part of it to leave subject to check. He took $5,000 in currency and left $5,000 subject to check, and he took a check book to check against his account, and the currency he took was the bank's notes which, according to Mr. Fowler's system, were secured by a 5 per cent deposit with the Government—a lien on the assets of the bank and on its assets, the capital stock and so forth, and which he pronounced would be perfectly good. This 5 per cent fund that was collected was to be a guaranty fund against these notes collected in the Treasury, and his idea was that only so much currency would be used as the commerce of the country demanded, and that it would be automatic—if a man wanted currency he could get it. What would you think of a system like that?

Mr. VANDERLIP. The last proposition is so perfectly true that I wish you could all recognize it, that there would be only so much currency used as is wanted. I have referred to it a number of times, and I just want to emphasize that point. The most important thing that we need, however, the thing I referred to when I began this examination yesterday, is the mobilization of the reserves. Such a plan as you outline there makes no reference to it. The next thing is the elasticity of currency—an important thing, but not so important as mobility of reserves—the amassing of reserves in a single reservoir. That is what you must get in some form into a bill if it is to be correct. That expression makes me think that I heard myself severely criticized in the Senate during recess for having said in an interview that you must do this or that. Of course you know when I say you must do a thing, I mean you must do it to make the bill harmonize with what my views are of correct legislation. I do not sit here or talk to newspaper reporters, and say that the Senate of the United States must do this or that. I have a little sense left, and certainly enough to guard me from such a foolish position.

Senator BRISTOW. I was interested in the suggestion you made yesterday, which conveyed the idea to me that we ought to reduce the amount of national-bank notes that are now out, if this system is adopted, because any additional notes would make too much currency.

Mr. VANDERLIP. We certainly have currency enough for a normal period. It is only in the exigencies of a crop-moving period that we need any more currency. Unless you will reduce the bank-note currency we now have, you will not be able to provide true and complete elasticity by means of your new note issue.

Senator BRISTOW. You think the new note issue would not be taken out?

Mr. VANDERLIP. Yes; it would not be taken out, except for the peak of the load, except for that season where an excess is needed.

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Senator BRISTOW. What harm comes—you say you would take it out for the peak and drop it after the work it does is ended. What harm is there in stopping there?

Mr. VANDERLIP. One of the harms is that these several reserve banks ought to have the earnings that would come from such ability to issue currency. Another of the harms is, I am inclined to believe, that we have a redundant currency at certain seasons. You might challenge me to prove that, and I might have some difficulty in proving it. Certainly if there is a variation of $200,000,000 to $300,000,000 in our notes, then we are either redundant at one season or very scant at another. Now, we are going through the crop-moving season without any strain whatever for currency. Apparently we have ample currency to go through this crop-moving season. We have had some addition to it by the deposits which the Secretary of the Treasury has made, but if we had currency enough to conduct business at this season of the year, we have altogether too much currency to conduct business next March. We can not get away from that. There is where the harm comes. That is where you would fail to get true elasticity unless you took away some notes and made room for new notes.

Senator HITCHCOCK. If the currency is redundant next month, will not the inevitable result be the exportation of gold?

Mr. VANDERLIP. That is certainly the tendency.

Senator HITCHCOCK. Will not that relieve the situation?

Mr. VANDERLIP. It will relieve it; yes.

Senator HITCHCOCK. And will not that gold come back to us again, when the stress on the currency is there?

Mr. VANDERLIP. Yes; except that it does not flow with perfect freedom. There is harm done to the trade in the exporting and importing movement. It would be so much better for trade to have you retire the notes than to have a movement of the gold, and then have the difficult conditions which attend the bringing of that gold back. We can issue a bank note very easily; we can not always import gold easily. We can retire that note very easily, and it is expensive to export gold. Expansion and contraction should be provided for in the notes, and not in the expansion and contraction of the volume of gold.

Senator HITCHCOCK. With the volume of currency depending wholly on the commercial paper, what would guarantee that against inflation?

Mr. VANDERLIP. The guaranty of redemption, the fact that the note does not count in reserves, but will be turned in for redemption by the bank as soon as it comes in and the certainty that there is a no more fixed thing, no quantity that you can influence less by your legislative acts than the amount of money people will carry in their pockets. You might start with that as a fixed thing, but you really haven't anything to do with it.

Senator HITCHCOCK. You have already stated to the committee these notes will be accepted by 17,000 State banks as reserves.

Mr. VANDERLIP. There is one of the troubles and weaknesses which I have no suggestion for removing, unless you can bring State banks into the system.

Senator HITCHCOCK. Some even advocate making them available for national banks as reserves.

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Mr. VANDERLIP. I can not agree with that view.

Senator HITCHCOCK. And is there not some danger, in a currency based on commercial paper, that at certain times the country will become very venturesome and the demands for loans extensive?

Mr. VANDERLIP. It is not money in the hands of the people that makes the country more venturesome; it is the ability to obtain credit. If this bill were drawn so as to be dangerous on the side of the expansion of credit, then I would say, "Beware." Now, it is so drawn that there can be a great expansion of credit, but I do not believe it will be too great, because I do not believe the bankers will permit this power to be unwisely exercised any more than at the present moment. The national banks have 60 or 70 millions in excess reserves, but they do not loan because they have that excess reserve.

Senator HITCHCOCK. Is it a matter of caution, of timidity, that now restrains the bank, often, from loaning money when there is quite an urgent demand? And if you take away that timidity, by giving a bank a resort it can go to with commercial paper, won't you remove the restraint and throw down the bars and permit a bank to lend money to borrowers to whom it would not lend if watching its reserves?

Mr. VANDERLIP. Undoubtedly a bank will feel freer if it has a central reserve bank to go to to rediscount than it does now. You have to depend on the good judgment and conservativeness of that banker. If he feels he can rediscount any time, anything he has, and he is a reckless man, he will loan too much. But you will have as a governor the power of control of your regional reserve bank board, and of the Federal board. That is why I said that there is not an authority given to this Federal reserve board which it ought not to have. My objection is to the constitution of the board and not to the authority. If the bankers in a locality are getting reckless, if they are loaning more because they can rediscount than is wise for them to loan, there ought to be some authority higher up which can put a restraint on them.

Senator HITCHCOCK. Would you have it in the reserve bank?

Mr. VANDERLIP. It will be in the reserve bank, and I would have it all the way up. I can well imagine, with as many as 12 reserve banks, you might find one with the territory represented getting less conservative than it should be and you might need a power higher up to control that.

Senator HITCHCOCK. Do you think there ought to be embedded in this law any guaranty to the individual bank that it can get discounts to any given limit?

Mr. VANDERLIP. It is impracticable. You have got to leave that discretionary.

Senator HITCHCOCK. You would allow, then, the Federal reserve bank the full discretionary power to say to one man from a certain town, "We won't discount any of your paper," and to another man across the street, "We will discount half of your portfolio."

Mr. VANDERLIP. You have got to leave that power to the reserve board, I think. You may say it will treat one banker unfairly. On the other hand, you might say if a bank knows, under any conditions, it can get rediscounts, it will act unwisely. Of the two, I will take the chance of unfairness, because I do not believe there will be any unfairness. I am a great believer in the fairness and honesty of

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people in general, and certainly the fairness of people in responsible positions.

Senator HITCHCOCK. I want to give you an illustration of the unfairness of persons holding a responsible position. I suppose the character of the men that run the railroads of the country is as high as the men who run the banks of the country, and yet one of the most outrageous discriminations grew up in the railroad world, in which the States and Congress had to take a hand. They were saying to one shipper, "We will charge you one rate," and to another shipper, "We will charge you another rate." They would say to one passenger, "You pay full rates," and to another passenger, "You go free." The law had to step in for the protection of the men and compel equal treatment. So should not the law step in and say to these banks that they shall give equal treatment?

Mr. VANDERLIP. You have provided for the law to step in by creating this Federal reserve board. Of course, back of the law that you speak of, there first had really to grow up a new body of ethics. They were new problems. We had gone on a great many years supposing when we sold wholesale we sold cheaper, and men's minds did not grasp the ethics of that situation, and that is one of the troubles to-day. We have developed industry and we have gotten many new elements in our social system. We are developing new ethics, and that is part of this radicalism we are talking about. We are developing a new code of ethics that did not exist before our time, and we ought to have patience with one another about that.

Senator HITCHCOCK. Do you think any injury would come if the law provided that the reserve bank should rediscount the notes of a bank in any community to an extent, say, of its capital stock, providing the notes were good?

Mr. VANDERLIP. Right there—providing the notes are good. Who is to be the judge?

Senator HITCHCOCK. I will say, without that provision, discount the notes.

Mr. VANDERLIP. I would certainly think a loan under compulsion, where you could not scan the credit, would be an impossible thing.

Senator HITCHCOCK. These banks are all under constant inspection, and the law provides an inspection of these regional reserve banks.

Mr. VANDERLIP. Nevertheless, you can not trust to inspection. Anybody who ran a bank recklessly might get bad paper in its portfolio, which could be offered for rediscount.

Senator REED. Would not that leave a bank in dire straits, in this sort of condition: It could take, say, $100,000 of its absolutely worthless paper and bring it up to the Federal reserve bank, and compel the Federal reserve board to cash that absolutely worthless paper, where the bank itself was tottering to its fall?

Mr. VANDERLIP. Oh, yes. There must be the right of discretion by the loaners of money.

Senator HITCHCOCK. In the first place, a bank has one tenth of capital already invested.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. It has its reserves impounded to the extent of nearly one-half. Can you conceive a condition under which it should not be assured of anything at all as the result of its joining the enterprise?

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Mr. VANDERLIP. Practically I can not conceive that there would ever be a time a properly run bank would not be able to borrow. I think the reserve banks will be run with wisdom, discretion, and fairness and any bank will be able to rediscount. They must hold themselves in such a position so they will have the power to rediscount.

Senator HITCHCOCK. Now, let me ask you this question, Mr. Vanderlip: Suppose the reserve bank rediscounts half of the portfolio of the bank. Say it discounts half a million dollars of its portfolio and it gives it that line of discount. A bank across the street, of the same size, it gives one-tenth of the portfolio, worth $100,000. What advantage does this give to the favored bank? Is not it a very large advantage? Would not it result in enabling it to get control of the business?

Mr. VANDERLIP. It would be a great advantage for one bank to be able to discount half of its portfolio while the other was permitted to discount only one-tenth. There certainly would be just grounds for complaint. If the two institutions were on all fours, a complaint to the Federal board would certainly bring action, but I do not believe any board of directors elected to the Federal reserve bank would discriminate in that way. They would be fair-minded men. That would be a rank, gross discrimination if the two banks were on all fours. Nevertheless, I think they ought to have the power to permit one bank to discount half its portfolio and another bank to be restricted to one-tenth if the other bank was being run in a way not to warrant the discount.

Senator HITCHCOCK. Then you would place no limit at all on the amount of discount that might be made for a single bank?

Mr. VANDERLIP. No, sir.

Senator HITCHCOCK. You would leave that discretionary with the board?

Mr. VANDERLIP. I think it can well be left to the board.

Senator HITCHCOCK. What is the motive for that? What is the reason for having any limit to the amount of discount?

Mr. VANDERLIP. If you want to have some limit, I would put that on for fear there might be inflation. That would be the motive. I would limit it to twice the capital and surplus—something like that—which would be a point that no bank ought to reach, and probably would not.

Senator HITCHCOCK. I am glad to hear you say so. I think there ought to be some limit.

Mr. VANDERLIP. I think it would be a desirable thing to put a limit that was large enough.

Senator REED. Put a limit on the extent of credit, but not upon the right to refuse to grant the credit?

Mr. VANDERLIP. No; I should leave the right to refuse with the board.

Senator REED. That is what I say.

Senator O'GORMAN. You would feel satisfied that if the power of the officer of the reserve bank was improperly used that the Federal reserve board, on appeal, would correct the injustice?

Mr. VANDERLIP. Yes, sir.

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Senator O'GORMAN. And perhaps remove the offending officer of the regional bank?

Mr. VANDERLIP. I should think it would be very proper.

Senator POMERENE. There has got to be a discretion lodged somewhere.

Mr. VANDERLIP. I think so.

Senator O'GORMAN. I have only one question further to put to you, Mr. Vanderlip. Yesterday you said, I think, that the plan contained in this bill, to issue Government notes, is unscientific. I do not know whether you amplified that viewpoint or not. If you have not, I should be glad to hear from you further, why it is unscientific.

Mr. VANDERLIP. The note is really the obligation of the bank. It is secured by segregation of the bank's assets, in the form of commercial paper. It ought to have almost the same relation to the bank that a deposit balance of the bank has. It is a demand obligation of the bank. It is not a Government note; it does not pretend to be that, although it is issued and bears the name of the Government. Its whole security lies in the bank, in the segregated assets, in the reserve held against it, and in the superior lien which it has upon all the assets. I see no reason why the Government should have any relation to that note in the way of a guarantor. The Government will have an outstanding obligation with no gold cover back of it. Except for the 5 per cent redemption fund which the bank deposits, the only resource which the Government has is by turning to the bank, and the enforcement of the lien on its assets. And it seems to me entirely improper that the Government should be the maker of this note, or the guarantor of it. Indeed, I think it improper that it should receive so-called interest for it, as all of the profits of this bank are to come in the hands of the Government eventually.

Senator O'GORMAN. It is not anticipated under the system planned that there will be a profit beyond 5 per cent. As Senator Owen has very properly phrased it on other occasions, it is really to be an eleemosynary institution, and there is to be no motive to earn anything beyond the guaranteed 5 or 6 per cent.

Mr. VANDERLIP. I can see no more reason for the Government to guarantee one of these liabilities of a bank, in the form of a note, than to guarantee a deposit. The note is fully guaranteed, I believe.

Senator O'GORMAN. In other words, you would not expect the Government, even under this plan, to take the risk?

Mr. VANDERLIP. No. If it is not safe I think the Government ought not to take a risk, and I think if it is safe it need not take the risk.

Senator O'GORMAN. And you feel if it is safe, the person dealing with the regional bank, ought to be satisfied with it?

Mr. VANDERLIP. Certainly.

The CHAIRMAN. I think it my duty to remind the committee that only an hour and a half remains, and there are some gentlemen here from Iowa whom we promised to hear this afternoon.

Senator HITCHCOCK. There is one more question I would like to ask. I see under section 6 of this bill when a bank becomes insolvent and a receiver is appointed, the stock held by it shall be canceled and the balance, after deducting from the amount of its cash paid subscriptions all debts due by such insolvent bank, shall be paid to the receiver of the insolvent bank.

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Mr. VANDERLIP. That would seem to be a proper provision.

Senator HITCHCOCK. So that the bank would have some security—the reserve bank would have some security.

Mr. VANDERLIP. Yes; for a forced loan you speak of it would have to depend on the stock value and the security of whatever reserves are held.

Senator NELSON. And whatever the subscription will be.

Mr. VANDERLIP. And whatever the subscription will be also.

Senator HITCHCOCK. Now, I want to ask you whether you do not think it better for the reserve bank occasionally to suffer a possible loss, as a result of a certain commercial paper turning out to be deficient, than to leave the banks absolutely without any assurance that they will get relief even to the extent of their capital?

Senator NELSON. You mean the member banks?

Senator HITCHCOCK. The member banks.

Mr. VANDERLIP. It would probably be safe enough to say that the reserve bank shall loan to an amount equal to the stock subscription and the reserves which they hold. I do not consider it at all necessary. I do not believe any bank would be afraid it would receive no consideration at the hands of the board at the Federal reserve bank—that there would be such discrimination as you indicate there might possibly exist. I can not conceive that.

Senator HITCHCOCK. You mentioned a moment ago in such a case the bank might appeal to the Federal board. But what chance do you think there would be, after a bank had perhaps suffered a loss and it had gone to the reserve bank for relief, appealing to Washington under those circumstances?

Mr. VANDERLIP. The appeal would be in the nature of a post-mortem communication.

Senator HITCHCOCK. Not only that, but the very fact that the bank had been turned down at the reserve bank would intensify the fear in the community, and might result in greater loss.

Mr. VANDERLIP. It would not be turned down under those circumstances if it had any proper collateral.

Senator HICHCOCK. Why not say so in the act?

Mr. VANDERLIP. Because it might not have proper collateral, and if you leave it discretionary as to whether or not the collateral is proper, you leave the whole thing discretionary.

Senator HITCHCOCK. I do not know. I think, as I said formerly, you ought to specify the whole thing in the bill and leave as little as possible to the discretion of the officers.

Mr. VANDERLIP. May I be excused?

The CHAIRMAN. Yes; we are much obliged to you.

Mr. VANDERLIP. I thank you.

The CHAIRMAN. Judge French, we will be glad to hear you now. and we will be glad to have you state to the reporter your business and your point of view from which you speak.

STATEMENT OF NATHANIEL FRENCH, OF THE FIRM OF FRENCH & HECHT, MANUFACTURERS, DAVENPORT, IOWA.

Mr. FRENCH. I reside at Davenport, Iowa; and I am a member of the firm of French & Hecht, which is engaged in manufacturing.

I am here as a business man who, unfortunately, at times has to borrow. For that reason, in common with all the business men of

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the country, I am very much interested in having a banking system which will be both safe and yet able to accommodate the solvent business men of the country when increased business needs compel them or make it desirable for them to borrow money from the banks.

My experience from 1893 to 1896 was that our present system at that time—owing largely to the uncertainty in regard to the standard of value, and also to its inelasticity and the rigidity of reserves—did not take care of the business man. In 1907 I had the same experience. While not a personal sufferer, I saw a great many business men suffer who had ample means, plenty of collateral, and yet could not obtain currency from the banks.

The business men of the country sincerely hope that Congress will succeed in passing some law which will make our currency elastic and which will mobilize our reserves. We are of the opinion that, as a practical proposition, we have about the worst banking and currency law that was ever enacted in any country. We have heard of the Bank of England, which is cursed with an inelastic currency, but which mobilizes its reserves in such a wonderful manner that the business man in that country can get accommodations if he is solvent and has good collateral, even in times of financial stress. In Germany there is not only the mobilization of reserves, but there is elasticity to the currency. In France there is the greatest elasticity and also mobilization. In this country alone we have neither mobilization nor elasticity. This looks wrong to us business men, and we hope you will bring about better conditions.

Now, as regards this bill, I want to look at it from a plain, business standpoint. I think that if you enact the bill, even as it stands now, it will create a great reform; you will have gone a long way in the right direction. But I do not think the bill as it stands now could easily be put into successful operation. It would be difficult to get all the national banks, particularly the country banks, to go into it. Many of the State banks, perhaps nearly all of them, would refuse to go into it.

It does not do much good to enact an admirable law if you can not put it into working operation, and you gentlemen are confronted with the problem of how to make this law acceptable to the national banks and also to the State banks which do commercial business. As a business man I have had occasion to talk with my fellow business men on this subject and have been impressed by certain objections which seemed to be prominent in the minds of all of them.

One objection is that they are afraid that through the power of the administration or the President to appoint the Federal reserve board—the dominant authority over the whole system—it may possibly drift into politics. They do not think it will, but they are afraid it might. And they also think that the banks which furnish the capital and the deposits to a large extent should have something to do with this board of control which will really manage the whole system. Now, I for one—and I think I represent the average business man—would not be willing to have the banks have control of the system. We do not believe the bankers are any better or any worse than men generally, but we believe it would be entrusting too much power to people whose sole business is to make money.

For that reason we should like to see the Government control it, but we naturally want it kept out of politics. We should not like to

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see the President have the power to appoint the entire board of control during his administration. The provision in the bill that no more than two or three, whichever it is, shall belong to one political party is excellent so far as it goes, but the bill would be greatly improved if you provided that two or three of those members should be chosen by the banks; not directly chosen by a vote, but by making out a list of men experienced in banking, not at the time actively connected with any bank or who would sever their banking connections, and having the President choose from this list of names.

Senator O'GORMAN. Do you not think the President will select competent and probably experienced men for the board?

Mr. FRENCH. I think the President will. The present President I am sure will; I am not sure that every President always will. I think there is a good deal of scare that is not warranted, perhaps, but still it is there, and a great many people feel it. I know some people have named a certain ex-President and said they would be afraid of him. I would not be, but a great many are.

And then I think, as a measure of justice, it is only fair that if you tell the banks they must put into the new bank a portion of their capital and deposits—and I think you have a right to do it as a matter of law——

Senator NELSON (interposing). You mean their reserves?

Mr. FRENCH. Yes; if they must put in their reserves as well as a certain portion of their capital, they will have the natural feeling, and I think the business men of the country agree with them, that they ought to have something to say as to the make up of the board of control which will dominate the whole system. If we want to get the banks to enter the new system, we must make it acceptable to them. By not giving any representation to the banks on the board of control, we prevent the bill from being acceptable to the banks and also to many people (whether interested in banks or not) who fear that some President at some future time might misuse his power to control the board. This fear may have little basis, but exists in the minds of many.

Senator O'GORMAN. Do I understand you to say there might be a President who would remain forever?

Mr. FRENCH. No; who would like to remain forever.

The next objection to the act is in regard to the constitution of the directors of the regional banks. The banks select six of the nine. This Federal board of control, the dominating influence, selects three, one of whom has to be the agent of the Government and have certain large powers. Of the three selected by the banks, denominated directors of class A, there is no provision for arbitrary removal. As to the three denominated directors of class B, who are to represent commercial and agricultural interests, there is a very general provision that the board of control may remove them when they think they do not fairly represent those interests. There is no provision for accusation or hearing or trial or anything. It is absolutely arbitrary power.

So you see this board of control, on which the banks are not even to have a minority representation, can also control the regional bank through its arbitrary power of removal. You may say the board of control does not appoint the three in class B, but it has the power of removal, which is something a great deal more powerful than the

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power of appointment. Men, after they are appointed, sometimes become independent, but men who can be removed by the arbitrary action of some superior power are apt to be very subservient to that power.

Senator POMERENE. Do you think the banks would elect somebody who could be subservient?

Mr. FRENCH. They select the names, and I think these men, when they found they were subject to decapitation at any moment if they did not comply with the wishes of the board of control, would be subservient at some time or other.

Senator O'GORMAN. Subservient to whom?

Mr. FRENCH. The board of control.

Senator O'GORMAN. It is to be expected that that would be the dominating influence in this system. You must have a dominating influence. On the other hand, the members of the board of control would be under the influence of the power of the President, and the people should have confidence that the power would be wisely and judiciously exercised.

Senator SHAFROTH. The power of the board would not likely be exercised. When they have not the power to reappoint——

Mr. FRENCH (interposing). I know, but if they have the power of removal I think those men would be very likely to comply with their wishes rather than be removed.

Senator SHAFROTH. Not so much so as if they had the power of reappointment.

Mr. FRENCH. No; that would be an even greater power.

Now, another suggestion. The Federal board of control is to appoint three members of that board. I think it would be sufficient to appoint one and let him be paid by the Government of the United States and be absolutely independent. He is the one who is to receive this collateral to secure the notes.

I am mentioning these things as things I have heard in common talk.

Now, as regards the country banks, from what little I know about them, I should judge they feel that 5 per cent is altogether too small a return upon the capital which they invest in the bank; that they ought to get at least 6. Then there is a strong feeling that they ought to get interest on their deposits. In these respects it is not made, I believe, sufficiently attractive to them.

Senator SHAFROTH. Suppose they could borrow this amount which they put in—borrow it back at 2 per cent? Would not that be an inducement for them to go in, get 5 per cent on it, borrow it back, and have that to loan out at 2 per cent?

Mr. FRENCH. They do not figure in that way. I was talking to a gentleman the other day and he said he hoped the bill would be passed. I said, "Will you go into the new system?" He said, "No; we would be under certain disadvantages; we can get the benefit of the rediscounting feature through our correspondents without going in ourselves."

Senator O'GORMAN. Suppose there should be a prohibition in the act preventing any bank from securing the benefits of the system through a correspondent. That particular bank, then, I suppose, would go into the system?

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Mr. FRENCH. I think likely. I think perhaps such a provision might become necessary.

Senator HITCHCOCK. You can not make it work. If this imaginary country bank comes to a city bank for a rediscount, the city bank can rediscount for it, and then present other commercial paper with the regional bank, and accommodate its country depositor very easily.

Senator SHAFROTH. Do you think a national bank would undertake that if it were a penal offense?

Senator HITCHCOCK. It would not be a penal offense.

Senator SHAFROTH. You could make it a penal offense. Of course, it might be difficult to find it out.

Senator O'GORMAN. That would be altogether too drastic a provision. We might have a provision that no national bank should attempt to rediscount accommodation paper of that character that it had received from a bank not in the system.

Mr. FRENCH. Is not the real solution of the question to make it an advantage to the banks to go in?

Senator O'GORMAN. Surely.

Mr. FRENCH. I very much fear that if the national banks find that after this law is passed they are at a disadvantage with the State banks they will drop their charters, become State banks, and then take advantage of the law by entering the system as a State bank. Well, from one point of view that may not be so objectionable, but the transition stage, I am afraid, would be bad for the business of the country; it would be unsettling.

There is another thing in the bill I wish to call your attention to, and that is this: You have a very wise provision that the reserve against deposits may be suspended on payment of a progressive tax. That is a very wise provision, but in the same paragraph you add, but you shall not suspend the reserve requirement as regards notes. Now, to an ordinary business man who does not pretend to be a banker, a reserve that you can not use is worse than useless. The only country in the world, so far as I know, that ever required a bank reserve and then prohibited its use, is this country. And it seems to me that reserve against the notes should be utilized when made necessary by some great emergency.

In England, where they have not any currency to speak of at all, where the notes issued by the Bank of England are practically warehouse receipts for so much gold lying in the other division of the bank, with the exception of $90,000,000 which has been always outstanding and secured by the public debt—in that country when there is a great need for money, when, despite the admirable mobilization, they are near a state of panic, the Government says: "We will suspend the provisions of the banking act and allow you to issue uncovered notes," and it always stops the panic. In Germany they go on issuing notes, but pay a certain tax; as the reserve goes down the tax goes up. As regards the Bank of France, there is no limitation at all.

Senator HITCHCOCK. I think in France there is a limitation upon the amount of notes the bank can issue.

Mr. FRENCH. There has been a limitation, but placed very much beyond its needs, and every time it has asked for a change that limit has been pushed further off. It is believed by all the banks, by the

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French people, and by every writer on the subject, that that limitation is a mere matter of form rather than of substance.

Senator HITCHCOCK. Why is it kept?

Mr. FRENCH. I do not know why they have put it there.

Senator HITCHCOCK. Is it not just kept for emergencies?

Mr. FRENCH. Why, whenever an emergency comes they change the limit.

Senator HITCHCOCK. But is it not kept as against an emergency, so they would have that margin to go upon?

Mr. FRENCH. No; I should not say so, because in ordinary times they would never issue anywhere near that limit.

Senator HITCHCOCK. That is true. but I understand the change has come that the growth of the Bank of France has never been met in an emergency. It is to accommodate the increasing business of the bank and add in part to the increased reserves which the bank holds.

Mr. FRENCH. They have always put it ahead in times of prosperity and made it so much beyond the notes they were issuing that there could be added enough note issue to take care of the emergency.

Senator SHAFROTH. Do I understand you to say the national banks are prohibited from using their reserves?

Mr. FRENCH. Yes.

Senator SHAFROTH. I understand the law to be that they can use them and can cut into them to any extent, except that the comptroller can notify them to replace them in 30 days.

Mr. FRENCH. If they obey the law they will never cut into the legal reserve. A bank usually carries a bigger reserve than the legal reserve. The excess over the legal reserve, of course, they use to suit themselves. The legal reserve, if they obey the banking law, they have no right to cut into.

Senator HITCHCOCK. Don't you mean that they can not continue loans after they get down to the legal limit; they can pay depositors, but they can not continue loans.

Mr. FRENCH. No; they can not make additional loans. They have to stop and make that good.

Senator HITCHCOCK. But they can continue paying depositors.

Mr. FRENCH. They might continue paying depositors. I do not doubt that part of it; that is discharging a liability.

Senator HITCHCOCK. And they can continue to take deposits if they are in a solvent condition, but the reserve might be down to 10 per cent.

Mr. FRENCH. Oh, it can go still lower than that.

Senator HITCHCOCK. They could still pay depositors and continue taking deposits.

Mr. FRENCH. But for an institution performing the functions of a bank, one of which is to lend money, it seems to me that a reserve is utterly useless, as regards this function, if you are not allowed to use any part of it for that purpose.

Senator SHAFROTH. But you still have the use of it in paying out to persons who demand it at the counter on their checks.

Mr. FRENCH. Yes; but that alone would not stop a panic. The panic usually comes from the fact that solvent business men are unable to get the money at banks to pay their current bills, whether it be for labor or for merchandise or for other things. The foreign systems stop the panic by loans to solvent business men.

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Senator SHAFROTH. They can get it if they have it in the bank, but can not borrow it.

Mr. FRENCH. They can get it until the bank closes its doors. The system is so bad that in 1907 the banks of the country had to go to work and devise some way outside of the law to issue money when they got down to their reserves. They issued what might be called clearing-house checks.

Senator SHAFROTH. What would you suggest as a remedy?

Mr. FRENCH. Why, to loan the reserves.

Senator SHAFROTH. And put no limitation on it?

Mr. FRENCH. It is under the control of the Federal board of control. They would fix the limitations. It would be well to increase the tax, as is done in Germany, when the reserve goes down, and as is required by this bill with respect to the reserve for deposits.

While we are talking on this subject of loaning reserves I wish to be understood as expressing the opinion that this will often help to prevent panics, but not as saying that we will never have commercial crises and industrial depressions which grow out of the unwise actions of business men. We can prevent such a panic as occurred in 1907—through the breaking down of our banking system—by provisions for an elastic note issue, the mobilization of reserves, and their use in time of need.

There is another thing that occurred to me in reading this act. After reading it carefully I could not make out what became of these Federal reserve notes after they had been redeemed, either at the counter of the bank or at the Treasury of the United States. I asked a banker what he understood, and told him I would put a case. Suppose that bank A, a national bank in Davenport, Iowa, has called upon a regional bank to rediscount its paper to the extent of $100,000, in order to get $100,000 of these new notes, saying, "We have here for your inspection the collateral, 60-day business paper." The answer is, "Yes; we believe that the conditions warrant the issuing of that much additional money; business demands require it. You shall have it. Here it is."

That same day that bank A pays out $50,000 of that money to different people who borrow it. On that same day some one who has come into possession of these notes takes $50,000 of them to the regional bank for redemption. The notes are redeemed. What becomes of these notes? Are they to be canceled or is the bank to pay them out again?

Senator HITCHCOCK. It is prohibited from paying them out under heavy penalty.

Mr. FRENCH. No; another regional bank is prohibited from paying out notes not its own. I am now asking you——

Senator NELSON. Here is the point about it. If the notes come into the bank and are redeemed by the bank they can not go out again unless there is a demand for them and they are loaned out again. If a regional bank redeems its notes in gold and retains the notes they can loan them out again upon proper security.

Mr. FRENCH. The collateral of $100,000 to secure the notes is still in existence, held by the bank, to secure $100,000 of notes, the issue of which was required by business needs. Some one who happened to want to send gold abroad has presented $50,000 of them at once.

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What I ask is whether it is necessary for the regional bank to make application to the board of control, perhaps the next morning, and say, "The power which you gave us yesterday to issue $100,000 of these notes has become nugatory through force of circumstances as to $50,000; $50,000 of these notes have been redeemed by us. We hold collateral for $100,000 of these notes and wish to reissue the $50,000 of notes we have redeemed.

Senator SHAFROTH. But he has already got it, and he has loaned his money out that he got from the regional reserve bank, and no demand can be made upon it until the 60-day paper matures and then it comes in automatically.

Mr. FRENCH. You understand, then, he would not be required to redeem that paper; that is, the member bank that has deposited it for collateral?

Senator SHAFROTH. Of course he would be required to pay his paper that he has hypothecated. There is a confusion as between the redemption feature of the notes and the credit system which he exercises by reason of going there and hypothecating his collateral. He may get new notes issued to him, or he may get notes that are in the bank already, consisting of these reserves or consisting of the capital stock. For that reason, it seems to me, when they are redeemed and he gets his gold, the bank holds them there until there is some kind of demand for them, and when this 60-day paper matures it also pays back, and consequently they have gotten into their hands, of course, a large amount of money, but they can give it out again if anybody presents paper.

Mr. FRENCH. How are they going to hold them out? They may come into the regional reserve bank, exhausting its gold. How is that to get out again?

Senator HITCHCOCK. I do not think there is any doubt of this proposition that if a note belonging to one regional bank goes to another, that other bank can either charge it to the Government of the United States and send it to the Treasury, or it can send it to the regional reserve bank which issued it. If a note issued by a regional reserve bank comes in it can be paid out again——

Mr. FRENCH (interposing). By the same bank?

Senator HITCHCOCK. By the same bank; but it is not valid as a part of its reserves.

Mr. FRENCH. I understand that, but whether it can be paid out by the same bank——

Senator HITCHCOCK (interposing). Undoubtedly; the same bank can either present it to the Government——

Mr. FRENCH (interposing). What is the object, if I may ask the question, of the provision requiring one regional reserve bank to send for redemption the notes of another regional reserve bank, irrespective of whether the collateral put up to secure the note is still there or not? The Federal board of control has decided that business requires the expansion of the currency by so much. By mere chance a large part of this money issued by one regional reserve bank drifts into another regional reserve bank. Now, that bank is required not to issue it, but it is sent off by train to the other bank. It becomes dead from that minute, notwithstanding the decision of the Federal board of control that that much increase of currency was needed and notwithstanding the collateral is up to secure it and notwithstanding

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the gold reserve is up. It seems to me they have provided for a lot of unnecessary machinery.

Senator SHAFROTH. It is done, no doubt, for the purpose of retiring this currency in some form and thereby getting over the exigency of its issue. I do not know that it is a wise provision.

Mr. FRENCH. Let me suggest why it was done. That provision was taken from the rules governing the Suffolk bank, where they depended entirely upon constant redemption to keep the notes on a parity with gold. In this case we have a deposit of commercial paper and also a gold reserve. And when you say that when a regional reserve bank gets the note of another reserve bank it must withdraw it from circulation, you have then come into direct opposition to the decision of the Federal board, which has decided that the needs of the country for currency were such that this currency ought to be outstanding.

Now, you can not say that it is the policy to have each regional reserve bank in the country redeem all its own notes, because you will find another provision in the law which says that any regional reserve bank may at any time decrease its liability on account of its notes by paying into the Government of the United States or to any Federal reserve agent lawful money of the United States, recognizing that when this note is once out it may never be redeemed, and recognizing also the principle that, although you do not redeem the particular note, yet, when the time for contraction has arrived, if you decrease some part of the currency, whether it be greenbacks, national-bank notes, or gold coin, and lay that aside, you have accomplished exactly the same purpose as if you hunted up these notes and canceled them to the extent of the money laid aside.

Senator SHAFROTH. But will not this provision have a tendency to cluster that bank currency, or this reserve note, and thereby place it so they can retire that absolutely and let loose these United States notes which have been taken up and which you say have been set aside? Is it not a means of clustering the paper issued under this bill——

Mr. FRENCH (interposing). It would help them to get it, but is there any object in their doing that?

Senator SHAFROTH. Some people think when you once issue money it is only needed for a short time, and thereafter should be retired.

Mr. FRENCH. When you set aside gold coin or greenbacks against these notes, do they not occupy the position of the gold certificate? There is gold set aside for the gold certificate in Washington; you might as well provide that every two or three months it should be sent on and redeemed in gold.

Senator HITCHCOCK. Judge, following up this hypothetical case that you state, suppose a regional reserve bank receives a bundle of notes that have been issued through another regional reserve bank, and it sends them to the Treasury of the United States for redemption. They are there redeemed out of the 5 per cent gold fund belonging to that particular regional bank, and then forwarded to the regional bank. Now, the regional bank can then issue that again.

Mr. FRENCH. That is just the proposition I started out with. I asked two gentlemen and I got opposite answers from the two; one said they could not reissue it and the other said they could.

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Senator HITCHCOCK. Now, if, instead of that process, this first regional reserve bank sends these notes to the regional reserve bank through which they were issued, it will get a credit in return on the books of that bank, or a remittance of gold, and the bank receiving these notes will then have the option of paying them out again to those who may come for money.

Mr. FRENCH. If that is the fact, it will carry out the spirit of the act. The act will then keep in existence the money until the need for it has passed by. But unfortunately a great many people understand it just the other way. They tell me they are to be canceled whenever they are redeemed.

Senator HITCHCOCK. But that would not be possible because of the provision that the Treasury, when it redeems those notes in gold out of the reserve fund, immediately sends them to the bank through which they were issued, giving that bank the privilege of retiring them.

Mr. FRENCH. It should have it. But, as I said before, people understand the act differently. It should be made plain. You can only have such expansion as the board of control desires, and one regional bank ought to have an option whether it will pay out the notes of another regional reserve bank or send them in for redemption. The moment the collateral which secures them is paid off, then the currency should be decreased by the amount of the collateral, either by retirement of that amount of these notes, if at hand, or the deposit of a like amount of lawful money with the Government.

Senator HITCHCOCK. Of course, it is true the regional reserve bank which has received these notes must either pay them out or ship them for redemption, because it can not count them in its reserve.

Mr. FRENCH. Why should it not pay them out? But the law does not permit them to pay them out; it says they must ship them for redemption.

Senator SHAFROTH. It will take some little time to send them to Washington and get United States notes, but it seems to me it is not any more than right.

Mr. FRENCH. The point I make is that to the extent that the redemption does take place you are contracting the currency in violation of the spirit of the act, and you are incurring a needless expense in doing it.

Senator HITCHCOCK. That contraction is only momentary.

Mr. FRENCH. It may be only for a day or two, but why have even temporary contraction when not warranted by needs of business? Why not give the regional bank the option to pay them out or send them to the other bank for redemption?

Senator SHAFROTH. The national banks which get hold of the national-bank notes of another bank could reissue those to the people, but they do not do it because they need some money for reserve money and consequently they send it to the Treasury.

Mr. FRENCH. They do not have to.

Senator SHAFROTH. No; they do not have to except to get more money.

Mr. FRENCH. They do it when it will serve their purposes. In the case of the regional reserve notes they have to send the notes in for redemption.

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Senator SHAFROTH. Do you think there ought to be more money that will act as reserves than we have at the present time?

Mr. FRENCH. Do you mean to let all reserves be increased?

Senator SHAFROTH. No; I do not mean that. I am referring to the character of the money that can act as reserves.

Mr. FRENCH. No; I would have a reserve of nothing but gold.

There is another thing that I have heard often discussed. Business men think from 1893 to 1896 we suffered, and it was because the people of this country had not fully made up their minds as to whether we were to be on a gold or some other standard. Now that it is decided we are on a gold standard, there should not be anything in this bill that will throw any possible doubt on the standard, but there should be everything in it that can appropriately be put in to maintain the standard. Instead of requiring the regional reserve bank to redeem in gold or lawful money it should be in gold.

Senator SHAFROTH. Do you not think that would have a tendency to deplete the gold reserves instead of fostering the gold standard?

Mr. FRENCH. No; I think it would be the other way.

Senator SHAFROTH. Take, for instance, $100,000,000 issued by the Government, and they have $100,000,000 of greenbacks payable in gold and then $100,000,000 of this currency payable in lawful money. Suppose a man who had $1,000 of this currency goes to the regional reserve bank and says, "I want gold," and the regional bank says, "No, we can not give you gold, we will give you lawful money, and we will send them to Washington. If you want to get gold for that you can take it down there." Suppose he takes it to Washington and he gets $1,000 in gold in Washington, according to the terms of the bill. So the Government, by this operation, has practically redeemed $2,000 in currency by $1,000 in gold. The regional bank says, "If there is going to be plenty of gold I will lock this regional money up." When they come down to the National Treasury he says, "I will lock those United States notes up," and by the payment of $1,000 in gold you have practically put out of power and out of the existing gold reserve $2,000, and is that not an advantage to the gold reserve instead of a disadvantage?

Mr. FRENCH. I have not been able to follow you, but I think I can answer your question.

Senator SHAFROTH. Let us take it this way, then. Do you not see that the moment you have 12 places where a man can go and demand gold it is going to make 12 competing points for gold, each of them competing against the Treasury of the United States, because the United States has to have a reserve to redeem these very things that come in from other banks, and each one of these banks has to have a gold reserve, and they can not limit it to a certain amount. They have to have sufficient to protect them, and thus it will take a great deal more gold under those circumstances than if you make them redeemable in gold or lawful money.

Mr. FRENCH. I should think the amount required to supply the demand for gold would be exactly the same whether you had it scattered in 40 places or only had it in one place. It would be only a little more inconvenient.

Senator REED. I would like to ask how the Government of the United States is going to have a single dollar of gold. It also says

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that every dollar shall be taken out of the Treasury and put in the reserve banks, on special deposit.

Senator SHAFROTH. There ought to be a central place.

Senator REED. I am suggesting if you had your idea in operation it would involve a somewhat radical change in the other statute.

Senator SHAFROTH. It might do that, but it involves a radical change now. In fact, you have created a gold reserve in Washington for the redemption of those notes.

Senator NELSON. The bill provides for 5 per cent of the capital and a 33⅓ per cent reserve should be kept on deposit.

Senator REED. That is inadequate.

Senator NELSON. I think it ought to be 10 per cent.

Senator SHAFROTH. Do you not think the national-bank notes, by reason of being payable in lawful money, has relieved the national banks very largely from holding gold?

Mr. FRENCH. It has not relieved the amount of gold that had to be held either by the Government or the national banks—one or the other. One or the other of them has to hold, to maintain the gold standard, that gold so that there will be a sufficient amount of it, or you can not maintain it.

Senator SHAFROTH. Was that not put in the national-bank act for the very purpose of relieving that strain, and letting a large amount of money flow, which would ultimately be redeemable in gold, but which, by reason of the difficulties that exist in getting it there, would not be the case except with a person who wanted it for foreign shipment?

Mr. FRENCH. I do not think the character of the money you can ship can affect the demand for gold or the amount necessary to keep your currency safe. The point I make here is that at the present time there is an ample supply here of gold for these reserves. If, through any cause or other, our currency should ever become redundant, the money which would leave this country would be the gold. If we require a certain amount to be kept for our reserves in gold, it is not so likely to leave the country.

Senator NELSON. What about these bills? The bill provides they shall be a promise of the Government and issued by the Government.

Mr. FRENCH. I would either leave off the promise of the Government or I would put it on and make them legal tender. I would not have a halfway thing. I do not believe it is necessary to have any promise of the Government. I believe they will be strong enough without it. It can not hurt them. I am not afraid of having the Government help to maintain the banking system.

Senator SHAFROTH. What objection is there to making them a legal tender?

Mr. FRENCH. I do not think there is any, as far as I am concerned.

Senator SHAFROTH. Would it not strengthen the currency to make them legal tender?

Mr. FRENCH. Then it would strengthen something that would be perfectly good. The objection made by some to the Government making the promise to pay the notes and the objection to making them legal tender comes from the idea held by these persons that the Government should not go into the banking business, and that there-

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fore it ought not to promise to pay the notes or make them legal tender.

Senator NELSON. And it ought not to do it?

Mr. FRENCH. It ought not to do it according to this conception of those who object to having the Government connected with the banking business. Personally I do not think the banks should be allowed to manage the whole thing themselves. The Government should be in control, and, on principle, I see no objection to making the notes legal tender. I think it would be unwise to have the Government redeem in the first instance, and the banks should do this.

Senator REED. I want to say that the statement I made about the money coming out of the Treasury ought to have been made with a qualification, and I intended to make it, was the qualification in regard to the 5 per cent fund for redemption, which is left there.

Senator NELSON. It is a question there whether it would not take the $150,000,000 gold in the Treasury that is left there as redemption fund for the greenbacks.

Senator REED. The section reads:

That all moneys now held in the general fund of the Treasury except the 5 per cent fund for the redemption of outstanding national-bank notes shall, upon the direction of the Secretary of the Treasury, within 12 months after the passage of this act, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks and disbursements shall be made by checks drawn against such deposits.

Senator NELSON. I think, Senator Reed, that $150,000,000 under the act of 1900 is a special fund.

Senator REED. It is; and any man who wants to can take the greenbacks and have them redeemed and get it, and in that way it can be defeated. Banks could take the gold certificates and take that fund up, and, as far as I see, there would be practically nothing left except this 5 per cent fund. However, that is a matter which can be easily fixed in the bill, and I am calling attention to it because I think it is a matter that should be considered.

Senator SHAFROTH. Under the bill as it is, it is redeemable in gold or lawful money, which contemplates that these bills, if the banks are short of gold, will be redeemed in lawful money, and that as they find their way into other banks or come into the National Treasury for redemption that only 5 per cent will be necessary to redeem them all in gold—all that come in.

Senator NELSON. That has been the theory we have acted upon, but it has not been sufficient.

Senator SHAFROTH. No; it is still 10 per cent.

Senator REED. To redeem?

Senator SHAFROTH. Yes; and the experience with national-bank notes——

Senator REED (interposing). Ten per cent there and 33 per cent at the banks might do it.

Senator SHAFROTH. Ten per cent there would do it, without any gold in the banks at all.

Senator NELSON. Here is the point: If we require the banks to keep 10 per cent, we will always have a supply of gold in the country.

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Senator SHAFROTH. I suppose it is impossible to prevent gold from going out of the country if it is demanded in a foreign country and if the demand there is worse than in our own.

Senator REED. When it is taken away it stops the issuance of paper to that extent.

Senator NELSON. It would put up the rate of interest at once and call it back.

(Thereupon, at 4.50 o'clock p. m., the committee adjourned, to meet at 10 o'clock a. m. to-morrow, Friday, October 10, 1913.)

FRIDAY, OCTOBER 10, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Nelson, Bristow, and Weeks.

The CHAIRMAN. We will hear first, this morning, from Mr. Dawson, of Iowa.

STATEMENT OF A. F. DAWSON, PRESIDENT FIRST NATIONAL BANK, DAVENPORT, IOWA.

Senator POMERENE. Will you give us some particulars about your bank, as to the capital stock, deposits, and so forth?

Mr. DAWSON. The capital stock of the bank of which I am president is $200,000; its surplus is $200,000, and its deposits are about two and a half million.

I want to say to the committee at the very start that I did not come here to discuss this matter from the standpoint of the individual bank with which I happen to be connected. I think I can say to the committee at the very beginning, without regard to what this committee does in the way of legislation, that the bank with which I am connected will become a member of your new system. There are certain sentimental as well as other reasons which make that statement possible. The First National Bank of Davenport, Iowa, was the first national bank in operation in the United States. The bank which first began operations under the system 50 years ago is the bank with which I happen to be connected at this time. Having been the first one to go into the present system, we are going to be the last one to ever go out of the system, no matter what changes may take place in the meantime.

I came here to represent, primarily, the small country banker. Ours is a country bank. But it is not that class of banks that I expect to represent in what I have to say to the committee. I want to speak for the banks in Iowa, the banks of $25,000 capital, and of $50,000 capital, and of $100,000 capital.

As soon as it was announced that we were to come to Washington—and I cite this only as an evidence of the interest which our people have taken in this legislation—I was called up by the chairman of the group organization in the group in which we reside, Mr. Wyman,

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the president, stating that they had been considering the advisability of sending someone here to represent the 118 banks in the group of the Iowa State Bankers' Association. So he insisted on sending on to me my credentials and asking me to represent the banks of that group before the committee. And the same thing was true with regard to the Davenport Clearing House. We have in Davenport eight banks represented in the clearing-house association, with total deposits of about $30,000,000. Along with the Commercial Club of Davenport, representing 1,100 of the business men of that city, they asked me to take a letter showing that I was authorized, along with Judge French, who spoke yesterday, to speak for the business interests of that city.

It seems to me that the country banker is entitled to very great consideration in the matter of the formation of the new system. I regard him as the backbone of the system which we have now. And I ought to say at the outset that I have great respect and great admiration for the system which we have now, and the average national banker in Iowa and in the Middle West, and I think it is true of the whole country, the average man who is now connected with a national bank feels a pride in the system that we have at this time. He appreciates that for 50 years it has been serving a very useful purpose in the country; that it has been of material assistance to the Government in a great many ways, both at its inception and during the 50 years that it has been in operation.

The bank with which I am connected, at its very inception, in addition to the purchase of bonds to secure the circulation, sold over its counter during the Civil War several million of bonds direct to the investors out in that western community. So that we regard the national banks as having been more or less of a prominent prop to the national credit from the time of its establishment down to the present day.

I had some familiartiy with the act of 1900, the gold-standard act, under which the national banks became subscribers, practically in whole, of the issue of 2 per cent bonds called the consols of 1930. I happened at that time to be associated with the gentleman who wrote that refunding provision, Senator Allison, of this body. Some of you who were here at that time may remember that the Secretary of the Treasury, then a distinguished Illinois gentleman, thought that it was utterly impossible for the Government of the United States to float its debt at the 2 per cent rate. That was from 1 to 1½ per cent less than any of the nations of the world were able to float their obligations at that time. And yet the author of the refunding provision was wise enough to see that there was a market for those bonds at 2 per cent, that the national banks were virtually obliged to take these new consols of 1930, no matter what rate of interest they carried.

Senator NELSON. Therefore they were really the instrumentality of saving us from 1 cent to a cent and a half a year interest?

Mr. DAWSON. Yes, sir. The members of the committee are, perhaps, familiar with the fact that some of the mathematicians of the Treasury Department at the time of that refunding transaction prepared a public document, which was a document of the Treasury Department not of Congress, which sets forth in dollars and cents the

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exact saving to the Federal Government by reason of the refunding transaction of 1900.

Senator NELSON. Mr. Chairman, I wish you would take steps to get that document for the members of the commitee.

Mr. DAWSON. You will find that in that document it is made plain that by that transaction the Government of the United States saved or made a profit of upward of $17,000,000. Those are some of the things that are matters of pride to men who are in the national banking system. They have felt that as they went along they have not only served the communities well in which they have been located, but they have had that connection with the Federal Government that gives them some dignity and some standing.

Senator WEEKS. Mr. Dawson, would it not be fair to add, in that connection, that if the refunding was done on a 1 per cent lower basis than could otherwise have been the case the Government has been saving 1 per cent interest on those 2 per cent bonds every year since that time?

Mr. DAWSON. All these 13 years.

Senator WEEKS. Which means a saving of about $100,000,000.

Mr. DAWSON. Then there is one other large fact in connection with the national banking system that should entitle them to the friendly consideration, it seems to me, of the Congress of the United States, and that is found in a statement of the report of the Comptroller of the Currency last year. In examining that report you ought at least to observe the statement he made, and I put it down so that I might have it accurate. He said:

> The national banks have paid into the Government in taxes more than $198,000,000, or more than thirteen times the amount appropriated by the Government for the business of the currency bureau during its entire existence.

In other words, Congress, during the existence of the national-banking system has appropriated $15,000,000 and the national banks have paid in in taxes $198,000,000, making $183,000,000 and odd of taxes which the banks have paid to the Federal Government. But I think there is no difference of opinion among men who have respect and admiration for this system; there is no difference of opinion among students of this question that it is a defective system.

Senator REED. You are not laboring under the impression that this committee or Congress is inclined to make any war on the national banks, are you?

Mr. DAWSON. Not at all. And yet I find among the bankers out in the country the feeling, after reading some of the provisions of this bill—I would not say that they are punitive in their character and any of its provisions—at the same time some of them feel that the provisions are not as liberal as the banks are fairly entitled to have.

Senator REED. I thought we were trying to do so, to help save the banks from the disasters which occasionally fall upon them, instead of having any desire to punish them, and in that connection, while it is almost irrelevant to the issue, it strikes me that if both sides approach this question in that spirit, instead of passing denunciatory resolutions and calling people various names, complimentary or otherwise, we would be much nearer a solution.

Mr. DAWSON. I agree with you thoroughly in that last statement, and while men may get together in conventions and do certain things,

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I think what this committee wants to know is the sober opinion of the men back at home, and I think I can say to you with perfect frankness and with entire truth, that the people of the country are considering this matter in a calm manner and from a nonpartisan standpoint. I think they are approaching it with the hope of a solution, and that it will be the best solution we can have at this time. I am sure that is the attitude of most of the bankers out in our country.

Of course, bankers are no different from any other class of men, but if a man is a successful banker he is at least broad-minded enough to see and appreciate that his only hope of success lies in the success of his community. It is along that path that his success lies. He can not hope for any advantage that is going to accrue to him at the expense of his community, and the things which will build up and best serve the community in which he is located is what is going to be best for him.

This system that we have now, there is general concurrence that it is a fair-weather system; when times are all right it operates to the satisfaction of nearly everyone; it handles the business of the country effectively.

So, as Senator Reed has said, I conceive it to be the duty of this committee—and in what I have to say I am only endeavoring to contribute a few observations in that direction—to create a system that will not break down in the days of financial stress and of financial stringency. This one has broken down four times since it was put into operation. My study of it leads me to believe that the first three times that it broke down we did not know what was the matter with us.

Senator NELSON. To what three times do you refer?

Mr. DAWSON. First, in 1884.

Senator NELSON. No; 1873 was the first panic growing out of the Jay Cooke failure; that was the first and most unnecessary up to that time.

Mr. DAWSON. The four that I have in mind, Senator, are the four times in most recent history when the banks were obliged to suspend specie payments. Of course, 1873 came before the resumption act. That was in 1884, and then again in 1890, in 1893, and in 1907. Those first three disturbances or breakdowns of the system, as you will remember, were complicated with commercial and political conditions.

Senator NELSON. Yes; and economic cinditions.

Mr. DAWSON. So that the public was not enabled to see clearly that that breakdown was not the fault of the system. But when the disturbance of 1907 came along that made it clear to the business interests generally and to students generally just what the defects were in the present system. And, as I see it now, there is practical concurrence as to what the defects are. They all fall, it seems to me, under two heads, one the lack of elasticity and the other the reserve requirements, with no opportunity to unify the reserve.

So it is along those two lines that the banks of the country and the business men of the country are expecting relief. And at that point may I offer an explanation why there has not appeared before

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this committee more business men instead of the men appearing here being practically all bankers?

Those of you who live in the smaller communities, or who have knowledge of conditions in the smaller communities, know that the business man in that community regards the banker as the credit merchant of the community. When he wants credit for the conduct of his business, he goes to the banker, and when it comes to considering a system whereby the business man can obtain his credit he has not the time nor the disposition to go into that. He naturally looks to the banker to provide or to at least look out and see that a system is in vogue under which the banker can supply the business man with his needs as he goes along.

There being now a practical concurrence, it seems to me, as to the defects of the present system, I have great hopes that Congress will apply the remedy. When we are able to diagnose a case, then the application of the remedy becomes much more simple.

For many years nobody could agree on what the trouble was with the present system, bankers or legislators, or anybody else. I remember that for many years it was a common saying in the House of Representatives that the Committee on Banking and Currency—that no two of the members of that committee could agree on anything.

But now the time seems to me propitious for the creation of a system that will measure up to the present needs of business and commerce throughout the United States. Being in substantial agreement upon the fundamentals, upon the fact that what we need in a system now is one that will introduce this element of elasticity and one that will provide for the mobilization and the unification of the reserves of the country; being in agreement upon that point, I think there is a very strong feeling among the people in my section of the country that the fundamental purposes of this bill are sound and good.

Now, there is not such a concurrence in regard to the details of the manner in which these principles are sought to be applied in this bill. But as to the fundamentals I believe the people are of the opinion that those fundamentals in the bill as it now stands are sound, and that they are the basis for a bill that will handle the business of the country successfully and efficiently.

Senator REED. Do you think that is also the opinion of the bankers of your State? You said that was the opinion of the people. Do you think that is also the opinion of the bankers?

Mr. DAWSON. I think it is. I have been in rather close contact with many of the bankers in my State. I have discussed the subject before group meetings and before State conventions of bankers. They have passed resolutions time and time again in concurrence as to what we need at the present time. And I am going to put that summary, with the consent of the committee, into the record.

The CHAIRMAN. We will be glad to have it.

Mr. DAWSON. I do not care to burden you by reading it, although it is very short. It is my idea of what a currency system ought to be.

Senator BRISTOW. You say that is your idea?

Mr. DAWSON. It is my idea, and I believe it thoroughly represents the ideas of the bankers in our section.

The CHAIRMAN. I think you had better read it.

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Mr. DAWSON. It says, to summarize: What the country stands in need of is a banking and currency system, embracing these salient features.

That will give that element of elasticity to the currency which will respond to the varying needs of business at different seasons of the year, and as carefully safeguarded against inflation as against stringency.

The association of all banks into a national system, rather than one of scattered units, to obtain unity and cooperation in sustaining the commercial and public credit, but which should be absolutely secure against political domination or the control of concentrated wealth and which must preserve the individual independence of each bank.

Our people are very strong on that point.

The unification and mobilization of bank reserves, so that they can be concentrated and made available wherever most needed in times of trouble, and the machinery to strengthen bank reserves or increase their loaning power when necessary to avert danger.

To these three principal features there should be other additions to provide an acceptable standard for commercial paper and a well-organized market for the same, to secure more uniformity in discount rates in all parts of the country, permission to American banks to do business in foreign countries, and an agency which can deal effectively with the course of foreign exchange and the international movements of gold.

Now, it seems to me that the underlying purpose of this bill goes directly to those three fundamental necessities of the present situation, and I undertake to say that there is substantial agreement among all the bankers of our State as to the soundness and as to the necessity for those three things. Time and again at the State convention of the bankers' association there have been passed resolutions along those very lines.

The CHAIRMAN. Your statement seems to be very clear, and I believe really is pretty nearly in accord with the views of the members of this committee. If it is not, I will be very glad to hear to that effect from any member of the committee.

Senator HITCHCOCK. It is the most succinct statement I have heard. I am especially pleased to hear you emphasize what you said in regard to the maintenance of the independence of the banks.

Mr. DAWSON. That is vital.

The CHAIRMAN. That is the very basis of the system.

Senator HITCHCOCK. I have been afraid that this bill did not provide for that; did not guarantee to the individual bank the things which it ought to have as a matter of right, but left it too much to the discretion of men intrusted with power.

Mr. DAWSON. The integrity of the independent banker, it seems to me, is vital to the influence and advancement of our country as a whole. The branch banking system, it seems to me, would do more to retard the progress of our country out in our section. As it is now, an independent bank is owned by the people of the community, the stockholders all live in the community, and the little cashier who runs that country bank has at heart the welfare and upbuilding of that community. If it was simply a branch of a great institution in Chicago or New York, they would simply be skimming these

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communities instead of building them up. So that the question of the integrity and independence is a vital question.

Senator HITCHCOCK. It is the only way to maintain competition between them. If you do not have competition between them you do not have facilities which you need.

Mr. DAWSON. You do not when you do not build up the community.

Senator REED. You do not retain in the community the wealth which the community creates.

Mr. DAWSON. That is true, also. The profits would go to some concern outside.

Senator NELSON. These big banks, Mr. Dawson, do not appreciate how much those little country banks do in a community. I have seen poor fellows come in and get money, mortgaging their last cow, and they could not get it from these big banks.

Mr. DAWSON. No; nor could they obtain it if the man who was running that bank was a representative or a clerk sent out from New York to run that bank.

The CHAIRMAN. That is really the basis of the American system, distinguishing it from the system of other nations?

Mr. DAWSON. Unquestionably; and that must be preserved in any system in the future, in my opinion.

Senator REED. I think we all agree to that. I think the most interesting question you will have to discuss would be whether this system does preserve the independence of the individual bankers.

Senator HITCHCOCK. I want to say to Mr. Dawson, as one member of this committee, that the question that most troubles me is the very question as to whether the banks' independence is preserved under this bill, and I make that suggestion in the hope that when you reach that topic you will discuss it fully.

Mr. DAWSON. I will be very glad to. There is practical concurrence, in my opinion, among the bankers of the West as to the value of the rediscount machinery which is created in this bill. Of the two defects—nonelasticity and reserve requirements—the one relating to reserves is of vastly greater importance than the one relating to elasticity. That is vital in time of stress. They have seen in the past a condition arise—a condition over which they had no control, a condition for which they were in no way responsible, the smaller banks of the West—they have seen a condition arise where this system of ours would break down and not perform the natural functions for which it was created.

Senator NELSON. Their reserves would be tied up?

Mr. DAWSON. Yes; when they could not get money that belonged to them.

The CHAIRMAN. They had less additional accommodation.

Mr. DAWSON. Yes, sir; so that I believe this reserve matter is of vastly greater importance than the element regarding elasticity.

You know how it works now. The banks are all put into a scramble the minute any trouble appears. Each one becomes a competitor of every other bank in its struggle to mass a sufficient amount of reserves to take care of any trouble which may come to its doors. This rediscount provision will unquestionably enable the country, as a whole, to increase the reserves when it is necessary to increase them. Under the present system, in the days of disturbance and panic banks

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are not only embarrassed with respect to their reserve requirements, but they are obliged to slam the door in the face of the borrower at the time when he needs it the most.

Now, it is well understood that losses growing out of such conditions fall with greatest severity upon those who are least able to bear them. When hard times come it is the men of limited resources who are hit the hardest.

I think the interest of the general public, the interest of the farmer and the wage earner, in this legislation is much greater than the banker's.

The CHAIRMAN. There is no doubt about that.

Mr. DAWSON. Because the banker can trim his sails to the breeze; he can adjust his operations to the conditions as they exist.

The CHAIRMAN. He can force the sale of collateral and ruin the borrower, and is obliged to do it at times in order to save himself, is he not?

Mr. DAWSON. That is true; to sacrifice it. But what is the small business man going to do who is fairly entitled to credit? If he is unable to use his credit he goes to the wall. There is no escape for the wage earner if he is thrown out of a job. Nor is there for the farmer if there is a tremendous slump in the value of his products, by reason of a financial panic, such as occurred in 1907. There is no escape for him.

So this question of reserves is really the vital question. If banks are enabled to replenish their reserves in time of need—if you please, if they are permitted to use their reserves in time of need, for the purpose for which the reserves were created—they can undoubtedly do much to allay fear and to allay panics. As it is, men get scared, they are filled with fear; and fear is the stuff of which a panic is made.

Senator NELSON. Excuse me for breaking in, but I think it becomes necessary: Is not that one beauty of the system here, that the reserves put in the reserve bank can be utilized, as it never could under the old system?

Mr. DAWSON. Yes; and now it is scattered all through 25,000 little banks in the United States.

The CHAIRMAN. You regard that as a good feature of this bill?

Mr. DAWSON. The mobilization feature in this bill?

The CHAIRMAN. Yes.

Mr. DAWSON. Yes; I do. I am going to suggest some changes in the manner in which you propose to mobilize them.

The CHAIRMAN. I hope you do so, when you get to that point.

Mr. DAWSON. Yes. As it is now, some one, it seems to me, put it very forcefully: If you had a water system in your town, whereby each citizen had a cistern of water, only to be used to put a fire out on his own premises and could not be used to put out a fire on his neighbors' premises, and a fire breaks out, his neighbors could render him no assistance. There is no mechanism in this present system whereby to induce cooperation and unity in the 25,000 banks.

Senator POMERENE. In the present law, you mean?

Mr. DAWSON. Yes.

Senator HITCHCOCK. Of course, now, you are quoting from the Aldrich report. Do you approve of the Aldrich report?

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Mr. DAWSON. I was not aware I was quoting from that. I have read that report. You refer to the report of the National Monetary Commission?

Senator HITCHCOCK. Yes. That was the illustration used there, and I wanted to know if you approved of it.

The CHAIRMAN. It has been used many times; it is an old simile.

Mr. DAWSON. I would not want to make a blanket approval of all the things in that report.

Senator NELSON. I think the president of the National City Bank, yesterday or the day before, used a term I do not know as I have heard before, but it was a very good one. He spoke about "piping" the reserves from one regional reserve bank to another, as I recall it. I think that was a new phrase, and a very apt and effective one.

Senator SHAFROTH. Oh, they have been using that a good deal—"reservoir."

Senator NELSON. Oh, no; he said "piping" the reserves from one bank to the other.

Mr. DAWSON. I recall some one in the House used that phrase in connection with this bill.

I do not think I shall inflict my individual views on this committee with regard to the character of the notes you have provided for in this bill. I do not believe the people of the United States care very much about the different schools of financial thought with regard to the bank notes.

Senator NELSON. That is, you mean whether they are the mere promise of the banks or the mere promise of the Government.

Mr. DAWSON. Yes.

Senator NELSON. Or whether they are legal tender or not.

Mr. DAWSON. Yes. The main thing that the average citizen of the United States wants to know when he receives a piece of paper money is that it is just as good as gold. That is the condition that prevails to-day. He does not care; he does not look to see whether it is a note of a national bank, a greenback, a silver certificate, or a gold certificate. He knows one is just as good as the other and can be exchanged for gold. So that in this new currency you create all that he wants to know is that it is sound; it has the assets behind it. A true bank note should embrace these three principles—security, convertability, and elasticity. That is my conception of the three fundamental principles of a bank note.

If you provide a note that he feels is sound and upon which he believes he can get the gold any time he wants it, I do not think he is going to care much whether it is a bank note or whether it is a Government obligation. So far as I myself am concerned, I do not agree to the principles which underlie the note that is created in this bill. I can not find anything like it in any of the systems of the world. It seems to me like a departure from what has generally been regarded as a scientific bank note. It is issued with the assets of banks primarily, along with other security, behind it. Then the Government steps in and makes it a direct obligation of theirs. It seems to combine the three principles that divide the bank notes of the world into the classes where they are now.

Senator HITCHCOCK. After all, is it not only another way of putting Government credit behind the paper? The Government credit is already behind the national-bank notes in the shape of bonds.

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Mr. DAWSON. The systems of the world are based on one of three principles, as I understand it. They are the currency principle, the banking principle, and the bond-secured principle. The banking principle holds that the total assets of the bank are the proper security for its note issues. The currency principle is that of issuing notes against a reserve; and, of course, the bond-secured principle is the one we have with the national-bank note, where long-time bonds, good bonds, are the basis for the note issues. This new money which the bill provides combines the banking principle and the currency principle in that it puts behind it not only the total assets of the bank, but also puts behind it a gold reserve of 33⅓ per cent, besides also dollar for dollar of commercial paper. So that it seems to me that the question of doubt will never arise in the mind of the average person who takes one of these notes as to its security.

The CHAIRMAN. If the bank were to fail, and if the 2 per cent bonds were to go down to 75, do you think the notes of such a bank would ever reach a discount?

Mr. DAWSON. I can see where a condition of that sort might lead to——

The CHAIRMAN (interposing). Does not our statute at present compel the United States to maintain at parity the national-bank notes and the other forms of notes issued by the Government?

Mr. DAWSON. That is true.

Senator NELSON. Not the national-bank notes?

The CHAIRMAN. Yes; I think so, Senator.

Senator NELSON. Not directly?

Senator SHAFROTH. It says "all forms of money."

The CHAIRMAN. Yes; all forms of money.

Mr. DAWSON. You can trade one for the other and get gold.

The CHAIRMAN. What I am calling attention to is that the United States, in addition to these bonds, is putting its credit behind the national-bank notes. Therefore, the national-bank note, at present, has not only the bonds and the credit of the individual bank but also the credit of the United States, as such, behind it; and for that reason no citizen need examine a national-bank note to ascertain whether there is a possibility of a discount on it.

Mr. DAWSON. I think this new currency will have the same virtue, only in an added degree, I would say.

The CHAIRMAN. I only refer to that to show there was a precedent.

Senator SHAFROTH. Mr. Dawson, these notes are issued or made redeemable in gold or lawful money, and I want to see whether you can subscribe to my view on that.

Mr. DAWSON. I shall be very glad to have your view.

Senator SHAFROTH. My view is this, that where a currency of this kind is redeemable in lawful money, and the lawful money redeemable at the Treasury in gold, it presents a strain on gold where there is a run on the gold reserve. In other words, it is like the national-bank notes in that respect. The national-bank notes are redeemable in lawful money. A man who holds $1,000 in national-bank notes can go to the bank and say, "Give me lawful money for this"; and they can give him a greenback. If it is in these regional banks that are to act with the Government they take that, if there is an apparent run, and lock it up in the vault, and say, "We will stop that run to

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that extent." The man then takes the greenback, and takes it down to the Treasury of the United States, or presents it there, and says, "Give me gold for it." The Treasury says, "We don't want this endless chain going on, and we want this run stopped, and we will put this away." By that process the Government has redeemed $2,000 of notes by $1,000 of gold; whereas if that money is redeemable in every instance in gold the result will be $1,000 in gold will redeem only $1,000 in notes. Is not that sound?

Mr. DAWSON. I am not quite able to see how $1,000 has performed a double function—a double duty.

Senator SHAFROTH. The note circulates just like the national-bank note circulates. Nobody, because he knows he can get gold for it, hesitates to take it.

Mr. DAWSON. Certainly not.

Senator SHAFROTH. And if a man took $1,000 of regional bank currency to a national bank and said "I want you to give me gold, or give me lawful money," and the bank gives him greenbacks. And so, being allied with the Government, it does not want this run on the Treasury, and it will say "We will lock this up," that $1,000 they have taken in and for which they have given you $1,000 in lawful money. So that $1,000 is locked up there and can not get into circulation again, and won't make a run on the Treasury for gold. The man takes down to the Treasury of the United States the greenbacks or United States notes, or lawful money or legal tender, and presents it to the United States Government, and the United States Government gives gold for it. The Treasury says "We will lock that up if there is a run on us," and we always have in the Treasury a good many millions of legal tender on hand and do not issue it, notwithstanding there may be provisions in the law it should be issued.

Mr. DAWSON. The law requires it to be reissued.

Senator SHAFROTH. And it means in time of normal conditions. Thereby you have gotten $2,000 of currency that is ultimately redeemable in gold and have redeemed it by $1,000 in gold in the United States Treasury.

Now, why does not that relieve the strain on gold if there is a run on gold? Of course it does not make any difference if there is no run on gold.

Mr. DAWSON. My own opinion is that any man who has a piece of paper money is entitled to exchange that for gold whenever he wants to, and your thought of impounding these notes after they have been redeemed in gold only emphasizes what has been in my mind in regard to this particular currency. Your statement of facts presupposes that there is a danger of dragging an endless chain through the Treasury of the United States under such conditions. We all saw how that worked during Cleveland's second term.

Senator NELSON. I want to call your attention, Mr. Dawson, how, at the time of Cleveland's second term, there was a firm of Jews in New York—whether they operated on their own account or others I do not know—who made a bus'ness of going to the Government with greenbacks and drawing out the gold and shipipng it to Europe. There was a shipment regularly every week. I recall that very well. They used those greenbacks to draw out the actual gold, and the more you have of that in this bill the more you equip that kind of men, who want to get more for gold when it is at a premium, to call

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on the Treasury for gold—the more you put in the hands of those men paper that is payable in gold.

Senator SHAFROTH. Unless you lock it up.

Mr. DAWSON. Certainly. But eventually the currency of the United States becomes the currency in these regional banks. That is, they are to displace the national-bank notes, and they are to be issued for seasonal expansion, etc. If it only displaces the national-bank notes and supplies this seasonal deficiency, there would be $1,000,000,000 of that outstanding, not taking into account any natural increase in the necessities as time goes on.

Senator POMERENE. I want to remind the committee that every one of them is violating the rule which was formally adopted here some days ago. And, with all due respect, it seems to me it is going to be more satisfactory both to the committee as a whole and to the witnesses as well should they be permitted to complete their statement first and let the examination or cross-examination come afterwards.

Senator SHAFROTH. I thought he was through his statement.

Senator REED. I have always regarded it as a great impoliteness, Mr. Chairman, for any other member of the committee to interrogate the witness. [Laughter.]

Mr. DAWSON. So far as I am concerned I am perfectly willing to be interrupted at any time and answer any questions which the members of the committee may desire to ask.

The CHAIRMAN. That is the rule of the committee, Mr. Dawson. Had you completed your statement?

Mr. DAWSON. No, sir.

The CHAIRMAN. Then we will permit you to proceed.

Mr. DAWSON. I have been at both ends of the congressional interrogation point, and it does not matter to me when it appears.

So much for the character of the currency provided in this bill.

The fear that is lurking in my mind is that you are creating there a species of greenbacks by making it a direct obligation of the Government, and imposing on the Government the necessity for redemption in gold, or, at least, giving permission to the note holder to take it to the Treasury and ask for its redemption in gold; that you are adding to the system of credit money in the United States another billion of notes which might at some future time, either in time of war or even in time of peace when the receipts of the Government should happen to be less than its expenditures, embarrass the Government. My fear is that there will be a billion dollars of these new notes, which we might call a denatured or modified greenback, if you please. My fear is that there will be a billion dollars which can be dragged through the Treasury, the same as $346,000,000 were dragged through during the second administration of Cleveland. So I have not been able to see why it was necessary to superimpose—I think the security which is behind these notes is ample—why you should superimpose the credit of the Government—why you should make it a direct obligation of the Government. That is not a true bank note. A true bank note is an obligation of the bank, based on the assets of the bank.

If there is any increase in the note issue it should be increased with due regard to the increase and decrease of business. That question of elasticity is another question that is one of great im-

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portance. It seems to me that this certainty of elasticity is not quite sufficiently provided for in this bill. I may be wrong; it may be in here some place where I have not discovered it, but it ought to be so clear and so plain no one could misunderstand it, or no two men might differ in regard to it. We all understand that at certain seasons of the year there is necessity for an expansion of credit currency, or at least an expansion of credit. Just how much this is, men differ about, but substantially it is about $200,000,000. We want the machinery whereby that additional currency can be obtained when it is needed; but it is just as important, in my opinion, to have the machinery so adjusted that when the need of that has passed, that additional currency will not become a permanent part of the circulation of the country. It wants to expand and contract, and the question of the contraction is just as important as the question of the expansion.

Now, I assume that the purpose of this bill is to do that very thing; that is, to create a currency that is based on the business of the country and which, therefore, expands and contracts with the business of the country. That is why you base it on short-time commercial paper. It seems to me there should be no doubt left at all that the commercial paper that is deposited with the regional reserve bank, as collateral for those notes—that when this collateral is paid off, that then the amount of notes or the same amount of some other sort of money ought to be taken out of the permanent circulation of the United States.

That can be done, it seems to me, with one provision, and while it is not in the bill, it may be implied, and that is this: That the parity should be maintained between the collateral held by the regional reserve bank and the amount of these notes outstanding that were issued against that collateral. For instance, suppose the First National Bank of Davenport should take to the regional reserve bank $100,000 of its bills receivable and deposit them as collateral and receive $100,000 of these Government notes provided in this bill. When those commercial notes are paid, those bills receivable are paid, and the circulation ought to be reduced by that amount, unquestionably. So, it seems to me, the principle can be established in here, without any chance of wavering one way or the other, if a provision is included whereby the parity will be maintained between the collateral held by the regional reserve bank and the amount of notes which they have issued against that collateral.

Senator REED. By parity you mean equality in amount?

Mr. DAWSON. Yes; one should go up and down with the other.

Senator NELSON. Let me ask you a question for information right at that point. I want to clear my mind on it. You mean that would be reached by retiring the note when it is finally presented to the issuing regional bank for redemption?

Senator WEEKS. Where is the watchdog? [Laughter.]

Senator NELSON. Well, I wanted this step cleared up as I went along. [Laughter.]

The CHAIRMAN. The witness will proceed.

Senator HITCHCOCK. I move a special watchdog be set over the member from Minnesota.

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The CHAIRMAN. The members will hereafter observe the rule which the committee has adopted, not to interrupt the witness.

Senator REED. There is an obvious difference between an interruption and a question that is asked for the purpose of elucidating some point which a witness presents. [Laughter.]

The CHAIRMAN. Well, Mr. Dawson, we will proceed.

Mr. DAWSON. I want to say, Mr. Chairman, so far as the witness is concerned, I am perfectly willing to be interrupted at any time.

Senator NELSON. I will withdraw my question.

Mr. DAWSON. I say there ought to be in this bill an exact statement of policy with regard to the maintenance of equality in amount of the collateral and the outstanding notes. The country will naturally assume that that is the policy of this bill, and yet there is no positive statement that it is the case.

One other question with relation to this bill, and one in which the smaller country bank feels a proportionate interest with the larger banks, perhaps in a lesser degree, is the one of organization and control. With regard to the manner in which the new system is to be organized and the control which is to be provided for it, my own opinion is that some changes could wisely be made. It seems to me it would be wise to initiate this system with a less number of regional reserve banks than 12. There are many reasons that commend that to my mind. I think the system should start out with about 5 and with power reposed in the Federal reserve board, if you please, to increase that number as the system gets into operation.

This is a rather violent change from what we have now, and violent changes in currency or financial matters are not in accord with the spirit which guides or which controls financial transactions. The more conservative we can be in anything relating to so complex and so sensitive a subject as the finances and business of this great Nation of ours the better it is going to be, especially after we have determined in our own minds the end which it is sought to attain. The best way, in my opinion, to attain that end is by a most gradual process. So if I had my way I would start this system with five reserve banks, with power in the reserve board to increase them as necessity for it arose. With 12 banks, under the terms of the law, each bank subscribing 10 per cent of its capital, if all of the national banks of the United States were to come in, you might have regional reserve banks which would be smaller in capital than some of its constituent members, and that, it does not seem to me, would comport with the dignity of a great Federal bank—for instance, a Federal bank in the city of New York that in itself was smaller in capital than one of the members of the association.

Senator REED. Would that be the case in New York?

Mr. DAWSON. I have not gone into the exact figures of it, but it might. Of course, it would depend upon how the regions were arranged. It might occur in Chicago, where one bank has a capital of over $30,000,000. That is one reason why we should start with a lesser number. Then if any considerable portion of the banks did not come into the new system, if 1 out of 5 of the national banks decline to enter the new system, then it would be impossible to organize 12 Government banks, each one with a capital of not less than $5,000,000. Therefore my thought would be to start with five,

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and then extend gradually as the needs of the country develop, and as we gather experience and knowledge of the workings of the new system, which is a wide departure from what we have now. So much for the question of organization.

On the question of control, I was glad that the committee agreed with me in the fundamentals I laid down at the beginning of the hearing, that a system which would meet the needs of the people of the United States ought to be free, on the one hand, from any possible political control, and on the other from its domination by the concentrated wealth of the United States. In the question of the make-up of this central board there is a feeling among the bankers and many of the business men that there is a possibility of political considerations entering into it. That, it seems to me, can be obviated. The question of Government control is one, I think, that is fairly accepted by the banks and the people of the United States. We have been moving on, in the last few years, and I think there is a consensus of opinion, at least among the people, if there is not among certain classes of bankers, that there is no objection to Government control of this system. Some complain, and, indeed, attempt to draw a distinction between control and actual management, but Government supervision is generally accepted by all the people. So that there is no question in anybody's mind on that, but they do want, if the Government is going to control, to have machinery which will make it absolutely certain it will be divorced from politics. Politics and banking do not mix at all, and I speak with some knowledge of the subject, because I have been in both.

Senator HITCHCOCK. You finally preferred banking?

Mr. DAWSON. I find it much more comfortable to be in a bank to-day in Iowa than to be in public life in Washington now, being a Republican. [Laughter.]

The bill proposes to put on three members of the President's official family. I can not see any justification for that. My view is that these seven men will have in their hands greater financial responsibility than any seven men in the world. It will require the undivided time and attention of the best men you can obtain in the United States to master the broad questions that will have to be handled by that board, to say nothing of the other almost autocratic powers which they exercise. So that it seems to me a Cabinet officer sitting as a member of that board must, in the very nature of things, be, to a large extent, a figurehead. I would except, however, the Secretary of the Treasury. I believe he should be a member of that board on account of the intimate connection between the Treasury Department and the finances of the United States. But I have not been able to understand why it is necessary to put on that board not only the Secretary of the Treasury, but the Comptroller of the Currency, who is a subordinate of the Secretary of the Treasury. You put on one man who is subordinate to the other, and in ordinary affairs that would simply mean that the superior officer would have two votes instead of one.

Nor can I see the reason for including the Secretary of Agriculture on that board, who has his hands full in the problems that are confronting him, the problems he has to solve in American agriculture, the great basic industry of our whole Nation. His advice would be

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valuable, in my opinion, but instead of being on that board in an active executive capacity, if you want his advice, create the machinery that would enable you to obtain it, or enable him to act with the board in an advisory capacity. But as I see the duties of this board in the future, no man who has to perform the multitudinous duties of a department of the Government, or a Cabinet office, is going to have time to perform efficiently the services on this board. So I can not agree it is wise to put on either the Secretary of Agriculture or the Comptroller of the Currency. Of the other four members of that committee I want to discuss this in a practical way. The bill proposes to make their terms two, four, six, and eight years. That makes the terms of the members of this board, five out of seven, coincident with the term of a President. Every presidential term that comes along (and I want to state right here that I have no fear of anything in that direction under this administration; but no man can tell what the future holds in store for us), as the bill is drawn now, that President would have the appointment at the very beginning of his administration of five of these seven members. There is the machinery there, if any President sought to use it, whereby he could easily have control of this board from the very beginning of his administration.

Senator SHAFROTH. Four, you mean, do you not?

Mr. DAWSON. As it stands now he would appoint three members of his official family—the Secretary of Agriculture, the Secretary of the Treasury, and the Comptroller of the Currency.

Senator SHAFROTH. And one member immediately of the other board?

Mr. DAWSON. Yes; one member. That would be four of the seven, instead of five of the seven. I think that it should be so arranged, and I believe that it is the purpose of the framers of this bill, so as to have that board stand on the same high plane that the Supreme Court of the United States stands on or that the Interstate Commerce Commission stands on, and if that is so, would it not be wise to take out of the hands of the President, whoever he is, as he comes along down the years—take out of his hands the power, in his first term—to absolutely control the majority of the members of that board?

Senator REED. The first term? You know, there will not be but one term.

Mr. DAWSON. Well, one party will take care of that all right. [Laughter.]

Senator SHAFROTH. Where is the watchman? [Laughter.]

Mr. DAWSON. Then there is no doubt but what it is a source of great complaint, and it is a question in which there is a principle involved, whether or not the men, a class of men, if you please, that are selected to put all of the capital in this institution are to be denied any representation at all in its control. That is a pretty big question; that is a pretty broad question. I should say that if the Government supplied the capital to this bank, or if the people generally supplied the capital to this bank——

Senator BRISTOW (interposing). Voluntarily.

Mr. DAWSON. Yes; then the Government should select the men for the control and management of it. But this bill picks out a limited class of citizens of the United States, the stockholders in the national

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banks scattered over the country, and requires them to pay a proportion of their capital to make up the capital stock of this bank, and yet it denies them any representation on the controlling board. Now, my thought is, and I am sure it is in exact accord with the thought of the committee, that that board should be made the most efficient board possible. And I believe it would produce an element of efficiency in that board, and I believe it would make it stronger, and I believe it would be better for the commercial interests and the business interests of the country and the successful operation of this new system, if the banks select a minority representation on that board—if they select two members, if you please.

Senator NELSON. Out of seven?

Mr. DAWSON. Yes; out of seven. I would not select those men and permit them to have active connections with any bank, of course. I would stipulate that these men should sever all active banking connections. But by permitting the stockholders to select two members of this board, a minority representation on this board, it will minimize the opportunity for political control of the board and would obviate a feeling of injustice that does prevail to a considerable extent among the men who supply the capital for the institution.

But the real test of this system, gentlemen, is whether the banks are going to come in. I do not care how perfect a system may be devised around a committee table or anywhere else, if you can not put it into operation of course it is useless. So that the principal question, and the question from which I want to speak, is that practical question of whether the banks—all of the national banks and a majority of the other banks, if you please—whether they are going to come into the system as it stands in the bill now before you. We have in the national-banking system now about 7,500 banks, and 7,000 of those banks, as you know, are the country banks. I maintain that the small bank is the backbone of the national-banking system, and if you create a system here that is only going to take the banks in the reserve cities and central reserve cities, then you have destroyed the system we have now instead of giving us a greater system.

Now, it may be well, in order to understand what I have to say, for me to call attention to the percentage of banks of various size in the present national-bank system—of these 7,000 country banks. Banks with a capital of less than $50,000 comprise almost one-third of the system—and when I say less than $50,000, that means banks of $25,000 and $40,000 capital. They comprise 32.34 per cent of the national banks of the United States.

Senator WEEKS. In number?

Mr. DAWSON. In number. The banks of more than $50,000 and less than $100,000 capital comprise 31.38 per cent. Banks of $100,000—and out in the county-seat towns of Iowa a great many of the national banks have $100,000 capital; that is, a strictly country national bank in the truest sense of that term. The banks of $100,000 and less than $250,000 comprise 27.12 per cent more. Therefore all the banks of less than $250,000 capital make up almost 91 per cent of the national banks of the United States, while those of a capital of $250,000 and up comprise only 9.26 per cent. My conception is that those little banks must be in the new system if we are to have some-

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thing as good as, to say nothing of being greater, than the system we have now.

Now, I have my own idea of what a great national banking and currency system should be. I expressed it somewhat briefly at the beginning of my statement. It has always seemed to me a source of some humiliation as an American to contemplate that here is the United States possessing the greatest banking power of any nation in the world and yet helpless to exercise that power. It hurts my pride to contemplate the fact that we have a foreign trade of $3,000,000,000 a year, going and coming, and yet that trade is not financed under an American system of banking and currency.

The value of the merchandise exported and imported is not expressed in dollars and cents, as it ought to be; it is expressed in pounds and pence. I can see no reason why the United States should not have a system that would enable us to take our proper place among the financial powers of the world. You have all been engaged in reading the views of foreign writers on financial subjects, and you find running through them constantly a spirit of derision and contempt for the system as it is in the United States. And it is fairly well merited, gentlemen, when you stop to consider it from the broader aspects of the national and international sides of it.

Another thing that is rather humiliating to Americans is that in the panic of 1907, you remember, we were obliged to send abroad for gold. We imported from Europe a considerable amount of gold to allay the panic of 1907.

Senator NELSON. Nearly $100,000,000.

Mr. DAWSON. Nearly $100,000,000. How did we get that gold? Of course, we had no machinery under our system whereby we could induce that gold to come here. We had simply to take our securities to the foreign markets and dump them in the foreign bourses for what they would bring.

Senator NELSON. I want to correct you, if I may. We obtained that gold—and I have Mr. Vanderlip's authority for it—on American bills of lading for American products—wheat, cotton, etc.—in that instance, and not on finance bills. It was obtained strictly on commercial bills.

Mr. DAWSON. Which makes it all the worse, it seems to me, from the standpoint from which I am speaking. We obtained that $100,000,000 of gold finally from Europe. Most of it came from England, and the humiliating part was that right here in the Treasury of the United States at that very moment was twelve times as much gold as England possesses in her entire system.

Here was the United States, with the greatest gold supply of any nation in the world, with the greatest banking power of any nation in the world, and yet sitting helpless among the nations of the world so far as cutting any figure in international finance is concerned, not to say our own foreign trade.

So it seems to me what we ought to have here is a system that will bring together—that will knit together, if you please—not only these national banks, but all the banks of the United States—bring in the 25,000 banks and associate them together in such a way that the United States can exercise this great banking power.

In my judgment such a system can never be constructed on compulsory membership. I do not believe you can ever hope to attain the

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kind of system that I think the United States ought to have by compelling banks to go into it. It seems to me that the broad view would contemplate a system such that all would delight to go into it, because the small banker wants to be a part of these great movements. He would be glad to become a part without destroying his independence of activity in his own community; he would be delighted, I think, to become a part of such a system. He would have a better appreciation of his citizenship.

We started out with a national banking system and 20 years ago it was the paramount system in the United States; it was the commanding system. The figures show—it was really only 19 years ago, in 1894—that there were more national banks in the United States than there were State banks. I have the figures before me. In 1894 there were 3,770 national banks and 3,705 State banks. In 1912 there were—these figures were taken from the report of the comptroller and consequently they are for 1912—there were 7,372 national banks and 17,823 State banks.

Senator NELSON. That included trust companies, did it not? I think so.

Mr. DAWSON. Of which there are not a very large number. Here are the deposits. In 1912 the deposits of the national banks were $5,825,000,000, while the deposits of the State banks amounted to $11,198,000,000. Of the banking power between the State and the national banks—and when I speak of banking power my understanding of it is that power represented by the capital, the surplus. the undivided profits, the circulation, and the deposits of the bank. That represents banking power, as I understand the term.

Senator NELSON. You include the deposits in that?

Mr. DAWSON. Capital, surplus, deposits, and circulation; those four items. The national banks possess $8,500,000,000 of banking power in the United States and the State banks $14,000,000,000 of banking power.

Senator BRISTOW. Have you those comparisons for 1894 also? You gave figures for 1894 and 1912 as to the number of banks. Have you the corresponding figures——

Mr. DAWSON. On the deposits? No; I have not those, Senator; but my recollection is—and it is fairly clear—that in the year 1900 the national banks possessed above 50 per cent of the deposits and the State banks below 50 per cent; that is, that 12 years ago the national banks held more than half the deposits.

Senator WEEKS. Mr. Dawson, will you, in looking over your figures, be sure you are making a proper comparison of deposits in 1912? The deposits which you have quoted there are the individual deposits in national banks, and I suspect that the deposits of the State banks are the total deposits, are they not?

Mr. DAWSON. No; the comparison is on the same character of deposits. I wanted to eliminate bank deposits, because I did not want to bring into this any element of the pyramiding of deposits that we have under the present system.

Senator NELSON. Will you file your tables with your remarks?

Mr. DAWSON. Thank you; I will do so.

The parting of the ways came about 18 years ago when the State banks began to draw away from the national banks, and the national-bank system became the system of lesser importance.

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Senator BRISTOW. Would it be possible without too much trouble for you to give the figures for 1894 and make the comparison on the same basis in the tables you submit?

Mr. DAWSON. Very little trouble. You want a comparison of the deposits in those two years and a comparison of banking power in those two years?

Senator BRISTOW. Yes.

Mr. DAWSON. These are the figures: In 1894 national banks held $1,742,000,000 of individual deposits, and all other banks $2,973,000,000. Now, what was the reason the State banks drew away from the national banks? You will find in one of the reports of the National Monetary Commission a chart showing how they have gone up and down. It is a very interesting chart, and it shows that from that time, in 1894, the State banks have increased more rapidly than the national banks. Why is that so? It seems to me it is for just one great reason, and that is that the State banks are enjoying greater privileges than the national banks are enjoying.

That leads us up to the question whether or not the Congress of the United States wants to give to the people of the United States a well-rounded banking system or a system that is only going to serve one portion of the country? Should we have a system simply to serve the commerce of the United States, simply to serve the business of the United States, and let agriculture and labor take the incidental benefits that result? Or should we have a system, and have the people of the Nation a right to expect that Congress will create a system, that will not only take care of business but which will also serve the needs of the wage earner, the farmer, and all of the people?

My conception of a bank, I confess, may not be in accord with the committee's conception of a bank. I have not been in the banking business very long—about three years. On leaving the House of Representatives I entered the bank without any previous banking experience. We had a fine old bank out there. In the spring of 1911 that bank had deposits of $1,500,000.

Senator NELSON. What was the capital?

Mr. DAWSON. $200,000 and a surplus of $200,000. It had been in operation for 50 years on the same corner in the same city. But it had grown to be to what seemed to me to be a rich man's bank. Its facilities were not being as widely enjoyed by all classes of people as it seemed they should be.

My conception of a national bank is that it should serve every class of people—just like the post office does; that it ought to be a place not only where the business man would come, but where the man who wanted to deposit his savings would come. They are a class of people that should be encouraged to visit the national bank. And so that has been the policy that has been pursued by that particular bank from that time until this. That is what gives the national banker an opportunity to make his bank greater—the adoption of a broad policy of service. The deposits of that bank have increased almost a million dollars since the spring of 1911.

Senator REED. How much of that is country banks?

Mr. DAWSON. How much of that increase?

Senator REED. Yes.

Mr. DAWSON. Very little. We have made no effort to extend our business in that direction very greatly, for reasons which I shall be

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glad to explain in connection with this phase of the subject relating to privileges of banks.

The State banks have outrun the national banks because they have enjoyed greater privileges, and it seems to me that in drafting this bill the fact ought not to be lost sight of that the national bank out in the average town of Iowa or Missouri is competing with the State bank. They are in the same block or just around the corner. The banker has only one object to attain aside from the making of money, and that is service to the community, and he hopes to make his money through that service. If he finds he can serve his community better under a State charter than under a national charter, of course there is no room for argument as to what he is going to do. So you must apply the supreme test to this bill: Will the country banker go into it? He will go into it if you will fairly equalize his privileges with those of his competitors.

Senator NELSON. Will the committee allow me to ask a question at this point?

Senator REED. Certainly.

Senator HITCHCOCK. The present chairman has no objection, but refers it to the attention of the Senator from Ohio, who is the watchdog of order.

Senator NELSON. I take it consent is given. [Laughter.] How would it do to say that the national banks in any given State should have the same privileges for doing local business as State banks have in that State? Would not that be a sufficient inducement?

Mr. DAWSON. Yes, it would; but that would not square with my idea of what ought to be done. That would make a Federal law contingent upon a State law, and I can not subscribe to that.

Senator REED. And some States have practically no banking law.

Mr. DAWSON. What would meet my ideas in the matter would be to ascertain what is the sound practice generally throughout the country and accord them those privileges that would square with some banking practices. I think there are some loose banking laws throughout the United States. We do not want a national law that is loose anywhere, in any State or Territory of the Union.

Now, let us get down to the actual, practical questions that confront the cashier in a bank in a town of 3,000 people out in Iowa or Missouri or Ohio or Colorado or any other State. Let us take a bank of $50,000 capital—and, as I pointed out, 90 per cent of your present national-banking system is made up of these smaller banks.

Senator NELSON. I understand there are 2,000 of the $25,000 banks.

Mr. DAWSON. I have not the numbers.

Senator NELSON. I wish you would put that in your table.

Mr. DAWSON. The number of banks of the various capitalizations?

Senator NELSON. Yes; of the $25,000 banks.

Mr. DAWSON. I find the exact number of $25,000 national banks is 2,004. The average $25,000 bank consists of one man, so far as the actual operations of the institution are concerned. The cashier performs that service. He is bookkeeper, janitor, and cashier; he is receiving teller and paying teller, and he performs all the duties of conducting the bank. It is up to him how much his institution is going to earn. The men who have subscribed the stock for that little bank have put their money in it with the expectation of getting some return upon it. It rests upon the shoulders of the cashier whether

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that bank is safe and whether that bank is profitable. So you must take into account his present condition and in what respect this new bill would curtail his present sources of revenue.

The first thing that confronts him is the fact that he must subscribe one-fifth of his capital stock to this new institution. It should be remembered that the capital stock in that $25,000 bank—and I think we should take him into account, because Congress encouraged him to incorporate. In 1900 Congress reduced the limit to $25,000 as the capital on which a national bank could be organized. Congress then adopted the policy of encouraging him and carrying the privileges of the national system down to more people than it ever reached before. He is confronted with the fact that he must take one-fifth of the capital that these farmers and business men in his community have gotten together there. He must subscribe one-fifth of that to an institution away off somewhere else. He sees that 10 per cent of his capital at least which has been gathered together for business in that community must be taken out of that community and sent to another place, and at a low rate of interest for him, 5 per cent. That is a little disturbing to him, though I think the least disturbing of anything there is in the bill. I do not think the average country banker would have any objection to subscribing 10 per cent of his capital stock. I would make it 10 per cent instead of 20, I think, because if you can get a large percentage of all the banks to go in at 10 per cent you will have ample capital in your new institution.

Senator O'GORMAN. May I ask a question there? If there be no objection, I understand the rule is waived.

Mr. DAWSON. The witness is entirely willing to waive the rule at any time.

Senator O'GORMAN. It is an important matter. I do not know who adopted this rule. I was not here when it was adopted, and I therefore feel at liberty to disregard it.

Senator POMERENE. This will be no precedent.

Senator O'GORMAN. There has been fear expressed from time to time that if this 12-region feature of the bill were retained in some of the regions a sufficiently large number of the national banks would not come in to make up the required capital of $5,000,000.

Mr. DAWSON. I expressed that same fear to the committee shortly before you arrived.

Senator O'GORMAN. Very good. Now, what is your view regarding the possible modification of the bill in that respect by permitting the reserve board to invite individual subscriptions to the stock from the citizens residing within those regions after a certain period, if there be a deficit in the $5,000,000 contributions from the banks?

Mr. DAWSON. My opinion, Senator, is that if certain changes are made in this bill there would be no question that the necessary capital will be subscribed to these regional banks of rediscount. It seems to me that, without any great change in the fundamentals of this bill and only some changes in detail it will be made sufficiently attractive, not only to the national banks, but to State banks as well, that they would be pleased to come into it. If they did not, I could see no reason why you should not go on and take the next step—provide the capital in some other way.

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Senator O'GORMAN. Then, whether we have a system providing for one bank of reserve and rediscount in Washington, or whether we have a system of four or five regional banks plus the reserve board, or whether we attempt to carry out this system which contemplates 12 regional banks, you think that the power might be confided to the reserve board to invite contributions to the capital from the people of the country after a certain period in the event of the requisite capital not being provided by the national banks?

Mr. DAWSON. I could see no objection to that. I think if you reduce this capital stock subscription to 10 per cent——

Senator O'GORMAN (interposing). To payments of 5 per cent each?

Mr. DAWSON. To payments of 5 per cent each; and then increase the dividend rate and, possibly, make it 6 per cent—I think that is a very small matter, so far as the average bank is concerned, although he is in the habit of obtaining 6 and 7 per cent on his money—after you have built the surplus of this new bank up to your required 20 per cent; 6 per cent would then only be 5 per cent on the book value of the stock.

Senator O'GORMAN. Do I understand you to express the opinion that if the contribution from the national banks should be reduced to 10 per cent instead of 20 per cent, and the 10 per cent to come in in two payments of 5 per cent each, sufficient would be subscribed by the national banks to make up the required capital in each regional bank?

Mr. DAWSON. Well, I could not answer that question directly, Senator, because I do not know what the regions are to be.

Senator O'GORMAN. I have reference in this question to the 12 regional banks. Of course, as I see it, this particular element of danger and uncertainty would be completely eliminated if we had but a single reserve bank where the contributions from the country would come. The danger would be more or less minimized if we had four or five regional banks.

Mr. DAWSON. I advocated that a moment ago.

Senator O'GORMAN. But with 12 banks there must necessarily be some uncertainty as to whether all of them can secure, in the manner indicated in this bill, the required capital of $5,000,000.

Mr. DAWSON. I feel greatly honored to find that my views and yours are almost in accord on this particular subject. I expressed them to the committee a few moments ago, but I think it was perhaps during your absence from the table.

Senator NELSON. Will you allow me to interrupt? It seems to me that there has been a confounding here of the subscription. The subscription is 20 per cent, but the payment within the 60 days is not to be more than 10 per cent. It is only a matter for call; the balance is——

Mr. DAWSON (interposing). It seems to me this way: Suppose the bill should go through in its present form, which is not entirely satisfactory. Suppose the call should be made for the first 10 per cent under the provisions of the bill. The very situation arises that the Senator from New York has just called attention to—enough of the banks stay out so you can not organize each of these 12 regional banks. Then, of course, the Federal reserve board would call for the other 10 at once. They have that power; there is no limitation as to when they may call for it. So the average manager of the small

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bank, for whom I am undertaking to speak, sees before him all the time that he will at once have to take 10 per cent of his capital——

Senator REED (interposing). Do you think they would hesitate to ante in the first instance if they did not know what the limit was going to be?

Senator POMERENE. You are talking about a subject we do not know anything about. I insist on the regular order.

Senator REED. It seems to me that the Senator protests rather quickly. [Laughter.]

Mr. DAWSON. The average country banker objects to this in that way, particularly when it comes to him somewhat in the nature of an act of violence. He does not relish the idea of the Federal Government saying to him, "You must do this; you must take one-tenth of your capital out of your community and invest it in this institution, and you must later take another 10 per cent and invest that." So I say the feature of the subscription is somewhat objectionable to the smaller banker at this time.

But a subject of more concern than that is the shifting of his reserves. That means more to him in the way of financial returns than the difference in interest on his stock subscription to the regional bank.

As I recall the terms of the bill, the country banker does not have 60 days as the central reserve city banker has. He has to produce instantly, and he must shift 3 per cent of his total deposits from their present location over to the regional reserve bank.

Now, it may seem like an anomaly, but it is true nevertheless in actual banking practice, that those reserves to-day are a part of active checking accounts, and so it is entirely exact to say that the reserves of the country national banks are now in the active channels of business. It seems like a contradiction in terms that a reserve should be part of the regular currents of everyday business, and yet I shall endeavor to explain how that is so.

The First National Bank, of Davenport, Iowa, is required to keep its reserve in either Chicago, St. Louis, New York, or some other reserve city. Along with the question of reserves, there is the question of daily exchange. I asked the boys in the bank to figure up how active our New York and Chicago accounts were. Most of the financial relations of our portion of Iowa are in the direction of Chicago, rather than in the direction of St. Louis, although we have considerable business in that direction also. I found that our Chicago balance turned over every 2 days in the matter of exchange. In other words, we were writing a sufficient number of drafts on Chicago banks every two days to wipe out our balance there, and that balance was larger than the reserve which we were required by law to carry.

Senator HITCHCOCK. What methods do you adopt to restore that balance? What proportion is in currency?

Mr. DAWSON. There is no currency; they are items of credit.

Senator HITCHCOCK. No currency?

Mr. DAWSON. No currency at all; we never ship currency to Chicago.

Our New York account shows the activity of the relations between the mid-West and the financial metropolis. Our New York account turns over once in every three days. We sell enough New

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York exchange every three days to wipe out the balances we carry in New York.

Senator REED. You would have to have that much money there, whether you had a reserve or not?

Mr. DAWSON. Very nearly so, unless there would be some change in the existing practices in the world of banking.

So, when you reduce the reserve requirements of the country banks from 15 to 12 per cent. I do not think it is fair to say that the 3 per cent reduction is immediately available, and that he can take it from where it is and put it in the regional reserve bank without embarrassment to him and without disturbing business as it is carried on to-day. I say the average country banker would not do it. He would not feel safe in taking that 3 per cent by which you reduce his reserve requirements——

Senator O'GORMAN (interposing). Do you think that is a safe reduction—from 15 to 12—for the country bank reserve?

Mr. DAWSON. With the provisions embodied in this bill, I should say yes.

Senator O'GORMAN. Do you think the country bankers would not consider it safe to avail themselves of the reduction in the reserve?

Mr. DAWSON. The country banker possesses some caution and some conservatism—a considerable amount. I do not think he would want to reduce his balances, either in New York or in Chicago, until he saw how this bill was going to operate. He must put this money up at once. He is not going to change the experience of years overnight. He is going to be cautious and await the developments in the new system.

So, in my judgment the average country banker in Iowa, if he is required to send that 3 per cent instantly away to the regional reserve bank, will have to do one of two things—he will either have to go out and borrow that money or he will have to contract credits or call some loans to get it.

Senator SHAFROTH. Why can he not borrow from the reserve bank immediately?

Mr. DAWSON. I regard that as a very important matter, Senator, and yet I can not find in this bill where the machinery for rediscount is going to be ready to be put in operation the minute you call upon the country banker for that subscription.

Senator HITCHCOCK. How soon afterwards do you think it will be ready for operation, from your study of the bill? You say you think the machinery for rediscount would not be ready at the time the country banker is required to shift his reserves, and I agree with you; but I have been unable to figure out how soon afterwards it would be ready.

Mr. DAWSON. I do not know. It seems to me that what should be done would be to have that machinery of rediscount all ready before the shifting of reserves began.

Senator REED. Why not shift it in the form of good notes? Why not let your bank take down $100,000 of good paper and deposit that instead of cash?

Mr. DAWSON. Make it a simultaneous transaction?

Senator REED. Instead of taking your money down and then putting up your note and collateral notes from your bank, and then borrowing back the money you had taken down with you, why not

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deposit in the first instance part of your securities with the guaranty of your bank, and let that stand at once as your contribution and your rediscount?

Mr. DAWSON. That would be going straight to your destination without any of the circumlocution that seems to be in this machinery as it stands.

Senator REED. Would that help that difficulty?

Mr. DAWSON. It seems to me it would, in part, but it would not provide the gold reserve required by the regional banks.

Senator BRISTOW. Nevertheless, unless you utilized the money you now have with your reserve agents, you would have to curtail your business just to that amount. You would not have to force contraction, but you turn over these securities and the regional bank collects them, so that you take out of your community that much credit, do you not?

Mr. DAWSON. Well, I would not say you take out that much credit. You can yet bring the level back through a rediscount.

Senator HITCHCOCK. A reserve bank is required to keep a reserve of 33⅓ per cent. If the reserves were paid in commercial paper how would it affect the gold reserve?

Senator SHAFROTH. You do not hold any reserve against capital. You can loan that to the full extent. I am talking about a proposition of turning the reserves into commercial paper. The reserves count as deposits. Where would the gold reserves come from?

Mr. DAWSON. Of course that is essential. That is vital. These regional reserve banks should have this gold reserve against its note issues.

Senator NELSON. It would not give them any money; it would simply give them commercial paper.

Senator SHAFROTH. Yes; it would. They would issue this paper, and if they would issue the paper immediately, it would give them paper currency.

Senator BRISTOW. Where would they get the gold?

Senator REED. That is easily provided because any bank—I was not trying to suggest a perfected system, but the idea I was trying to meet was the one that there would be an interval when the bank would be obliged to carry that money down, and let it remain idle, and they get it back at some future time in the way of rediscount.

Now, leaving out for the moment the gold-reserve proposition. We would, by the suggestion which I made, accomplish by one act that which is contemplated shall be accomplished under the bill by two acts.

Senator POMERENE. And a delay.

Senator REED. Involving a necessary delay, because under the present proposition a bank would send down a million dollars of money and deposit it with the Federal reserve board, and if it were short of money it would bring down the necessary million dollars of notes, and, guaranteeing those notes, deposit them and borrow back the $1,000,000 it had put in.

Now, if that is to be the ultimate result it might as well, in the first instance, bring down the notes, and, guaranteeing them, turn them in and use that as its contribution. Now, of course the 33⅓ per cent of gold required on deposits would necessitate that the banks bring

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down enough gold, if the plan should be worked out by which the bank making this transaction should contribute a certain amount of gold, and that would have to remain in the vaults. Further than that, after all is said and done, what has been claimed for this system is that it does enable the banks to use this capital, and if they use it they might as well do it in one transaction as in two. I only made the suggestion to see whether it would agree with the facts.

Senator NELSON. I think this hardship, so-called, is unduly accentuated, for the reason that this bill relieves them of 3 per cent of their reserves.

Senator SHAFROTH. According to this system, only 1 per cent would have to be put up immediately.

Senator REED. I want to say in this connection that the suggestion which I made first came to me in conversation with Senator Pomerene. If there is any virtue in it the credit should go to him and not to me.

Senator NELSON. Of course, the reduction which the bill makes of reserves of country banks from 15 to 12 per cent after the bill gets in operation would take care of that 3 per cent which they must put over at once; but, Senator, in my judgment the average country banker would not feel that he could take 3 per cent out of his balance that he has now in the channels of trade and business and put it into a regional reserve bank without some disturbance to the machinery.

Now, let us see what it would mean to a State. Iowa is a purely agricultural State, with no city of more than 100,000 people. We have 340 national banks in Iowa.

Senator HITCHCOCK. Will you permit me to interrupt you there? Mr. Cannon was scheduled for this morning, and he tells me that he would like to get back to New York to-night. There will be some time required for your cross-examination, and I wanted to ask whether it is important for you to get away to-night?

Mr. DAWSON. It is not absolutely essential, although I had hoped to start West this evening at about 6 o'clock. I am almost through, so far as my general statement is concerned.

Senator HITCHCOCK. Well, we will sit until 1 o'clock, anyway, and I think you can probably finish your general statement by that time, and then we can let Mr. Cannon go on immediately following recess.

Mr. DAWSON. It would be entirely agreeable to me, however, to give way for Mr. Cannon at this time, if that is the committee's pleasure.

Senator HITCHCOCK. Very well, then; we will hear you until you complete your general statement.

Mr. DAWSON. As I said, we have in the State of Iowa 340 national banks. They have a capital of $23,000,000. The national-banking system is not as powerful out there as we would like to see it. The 10 per cent of capital-stock subscription for us would be $2,300,000. The deposits in the country national banks of Iowa are $121,000,000, and 3 per cent of that must go over. That would be $3,630,000. So that the total would be almost $6,000,000, or $5,930,000, which would be Iowa's contribution to the Federal reserve banks the next day after it went into operation—approximately $6,000,000.

Senator REED. From all the banks, or from the national banks?

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Mr. DAWSON. The national banks only; I am speaking of the country national banks.

Then the reserve cities, of which we have four in Iowa, would have to make their additional contribution of 3 per cent in 60 days. They have 60 days more in which to gather together their 3 per cent on the $41,000,000 which they hold, which would be $1,230,000. But the country bankers in Iowa must produce $6,000,000 at once and put it into this system and those national bankers in the reserve cities in Iowa, 60 days thereafter, must produce $1,230,000 more.

Senator REED. Are you not mistaken about that? [Reading:]

Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to 20 per cent of the capital stock of such national bank, fully paid and unimpaired, one-fourth of such subscription to be paid in cash and one-fourth within 60 days after said subscription is made. The remainder of the subscription, or any part thereof, shall become a liability of the member bank, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe.

Mr. DAWSON. They pay in 5 per cent of the capital at once; but the payments with regard to the reserves were stated correctly.

Senator SHAFROTH. Here is another provision in regard to that matter:

and for a period of 14 months from the date aforesaid at least three-twelfths, and thereafter at least five-twelfths, of such reserve shall consist of a credit balance with the reserve bank of its district—

that gives them 14 months in which to put in this 3 per cent.

The CHAIRMAN. What section is that?

Senator SHAFROTH. Section 20. [Reading:]

Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults; and for a period of 14 months from the date aforesaid at least three-twelfths, and thereafter five-twelfths, of such reserve shall consist of a credit balance with the Federal reserve bank of its district.

Mr. DAWSON. Certainly; he must at once put 3 per cent with the Federal reserve, and the remainder of the 12 per cent may for 36 months consist of balances due from national banks in reserve or central reserve cities.

Senator SHAFROTH. It gives them 14 months to get that in the Federal reserve bank.

Senator BRISTOW. That is the second payment.

Senator SHAFROTH. Five per cent—that is cash—and then 3 per cent, and thereafter five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of the district.

Senator NELSON. What it means is this, that during 14 months he must maintain 3 per cent.

Mr. DAWSON. Certainly; and then raise it to 5 per cent.

Senator NELSON. And then, after that, it must be 5.

Mr. DAWSON. Now, in my judgment, the country banks in Iowa——

Senator SHAFROTH. He does not have to put it in until a year.

Mr. DAWSON. The country national banks in Iowa could not take $6,000,000 right out of the everyday transactions of their banks and put it in this regional reserve bank without some disturbance of credits in that State.

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Senator O'GORMAN. It would be a contraction of credits?

Mr. DAWSON. Yes.

Senator O'GORMAN. Would that not be a continuous contraction of credit for the year?

Mr. DAWSON. Gradual.

Senator O'GORMAN. Diverting it from commercial activities?

Mr. DAWSON. Yes; it would undoubtedly be some curtailment of credit.

Senator HITCHCOCK. What would the effect of the curtailment of credit be on business in Iowa?

Mr. DAWSON. Of course there is no telling. It would not hurt us so much out there. Iowa is practically financially independent of the rest of the country.

Senator REED. If you had to divert $6,000,000 in the State of Iowa from actual business that would mean a contraction of credit of about $48,000,000?

Mr. DAWSON. It would mean that——

Senator REED (interposing). Now, if that was done, the only way you could do it would be to either go closer to the danger line in your reserves or to begin to gradually make loans as generously as you had before?

Mr. DAWSON. Yes.

Senator REED. There would be a gradual pinching in the financial condition.

Senator POMERENE. The very thing that a banker would do would be to go to that bank and borrow it back again.

Senator SHAFROTH. The reserve banks?

Senator POMERENE. Yes.

Senator REED. I am thinking now of the illustration on that same occasion of the bank getting ready for a year in advance to make its contribution.

Senator POMERENE. There is not any necessity for the contraction of the currency to that extent, with the privilege of borrowing it back.

Senator REED. Provided, you mean, you could make the loan back immediately.

Mr. DAWSON. And provided, also, you had the collateral to get the loans.

Senator NELSON. I want to call your attention, Senators, to the discrimination here and ask you to turn to the bill on page 36, line 23, where it says, "and for a period of 14 months from the date aforesaid, at least three-twelfths"; that is, the country bank. Now, turn to the next page, where it says, "after 60 days from the date aforesaid, and for a period of one year." Now, in order to put them on an equal footing, you ought to have the words "after 60 days" in line 23 on page 36. In one case it reads "after 60 days from the date of aforesaid, and for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths." Now, in the other case, on page 36, it says, "and for a period of 14 months from the date aforesaid at least three-twelfths." In order to make that exactly fair and equal you ought to have the same wording, "after 60 days from the date aforesaid, and for a period of 14 months."

Mr. DAWSON. That emphasizes——

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Senator NELSON (interposing). It is clear that there is a discrimination.

Senator HITCHCOCK. Is that not due to the fact that the reserve banks hold deposits in banks and the country banks take those deposits out, and for that reason an additional limit is given the reserve banks? Is that not the logic of the situation?

Mr. DAWSON. That is one viewpoint, and yet, take it from the viewpoint of the banks the reserve requirements of this bill bear with greater severity on the country banker than they do upon the reserve city banker, because he has 60 days. Of course he is going to lose some of his country-bank deposits.

Senator HITCHCOCK. When the country banker draws upon his reserves he calls upon the reserve city banker, and the reserve city banks will have to carry the burden of the reserve city bank as well as the country bank, and I think there is logic in giving him more time for that reason.

Mr. DAWSON. I think so, and that is one reason why you have reduced his reserve from 25 to 18 per cent, the central reserve city bank; the bill reduces the reserve from 25 to 18 per cent.

Senator HITCHCOCK. When does that reduction occur for the reserve city bank?

Mr. DAWSON. From 25 to 18 per cent?

Senator HITCHCOCK. Yes.

Mr. DAWSON. When it gets in full operation.

Senator NELSON. It has a period of 60 days.

Mr. DAWSON. From what?

Senator NELSON (reading):

If a reserve city bank as defined by existing law it shall hold and maintain for a period of 60 days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to 20 per cent of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter 18 per cent.

Senator HITCHCOCK. Does that mean 60 days after the new system is in operation?

Senator NELSON. From the date fixed by the Secretary of the Treasury; from the time the bank goes into operation, I suppose.

Senator HITCHCOCK. Then the reserve city bank gets no reduction in reserves until two months after the new system is in operation?

Mr. DAWSON. From 25 to 20 the first thing; 5 per cent of it instantly; and 2 more in 60 days.

I want to draw this down one step further. I want to draw it down to the condition of the little bank itself, and what it is going to do to it. I have taken a bank of $50,000 capital and $500,000 deposits. That is a bank like the First National Bank of Maquoketa, Iowa, or the First National Bank of Marengo, Iowa—county seat town—an average county seat town in the middle western country. What is the bill going to mean to such a banker? You want him to go into the system. He must at once subscribe 20 per cent of his capital and pay 10 per cent of it, one half at once and the other half in 60 days. Then he must shift to this new bank 3 per cent of his deposits, so that his initial contribution for the reserve bank would be $20,000. And eventually, if he were called on for the other stock subscription, and carried to the regional bank the balance of his 7

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per cent of reserves, or even call it 6, then he would have in the regional bank $40,000. That $20,000 at the start is a pretty large sum of money on $50,000 capital. In a bank of $50,000 the largest line of credit he can give to any individual is $5,000. That is the biggest note he will have in his portfolio, and there will be comparatively few of them in towns of that size. So that he must produce $20,000 out of this $50,000 bank in order to comply with the initial requirements.

Senator NELSON. But $15,000 comes by way of transfer from his reserves. It is a shifting of reserves.

Mr. DAWSON. Yes, sir; and I have felt, Senators——

Senator NELSON (interposing). It is not a direct contribution; it is just a shifting of reserves to that extent from other reserve places to this central bank.

Mr. DAWSON. But my opinion is, Senator—and that opinion is based on what I know of actual banking transactions in the country—that at the beginning the country banker would not shift his balances which he has now, because he feels that the balances which he maintains now are none too much to take care of his needs for exchange. At least he could not shift them until he begins to see how this new plan works. You are going to change somewhat the currents of business. He is going to be very slow to take any step which will endanger his business until he finds out how it works.

Senator NELSON. He can sell his exchange on the regional reserve bank instead of these other banks?

Mr. DAWSON. I want to discuss that when I reach the point. So a country bank of $50,000 capital, with half a million dollars of deposits, will have to put up $20,000. That would not be so serious for him if you had the machinery for rediscounting ready to put in operation as soon as he sent that up there, and it would not be so serious if he had the class of paper that would be eligible for rediscount under this bill. Those are the two things that confront the country banker. In that connection I desire to say that I have met many smaller bankers of Iowa, and among them there is a considerable unanimity of opinion that the banks of $50,000 and $100,000 capital in Iowa, or any other State for that matter, will not have the kind of paper that will be eligible to rediscount under the terms of this bill. Of course, the standard of the paper is not fixed in the bill; that is, the exact standard. That is to be left to the discretion of the Federal reserve board. The average country banker does not know just what the standard is going to be, what requirements are going to be exacted by the reserve board; and, as a matter of fact, in reading the testimony before this committee I have seen no witness who seemed to be entirely clear in his mind as to just what the standard that would be eligible for rediscount by the regional reserve banks would be.

Senator HITCHCOCK. Do you think that is to be fixed by the Federal board?

Mr. DAWSON. In part, and in part fixed by statute.

Senator HITCHCOCK. Would not the Federal regional reserve banks pass upon that question?

Mr. DAWSON. They may also. That only emphasizes what I was trying to say, that there is a great deal of doubt in men's minds as to how the lines are going to be drawn.

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Senator HITCHCOCK. You think it should be expressed more clearly in the bill?

Mr. DAWSON. I think it should be.

Senator REED. You say they are not likely to have this class of paper?

Mr. DAWSON. Yes, sir.

Senator REED. Assuming that, that might be commercial paper, as a 60 or 90 day note signed by two people, and I think that is just where we are. I do not think anybody can place that.

Mr. DAWSON. That is on an actual business transaction?

Senator REED. I am leaving that out, because I do not think any board can go back of a piece of paper that is presented. You have that class of paper, do you not?

Senator NELSON. The difficulty which comes, Mr. Dawson, with the paper of these country banks is not so much the question of time as it is the quality of the paper; that is, commercial paper in the strict sense, as understood by some. The bulk of their paper is not commercial paper?

Mr. DAWSON. No.

Senator NELSON. It is not paper that they say will liquidate itself? That is one of the radical troubles.

Mr. DAWSON. But I think the committee understands pretty thoroughly that a great majority of the paper held by the average country bank is paper that matures when the farmer produces his crop. It matures at a certain time of the year. It may be based on cattle or other things, but it is only liquidated when the community has produced agricultural wealth. In other seasons there would be very little eligible.

Senator REED. If that kind of paper was excluded from the benefits of this bill and certain other paper had all the benefits of the bill, would that not necessarily result in an additional interest charge and a discrimination against that class of paper which is longer in time and which is to be liquidated by the farmer marketing his cattle, and things of that sort?

Mr. DAWSON. That would be my view.

Senator HITCHCOCK. Have you any figures showing what percentage of the farmers' paper is actually liquidated and what per cent is renewed?

Mr. DAWSON. No; I have no figures on that point.

Senator HITCHCOCK. Why is it that there is not a wider variation in the amount of loans as reported in the bank reports?

Mr. DAWSON. During the other portions of the year the way the country banker loans out his money is in small notes, which under no circumstances could he use as collateral with a regional reserve bank. Then there is an additional embarrassment to the country banker. There is a question whether or not——

Senator POMERENE (interposing). You say under no circumstances could he use that. Why?

Mr. DAWSON. I could conceive of no practical way whereby a country banker could; we will say he wanted a rediscount of $10,000 or $5,000; say he wanted a rediscount of $5,000. He takes his portfolio and he gathers up notes of $25, $50, $60, or $75, small notes. It does not seem to me it would be practicable for him to rediscount a bunch of such small notes as these.

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Senator POMERENE. There is nothing in the bill preventing it; nothing saying that that could not be received.

Senator BRISTOW. It is not a commercial transaction in any sense; it is simply a personal loan.

Mr. DAWSON. Then if the bank were to send those small notes to a bank outside of their own institution they would lose customers by it. The average man in the little towns does not want his note outside the hands of the banker from whom he obtains the loan. He does not want it sent to Chicago. He may want to come in and pay it. If the man came in and he went to the banker from whom he got the money and said he wanted to pay the note and the banker said "I have your note at the regional reserve bank as collateral," the next morning that particular customer would be over at the State bank doing business and not with the national bank.

I think this 3 per cent of reserve which you propose to shift from its present place to the regional banks, if you do that a little more gradually, take 1 per cent in the first three months and the next in quarterly periods, you would get it all over there in the same period of time, practically which you have in the bill, but it would be so gradual as to permit the banks to readjust themselves.

Senator HITCHCOCK. But you would not send it over there by the time the regional reserve bank had any use for it.

Mr. DAWSON. But these things are not of the largest concern to the country banker. They are not the things that are going to keep him out or put him in. The present every-day question with the country national banker is the question of the equality of opportunity, or the equality of privileges with the man with whom he is in direct competition. That is the vital question with him every day. If he is to be invited into a system or to remain in a national system he went in with certain privileges, and the only real privilege he had under that system is to be taken away from him, and he is to stand in this new system deprived of any advantage he ever did have, and denied those additional privileges that he has all these years had reason to expect from the Congress of the United States, then I can not see, and no one could see, any excuse for his going into that system. He will go into the State bank system. The question of the equality of privilege and equality of opportunity or the equalization of the privileges of the national banks is a most important proposition, and goes to the section of the bill in relation to the farm loans and savings department.

Senator BRISTOW. I am more interested in Mr. Dawson's analysis of this bill, probably, than anybody else, or at least as much as anybody else, because he is dealing with the very things which touch my constituents, and I would like him to be here just as long as he can stay. If we are to hear Mr. Cannon, I think we may have to ask Mr. Dawson, if he can, to stay over.

Mr. DAWSON. I should be very glad to give way at any moment to Mr. Cannon.

Senator HITCHCOCK. I think you had better proceed.

Mr. DAWSON. This question of farm loans and the savings-bank provision is a vital question.

Senator BRISTOW. That is going to take a good deal of time.

Senator NELSON. Tell us about the farm loans.

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Mr. DAWSON. The provision of this bill is of no practical benefit to the national banks in the Middle West, where there are the highest class of farm-mortgage loans, and where agriculture is in the highest state of development, and where the loans there are regarded as the choicest security which a bank can obtain for a loan—a farm mortgage not to exceed 50 per cent of the value of highly improved farms of that section of the country. It is the best security any bank can lay its hands on. It is not the custom to make loans of that character for 1 year. The country bank will make them for 5 or 10 years. With the provision in here that they may only be made for 1 year, no one would ever approach a national bank on the subject of trying to negotiate a farm mortgage with that 1-year provision. He would do business with the State bank.

There were certain reasons when the national banking law was enacted why farm mortgages should not be taken by national banks. At that time there was a question as to its security, and there was a question as to its liquidity—its power to be converted, the power to liquidate it. The class of those securities is very much higher now than it was then. The security upon the loan is improved.

Senator NELSON. And they can be easily liquidated?

Mr. DAWSON. There is a fairly well organized market for the farm mortgage. The great insurance companies are now seeking first-class mortgages on highly improved real estate. There is a broader market now.

Senator REED. As a practical question, if your bank had a $10,000 mortgage on a good farm in the State of Iowa, running for five years, and drawing a reasonable rate of interest, would you have any difficulty in getting that money in one or two days' time; I mean the money on that mortgage?

Mr. DAWSON. Not under ordinary times. I can see, of course, that in the face of a panic you might not be able to do that.

Senator REED. In the face of a panic we could not get our money out of the banks.

Mr. DAWSON. If the machinery of this bill works as its authors think it will work, we are going to be panic proof by the rediscount feature of it. Certainly there is no choicer security than this particular kind of mortgage that you described.

Senator NELSON. I have known runs on banks to be stopped by the tender of mortgages over the counter instead of cash.

Mr. DAWSON. There is some difference of opinion among men as to just what the provisions of this bill mean with regard to farm loans. I have had men who have analyzed it say that the provision on page 44, speaking of loans on farm lands, and putting limitations on them, of which the country banker complains, that that is simply applied to the commercial departments of any national bank anywhere, whereas, in the very next section of the bill, section 27, relating to the savings department, you gave to that department the power to loan on real estate, without the limitations. Whether or not the limitations in the preceding section would apply to that, I am not sure.

Senator NELSON. Would it not be a better limitation, instead of limiting it upon the capital, to gauge it by the time deposits?

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Mr. DAWSON. That would be my solution of it, and I want to make my suggestion jointly with relation to farm loans and the savings department. The savings department provision in this bill is very objectionable to national banks who now have a savings department and small country banks.

Senator NELSON. They are all practically doing a savings-bank business now?

Mr. DAWSON. Very nearly, and under the demands of this bill it would actually compel them to go out of the savings-department business in a large measure.

Senator REED. Why? That is what we want to know. Tell us why, so that we may know how to remedy it, if we agree with you.

Mr. DAWSON. In the first place—I only refer to that now because I want to try to get through by 1 o'clock so than Mr. Cannon can go on. Would it be just as agreeable for me to answer that later on?

Senator REED. Yes; but do not forget it.

Mr. DAWSON. Country banks do not like this segregation of capital, segregation of assets, segregation of cash. It is absurd, and we come to a $25,000 bank where everything goes into one window, and everything is done by one man. He would be the subject of derision in that community if he were compelled to run two banks—segregate his capital into savings business and commercial business. That would be the case in a $25,000 bank out in Nebraska and Kansas, and in Iowa also.

Senator NELSON. It would be.

Mr. DAWSON. My general suggestion with regard to the savings department and the farm-loan department is this: The national banks have been encouraged to open savings departments. A savings department in our bank was started about a year before I went there; that is, in 1910. I have inquired into the circumstances under which they started that department in that bank. They wrote the comptroller and asked him for the regulations respecting the establishment of a savings department in a national bank. They received a letter from him, and it was on the basis of that correspondence that they proceeded to establish their savings department.

Senator REED. The comptroller gave permission?

Mr. DAWSON. He did not deny us. I will put the letter into the record if desired. It is practically the same reason he gave in his last annual report.

It seems to me that it could be done with perfect safety, to permit a national bank to accept savings deposits and then loan a percentage of its savings deposits on first-class farm mortgages.

I know the complaint is made you do not want to confuse investment banking and commercial banking, but there is not a State bank in the State of Iowa, with 1,300 State banks and 300 national banks—there is not a bank in that entire State but what is doing investment banking and commercial banking all through one window, and it is done safely. It is serving the interests of those little communities, and their security—the security of the State bank out in our country—is as good as the national bank. They are just as well conducted, and they are serving the people in a wider capacity.

Senator REED. And thoroughly inspected?

Mr. DAWSON. I think their inspection is not quite as rigid as the national-bank inspection.

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Senator BRISTOW. In our State I think it is better.

Mr. DAWSON. That may be so.

Senator REED. The State government of Kansas has always been understood to be superior to any other government.

Senator NELSON. Except the government of Minnesota. [Laughter.]

Mr. DAWSON. I know the question has been asked this committee by some of the large bankers, What situation the national banks would be in if at one window you are paying out demand deposits and at another window you are enforcing the 60-day rule? It seemed like a question that had no answer. But yet it has an answer. There is a difference between a demand deposit and a time deposit. There is a difference in the contract between the depositor with the bank. The man who comes in with a savings deposit—a time deposit, if you please—says to Mr. Banker, "I want to leave this here a certain length of time, a considerable length of time. I will leave it here, say, three months or seven months," or he need not specify. Mr. Banker says, "Very well. If this is a time deposit, we can afford to pay you interest on that in consideration of your allowing it to remain here. We will pay you 3 per cent interest on it."

Senator NELSON. And give you a certificate.

Mr. DAWSON. One or the other. He may be either given a certificate or it may be entered in his pass book. There is a contract between the depositor and a banker on a time deposit. That is not true betwen the banker and the man who comes in to make a demand deposit. The business man who comes in and lays down his deposit, he says to the banker, "I want you to take care of this for me, but I expect you to pay it to me the minute I want it. I am not going to leave it here any specified length of time; you can not count on that." Our banker says, "I can not afford to pay you any interest on that." There is not the same contract. Now, if there is a different contract between the depositor and the banker on those different classes of accounts, then there should be a way by which they could be handled differently and with entire justice to all concerned.

Senator NELSON. And safety.

Mr. DAWSON. And with safety as well. So I can not see why a country national bank should not be given the privilege under proper restrictions, of course, to do a commercial business and this investment banking.

Senator NELSON. And, as a matter of fact, are not the bulk of those deposits in the small country banks time deposits?

Mr. DAWSON. They are. I have a letter here from one of the country banks on that very subject which I hope will be of service to the committee.

Senator HITCHCOCK. What size bank would you limit that to?

Mr. DAWSON. I do not believe I would limit any national bank. Let it be a national bank up in New York or Chicago, I do not care. If it is necessary in serving the interests of their community to have a savings department if they wanted one, I would give them the same privilege as a bank in the smaller town.

Senator NELSON. I will tell you, Mr. Dawson, what they do. They organize a loan and trust company as an appendix and work together.

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Mr. DAWSON. Yes. Within a radius of 50 miles from where I live and I think I can count 10 or a dozen national banks, in their endeavor to meet the needs of the community where they are situated, have been obliged to take out a State charter and run the two banks together. There are many national banks operating as a savings bank under the laws of the State of Iowa, with the same stockholders and the same directors as the national bank.

Senator NELSON. You will find, if you want to prove it, a trust company in the country with small branches in the national banks.

Mr. DAWSON. The country banks have been obliged to resort to that expedient in order to serve the needs of their communities.

Senator REED. Yes; and do not some trust companies organize to get hold of the stock and control of the national banks?

Mr. DAWSON. I am not familiar with that. Now, that is about all the notations I have here with respect to my statement, except one thing, the refunding of the 2 per cent bonds. The country bank is very vitally interested in that question, of what you are going to do with the 2 per cent bonds.

Senator NELSON. And for this reason, he has taken out circulation more up to his capital than the city bank.

Mr. DAWSON. Indeed he has.

Senator REED. Suppose he may keep that circulation.

Mr. DAWSON. I think he would be satisfied with that provision.

Senator REED. We only propose to retire one-twentieth of it each year, and suppose that proposition of retirement was put in the alternative, that the Government could retire it and substitute for it a certain other kinds of money, in which event they could take up his bonds; would they then have any objection?

Mr. DAWSON. No; I think not.

Senator REED. All he wants is to be certain he is going to get 100 cents on the dollar for every 2 per cent bond which he paid 100 cents on the dollar for?

Mr. DAWSON. Yes; and some paid more; but par is all they could expect.

Senator REED. And as long as he held the 2 per cent bonds, that he be allowed to have the circulation privilege?

Mr. DAWSON. That is the contract under which he took the 2 per cent bonds at par.

Senator REED. And therefore the Government of the United States ought to make its obligation good, and if it cancels the arrangement, it ought to put the man back in status quo?

Mr. DAWSON. That is all; and that is all the average country banker asks.

Senator REED. I think so, too.

Mr. DAWSON. The way the bill stands now, the country banker is in fear if he does not come into the system, then the 2 per cent bonds will go down to the level they would have without the circulation privilege. He bought those bonds under a contract, whether implied or otherwise, with the Government that he should have the circulation privilege, and if the circulation privilege is taken away and no provision made for maintaining them at par he is going to suffer a loss.

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Senator REED. Suppose we provide that the circulation privilege should continue as to those banks coming into the system, and not as to the others. Would that have some tendency to get them in?

Mr. DAWSON. I am not quite sure that I caught the question, Senator.

Senator REED. Well, I will think that over myself. It sounds a little like coercion.

Mr. DAWSON. What they are concerned about is what is going to happen; that is, they are a little bit fearful this system is not going to be constructed so that it will be to their advantage to come in. If that should prove to be the case, and they do not care to come into this new system, then they want to know what is going to become of the 2 per cent bonds if they do not come in.

Senator HITCHCOCK. Suppose the profits of the reserve bank should be invested in the 2 per cent bonds from time to time?

Mr. DAWSON. That would take care of it in the course of time. I do not think it is entirely satisfactory with this provision in the bill, which says they shall be redeemed at the end of the 20 years, because they understand the present Congress can not bind a Congress 20 years from now.

Senator HITCHCOCK. I mean profits over the dividend which is provided for on the stock.

Mr. DAWSON. In the form of a sinking fund. Now, Mr. Chairman, that completes, in a general way, the statement I wish to make in regard to this bill.

Senator BRISTOW. I wanted to ask you, Mr. Dawson, about savings banks.

Mr. DAWSON. I should be very glad to conclude this afternoon if I could.

Senator BRISTOW. You have a savings bank department in your bank?

Mr. DAWSON. Yes, sir; established three years ago.

Senator BRISTOW. What do you do with the money you take in in your savings-bank department?

Mr. DAWSON. You mean in the way of investing it?

Senator BRISTOW. Yes.

Mr. DAWSON. It is invested the same as the other demand funds of the bank.

Senator BRISTOW. That is, it is handled in commercial business the same as any other deposits?

Mr. DAWSON. To be sure. We have increased somewhat what we call the secondary reserve of the bank by reason of these deposits. The secondary reserve of a national bank in actual operation being the purchase of bonds—State bonds, municipal bonds, and some other investment bonds—which are held in the vaults of the bank and which we can convert into cash practically at any time to meet the demands of depositors. The First National Bank of Davenport carried $252,000 worth of such bonds, and carries them to-day in its vaults, while our total deposit liabilities are $2,500,000—about 10 per cent of our total deposit liability.

Senator BRISTOW. What per cent of your deposits are through your savings-bank department?

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Mr. DAWSON. Of this $2,500,000 of total deposits, a little over $700,000 is savings deposits that have accumulated there in three years.

Senator BRISTOW. A savings bank would loan that on investments, would it not?

Mr. DAWSON. Yes, sir.

Senator BRISTOW. This being a commercial bank, you are presumed to loan that on commercial paper? You are carrying these bonds. You are permitted to carry bonds, are you——

Mr. DAWSON. Under the national banking act? I understand so. We have never been criticized by the comptroller for that.

Senator BRISTOW. Why should you not carry real estate mortgages as well as municipal bonds?

Mr. DAWSON. Of course we are prevented by law from doing it now.

Senator BRISTOW. Is there any reason why you should not?

Mr. DAWSON. I can see no reason why a first-mortgage farm loan on an improved Iowa farm would not be just as good, if not superior, as a security, to a municipal bond or a timber bond or a railroad bond or any other class of bonds that the bank invests in.

Senator BRISTOW. Isn't it just as liquid?

Mr. DAWSON. I would not say that it was quite as liquid. I have found, on making inquiry in the East with a view of locating a market for first-mortgage real estate loans, that a good many investors in the East have not forgotten an unpleasant experience they had in the western country a good many years ago. They do not seem to appreciate the transition that has occurred out there in the Middle West with regard to values of real estate. It is true that there is a large market for first-mortgage real estate loans on the part of the insurance companies, who purchase them in very large quantities and on the part of the investor. Any Iowa savings bank or a State bank which loans on real estate, may not only sell the mortgages to investors, but they also issue a debenture bond on them, and those are very much prized by investors. They pay a rate of 5 per cent as against the savings-bank rate of 4 per cent. Of course a national bank is prohibited from entering the field at all.

Senator BRISTOW. Have you many savings banks in Iowa?

Mr. DAWSON. A great many. The commercial banks in Iowa are called savings banks, outside of the national banks. Take the city of Davenport, a city of 45,000 people; it has upward of $30,000,000 of deposits, a very creditable line of deposits considering the population of the city. There are two national banks there. There are four savings banks, which are as large or larger than the national banks. These savings banks are doing a commercial business, doing a savings business, and doing a bank business; that is, receiving deposits of country banks, State and others. Only one of these four has gone into the country bank field very extensively. That is the German Savings Bank, which holds the largest deposits of any bank in Iowa.

Senator HITCHCOCK. Has Davenport any deposits from country banks?

Mr. DAWSON. Oh, yes.

Senator HITCHCOCK. What do they amount to?

Mr. DAWSON. I should say about $3,000,000, all told. The eastern idea of a savings bank, of course, is entirely different from our idea

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of a savings bank. This is a stock savings bank, organized under State laws, permitted to do a commercial business, a savings-bank business, or any other class of banking; permitted also to exercise the functions of a trust company, to act in a fiduciary capacity, to act as administrator, and all that sort of thing.

So that under this liberal State law this German Savings Bank has grown up in the town of Davenport with the largest deposits of any town in the State of Iowa. They have upward of $6,000,000 of bank deposits of banks round about, most of them State banks.

Senator WEEKS. Do you not think, then, it is a misnomer to call such a bank a savings bank?

Mr. DAWSON. It is, from the New England point of view, and I think it is a misnomer.

Senator WEEKS. Of course, we do not expect other States to be as progressive as Massachusetts in such matters.

Mr. DAWSON. We have none of the mutual savings banks in the West.

Senator BRISTOW. Now, the testimony that has been given here is to the effect that a savings bank could not possibly desire to become a member of this system, because the nature of its business is such that it would be of no use to it. Do you think the savings banks in Iowa would want to come into this?

Mr. DAWSON. These four savings banks that I speak of that we are in direct competition with are all engaged in commercial business. They handle a very considerable line of commercial accounts for manufacturers, merchants, etc. Their necessity for rediscounting at certain times of the year is identical with ours. When we are compelled to borrow money to take care of our commercial customers I have observed from their statements that they are practically in the same condition. They are usually borrowing when we are, so the necessity for their rediscounting is practically the same as ours. That is the way matters run in Iowa as between a national bank and the so-called savings banks.

Senator POMERENE. What is the legal reserve under the Iowa law?

Mr. DAWSON. It varies. It is 5 per cent on savings deposits, and from that up to 20.

Senator POMERENE. On commercial deposits, you mean?

Mr. DAWSON. Yes, sir.

Senator BRISTOW. How do these savings banks that are doing that kind of business—do they segregate their deposits?

Mr. DAWSON. Not at all.

Senator BRISTOW. How do they fix the reserves then?

Mr. DAWSON. The State law specifies—of course, in the actual transaction of the business of the bank there is a set of books kept for savings deposits and a set for checking accounts. The law prescribes that on the savings accounts they shall carry a reserve of a certain per cent, 5 per cent. On these other classes of accounts the law provides a different reserve, so it is a mere matter of mathematics what the reserve is that they shall have at any time.

Senator BRISTOW. Mr. Dawson, out there in Iowa, as I understand, the change in our present system which you want is something which will make the currency more elastic and mobilize the reserves; those two matters?

Mr. DAWSON. Yes; those are the fundamentals, it seems to me.

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Senator BRISTOW. Now, if that could be done by the establishment of a Federal reserve bank, a local bank owned by private subscription; let it be managed by this Federal board directly; let it have branches out through the country; make it a bank of issue, a bank of rediscount, and a bank of reserve, so that these reserves that are required in the bill will be deposited in this Federal bank. Then when you wanted to rediscount any paper you could rediscount it; when you wanted currency you could get it in a manner similar to that by which you would obtain it through the regional bank. Would that perform all the functions which you need out there?

Mr. DAWSON. I think it would. I think that would perform the functions mainly.

Senator BRISTOW. Would that be more satisfactory to the community—they would not have to put up any stock unless they wanted to——

Mr. DAWSON (interposing). Yes; but I do not think that disturbs them much. That is not the main objection to this bill.

Senator BRISTOW. The main objection as I understood you just before you finished this morning—what was the main objection?

Mr. DAWSON. I started with the foundation that if this system is to be a success the country banks must go into it. If the country banks do go into it they should not be penalized; they should not have taken from them any considerable portion of the earnings which are now reserved under the national banking act. Then, in addition to that, that now is the opportune time for the Congress of the United States to equalize the privileges of the national banks. Those of you who have been in Congress for many years know that it has been under discussion; it has been recommended repeatedly by comptrollers of the currency; it has been recommended repeatedly by Presidents; that the national law needed some amendment. It is 50 years old, and 50 years have wrought a tremendous change in the handling of this business, and yet there that old law stands. The men who are running the national banks feel that their hands have been tied, and they feel that now is the time for the Congress of the United States to unshackle them.

Senator HITCHCOCK. The law of England and the law of France are much older.

Mr. DAWSON. Yes; but they are hardly comparable to this.

Just before I left I took occasion to write out to a few intelligent national bankers that I knew well and personally, the banks of $50,000 and $100,000 capital, men that had given some thought to this, as I supposed. I asked them how they thought this bill would affect their banks and their communities. I received one answer that seemed to cover the ground most thoroughly, and I am going to take the liberty of reading it to the committee if you care to hear it. This is from the cashier of the Washington National Bank of Washington, Iowa, a town of perhaps 4,000 or 5,000 people.

This from the Washington National Bank, Washington, Iowa, October 2, 1913. Capital, $100,000; deposits, $1,000,000.

Mr. A. F. DAWSON,
President First National Bank, Davenport, Iowa.

DEAR SIR: I have your favor of September 30 requesting by early mail our views on the pending currency bill as it would affect our bank and our community. While we believe that some currency legislation is needed and that in

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the main this bill will create more healthy conditions and prevent money stringencies such as we have experienced in the past, we feel that if the bill is passed in its present condition it will do our bank and our community more harm than good.

We believe in the idea of Government supervision and regional banks, but do not like the idea of being forced to subscribe from 10 to 20 per cent of the amount of our capital or else forfeit our charter. In fact, I am free to confess that if the bill goes throught in its present form it is very likely that we would be forced, in justice to our stockholders, to forfeit our national charter and become a State bank, much as we would regret to do so.

Inasmuch as the bill promises that our income from the stock subscribed will in no case exceed 5 per cent, and also that we would not be allowed any interest for reserve carried with them, this would in itself cost us from $1,500 to $2,000 a year. The loss of exchange charges on checks would also be an item of some consequence to us.

The savings feature of the bill would work a great hardship on us and give the local State banks a big advantage. At present 70 per cent of our deposits are in time certificates and savings accounts, and in order to hold these we would be forced to become a State bank.

The farm-loan feature of the bill would have no advantage to us, inasmuch as none of our farmer customers would consider mortgage loans maturing in one year.

While the rediscounting feature of the bill may work to the advantage of the larger banks, it will amount to nothing to us, as we carry practically no paper which we could rediscount. The majority of our notes are made for a period of six months and are made by our farmer customers and our merchants, and they expect to take care of their obligations as they sell their farm produce or turn their stock of goods, and we could not with safety rediscount such notes as this without serious trouble to ourselves and loss of customers to the bank.

We are greatly in hopes that the objectionable features of the bill, which can not help but result in great hardship for small banks like ours, will be eliminated, and that a bill will be passed which will be generally acceptable to the national banks.

I personally am very glad to know that you have been asked to go to Washington and appear before the Banking and Currency Committee of the Senate. I believe you are in every way the right person to handle this matter for us, and I feel that you will accomplish great good.

Very truly, yours,

W. F. WILSON, *Cashier.*

This from the First National Bank, Brooklyn, Iowa; capital stock, $50,000:

With our deposits of $450,000 and the capital we would have to invest in the Federal bank, I figure that we would have a loss of $1,000 a year, as follows:

Our reserve, counting on the reduction to 7 per cent of deposits, would average $32,000. This now brings us 2½ per cent interest, which we would lose, or $800. As we are getting an average of 7 per cent on loans, there would be a loss of 2 per cent on the $10,000 capital we put in, or $200. This would make the $1,000 loss right in sight, and there is another loss which many do not take into consideration. In drawing out the $32,000 from our reserve banks it would make our deposits so low that we would have to borrow money to replace it, or lessen our loans, in order to have sufficient funds to draw drafts on and handle our foreign checks.

To sum up my views, as the bill now looks to us, I think that there will be an application for another State bank.

I would say that we might have about $20,000 of rediscount paper in our bills receivable.

This from the First National Bank, Maquoketa, Iowa; capital, $50,000; deposits, $650,000:

I think it would be much better for the ordinary country bank if the time limit of acceptable paper was 6 months instead of 90 days.

It seems to me that the Federal bank should pay 2 per cent interest on the reserve required to be kept with them—the same rate as banks get now from reserve agents. If they pay no interest on this fund, it places national banks at

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a disadvantage with State banks, and would certainly deter State banks from becoming members.

I am strongly in favor of allowing country banks to loan a part of their time deposits on real estate security, but to limit the time to one year would practically prohibit any such loans being made here.

With these exceptions, I am rather favorable to the bill.

Senator REED. I should like to ask a question right there: If he does not have 90-day paper and does have 6-months' paper that he could use, I understand then how he might want a bill which permits him to cash 6-months' paper. But he adds a clause there that they could not discount this paper. I take it that their customers would leave them. That is what that clause means. Then he is in a position where he has nothing and can not get anything. He says: "First, I have not any 90-day paper; and, secondly, I have 6-months' paper, but I would not dare use it; and, third, the clause that permits the use of real-estate loans is of no value."

How are you going to help a man situated that way?

Mr. DAWSON. It seems to me very easily.

Senator REED. Now, how? I mean, with reference to this one feature of getting notes?

Mr. DAWSON. How are you going to make it attractive to him?

Senator REED. Yes; on that one feature. How are you going to permit him to discount when he has not anything he dare discount?

Mr. DAWSON. One reason why he dare not discount it, in my opinion, is the present prejudice among his customers against having notes sent out of town, or out of his bank. With a proper system in the United States, based on rediscounts, it would only be a question of time before the views of the people in that regard would change. That would be a matter of educating his customers. He could not do it the first day or the first month, but in time the prejudice his customers have in that particular would be eliminated, in my judgment.

Senator REED. I can grasp your idea from that answer.

Mr. DAWSON. There is this that the committee might take home with them. I offer this as a possible solution. If there was put into a regional reserve bank every month a certain volume of paper of the country banks for rediscount, and if that paper was 6-months' paper, then some part of it would be maturing every month, would it not, and would that not be just as liquid as your 30-day paper?

Senator REED. But it would not be, according to the idea of some bankers here, of this character, namely, that it would all pay itself off quickly, if they had to have the money.

Mr. DAWSON. Now, I agree that it would not be wise to issue currency on that class of paper entirely; but would it endanger the liquidity of the entire mass, or a certain small percentage of it which was liquidating itself each month, as the months rolled by, say 60 instead of 90 day paper?

Senator REED. You would advocate or suggest, then, that a certain percentage of this paper be allowed?

Mr. DAWSON. That is the thought I would like to leave with the committee. I do not recommend it, but it seems to me it is worth considering.

Senator POMERENE. In that connection I would like to ask you this question: You are familiar with the country banks in Iowa, generally; do they loan substantially the same amount each month?

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Mr. DAWSON. No; they do not. If they did, then they would have in their own vaults a certain amount which would mature every 90 days; but that is not the way the business of the country is handled?

Senator POMERENE. That is what I am trying to get. When do they borrow the most money?

Mr. DAWSON. If it is in a country where they are feeding cattle, and that is a considerable industry in Minnesota and Nebraska.

Senator POMERENE. I am speaking of Iowa.

Mr. DAWSON. I am speaking of Iowa also. Most of the cattle loans are made in the spring or summer, and they are liquidated when the cattle are sent to market.

Senator BRISTOW. If they are corn fed, it would be in January or February.

Mr. DAWSON. The cattle would be marketed in the winter.

Senator POMERENE. The farmers borrow for other purposes than for the buying of cattle, do they not?

Mr. DAWSON. Not unless it is a permanent loan. Then they put that in the form of a real estate mortgage.

Senator POMERENE. Do they not deal in hogs and horses?

Mr. DAWSON. Oh, to be sure.

Senator POMERENE. They do not do that at any particular season of the year?

Mr. DAWSON. It is largely a seasonal business.

Senator POMERENE. I know, but the seasons for hogs and cattle is not the same. Hogs are usually marketed within six or eight months from the time they are pigs.

Mr. DAWSON. In Iowa we do not borrow any money to go and buy pigs. We raise them ourselves out there. We do not have loans based on the basis of pork on the hoof. We do not buy pigs and then fatten them and sell them. We raise them.

Senator REED. Mr. Dawson, have you any other suggestions that you think would make it easier for the country bank to come in—that is, the country bank of the character you have been describing?

Mr. DAWSON. If I were to sum it all up as to my opinion of what would make this sufficiently attractive for the country banker to make him wish to remain in the national system, and I believe it would also be attractive enough to create a desire on the part of the city banks to come into the system, I would adopt some suggestion that has been made as to the subscription to the capital stock, perhaps reduce that one-half, and make it 6 per cent. The shifting of reserves I would make a little more gradual, and instead of shifting 3 per cent at the very start I would move that gradually. As I understand, this regional bank is not to be run for profit primarily. The country banker can not understand why this bank should pay the Government 2 per cent or more on its deposits and not pay him anything on his deposits when he is supplying the capital as well. There may be some good reason why the country banker—who impounds his reserve over in this bank, and those reserves are used by the regional banks as a basis for credit—why he should not receive 3 per cent from the regional bank the same as he is receiving now.

Senator REED. On that point, because I am so favorably impressed with your remarks—and I do not say that as flattery—I want to give you an idea to take home on this question of the capital of this bank. Every banker who has come here has talked about the banks

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furnishing all the capital for these regional banks. Let us see if they do. One requirement of this bill, in section 16, is that the Government of the United States must put every single penny it has, except the 5 per cent reserve, in this bank and except also the moneys held as special deposits, all of which, as we know, can be speedily drained into a bank.

Mr. DAWSON. But that is deposits rather than the capital, Senator. I have endeavored to state that accurately.

Senator REED. It deposits it, and immediately after it has deposited it it begins earning money and the banks get the benefit of it.

Now, the provision of the bill is that before the Government takes down a single penny from its contribution the banks shall get 5 per cent, and it may ultimately be 6 per cent, on their capital. The next proposition is that the Government furnishes the credit and backs up all of this paper that is to be issued by the banks, and if it does not furnish its credit it creates and loans the power at least. Now, it looks to me like a copartnership in which the Government was contrbuting most of the capital and the banks the experience. I hope it will not result as those copartnerships generally do.

Mr. DAWSON. I was only seeking to state the proposition accurately. There is no desire in my mind to minimize the benefits that are to come to the banks from the Government. But it is still an accurate statement when I say that the banks supply all the capital stock of this new bank. The Government supplies deposits; it is not capital stock. While it is used for the benefit of the system, still it seems to me I am accurate in my statement.

Senator REED. You are accurate technically, but I am talking about this matter, treating this matter as a matter of equity. Now, I want to call your attention to another thing. When these banks are put in operation they are supposed to perform certain very important functions for the various banks coming in. Then I call your attention to the fact that they constitute and are a method of insurance of banks against failure.

Mr. DAWSON. That is a great feature.

Senator REED. And taking all those things into consideration is there anything wrong in asking the banks to contribute some part of the insurance?

Mr. DAWSON. Not at all.

Senator REED. So I do not think the banks ought to treat this as though they were going into their pockets, creating an institution and running it at their own expense, the Government contributing nothing, and the Government demanding a share of the profits. I think you ought to get that out of your head. I do not think you yourself have that idea very strong.

Mr. DAWSON. No; I have not. But you take a little banker in the country who is now deriving from these reserves, we will say, $1,500 income; that is one and a half per cent on his capital stock. You take that away from him by force, as it were, as he thinks, and he don't like it.

Senator REED. I understand that. At the same time when we talk about force I want to give you another idea. The national-bank system has utterly broken down two or three times within a few years, comparatively speaking. When that happened every national

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bank was subjected to the forfeiture of its charter because it could not perform the functions it was required to perform under the law. But when the Government comes in to aid them in avoiding that thing the Government ought not to be treated as coercing them because it says you must do this thing now which is necessary now to avoid danger, but it ought to be treated as a friend, coming in to aid a system, and I want to say, while I am talking, that the whole attitude of every man I have heard express himself on this committee or in the Senate has been one of trying to avoid these dangers and assist the banks and at the same time be just to the country, and I make that remark because there has been so much adverse criticism of Congress and everybody connected with it.

Mr. DAWSON. The public generally throughout the country does not share that spirit of criticizing. The impression prevails out in our country that Congress is making an effort, in the best of good faith, to solve this problem, not in the interest of the bankers, but in the interest of the transaction—the orderly transaction of the business of the whole country, because when it does break down, the burden falls on the people and not on the banks.

Senator REED. They come in for part of it. Let me ask you this—and by asking this I am by no means committing myself to the theory, but every man who has appeared here, and indeed it must be a patent fact to all the people, has asserted that if the bill is passed, permitting State banks and trust companies to come in and retain their powers, that the national banks would naturally go into one of those organizations.

Mr. DAWSON. Go around a corner to come in.

Senator REED. Now, the national banks will have a right of circulation based upon these 2 per cent bonds, and the bonds are now in trouble in the market because of conditions we need not go into. If the Government of the United States was to permit this bank circulation to stand unimpaired, at least for the present, and if the Government of the United States was to not tax that circulation, would that not be a strong inducement to national banks to stay in the system?

Mr. DAWSON. Yes; they would have all that they have now. I can see no reason why a national bank——

Senator REED (interposing). They would have more than they have now.

Mr. DAWSON. As I was going to say, they would have in addition to that this broad discount market which you provide for.

Senator REED. Do you see any real reason for the retirement of the national-bank notes?

Mr. DAWSON. There is an academic reason.

Senator REED. Let us consider it from a practical standpoint; I am not much of an academician.

Mr. DAWSON. No; I am not either. I can see no practical reason for their immediate retirement except that I have a feeling that the national debt ought to be paid off some time. I would like to see the national debt paid off, and I would like to see us begin on it tomorrow.

Senator REED. How does the retirement of this $700,000.000 necessarily involve the question of the payment of the debt?

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Mr. DAWSON. It depends on how long we are going to remain out.

Senator REED. If you have to have any money to pay the debt with, would it not be better to retire some of the other bonds?

Mr. DAWSON. The others all draw a higher rate of interest; it would be good business for the Government to retire these.

Senator REED. Is there any economic reason? I mean is there any weakness in the banking system of such a character to the substantial arising out of these bank notes?

Mr. DAWSON. If you can create a system here that will introduce this element of elasticity; that is, provide that at certain seasons of the year you can get currency to meet the needs, and when the needs are over they would be retired—if you could do that, and if you make the system panic proof by providing a broad rediscount market, so that in the face of a panic the bank can use the reserves for the purposes for which they were created and can replenish those reserves by the rediscounting of paper in their own portfolios, I can see no possibility of breakdown for purely financial reasons.

Senator REED. What would you say to a provision to this effect, that after the banks had received their 5 per cent interest upon their stock contributions that a portion of the profits, if there were profits, should be set aside in a fund held by the Government for the purpose of liquidating the deposits of any national bank the doors of which were closed?

Mr. DAWSON. That had failed? That works very well in other countries. It works very well in Canada—too well up there, in fact. In Canada as soon as a bank fails the notes of the failed bank go to a premium.

Senator REED. We do not want to do that. If every man who puts his money in a bank knew if the bank closed its doors there would be a Government officer there to pay his deposits within two or three days, would that not have a tendency to stop runs upon banks?

Mr. DAWSON. Yes; I think that would have a tendency to increase confidence, and it is all based on confidence, after all, gentlemen.

Senator REED. Is it not, in your opinion, an entirely practical thing to put some provision of the kind I have indicated in this bill?

Mr. DAWSON. I can see no objection to it, and I can see many virtues in it.

Senator REED. There is one other matter to which I wanted to call your attention.

Mr. DAWSON. You asked a question a moment ago which I did not quite finish answering. You asked how we could liberalize this, whether it would be agreeable to the country banks. I started to give you my opinion as to how it could be made entirely agreeable to the country banks. My first suggestion was the stock subscriptions, and then the reserve requirements. The third, which is of still more importance, is to equalize their privileges with those with whom they are competing.

Senator POMERENE. These banks, you mean?

Mr. DAWSON. Yes, sir.

Senator REED. You refer to the profits of the national banks?

Mr. DAWSON. I refer to their privileges and opportunities to serve their communities.

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Senator POMERENE. I wish you would submit to us in concrete form what your views are along that line as to how that should be done; what profits should be given the national banks which they do not now have; what restrictions, if any, should be placed upon the State banks which may come in?

Mr. DAWSON. I would be very glad to do that.

Senator BRISTOW. I would like, Mr. Dawson, if you will—we have asked a number of witnesses here to prepare amendments to the bill—and I would like you, if you will, to prepare amendments covering what you think are necessarily important and let us have a sample of a bill.

Mr. DAWSON. I shall be very glad to do that. I assume these amendments are to be used by the committee in executive session. I hardly feel myself competent to draft a bill.

Senator REED. I think you are competent, at least, to make suggestions.

Mr. DAWSON. I would be very glad to put in writing any suggestions that the committee might wish.

Senator REED. There is another matter I want to draw your attention to. This morning when you were testifying you stated, as nearly as I can recollect, that it was desirable for the banks in ordinary times to use the reserves which they would place in the reserve banks; that one of the benefits of this bill was that it would be possible in ordinary times to use these reserves and make them work. Of course, at the end of 36 months all the reserves required to be kept will be in these banks.

Mr. DAWSON. In one place or the other.

Senator REED. Now, if the banks use those reserves, which, of course, can only be used by way of discount in ordinary times, then they have nothing left to draw upon in extraordinary times except the currency issue, have they?

Mr. DAWSON. No, sir.

Senator REED. Do you not think it would be very wise if those reserves were not all used in ordinary times?

Mr. DAWSON. I do not quite follow your suggestion. As I understand it, under the operations of this bill—and we will say it is in full operation—5 per cent of the reserves can be carried in the vaults in cash, 5 per cent of the reserves must be carried in the Federal reserve bank, and the other 2 per cent can be carried in either one place or the other. I do not understand that a member bank can encroach upon that 5 per cent that they have deposited in the Federal reserve bank at any time any more than we can under present conditions.

A national bank is not permitted to go below its legal reserve. That 5 per cent you have put into the Federal reserve bank, it seems to me, is impounded there. It is taken out of the channels of business. The member bank will not be permitted to use that. If he rediscounts with the regional reserve bank, it will be on funds above that amount; it will be on his balance above 5 per cent.

Senator POMERENE. Is it your understanding that under this bill, if a bank should have a run upon it, or something of that character, and the depositors are demanding their money, they could not get this 5 per cent out of the regional reserve bank?

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Mr. DAWSON. No; I think they could. That would be an emergency.

Senator POMERENE. They could not loan it or anything of that kind, but they could use it for the purpose of paying the depositors just the same as national banks do now?

Mr. DAWSON. Sure; there is no need of mobilization, if you can not use them in an emergency.

Senator NELSON. Do you not recall Vanderlip said yesterday that it was well for the regional reserve banks to conserve their reserve as much as possible and hold them in ordinary times when there was no demand, even letting them run up to 70 or 80 per cent in order to have a big fund in case of emergency? Do you not recall that?

Mr. DAWSON. I did not hear that.

Senator NELSON. You do not agree with that?

Mr. DAWSON. I think that what you need to get into these regional reserve banks—all the capital that you need in those banks is sufficient to take care of the ordinary emergency that would arise. The history of the past I think indicates to us how much of an expansion would be necessary to take care of the ordinary financial disturbance that comes along. It seems to me that if the regional banks were in a position whereby they could extend credit to the amount of $200,000,000 at any time, that would allay any panic that might be in its incipient stages. When the country understands that a law is on the statute books that can cope with any panic which may come along the panic is not coming along.

Senator NELSON. Do you not think it is idle to talk about the point that this 5 per cent is left in the banks? Your idea is that this 5 per cent should be constantly in use, and your grievance is that this amount is not in use, and that it is tied up there and does not draw interest.

Mr. DAWSON. No; that 5 per cent constitutes the insurance which the bank has against panics. The 5 per cent is reserve.

Senator NELSON. Is not that fund—what other fund outside of the bills it issues upon commercial paper, what other funds has the regional bank except its capital and its 5 per cent on the deposits. Is not that the fund that would really help to maintain this gold reserve?

Mr. DAWSON. Yes, sir.

Senator NELSON. Then is it not idle to complain because this 5 per cent is idle in the bank? Your idea is that it should be constantly out in the shape of discount paper?

Mr. DAWSON. No; it is idle in comparison with the function it is performing. My conception of an act is one that will—if you must make a change from present conditions to other conditions that are better, it is better to do that gradually rather than to do it violently.

Senator NELSON. Do you now know, Mr. Dawson, that one of the most faulty things of the present reserve system is first of the reserve and the necessary payment of interest, the payment of 2 per cent interest, which has piled up money in the big banks of New York? They have all that money sent in from the country banks, and the temptation has been the 2 per cent interest, and the New York banks could not let that money lie idle, and so they invested it in call loans, and when a panic comes, as the panic of 1907 did, this kind of loans were not liquidated.

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Mr. DAWSON. I agree with you absolutely on that.

Senator NELSON. The best part of this whole bill is the reserve system, first in limiting the amount as it does, wiping out the objectionable features of the reserve and stopping the payment of interest.

Mr. DAWSON. There has been some change in actual practice since the panic of 1907. I agree with you about the panic of 1907. It taught a lesson to the bankers out West. It was a sad and costly lesson, but they learned it. Since that panic they are not keeping those large balances in New York which they used to keep there. They are keeping those surplus balances in the little banks around about. Instead of sending them to New York they are keeping them in Omaha, Kansas City, or St. Louis, or Minneapolis, or St. Paul, or Denver, or even in the banks in cities of 15,000 or 20,000 population, and the smallest country banker will carry his balances there. He gets 2 per cent interest up there.

Senator NELSON. Do you not recognize that the reserve system provided for in this bill is much superior to the present system?

Mr. DAWSON. I think it is.

Senator NELSON. And would prove a great blessing to the country?

Mr. DAWSON. I think in shifting it to where it is now and where it is expected to be, that shifting process should be gradual.

Senator NELSON. It is gradual.

Mr. DAWSON. And in writing a law that is going to reduce the income of a bank, as it is now, that should be made as gradual as possible, if you are going to take away his income.

Mr. Chairman, Mr. William W. Baldwin, one of my colleagues on the committee representing the Iowa bankers was compelled to leave the city early this afternoon, and asked me to read his statement.

The CHAIRMAN. You may do so.

Mr. DAWSON. The statement is as follows:

STATEMENT OF W. W. BALDWIN, OF BURLINGTON, IOWA.

My name is William W. Baldwin; residence, Burlington, Iowa; occupation, attorney at law and vice president of the Chicago, Burlington & Quincy Railroad Co.

I am not a banker nor bank director, nor stockholder in any bank, and never have been. My interest in this subject is solely as a citizen in business, who has had some very keen experiences under the existing inefficient and menacing banking system, as demonstrated whenever its efficiency has been put to real tests.

The people of the country have been led to expect, and they do expect, the present Congress to provide at least the beginnings of a better financial system.

There could not be a more opportune time for undertaking this reform. General business is good, and no such threatening conditions confront us as led to the makeshift Vreeland law.

Both Houses of Congress and the President are of the same party, my party—the Congress by good majorities—and the administration is pledged and the party is pledged, as strong as words can pledge men, to provide an adequate currency system.

Best of all, there is a strong healthy sentiment among the people upon the subject; a process of education has been going on for three

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years and the minds of the best students and the best bankers have been interested in the question.

This demand for a reform of the currency is not, according to my view, a banker's demand. The bankers can get along without it. The widespread losses that were part of the experience of 1907 were not the losses of bankers so much as the losses of their customers. The banks are prosperous enough now; they are making money enough; there are no strong financial reasons for them to demand this legislation that I can see. What is the fundamental difficulty, and what are the remedies which the reform should seek to provide?

The fundamental trouble is that while we have a splendid collection of strong money-making banks, managed by shrewd and resourceful bankers, their strength, their resources, their reserves, and their ability to meet conditions of stress and bad weather are scattered units, and our power to provide currency to the people in an emergency is pitiably weak.

In 1907 factories and merchants and railroad companies in Iowa in numberless cases could not get their own money, which they had deposited in their own banks, with which to meet their own pay rolls.

We understand the general purpose of this bill, by a safe and sane process, to be to combine, to unify, to mobilize the credit strength of all the banks, and to provide machinery through which may be issued in any time of stress an adequate supply of bank-note currency based upon their credit strength as represented in their assets, and absolutely secured by ample reserves and redeemable in gold.

Nobody wants a loose law; nobody wants it in the interest of bankers primarily. But the misfortune of no law at all would be less than a law which the banks can not and will not accept. Where shall we be, in that contingency, with the Vreeland act expiring in June?

What features proposed may tend to prevent the banks from cooperating to make the system a success?

One is the fear of a political control in the central board.

It seems to me impossible that you will enact a law for combining thus the entire banking resources of the country, under the control of a central board or governing power, and not give to the banks which provide the capital some adequate representation of this governing board. This is necessary for real efficiency. You will urgently need the talent and the experience and the self-interest of practical bankers to make this thing a success, and a frank avowal of this need would help to incline the banks to cooperate, it seems to my mind, and would please the business public which does not look with favor upon either political or bureaucratic control in business affairs.

In the prosperous city where I live the national banks are not the principal banks, but are the savings banks, which under State law exercise banking privileges, except the issuing of currency.

Besides, they act as trustees and loan upon real estate. Taking the West throughout, especially outside of cities, I have no doubt that the banks not chartered as national banks are the more important and more profitable to their owners.

It is going to be a comparatively easy matter for national banks to refuse to accept your law and slide over into State banks, and then what will become of your law?

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Another cause for distrust has been the fear that this bill will do injustice to the banks in the matter of their 2 per cent bonds.

Then there is the requirement that the smaller banks tie up too large a percentage of their capital and are allowed too small a profit compared to what they can earn as State banks.

As one wishing to see this law, modified and improved, put into successful operation before next June, I sincerely hope you can consent to such changes as will make it to the interest not only of the small national banks but of State banks as well, to enter the system.

What to yield and how to yield on important measures such as this are the trials and tests of statesmanship.

Better far make this measure so attractive and workable that all banks will desire to cooperate than any feature of coercion.

Regarding a proper basis for a paper currency to meet the demands of business, I heartily indorse the view that a currency issued by the banks, with proper safeguards and based upon the assets and resources and credit of the associated banks, can be made equally safe and be a sounder and better currency than bond-secured issues.

(The witness filed the following paper, which he read before the Contemporary Club February 29, 1912:)

CURRENCY REFORM.

When Congress, by the act of May 30, 1908, created the National Monetary Commission and directed it to "inquire into and report at the earliest date practicable what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency," it gave recognition to the fact that one of the greatest needs of the times is an intelligent and comprehensive reform of the banking and currency laws of the Nation. My own opinion is that, of greater importance to the continued prosperity and development of the country than either tariff or trust legislation, is the creation of a monetary system that will measure up to the demands of modern business and which will automatically adjust itself to the needs of trade and commerce in its seasons of variation.

There is much that deserves to be said in commendation of the present system of banking and currency. The banks of the country, both national and State, are sound, honestly conducted and capably managed, and the almost universal public confidence in them is well merited. What is true of the integrity and stability of the banks applies with equal force to the currency. Our consideration of the subject, however, does not go to the banks or the currency per se, but rather to the system.

The national banking system, created in the midst of the Civil War, gave the country a uniform and stable national currency to take the place of nondescript and worthless State-bank notes, which had resulted in such heavy losses and infinite vexation to business. It was a source of strength to the Union in providing a market for large quantities of Government bonds, which were bought by the banks to secure their note issues. It has been a permanent prop to the national credit, enabling the Government in 1900 to float its obligations at a rate at least 1 per cent less than any country in the world. In that year the 3 and 4 per cent bonds were funded into bonds bearing only 2 per cent interest, and this was possible largely because the national banks were virtually compelled to take the new twos as a basis for circulation.

But since that system was established almost 50 years ago there has been such a tremendous advance in business that we have outgrown it, and it is inadequate to meet the needs of to-day. It is hardly to be expected that the vast and complex business of the twentieth century can be handled properly with a credit organization created about the middle of the nineteenth century. The present system performs its functions well under normal conditions of trade and commerce, but it fails completely when any unusual demand is made upon it. We can not be satisfied with a fair-weather system. Would anyone patronize a trans-Atlantic liner that could make the trip only in good weather, but which would be certain to go to the bottom if a storm arose? Is not the United

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States, which boasts of its commercial enterprise and supremacy, entitled to the same immunity from financial disturbances and panics that is enjoyed by all the other great commercial nations of the earth?

What is the matter with the present system? It is not in the soundness of the currency, because every dollar of it is as good as gold, and this virtue must be maintained in any change which is contemplated. No man stops to examine the paper money he receives to see whether he is getting a gold certificate, a silver certificate, a greenback, or a national-bank note. He knows that one is as good as the other, and all of them as good as gold. Neither does the fault lie in the quantity. We have a circulation in the United States of more than three and one-half billion dollars—more money than that of England and Germany combined. It is well for a thorough understanding of this question to recall that this immense stock of money consists, in round numbers, of $350,000,000 of greenbacks, $740,000,000 of national-bank notes, $1,800,000,000 of gold in the form of coin and gold certificates, and $740,000,000 of silver, also in the form of coin and silver certificates. Let us keep in mind also that national-bank notes comprise less than one-fifth of the circulating medium, and that they are the only part of our currency that can be expanded or contracted to meet the varying needs of business at different seasons of the year. We should remember also that the business of this great Nation, which amounts annualy to the staggering total of $450,000,000,000, is largely transacted with credit instead of money. Only about 5 per cent of it is done with money; the other 95 per cent with credits in one form or another.

The trouble with the system is in its organization. Nowhere in it is there any reserve power with which to meet an emergency, and as a result it fails completely when any unusual demand is made upon it. No less than four times during the past three decades has the system failed under severe financial strain. The panic of May, 1884, though of brief duration, was attended by a suspension of cash payments and the issue of clearing-house loan certificates, as was also the case in 1890. The panic of 1893 was still more severe, not only resulting in suspension of cash payments, but currency actually went to a premium. But in each of these instances the situation was complicated by abnormal commercial and political conditions which obscured in large measure the elements of weakness in our credit organization. But the crisis of 1907, which was wholly financial, rather than industrial or commercial, has enabled us to measure the shortcomings of the present system, and has directed public attention to the pressing need for a remedy that will protect the country from these recurring disturbances, with their enormous losses to every line of industry.

The country has suffered incalculable losses from these failures of our banking and currency system to perform its natural functions, and these losses fall with the greatest severity upon the wage earner and the producer. It is axiomatic that people of limited means suffer more in hard times than those of large resources. In every one of these instances where there has been a paralysis of credit operations, with the resulting lack of confidence, business is halted, commerce retarded, and production curtailed, with the consequent reduction in employment and wages, and a tremendous shrinkage in values.

The panic of 1907 came upon the country almost without warning. The underlying conditions of trade and industry were never more sound, and the country was enjoying a high degree of prosperity. We had harvested an enormous agricultural crop, factories were busy, labor fully employed at good wages, and business generally was at high tide. It seems almost incredible that with such conditions prevailing throughout the Nation one or two incidents in a single city could precipitate such widespread disaster and losses. And yet a gamble in copper stocks and the exposure of the crookedness of one New York banker created such alarm in that city as to precipitate a run on the banks which could not be stopped until the banks of the metropolis were forced to suspend cash payments and resort to the use of clearing-house certificates. It does not speak well for our present system when nation-wide prosperity can be halted by unrest or alarm in a single locality, and yet it is wholly within the truth to say that the panic of 1907 would not have occurred at all if our monetary system had been what it should be.

A careful study of that disastrous experience has resulted in a general agreement as to the defects of the present system, which may be summarized thus:

(1) *Lack of elasticity in the currency supply.*—It is well understood that at certain seasons of the year, particularly at crop-moving time, a considerable increase in the volume of currency and credit is required. The annual production

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on the farms exceeds $9,000,000,000, and a large percentage of this is marketed within a few months. It has been found by experience that an expansion of the currency approximating $200,000,000 is necessary to meet this annual need under normal production. A satisfactory system would provide for such expansion when needed and a reduction when the necessity had passed. What is the present machinery for meeting this requirement?

With a fixed supply of gold, silver, and greenbacks, the only part of our currency that can be expanded or contracted is the issue of national-bank notes. These notes being based on United States bonds, it is impossible to increase their issue by $200,000,000, because the total amount of such bonds with the circulation privilege not now owned and used by the banks does not exceed that sum. Then, again, any increase in the volume of these notes must result from the individual action of 7,000 national banks, scattered from one end of the country to the other, with no machinery for concerted action to meet more than a local situation. Besides, the market price of these bonds is an important factor in determining the action of banks in increasing or reducing circulation. It is too much to expect that a bank will purchase bonds to secure circulation if the price of bonds is such that their money could be more profitably employed in other channels. Experience has proved that under this plan the measure of the public need is not always met by the personal profit to each bank in this regard.

It ought to be stated, in passing, that the so-called emergency currency act of 1908 made temporary provision for elasticity of the currency. It permits the formation of national currency associations which may deposit in the Treasury securities other than Government bonds and receive currency up to 75 per cent of their cash value under certain restrictions and conditions. Several such associations are now in existence, and one of the large vaults in the Treasury is filled with currency printed under the terms of this act, which can be supplied on short notice to such associations should an emergency arise. But this is only a temporary measure, which expires by limitation June 30, 1914.

(2) *Lack of effective cooperation among the banks.*—We have already seen how the absence of coordination among the national banks makes it difficult to secure that unity so necessary to expand or contract the volume of bank notes so as to maintain efficient credit conditions nationally. And of course the banks under State laws, which equal the national banks in total capital and greatly exceed them in number, are practically helpless to render effective aid in this direction. The banking power of the United States is estimated at over $21,000,000,000; it is equal to the combined banking power of Great Britain, France, and Germany. What a powerful factor it would be in any situation which might arise if all the banks of the United States, both National and State, were organized in an association which would secure unity and cooperation, especially in times of stress. United they would be able to cope wtih any emergency; divided into scattered units, as they now are, they are helpless and ineffective. There is a total lack of cooperation among banks outside the clearing-house cities, and even these clearing-house associations have never been able to prevent the suspension of cash payments in times of panic.

As it is now, in time of stress the law of self-preservation puts each individual bank into a scramble with every other bank in the matter of reserves. Under the present rigid laws, as soon as alarm is felt each bank immediately begins to strengthen its reserves. Cash is drawn from every available source and locked up in the vaults, many times in excess of their needs or requirements, in order that each may prepare itself to weather the storm. So we will find that the defects of inelasticity and lack of unity are insignificant in comparison with the fundamental defect of the present laws relating to bank reserves. With the business of the country resting so largely on credit transactions and bank loans, with bank loans dependent on reserve requirements, the present laws relating to bank reserves operate to aggravate and intensify conditions in times of financial stress. The most vital defect in our present system is:

(3) *The rigid and obsolete laws regarding bank reserves.*—Banks are required to hold a cash reserve in proportion to their deposit liabilities. There is no difference of opinion as to the wisdom of a bank keeping a portion of its assets in liquid form so that its demand obligations may be met promptly. Every competent banker will do this, law or no law. Under the present law national banks in reserve and central reserve cities are required to hold a reserve equal to 25 per cent of their deposits. National banks in all other places must carry a reserve of 15 per cent, two-thirds of which may be kept on deposit

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in banks of reserve cities. State and savings banks in our State must keep 8 to 20 per cent of reserve.

The reserve must be held in "lawful money," which consists of all forms of legal-tender money. It is important to keep in mind that the law makes each individual bank responsible for obtaining and holding fast to its proportion of lawful money.

The present reserve requirements are defective in at least five important particulars.

(*a*) The cash reserves are scattered among 25,000 widely separated banks, with no provision whereby they can be mobilized to allay or cope with danger. When signs of trouble appear each bank strives to amass the cash reserve necessary for its individual protection. To do this it draws funds standing to its credit in other banks, thus weakening the reserves of those banks. If confidence is being shaken, every banker has visions of a run on his institution by alarmed depositors, and he becomes a competitor of every other bank in an eager struggle to secure cash enough to withstand it. A more effective panic breeder than this could hardly be devised, when if these reserves were properly controlled and mobilized, as they are in other countries, they could be made effective to prevent trouble. Concentrated, they would afford protection to all; scattered as they are, they prove useless.

(*b*) It is impossible to determine by law how large a reserve any bank should carry. This can only be determined by experience. It varies in different banks and depends largely upon the character of its deposits. A reserve that might be ample for a bank at Walcott might be altogether too small for a bank in Davenport, while a proper reserve for a Davenport bank would be wholly inadequate for a bank in New York which is subject to heavy withdrawals from correspondent banks. In other countries the reserve requirements are not arbitrarily fixed by law, but are determined by the judgment of managers of banks.

(*c*) The present law prohibits a bank from using its reserve in time of stress. The very purpose of a reserve is to provide a resource in times of stringency and yet the national-bank law—and most of the State laws are patterned after it—prevents their use for the purposes for which they were created. The inexorable legal reserve must be maintained, and when the ratio of reserves to deposits is reached, no more loans can be made. Our reserve law has taught the public to believe that a bank is in peril if its cash reserve falls below the legal limit; hence it dare not intrench upon its reserve at any time. In times of panic inestimable losses would be prevented if the banks had power to make loans and grant extensions of credit. Under the operation of present reserve requirements the lending power of the bank is paralyzed, and instead the bank must curtail credits and compel payment of loans falling due. In the great commercial countries of Europe when an emergency arises the banks increase their loans and at the same time pay out their reserves, thus avoiding panics. Here, as some one has said, "We slam the door in the face of the borrower just when he is in the greatest need."

(*d*) There is no provision in the law for replenishing the reserves. When reserves become depleted in the United States, our banks have been able to find relief only through the slow, clumsy, and expensive practice of drawing gold from Europe. This is accomplished by throwing securities into the European bourses and selling them for the best cash prices obtainable. In 1907 we drew $100,000,000 in gold from Europe in this way, most of which came from England. It is a sad commentary on our system that England could relieve us from her limited gold reserve, when there was locked up in the Treasury at Washington seven times as much gold as she possessed.

(*e*) They have caused a dangerous concentration of risks in the central reserve cities, particularly in New York. The operation of the law has resulted in making New York City banks the depositories of a large part of the reserves of banks throughout the country. These banks pay 2 per cent interest on such deposits, and in the spring and summer large sums of idle money from the interior piles up in New York. In order to pay this interest the New York banks must loan this money, and this is done largely to stock speculators. There is nothing else they can do with it. As a result speculation is stimulated and prices inflated. When the time comes that the country banks need their funds to move the crops, the New York banks have difficulty in calling their loans without bringing on a stock-market panic. We have already seen that the stability of the whole country is so dependent upon the stability of New York banks that a flurry there precipitated the panic of 1907.

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To summarize: What the country stands in need of is a banking and currency system embracing these salient features:

That will give that element of elasticity to the currency which will respond to the varying needs of business at different seasons of the year, and as carefully safeguarded against inflation as against stringency.

The association of all banks into a national system, rather than one of scattered units, to obtain unity and cooperation in sustaining the commercial and public credit, but which should be absolutely secure against political domination or the control of concentrated wealth, and which must preserve the individual independence of each bank.

The unification and mobilization of bank reserves, so that they can be concentrated and made available wherever most needed in times of trouble, and the machinery to strengthen bank reserves or increase their loaning power when necessary to avert danger.

To these three principal features there should be other additions to provide an acceptable standard for commercial paper and a well-organized market for the same, to secure more uniformity in discount rates in all parts of the country, permission to American banks to do business in foreign countries, and an agency which can deal effectively with the course of foreign exchange and the international movements of gold.

Senator WEEKS. Mr. Chairman, I have here a letter from the First National Bank of Gardner, Mass., which I would like to have inserted in the record.

The CHAIRMAN. Without objection, that will be done.

(The letter referred to is as follows:)

[Amasa B. Bryant, president; C. Leslie Bent, vice president; Frederic S. Pope, cashier; Marcus N. Wright, assistant cashier.]

FIRST NATIONAL BANK,
Gardner, Mass., September 30, 1913.

Hon. JOHN W. WEEKS,
Washington, D. C.

DEAR SIR: In common, I imagine, with most of the bankers in the country, I am watching with great concern the progress of the currency bill now before the Senate.

I notice that great stress is being placed upon the opinions of country bankers and it is being urged that this measure will surely redound to their advantage.

I can not expect to add anything to what has already been said regarding the theoretical possibilities of the bill. I would like merely to set forth just about how it will affect us in this institution. Assuming that the measure goes through in practically its present form there would be required of us in the form of subscription to the stock of the new bank and for credit balance therein approximately $70,000. I can not see why we would not be obliged to maintain our present reserve accounts with approximately the same balances as now. The only manner in which this sum—considerable for us—could be raised would be by a contraction of our loans. For several years we have found it difficult to supply our local demand and if we are forced to consider an addition of $70,000 I see but one thing to do, namely, to withdraw from the national banking system even though such action entails a serious loss on our Government bonds.

The rediscount feature of the new bill would hardly work in our case because it is too cumbersome and because the vast majority of our paper is not bills receivable, but loans made for the accommodation of our customers. If we are to retain our business we must keep all such paper in our own hands until maturity and not sell it to other institutions to provide for our temporary needs.

This view of the currency bill can not be considered a partisan one inasmuch as three of the four officers of this bank voted for Mr. Wilson at the fall election and the one who did not is not now in the service of the institution.

I believe that it should be the duty of all banks to enter into any feasible scheme looking toward the improvement in our currency and banking system and I trust that the efforts of yourself and others similarly minded will avail to secure such amendments to the pending measure as will make it advantageous to all the national banks of the country.

Yours, very truly, A. B. BRYANT, *President.*

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AFTER RECESS.

The CHAIRMAN. Mr. Cannon, we will be glad to hear you now, and I will be glad to have you state your banking connections so that our reporter will have them.

STATEMENT OF JAMES G. CANNON, PRESIDENT OF THE FIFTH NATIONAL BANK, OF NEW YORK, N. Y.

Mr. CANNON. I am president of the Fifth National Bank, of New York.

The CHAIRMAN. What is its capital?

Mr. CANNON. Its capital is $5,000,000; surplus, $5,000,000, and undivided profits about $1,000,000.

The CHAIRMAN. And its deposits?

Mr. CANNON. Its deposits are about $30,000,000. It is not one of the largest institutions in New York, but it is a fairly good-sized one.

The CHAIRMAN. How many years have you been in the banking business?

Mr. CANNON. Since I was 17 years old.

The CHAIRMAN. You were Comptroller of the Currency at one time?

Mr. CANNON. No; that was my brother.

The CHAIRMAN. That was your brother?

Mr. CANNON. Yes; I have always been in the banking business in New York.

The CHAIRMAN. You have made a special study of this question of banking reform, have you not?

Mr. CANNON. I have tried to for many years, and also tried to make a study of this bill during the past summer.

The CHAIRMAN. You have been a lecturer on this subject?

Mr. CANNON. Oh, yes; I have been at it a good many years.

The CHAIRMAN. We will be glad to have you proceed in your own way to comment on the bill, and the committee will not interrupt you until you have concluded.

Mr. CANNON. I have only made a few notes. They are not very numerous, and as I go along I shall be glad to endeavor to answer any questions the committee may desire to ask.

The CHAIRMAN. The committee has thought it better to wait until the witness concludes before interrupting with questions, because otherwise you will not conclude.

Mr. CANNON. I see. That is right. I want to say this, Mr. Chairman and gentlemen: I believe we are nearer solving the big question of currency reform than we have been for 20 years. I realize how easy it is to criticize and tear down, and how difficult it is to create, and I feel that those who have brought this bill forward to its present state are entitled to be warmly congratulated on what they have accomplished to date. I do not regard this as a political measure myself, but as a question entirely above politics, affecting, as it does, the welfare of the people of the entire country. If it were a political question, I might not be able to say anything in favor of the bill, as I am one of those that are not fortunate enough to be numbered among the majority party, having been for life a consistent old-line Republican. And I recognize another thing, too, in connection with

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this bill. I recognize that legislation is more or less a matter of compromise, and I hope that this bill, which has received such a fine start, can be adjusted so that it will become a law.

I have gone over the bill carefully, and I want to make a few suggestions. I do not know whether they will be worth anything to you, but, such as they are, I will be glad to give them.

The CHAIRMAN. The committee will be very glad to hear your suggestions and your reasons for them.

Mr. CANNON. The storm center of the bill has been the opposition to the Federal reserve board. Now, I am not one of those who oppose giving authority in banking matters to officials named by the President and confirmed by the Senate. I believe the President of the United States and the Senate can be trusted to exercise this power for the country's welfare and the country's good, and this is the system applied to the choice of all Federal officers all over the country. But I do feel that the men who are to manage the financial affairs should be selected with a special view to their qualifications, and I believe it is most desirable, in making a choice, that there should be no opportunity for objection and suspicion that it is governed by any political equation. I have been some in politics myself, and happened to be treasurer of the Republican national committee during the first McKinley administration, and I speak in this way for that reason. Accordingly, I feel that the provision in this bill making certain Cabinet officers and the Comptroller of the Currency members of this reserve board should be omitted, and that the entire board should be nominated by the President—seven members—and the nominations to be submitted to the confirmation of the Senate.

I have no disrespect for Cabinet officers, nor does it detract from their position to say in their position political considerations enter always. Moreover, I believe they should not be members of this board, for the reason that the performance of their duties as Cabinet officers will not permit them to give to the duties of the reserve board the necessary time and attention for their proper performance.

Gentlemen, it is not going to be any small job for any body of men, no matter who they are, to change our entire banking system in this country and organize these regional-reserve banks as you have laid them out. It is going to take the very best energy and the very best brains in at least seven men, working night and day, to put such a system as you have outlined here into the hands of the people, without any jar, without any friction, or without anything of that kind.

The bill calls for three members, two members of the Cabinet and the Comptroller of the Currency, as ex officio members. I have been an ex officio member of a great many committees and gave mighty little time to those committees myself, and I believe the Secretary of the Treasury, the Comptroller of the Currency, and the Secretary of Agriculture—we may not always have as good a Secretary of Agriculture as we have now in years to come—can secure all the information they want with reference to anything that is to be done in this reserve association without being members ex officio. And I think the provision with respect to the composition of the reserve board is defective in another particular. I would like to see, where now only one of the members is to be experienced in

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banking, there should be provided that three of the members shall be so experienced, but all to be appointed by the President by and with the advice and consent of the Senate and subject to your confirmation.

I merely offer this suggestion, perhaps, to meet some of the criticisms directed at this section of the bill. It seems to me that that might help and do away, perhaps, with some of the objections which have been made. I may be mistaken, and I may be taking a somewhat radical ground myself when I state I am not at all alarmed at the method to be employed in selecting these seven men, so far as I am concerned—my own personal view.

Now, for a moment, in regard to the bank-note issues. My position in the matter of the issue of notes of this character I do not think can be better stated than in the language I used in an address on this very subject immediately after the panic of 1907 at Columbia University. I then made this statement:

> I venture the prediction that the people of this country will never permit its circulating medium to be monopolized by one institution, no matter how good it may be, but they will always demand a circulating medium issued by the Government or under careful Government supervision and control.

The proposed Federal notes would appear to have most of the qualities of our present national bank notes. As I understand it, no notes could be issued except under regulations of the Federal reserve bank, the ultimate security back of the notes being a 33⅓ per cent reserve in gold and lawful money and short-time commercial paper selected by the bank and approved by a Government agent, and further that it is a first lien on all the assets of the issuing bank.

There appears to be a great controversy raging around this section of the law. In my opinion, it can be met by making these notes redeemable in gold and guaranteed by the United States Government in such a manner that the Government could never be embarrassed when called upon to redeem them. As I said to some of you gentlemen to-day at noon, everybody has a different opinion, and all of the bankers have a different idea of currency reform. These notes that come into the hands of the people, whenever you pay them at the national bank to-day, have the United States of America upon them. The silver certificate has it. They all have United States of America on them. I think it will be with very great difficulty, to my mind, in putting out a lot of these reserve bank notes and having them acceptable to the people. You pay them out to the darkies in South Carolina in the cotton fields, or you pay them out in Maine to the potato diggers up there, and they will look at them for United States of America, and they will feel the United States of America is responsible—that is, the Government is responsible for every dollar of money which they have in their hands which they receive for their pay.

And I feel this, possibly, might meet the exigency here, because I believe that they should be guaranteed by the United States Government, but in such a manner that the Government would not be embarrassed and called upon to redeem them.

Senator HITCHCOCK. You mean they should be notes of the reserve banks?

Mr. CANNON. Guaranteed by the Government. My bank is across the street from the subtreasury in New York, and I saw the trouble

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in Cleveland's administration, when they presented legal tender for gold across the street at one window and paid it out at another, and that endless chain of getting gold at the Treasury, and the troubles we had there.

But it seems to me all the objections could be met here on both sides if you make them notes of the bank guaranteed by the Government and fix it in such a way that when the Government is called upon to redeem them there can be no question of embarrassment to the United States Government. That would be my idea in regard to that.

Another thing, a possible thing to do—I do not know whether it could be—that is, the rate which is to be charged to the Federal reserve banks applying for these notes should be distinctly named in the act, the charge being graded according to the length of time the notes are kept outstanding. Now, I say that for this reason: This would enable the bank, if it applied to the Federal reserve bank, and enable the mercantile community, whose notes these notes discount, which they put up as an obligation for these, to gauge somewhat what it is going to cost them for the circulation they have taken out. Under the present act it can not be less than one-half of 1 per cent, but they never would know exactly where they stood as to the cost of this bank-note issue. I think you would be performing a service, therefore, to the mercantile community and the customers of the banks, as well as the banks themselves, if, in some way—I do not know whether it can be done or not—you could arrange so that it can know the cost to them if they keep it out for 30 days, 60 days, 90 days, 4 months, or whatever time it was, so that they could gauge their arrangements to the cost of their money which they are going to put in goods, merchandise and things of that kind, which those notes are put up for, or to meet their pay rolls—whatever use it is. I think it would be a help to the bank and the mercantile community, who are the borrowers, to gauge the cost to them of these reserve notes.

This whole section—I have made a considerable study of it—seems somewhat ambiguous, and I believe it can be rewritten with some advantage to the act, as I read it, and I have read it very carefully a great many times. I may be wrong about it, but these are two or three suggestions I have to make in that connection.

As to the number of regional reserve banks, the act provides for 12. Some people, I understand, have advocated many more and others have advocated less. In my opinion it would be very much easier to adjust the relations between these reserve banks if you start them with six or seven and increase the number from time to time as seems desirable, just as you have provided for in the act. You are organizing here an enormous business enterprise, which will require extreme care in its handling at the outset, so as not to disturb seriously the business interests of this country. You have got to go forward with the utmost care—the utmost thought and extreme care. An experienced business man who starts out on a great enterprise would not go too rapidly, but would create new branches of his business as necessity for them developed. And I believe this act would be more sure of meeting success, from a business standpoint, if you start out with a less number of reserve banks and add to them as necessity arises, allowing them to be increased as occasion may justify. My

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reason for having a smaller number is that it is desirable for confidence and getting together an adjustment between the managers of these banks, so that they can be operated along similar lines in all parts of the country. I have had an analysis made here—I have been at work on it all summer with a very careful auditor—which you gentlemen have probably seen and read, showing the capital these banks of deposit are likely to have and the transfers that are likely to be made to them, and it is going to be a very serious piece of business.

Senator NELSON. Have you that statement here?

Mr. CANNON. Yes.

Senator NELSON. I wish you would have it incorporated in the record, Mr. Chairman.

The CHAIRMAN. That may be incorporated in the record as an exhibit.

Mr. CANNON. I will be very glad to do so. It is going to be a serious business to change the entire banking system of the country and the entire methods of doing the banking business, and if we spread out too far, all over the country, the managers of the different banks can not get together and consult. They are all in the same business and ought to consult together as to the methods to be pursued in handling commercial paper. In fact, this would give an opportunity for doing a splendid piece of work along banking lines, and of course there are a great many reasons which I will advance in connection with it, but I feel, as a business reason, looking at it from a business standpoint, if you can start out with five or six you will be apt to be more successful in handling the proposition than if you get it away out of reach, where it is difficult to get men who are thoroughly familiar with a great project of this kind to handle it in accord. Of course, as I say, other people have given other reasons. That would be one of my reasons for thinking you might be able to reduce the number, the same as any prudent business man, as I said a moment ago, starting out a great business all over the country, would start it gradually and then expand as his business expanded. Then, as time went on, you would be able to increase the number.

Senator HITCHCOCK. Have you any special reason in mind for suggesting five or six rather than three or four?

Mr. CANNON. No. Just about half of the number. Three or four or five or six. My only object is that in starting this thing you want to make it a success, and you want to do everything in your power to make it a success. Three or four would answer just as well; but whatever you do, do it so it will not disturb the business interests of the country.

In the transfer of the very large amount of funds, which is bound to be transferred from the reserve cities into these new regional banks, it should be done with as little friction as possible all the way through. In New York City (I happen to have my table here, which I was looking over)——

Senator NELSON (interposing). Let that go into the record, too.

Mr. CANNON. Yes; I will let that table go in. I was just going to give the figures. My figures show that the central reserve banks, when this transfer is made from the money which the banks have with them to the Federal reserve banks, they will be required pretty

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nearly to borrow $225,000,000 from the Federal reserve banks in making this transfer.

Senator HITCHCOCK. That is, banks in central reserve cities?

Mr. CANNON. Banks in central reserve cities; yes.

Senator HITCHCOCK. How about banks in reserve cities?

Mr. CANNON. Reserve cities? Let me see.

Senator HITCHCOCK. You mean they will have to do that in order to avoid contracting loans?

Mr. CANNON. In order to avoid contracting loans; yes. I think the reserve cities will not be as much. I think the bulk of it will fall on New York. I have figured out here—my impression is—that New York alone in making this transfer, at the end of three years (I have a table here, but I will not bother you to read it, because it is full of figures), we have now in New York, due to national banks, net, on June 4, $390,000,000.

Senator NELSON. Of bank deposits?

Mr. CANNON. Of bank deposits; yes. Now, of course, if you transfer that to your Federal reserve association, you are obliged to keep this reserve yourself, and your reserve falls in a certain proportion, and therefore you will not have to borrow all of it—I beg your pardon, I was looking at the wrong table. In New York City we had $262,000,000 on June 4, net deposits. I figure that New York City would be obliged to borrow from the Federal reserve association at the end of the three years, if they took down their deposits and transferred them, about $137,000,000. That is, we will be required to borrow that to take care of the existing deposits to be transferred over to the Federal reserve association.

Senator HITCHCOCK. Could not you provide to get money by calling loans?

Mr. CANNON. It could be done in various ways, but my own thought is a large amount of it would be reborrowed from the Federal reserve association. Of course, gentlemen, the whole thing is predicated on something new in American banking. That is, the banks are allowed to borrow. Heretofore, the banks throughout the country felt a little adverse to borrowing. They felt it was a kind of a sin to borrow. The time has come, however, when we are going to change over. It would depend largely on the bank's situation, whether it would call in loans or would borrow; but I assumed it would not call in anything and had the figures drawn up that way. I assumed it would borrow direct from the Federal reserve association, and I figured that New York would have to borrow $137,000,000.

Senator O'GORMAN. I think, Mr. Cannon, that this new departure, having these regional banks as banks of rediscount, has been likened to a pawnshop, where a bank can go with its paper and get accommodation.

Mr. CANNON. Well, of course, that is just a rough way of putting it, but we might say that. That is a joke more than anything else.

Senator O'GORMAN. You do not mean the question was a joke?

Mr. CANNON. No. What we needed for a long time in our banking business in the whole country is some place where we can run, when our deposits begin to recede, and there comes along a time for active use for money. And then, on the other hand, when the

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deposits recede, with no place to take paper and rediscount it, we have got immediately to call in the loans of the borrower.

Senator HITCHCOCK. What would they pay for rediscount?

Mr. CANNON. I take it for granted the rediscount—of course, you could not state what the rate would be, but I take it the rate for rediscount for paper bearing the indorsement of a New York bank, rediscounted at the Federal reserve association, would be very much less in New York than we are charging our customers.

Senator HITCHCOCK. Less than the call-loan rate?

Mr. CANNON. No; it would not be less than the call-loan rate. As far as the call-loan rate, I venture to state the call-loan market would disappear; we would not be obliged to keep out so much as we do now on the call-loan rate.

Senator NELSON. And would not that be a blessing, if you did not have to loan so much on stock collaterals?

Mr. CANNON. I would like to see the money I have on call loans on time just now, as far as that is concerned.

Senator BRISTOW. Mr. Cannon, you say you think the rediscount rate would be very much less than their paper bears?

Mr. CANNON. I think it would, because the risk of the Federal reserve bank, with the indorsement of a strong national bank, would be A1. It would not only have the obligation of the borrower, but the indorsement of the bank.

Senator BRISTOW. To illustrate, say the paper bore a rate of 5 per cent and you discount it for 3.

Mr. CANNON. I do not know what the rate would be.

Senator BRISTOW. To illustrate, say the rate was 3.

Mr. CANNON. It would be entirely according to the money market. I would not gauge the rate except according to the money market, myself. That rate, for prime commercial paper, varies in the market. That is to say, you will always have certain communities that will get a lower rate than other communities. You would consider the banks, in discounting notes. A bank in New York, with a strong capital and surplus behind it—paper with its indorsement—would be considered prime commercial paper. Of course, the rate of interest would be fixed by the board of governors.

Senator BRISTOW. If you could borrow money from the Government at, say, 3 per cent, and loan it at 5, you would want to do all the business you could, at that rate, would you not?

Mr. CANNON. You would want to do all you prudently could.

Senator BRISTOW. That would be the only limitation?

Mr. CANNON. You see, you do not get any security. The mercantile business of the country is done on single-name paper; it is not done upon security. The merchant who buys goods does not give an indorsed note, as he used to in the old-fashioned days. It is done on a single-name basis. He buys goods, and, on the 10th of October, for instance, which is the settlement day for the dry-goods people, he comes to us and says, "I would like to borrow $200,000 or $300,000." He has nothing to give except his own plain note, without a dollar of collateral behind it. We have to take the risk. We take the risk of loaning this merchant $200,000 or $300,000 on his own promise to pay. It is his own note, payable to our order, with nothing behind it.

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Senator HITCHCOCK. Can you do that now, in national banks?

Mr. CANNON. Oh, yes; it is done very largely. The whole business of the country is done on single-name commercial paper.

Of course in the States—I am not speaking outside of the national bank—it may be different. The large mercantile interests insist upon borrowing on single-name commercial paper, and we are obliged to assume that risk. The small bank does not have the same risk. We have it, and we are obliged to assume that risk. We have got to look to the merchant's responsibility, business capacity, and the nature of his business; and we take, in the banking business, a very large risk in handling single-name commercial paper.

Senator BRISTOW. Now, Mr. Cannon, do you not think if the banks of the country can loan money at 5 or 6 per cent, and then discount it at a much less rate at the Government bank, and get currency, the tendency will be to hunt for all of the loans you can get, on which you think you will not lose?

Mr. CANNON. Oh, no; the prudent banker would not go to that extent at all. I do not think so, sir. No; there is prudence in banking the same as there is in any other line of business. He could not afford to do that, because the ultimate result would be the Government bank would fall back upon your bank, and you would lose in case that paper was not good.

Senator BRISTOW. As I say, it must be well secured by the responsibility of the borrower.

Mr. CANNON. I know; but I do not think you would find them around hunting up all sorts of paper.

Senator SHAFROTH. Do you think it is contemplated by this act that notes of merchants shall be taken as rediscount paper?

Mr. CANNON. I think so.

Senator SHAFROTH. Commercial paper, as we have had it explained to us, is a matter in course of expanding.

Mr. CANNON. That is what a merchant does with his money to-day.

Senator SHAFROTH. Yes; but generally in the form of drafts.

Mr. CANNON. No; not at all. Never in the form of drafts at all. All the business of the country is done on single-name paper.

Senator SHAFROTH. The business of the country is done on single-name paper?

Mr. CANNON. On single-name paper, and the 10th of October is the great pay day for the dry-goods people of the country.

Senator SHAFROTH. It means the transaction in process of execution, and that is the way it has been explained to us here—if I sell to you 1,000 bushels of wheat and I draw a draft on you, you accept it and tell me to take it to your bank and it will cash it; that is the paper which is in the course of the transaction in business. Now how do you make the note that you get from the merchant as a transaction in business?

Mr. CANNON. Absolutely. He comes in to us and says, "I have got to pay various jobbing people around New York." Your bill expressly provides for it. He comes in to me and says, "I have got to pay the jobbers I bought my goods from on the 10th of October $500,000, and those goods are on my shelves now." That is business; he has got the goods. He says, "I have got to borrow $500,000, and I want to borrow $250,000 from you, and I am going over to the

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Bank of Commerce and borrow $250,000. That money is to be used in payment of goods on the 10th of October, and I have received the merchandise."

Senator SHAFROTH. How is that bank going to determine who the transaction is with? The man is going to have a promissory note.

Mr. CANNON. He is going to have a promissory note.

Senator SHAFROTH. How would you distinguish that transaction from the transaction of a man who goes on the exchange and buys stock?

Mr. CANNON. Because we do not loan to that class of men on single-name paper.

Senator SHAFROTH. Then the reserve bank will simply have to take your representation?

Mr. CANNON. The national banks who are members of the reserve association—the officers of that association, who are conversant with the business of the neighborhood where that reserve association is located, will know and can easily find out. It is a matter of common knowledge in the banking business that it can easily be ascertained whether paper they rediscount is all right, and if they find they have paper of that kind they can turn it back at any time if it was not properly received.

Senator BRISTOW. I do not think I would criticize that necessarily, because I think an enlargement is better than a curtailment. In fact, in the whole country if the banks relied on drafts drawn there would not be enough drawn to transact the business of the country.

Mr. CANNON. The business of the country is not done that way. That is the old-fashioned way, where the merchant came down to New York and went to the dry-goods district, or to the hardware district, or somewhere else and bought a bill of goods for $10,000 and turned around and gave his note, and then the dry-goods man indorsed the note and put it in his bank. That is not the method now. All good men have credit, and use their credit, and they will borrow from the banks and pay their bills until they make their collections.

Senator SHAFROTH. You think the paper he gives will come within the definition of this bill?

Mr. CANNON. Oh, I do. I feel that is where the helpfulness in this bill is going to come in, it seems to me, in handling that matter.

Senator HITCHCOCK. Do you believe that the reserve bank in New York should be permitted to charge a lower rate on discounts to the New York banks than other reserve banks charge to their member banks?

Mr. CANNON. As I was saying at the outset, I think that is a matter that is to be adjusted. I do not believe you can establish the rate in any law you work out. I am not speaking especially of New York, Chicago, St. Louis, or anywhere else, but the flow of money will always affect the Federal reserve banks, and the rate for discounts will be according to the amount of money which they have on hand. Or, if money is very tight and they desire to have the loans paid off, they will put up the rate of discount.

Senator HITCHCOCK. You emphasize the New York banks. Do you mean by reason of their great resources they should have a lower rate of discount?

Mr. CANNON. No; I am only speaking in a general way.

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Senator HITCHCOCK. You would not have any discrimination between them?

Mr. CANNON. None whatever between them or the Chicago banks and any other banks. The ebb and flow of money in and out of the reserve banks would justify the change of rate. You may have to raise your rate to bring the money in or lower it in order to put the money out. You want to use it; you do not want to keep it in. I suppose that is one of the reasons why in this bill you have provided that one Federal reserve bank can discount for another, to keep the equilibrium between the two.

The CHAIRMAN. You think that necessary?

Mr. CANNON. Oh, I think so; in fact, I do not see how you can run it without that, because one would grab all there was in sight and there would be a scramble——

Senator HITCHCOCK (interposing). Will you describe the process by which one reserve bank would be able to gather funds to that extent?

Mr. CANNON. It could simply raise the rate to such an extent that the banks would not borrow anything from them. The money would return right in.

Senator HITCHCOCK. It would simply accumulate——

Mr. CANNON (interposing). Accumulate their resources.

Senator HITCHCOCK. And reduce their profits?

Mr. CANNON. Reduce their profits and reduce the amount of bills discounted on hand.

Senator HITCHCOCK. What would they have to gain by that?

Mr. CANNON. I do not know that they would have anything to gain by that, but they would simply feel they were not restrained by anybody else.

At the time of the panic in 1907 a gentleman came in to see me. He said, "Now, if you will only lend me $10,000 I will have all my deposits in the bank in cash." [Laughter.] He went away very much discouraged because I would not give him the $10,000 in cash and enable him to go back up into the country and arrange to have all his deposits in cash.

Senator HITCHCOCK. In this case, however, the reserve bank has the reserves of its member banks impounded. It can not withdraw them, so there is no danger of any run so far as they are concerned. And I can not see any motive on the part of a reserve bank, with that security on the one side and ability to secure currency on the other, to accumulate reserves in any manner.

Mr. CANNON. It would only be in the question of management. I am looking at the question of human nature.

Senator HITCHCOCK. As it is now, the bank in the reserve city is forced to scramble for money, because they may be withdrawn in whole or in part, and it has no resources——

Mr. CANNON (interposing). Outside of this.

Senator HITCHCOCK. And if those are renewed, what possible motive would a reserve bank have to pile up a surplus?

Mr. CANNON. I should think only the object of scrambling for everything, as has been done in the past. That is why I say you want a balance of power to stop that practice that would arise in various sections of the country.

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Senator BRISTOW. Mr. Cannon, following up Senator Hitchcock's suggestion, the country banks that have their reserves deposited in this Federal reserve bank can not withdraw them. They can be taken out of your bank now and put some place else, but this regional bank faces an entirely different proposition. They can not take them out; they can not be withdrawn.

Mr. CANNON. Well, they keep very much less, do they not, under the bill?

Senator BRISTOW. Yes; but that is a fixed quantity that can not be taken out.

Mr. CANNON. I know, but they are obliged always to keep a fixed reserve.

The CHAIRMAN. But that is available for your depositors, is it not?

Mr. CANNON. Oh, it is available for the depositors, but you have a fixed reserve. Is not that available for their depositors in the Federal reserve bank?

Senator HITCHCOCK. We think not; we think a bank is not allowed to reduce its reserve.

Senator SHAFROTH. But it can go and deposit paper——

Senator HITCHCOCK (interposing). Under the present law a country bank can take out all of its reserve and keep it in its own vaults, but under this bill it can not take out any more than would leave its reserve equal to a certain per cent. It is impounded permanently and inaccessible.

Mr. CANNON. I do not read the law so; I may be mistaken about it.

Senator HITCHCOCK. I wish you would just refer to that section and see if you put any other construction on it.

Mr. CANNON. You have to have the utilization of your reserves for the payment of depositors, either for drawing it out or issuing currency against it.

Senator BRISTOW. As I understand, there is 5 per cent left in the reserve bank, 5 per cent in its own vaults, and 2 per cent optional. But 5 per cent can not be withdrawn; it is there, and the country bank can not take it away.

Mr. CANNON. Is there not a process for getting currency out on that in some way?

Senator BRISTOW. That is to lie with the bank as to whether they will lend that money, but its reserve can not be disturbed.

The CHAIRMAN. That is not the intention of the draft.

Mr. CANNON. I do not read the bill so.

The CHAIRMAN. I do not think anybody would approve that. The reserves are required to be 12 per cent, 8 per cent to be kept either in their own vaults or with the Federal reserve bank in that district.

Mr. CANNON. That is what I thought; I thought your reserve provisions were very good. Of course, that says "a period of 36 months from and after the date fixed." I do not read that clause to mean that they are not able to draw that out.

Senator BRISTOW. That is to be kept there as a balance.

Mr. CANNON. I know, but you can fluctuate your balance up and down as much as you like.

Senator HITCHCOCK. Yes; you can under the present law.

Mr. CANNON. I should say you could here; I do not see where that specifically states that.

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Senator BRISTOW. If five-twelfths of it is kept there as a balance, when that is drawn out it is not there.

Mr. CANNON. But everybody has to make his reserve good nowadays. If these country banks pay it out over the counter the law compels them to restrict their loans or call in loans.

Senator NELSON. Suppose the bank had it in its own vault; it would still be of no use. You would have to keep it there.

Senator O'GORMAN. It would be available for the use of depositors in certain contingencies.

Mr. CANNON. Yes.

Senator NELSON. The only difference is that part of the reserve is kept in the bank's own vault, and a part in this reserve bank, but neither can be utilized directly. There must always be that fixed amount, and whether you take that 5 per cent from the regional bank and require it all to be put in the particular bank does not make any difference. It is still, in a sense, idle money. But in the regional reserve bank it can not be made the basis of any issue; there is the value of it. It operates there as a part of the capital of the bank. That and the stock subscription together, those two items, constitute the capital of the bank.

The CHAIRMAN. The inquiry if the Senator from Kansas was whether or not this reserve put into the reserve bank was objectionable for any reason. He construes the bill to leave it impounded there so as to be available for any purpose. Now, it comes under the rule of section 5191 of the national banking act, which provides that these reserves may be used for deposits but not for loans, and if it goes below that for any purpose it is to be made good within a limited number of days. If that is ambiguous it ought to be corrected.

Senator SHAFROTH. Section 22 seems to me to clear that up—

> The Federal reserve board may notify any Federal reserve bank whose lawful reserve may be below the amount required to be kept on hand, to make good such reserve; and if such bank shall fail for 30 days thereafter so to make good its lawful reserve, the Federal reserve board may appoint a receiver to wind up the business of said bank.

Senator NELSON. That is covered by the present national-bank law.

Senator HITCHCOCK. That verifies what I say, that it is impounded there, and if checks come in against it the reserve bank notifies the member bank and it must make it good.

Mr. CANNON. Does it not have to make it good now? Suppose they overdraw their account with us and it is down to their re-reserve. We are not reducing their reserve——

Senator HITCHCOCK (interposing). As the law is now, any bank can pay out its reserve to its depositors until it gets down to the last dollar, if it is still solvent. But, under this law, the minute its reserves, by reason of the payment of checks or drafts, drops below the legal reserve the reserve bank notifies the member bank to make it good.

Senator SHAFROTH. Yes; but these reserves that are put in by the member bank being, say, $300,000, the bank has a right to lend out or to in any manner utilize in commerce two-thirds of it, according to this first paragraph of section 22.

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Senator HITCHCOCK. There is no question about that. The question is whether a member bank is bound, under the law, to keep a certain proportion of its reserve impounded permanently.

Mr. CANNON. Not for use, you mean?

Senator HITCHCOCK. Yes.

Mr. CANNON. To pay its depositors?

Senator HITCHCOCK. Yes.

Mr. CANNON. I do not read it that way.

Senator HITCHCOCK. The Senator from Colorado has just read the paragraph which gives the reserve bank the right to order the member bank to make that reserve good or be dissolved.

Mr. CANNON. That is a quotation from the national banking act to-day.

Senator HITCHCOCK. That only applies when a bank is insolvent.

Mr. CANNON. Oh, no.

Senator NELSON. No; under the national banking act to-day the moment the reserves fall below the legal requirement the Comptroller of the Currency notifies the bank, and it is not allowed to make any loans——

Senator HITCHCOCK (interposing). That only stops it from making loans. It does not dissolve the bank. It only stops it from making loans until the reserve is restored.

Senator NELSON. And if it is not restored in 30 days the bank goes out.

Senator HITCHCOCK. Not if it is still solvent.

Senator SHAFROTH. That depends upon whether the Comptroller of the Currency gives the notice. He can let it run for six months.

Senator HITCHCOCK. This reserve bank is not allowed to let it run. It must notify the bank and the member bank must make it good. That verifies what I have said, that the reserve is impounded.

Senator NELSON. No more impounded than it is to-day under our national banking system.

Mr. CANNON. Now, in regard to these stock subscriptions, this seems to be a storm center of the discussion. Why could you not continue this provision just as it is, and add a clause providing that within three years the member banks would be at liberty to dispose, if they so desired, of at least 75 per cent of such stock as they held, the purchasers to be approved by the board of directors, or the executive committee of the Federal reserve bank, before any transfer could be made? It could be provided that the stock so disposed of should not have any voting power. The stock should show plainly on its face that such transfers could only be effected with the approval of the Federal reserve bank.

This would seem to meet the objections raised by many country banks, as well as the large city banks, that section 19 would cause them to lock up a large sum of money in unavailable assets. The passing on stockholders by boards of directors is not an unheard of thing. The stock of the Federal reserve bank would certainly make a splendid investment for any individual. I think that would remove many of the objections to this section, and certainly cause the bankers to be more contented with their investment.

Now, it may be out of order to make that suggestion, but it occurred to me that it might be done. We have in New York a situation that is somewhat similar. Our clearing-house building in New

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York was built by a a clearing-house building company. The stock of that clearing-house building company is owned by the banks who are members of the association. The building was put up. The stock carries a fixed rate of interest, and we are not allowed to sell it to anyone else at all, to any individual or outside person; we can only turn the stock back into the clearing-house association, or they can redeem it from us. There is something akin to that in that section.

I simply make that suggestion as perhaps meeting some of the objections that have been made to the stock subscription matter.

Senator WEEKS. Of course, you recognize, Mr. Cannon, the necessity of keeping this stock from being accumulated in the hands of any particular interest?

Mr. CANNON. Oh; surely.

Senator WEEKS. One way of doing that would be to require that the member banks, as a condition of membership, should own a certain percentage of this stock as required in this bill. But if any of that stock is going to the public in any form, some method of restricted transfers must be provided which would prevent its falling into the hands of a set of individuals.

Mr. CANNON. Yes; it would have no voting power——

Senator WEEKS (interposing). Do you think it is wise to deny voting power?

Mr. CANNON. Lots of preferred stocks now have no voting power.

Senator WEEKS. Not very many.

Mr. CANNON. Quite a good many. Yes; there are quite a good many preferred stocks without any voting power.

Senator WEEKS. There may be quite a good many; I do not recall any.

Mr. CANNON. A good many industrial preferred stocks. The thought I suggested was that the purchases would have to be approved by the board of directors or the executive committee of the Federal reserve bank before the transfer could be made. I simply throw that out as a suggestion that might, perhaps, be helpful. I do not know whether it would be at all useful in any way. Now, in the matter of the retirement of circulation based on the 2 per cent bonds, I have no remedy for that and I have thought over it a great deal. The way I feel about it is that the Government can afford to treat the banks with these 2 per cent bonds very liberally. They came to the assistance of the Government when this bond issue was put out, taking them over, and some remedy should be devised to provide against the great loss which would be entailed on the banks and the large amount of money which would necessarily be locked up. I confess that is a subject for solution, and I presume that your committee has, in its combined wisdom, some plans devised to protect the Government and do some justice to the banking community, which I suppose the sponsors for the bill always desired to do.

We need banks in handling Government bonds. We need them as the years go by. At times they become buyers of Government bonds, and there ought to be some way provided whereby this loss which is hanging over them on account of the 2 per cent bonds could be done away with.

Senator WEEKS. Do you see any objection to applying the surplus earnings of the regional banks to the retirement of the national debt

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and making other provisions which would, in a term of years, entirely eliminate our national debt?

Mr. CANNON. Not a bit. Your earnings are going to be large.

Senator WEEKS. How large do you estimate they will be?

Mr. CANNON. I have the figures here if you will allow me a moment to look them up.

Senator NELSON. If we allow them 6 per cent on their stock would it not be wise to have all the residue of the revenue go to the Federal Government?

Mr. CANNON. Yes, sir.

Senator NELSON. And provide a sinking fund?

Mr. CANNON. I would do that. I think it would be better to do that anyway than to attempt to divide the residue in the way you have it in the bill, because then you are trying hard all the time to push your earnings.

The CHAIRMAN. You mean these banks should not be mere money-making banks; they ought to be public-utility banks?

Mr. CANNON. Yes; and at the same time safe.

The CHAIRMAN. Did you answer Senator Weeks' question?

Mr. CANNON. I am looking up the figures; I have them somewhere here. I had this estimate made of the Federal reserve bank in New York, running over a period of three years, using 4 per cent for loans and 3 per cent for investments, taking a very low figure, and providing for 2 per cent interest on the general fund. I think the Government should, perhaps, forego that 2 per cent interest if it were necessary to do so. I also took the tax on notes at one-half of 1 per cent. On that basis I would figure the gross income the first year to be $6,123,100, the second year, $6,815,000, and the third year, $6,885,-200 gross. I figure the expenses of interest and taxes and the expense of maintaining the Federal reserve bank in New York at about $300,000 a year.

Senator POMEREE. What do you make the capital stock and probable holdings of depositors?

Mr. CANNON. The capital stock, with 10 per cent paid in the first year, I figure would be about $19,500,000. The general fund that New York would be entitled to transfer from the Government deposits to that general fund in New York—you will apportion it throughout the country, according to the bill—would be about $75,-000,000. The required deposits of subscribing banks would be about $51,000,000, and then I put an arbitrary note issue or deposit of credit at $100,000,000. So they would have approximately the first year about $246,000,000 to use, the second year about $280,000,000, and the third year about $284.000,000 to use.

Senator WEEKS. What do you mean by the general fund?

Mr. CANNON. The Government deposits. You would put all your Government deposits, Senator, according to this bill, into a pot and apportion it out.

Senator WEEKS. Are you figuring the reserve bank would pay interest on that?

Mr. CANNON. I am; yes, sir. I figured here in my expenses $1,500,000 from New York alone.

Senator WEEKS. Why do you do that?

Mr. CANNON. I really do not know why you should.

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The CHAIRMAN. It would not be necessary if all the surplus went back to the United States Government.

Mr. CANNON. No; if all the surplus went to the Government it would not be necessary. On that basis I would figure the net income for the first year—of course, this is only approximate—at about $3,823,100, with a dividend at 5 per cent of $995,400. The available surplus the first year would be $2,827,700. The second year the net income would be $4,515,000. Deducting the dividend of 5 per cent, the surplus would be $3,519,600 net. The third year the net income would be about $4,585,200, and with the dividend out the surplus would be about $3,589,800 net.

Now, if you do not pay the Government interest, the New York Federal reserve bank alone ought to show a net profit to the Government, before putting on 6 per cent interest on these certificates, of pretty close to $5,500,000.

Senator NELSON. Is not your table there based on the assumption that all these funds are out and actively at work?

Mr. CANNON. No; that is on a proportional amount.

The CHAIRMAN. I should like to have that statement go in the record.

Mr. CANNON. With great pleasure.

(The statement referred to is as follows:)

Tentative income and expense, Federal reserve bank of New York.

	First year.	Second year.	Third year.
Income:			
Loans at 4 per cent	$4,000,000	$4,000,000	$4,000,000
Investments at 3 per cent	2,123,100	2,815,000	2,885,200
Total	6,123,100	6,815,000	6,885,200
Expense:			
Interest on general fund, 2 per cent	1,500,000	1,500,000	1,500,000
Tax on notes one-half of 1 per cent	500,000	500,000	500,000
Salary of Federal reserve agent, proportion of expenses of Federal reserve board, salaries of clerks, stationery, and sundries, but no rent	300,000	300,000	300,000
Total	2,300,000	2,300,000	2,300,000
Net income	3,823,100	4,515,000	4,585,200
Dividend on stock, 5 per cent	995,400	995,400	995,400
Available for surplus	2,827,700	3,519,600	3,589,800

Mr. CANNON. I think that plan would be about the right thing. If New York could earn for the Government over and above the 6 per cent interest on these certificates, say, $4,000,000, why, you would have a very substantial fund, Senator, every year for the retirement of the twos and the retirement of the Government debt.

The CHAIRMAN. You assume the bank would carry part of these twos in its own vault and have them so they might be issued as one-year notes?

Mr. CANNON. That could be done.

The CHAIRMAN. Would not that make a quick asset that would serve for a reserve?

Mr. CANNON. Something of that kind might be done. I have thought about a great many plans, but I have not given the matter

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as careful study as I might. I should expect that something should be done. I think the country banks would appreciate that being done for them. And we want the banks; the Government wants the banks. We have to put out Government issues again, and we want them to stand behind the Government always.

The CHAIRMAN. I think there is perfect unanimity of opinion about the Government protecting its obligations, as well as the banks protecting those twos.

Mr. CANNON. Now, in the matter of the savings bank departments, that has been another storm center. We have now the postal savings bank law, and it seems to me it would be hardly necessary for this section to appear in the law with reference to savings bank departments. While, no doubt, in the minds of the framers of the act this is put in looking forward to the new savings bank departments which may be established in the national banks, its effect has been disturbing to the old savings bank departments which they have had so many years. If this section should remain in the act, should it not be made to apply only to such departments as may be established under the act? Then you would have no trouble with the present savings bank departments I believe that would help very materially in discussing that question. It seems so to me. I think the country bankers would feel very much better about it.

Now, there is one other thing in the act that I want to commend heartily, and that is with respect to domestic exchange facilities. I think this method of permitting the Federal reserve banks to handle the domestic exchange problem is going to solve one of the greatest banking problems you have in the country to-day. It certainly is one that a great many bankers have been working on for a great many years.

I have always been from the start a consistent advocate of taxing these things out of existence; I thought it was my duty, and I introduced in the Cleveland convention of the American Bankers' Association a great many years ago a resolution which made it the duty of every banker to charge on country checks. I spent six months as a member of the committee of the New York Clearing House Association last year studying this subject, and I want to say, Senator Weeks, that I think Boston has us all beaten to a frazzle.

I have changed my attitude in regard to this country-check proposition. I believe the country check is here to stay; it is a part of the business of this country. It is a part of its circulating medium to a certain extent, and the thing to do with it is to collect it as soon as possible at the least expense to the banks. In this bill, I think, you provide that, and I think that will be a great boon to the merchants and manufacturers—in fact, to the whole country—when that thing is once organized. I think our friends in the country banks do not quite clearly understand the situation. I understand they feel the exchange part of their business is very large. Well, the exchange on checks is not very large. The exchange they get in the country banks is more on drafts—grain drafts, cotton drafts, and odd things which naturally would not go into the Federal reserve bank. The Federal reserve bank would not undertake to collect those things.

Senator WEEKS. When you speak of exchange, do you mean earnings?

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Mr. CANNON. I mean the amount deducted from a check drawn on a bank. That is where many of us are at sea. I do not believe the earnings of the country banks themselves, if they took them out from the aggregate amount of money they received for handling checks, would be very large.

The CHAIRMAN. Will you explain how those cotton drafts are handled?

Mr. CANNON. Yes. Cotton drafts are handled in the South in a different way. There they come in, and, as I understand it, the buyer goes around and buys a lot of cotton. He then goes to the bank, and often attaches bills of lading to that draft, and asks the bank to advance the money so that he may pay for it on the following day. The bank sends that draft on to their New York correspondent to collect for them. The bank in the South makes a very substantial charge for doing that business, and they call that exchange.

The CHAIRMAN. That will not be denied by this bill.

Mr. CANNON. That will not be denied by this bill at all. In fact, in this bill you do not deny to the country bank for one minute the privilege they had of charging the Federal reserve bank if they sent any items to it. You do not deny that to the member; he has a perfect right to charge.

Senator HITCHCOCK. Mr. Cannon, I have before me a statement of a small national bank in the South, with a capital of $100,000, surplus of $66,000, and deposits of $618,000. This bank estimates its loss from exchanges at about $4,300, which has to come out of its earnings if the terms of this bill are lived up to, and I am sure that its exchanges are upon checks.

Mr. CANNON. They are upon cotton drafts? They are not upon drafts for merchandise of any character? They are entirely upon checks?

Senator HITCHCOCK. I am not able to say, but I believe they are.

Mr. CANNON. I wish you would look into that. I have before me a report of our committee on inland exchange, which we had a lot of——

The CHAIRMAN (interposing). You may put that in the record.

(The report referred to is as follows:)

REPORT OF THE COMMITTEE ON INLAND EXCHANGE TO THE CLEARING HOUSE COMMITTEE, NOVEMBER 4, 1912.

NEW YORK, *November 4, 1812.*

To the Clearing House Committee, New York Clearing House Association.

GENTLEMEN: Your subcommittee on inland exchange, appointed in accordance with the terms of the following resolution:

"Whereas there were adopted on the 3d day of April, 1899, rules and regulations of this association regarding collections outside of the city of New York, which, with the exception of special interpretations put upon certain clauses of the same by the clearing house commttee, have never been altered or amended. In view of the fact that the volume of collections during the past 13 years has increased very largely, and also the fact that since those rules and regulations were established there have been various methods pursued in the handling of collections by the different clearing house associations throughout the country, it would seem as if the time had arrived when a careful investigation should again be made of this matter: Therefore, be it

"*Resolved*, That a special committee of five be appointed by the chairman for the purpose of making a thorough investigation of the subject of inland exchange and collections, and the methods pursued by other clearing house associations, and

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to report to this committee such changes in the rules or regulations of the New York Clearing House Association as in its judgment may be deemed best; and be it further

"*Resolved*, That this committee be authorized to invite to appear before it managers of other associations and members of this association for the purpose of procuring any necessary information, and that any expenses incurred by the committee shall be borne by the clearing house association,"

which was adopted by the clearing house committee on April 1, 1912, begs to submit herewith a résumé of its activities, which began as soon as practicable after its appointment, and continued without intermission until quite recently.

Your committee approached this investigation with an entirely unprejudiced mind and has maintained an attitude of strict impartiality throughout. It has given careful consideration to the facts it has gathered and feels that it is now in a position to report its conclusions and the findings upon which these conclusions are based.

Under its direction two forms were prepared. A copy of one of these forms was sent to each bank and trust company member of the New York Clearing House Association, the purpose being to place the committee in possession of information with respect to what, if any, changes they felt should be made in our existing rules and regulations affecting the collection of country checks.

In furtherance of your committee's desire to receive as many different points of view as possible on this most important subject, it met frequently at the clearing house during the spring and summer months for the purpose of discussing it in a frank and unbiased way with the president, or such officer as he elected to represent him, of each clearing house institution.

The second form prepared under the committee's supervision was designed for use in conveying to it certain information for statistical purposes, in respect of the amount, source of receipt, disposition and cost of collection, as well as time consumed in collecting foreign items received by each individual institution during the month of May, 1912. A copy of this form was handed to each member's representative at the time he appeared before the committee, with a careful explanation of its purpose and confidential nature.

The figures compiled from the data contained in these reports indicate that the gross income of the members of the clearing house association from collection of exchange during the year 1911 was		$2,139,551.00
Exchange cost	$1,176,162.00	
Proportionate share of postage, rent, stationery, and salaries for 1911	569,461.78	
Estimated loss of interest on interest-bearing accounts where immediate credit is given for foreign checks, based upon figures submitted by eight of the largest institutions in the clearing house	296,460.00	
		2,042,083.78
Net income		97,467.22

It should be borne in mind that this net income is the result of handling a volume of business based on the figures gathered for the year 1911 of approximately $4,859,187,900, and when distributed between the 64 active members of the clearing house association represents an annual increment of income to each of only about $1,500.

The figures gathered by your committee for the month of May, 1912, show a daily average amount of foreign checks received of $16,284,346.

As to the discretionary and charge points, this volume was distributed as follows:

Discretionary points	$11,404,363
One-tenth points	3,938,198
One-fourth points	865,785

It will be observed from these figures that of our daily volume of out-of-town business for May, 1912, 71 per cent was on the discretionary points, 24 per cent was on the one-tenth points, and only 5 per cent was on the one-fourth points.

The daily average amount of cash items outstanding during the same period was $68,215,328, indicating that the average time consumed in the collection of our country checks was 4.19 days.

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Your committee also procured from the members of the clearing house association the data with reference to the average daily outstandings of cash items during the year 1911 which amounted to $67,866,658. Considerable labor was involved to the banks in providing this information, but as a medium for comparison with the same figures for May, 1912, which, as previously stated, totaled $68,215,328, the committee was enabled to confirm its impressions that the month of May, upon which its principal figures were based, was an excellent average month.

The succeeding table shows the average daily amount, the average time consumed, and the average cost of collecting checks on the discretionary points, and also on a number of the other more important nondiscretionary cities of the United States :

City.	Average amount.	Average time.	Average cost.
		Days.	
Philadelphia	$4,174,177	3.514	2 banks, $0.340 per M (49 par, 13 not reporting).
Boston	2,874,831	3.523	4 banks, $0.069 per M (47 par, 13 not reporting).
Baltimore	958,796	3.243	21 banks, $0.36 per M (28 par, 15 not reporting).
Newark	943,321	4.047	1 bank, $0.29 per M (48 par, 15 not reporting).
Albany	889,410	4.117	2 banks, $0.208 per M (47 par, 15 not reporting).
Providence	351,282	4.188	3 banks, $0.156 per M (46 par, 15 not reporting).
Troy	110,280	3.935	5 banks, $0.363 per M (39 par, 20 not reporting).
Jersey City	370,781	3.657	2 banks, $0.18 per M (46 par, 16 not reporting).
Hoboken	134,240	3.63	1 bank, $0.01 per M (46 par, 17 not reporting).
New York City	1,068,025	3.885	No cost (42 par, 22 not reporting).
Greater New York	847,883	4.053	2 banks, $0.107 per M (40 par, 22 not reporting).
Chicago	417,320	4.739	34 banks, $0.54 per M (13 par, 17 not reporting).
Pittsburgh	132,797	3.95	24 banks, $0.768 per M (22 par, 18 not reporting).
Cleveland	135,622	4.341	37 banks, $0.618 per M (9 par, 18 not reporting).
St. Louis	109,470	4.787	38 banks, $0.788 per M (8 par, 18 not reporting).
Buffalo	96,850	4.143	20 banks, $0.616 per M (23 par, 21 not reporting).
Cincinnati	79,588	4.178	41 banks, $0.631 per M (6 par, 17 not reporting).
Washington	71,374	2.95	37 banks, $0.60 per M (9 par, 18 not reporting).
Hartford	57,872	4.705	15 banks, $0.62 per M (32 par, 17 not reporting).
Kansas City	42,719	5.31	38 banks, $0.91 per M (6 par, 20 not reporting).
Minneapolis	30,861	5.02	40 banks, $1.14 per M (5 par, 19 not reporting).
St. Paul	23,615	4.923	39 banks, $1.18 per M (5 par, 20 not reporting).
Atlanta	25,229	5.196	37 banks, $1.06 per M (6 par, 21 not reporting).
New Orleans	20,838	6.941	32 banks, $1.16 per M (12 par, 20 not reporting).
Omaha	19,309	5.787	39 banks, $1.11 per M (6 par, 19 not reporting).
Denver	19,786	6.47	41 banks, $1.15 per M (4 par, 19 not reporting).
Seattle	34,095	8.928	40 banks, $1.36 per M (4 par, 20 not reporting).
San Francisco	50,745	9 404	39 banks, $0.87 per M (6 par, 19 not reporting).
Los Angeles	27,967	8.937	40 banks, $1.10 per M (4 par, 20 not reporting).
One-tenth points	.....	4.177	44 banks, $0.609 per M (20 banks not reporting).
One-fourth points	.....	7.000	44 banks, $1.40 per M (1 par, 19 not reporting).

Subsequent to the appointment of this committee on inland exchange by the clearing-house committee of the New York Clearing House Association, the bankers' associations of New York, New Jersey, Connecticut, and Massachusetts took similar action. These committees in due course communicated to your committee their desire to discuss this subject fully with it. Their requests were gladly granted, and at appointed times your committee has had the pleasure of entertaining the representatives of each of these associations.

In view of the foregoing résumé of the scope and detail of the work of your committee and of the facts thus ascertained, and because your committee is convinced that the operation of the present rules and regulations of the New York Clearing House Association in respect of charges on inland exchange, results in barely making good to the banks and trust companies making their exchanges through the clearing house, their actual outlay in handling such business, including the amounts of exchange charged on or deducted from return remittances, without substantial return for the enormous volume of the business thus undertaken and its risks, your committee feels itself compelled in the interest of the conservative business methods which are required in good banking, respectfully to recommend that the main body of the existing rules and regulations of the New York Clearing House Association, regarding collections outside of the city of New York, shall remain unchanged.

In the judgment of your committee, however, within certain restricted territories, and for reasons which are in each instance peculiar to the areas involved, the rules should be modified with advantage alike to ourselves and to the inland banks and business interests affected by them.

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After a careful consideration of all the questions involved, it furthermore respectfully recommends that all banks and trust companies in the States of Massachusetts, Rhode Island, Connecticut, New Jersey, and New York, which will engage themselves in writing to the manager of the New York clearing house, over the signature of the president, cashier, or treasurer to remit to the members of the New York Clearing House Association at par, in New York funds, on the day of receipt, the charge shall in all cases be discretionary with the collecting bank.

It is not proposed that the foregoing recommendations shall in any way disturb the relations now existing between our members and the banks located in the present discretionary cities.

In the opinion of your committee this proposed modification of the rule respecting discretionary places so as to include the entire region mentioned, provided the local banks themselves in any community wish it, rather than extending the privilege of a few specially designated cities or towns in that territory, will, if adopted, do much toward relieving the irritation and dissatisfaction which have heretofore existed among many near-by banks not situated in a discretionary city. This proposal affords opportunity to the banks in each locality to determine for themselves and for their customers whether or not they wish to enjoy the benefits and share the burdens of a discretionary or free collection point.

All of which is respectfully submitted.

(Signed) JAMES G. CANNON,
WALTER E. FREW,
JOSEPH T. TALBERT,
EDWARD TOWNSEND,
JOHN W. PLATTEN,
Committee on Inland Exchange.

Senator HITCHCOCK. We had before us the other day a witness who said that the earnings of small banks in Mississippi in the exchange of checks amounted to over $600,000 a year, which the banks of Mississippi would lose.

Mr. CANNON. I think that must include drafts.

Senator NELSON. I understood him to include both checks and drafts. I think, if you will look up his remarks in the record, you will find that to be so. And that gentleman who appeared with the Chicago delegation, too; I understood in both cases, they included checks and drafts.

Senator SHAFROTH. He said his own losses would be $20,000.

Mr. CANNON. It could not possibly be that. They could not possibly charge that much on checks drawn upon them. Now, the gentleman also forgets, I think, that under this act they are going to be able to secure a very much larger amount of business in their own neighborhood than they had before, and a good many other things will accrue to their interest that they have not thought of probably.

I am very much interested in that statement because all the investigations we have made over a period of years I have never seen anything like that. What are his deposits?

Senator HITCHCOCK. $618,000.

Mr. CANNON. And how large a city is it?

Senator HITCHCOCK. It is a small town, the town of Bessemer.

Mr. CANNON. From my investigations which I have made over a period of years, I do not believe that the exchange on checks will be much. But I think the general good to the country from being able to have these Federal reserve association act, as you might say, as clearing houses for this entire matter, will certainly be to the great good of the mercantile interests and banking interests of the country, as far as I can see.

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Senator HITCHCOCK. The population of the town I spoke of is 10,800.

Mr. CANNON. I do not believe that could be on checks then. I think a large amount of that would be on time deposits, which do not draw checks. Will you kindly have that analyzed as a personal matter and let me know?

Senator HITCHCOCK. But other witnesses who came from other States, I remember, were very positive that the losses to country banks would be a large proportion of their total earnings if they lost these collection charges.

Mr. CANNON. There is nothing in the act; they can charge just the same, if they want to. The amendment to the House bill specifically states that they can charge, if they want to, the Federal reserve bank for collecting those checks.

Senator HITCHCOCK. Suppose they undertake to charge the Federal reserve bank. What would they do?

Mr. CANNON. They would stand the charge, I suppose.

Senator HITCHCOCK. They would charge the member bank?

Mr. CANNON. No; they could not do that, because you would have taken them for nothing. That would be a part of the business of the bank.

Senator BRISTOW. How much could they charge?

Mr. CANNON. How much could who charge?

Senator BRISTOW. Why, the country bank.

Mr. CANNON. That would vary according to the town.

Senator BRISTOW. How much could it charge the Federal reserve bank, if it could charge?

Mr. CANNON. It can only, according to the act, make a reasonable charge; that is, it would be according to whether their exchange is at a premium or at a discount, what the situation was, and the time of the year in which the checks were drawn.

Senator HITCHCOCK. These charges made by small country banks, I understand, are not so much for exchange; they are really such a charge as a lawyer would make for making such a collection.

Mr. CANNON. This must be on drafts; it would not be on checks, because a check is drawn absolutely on a country bank, and we send it directly to them now, and they remit to us, deducting 5 cents or 3 cents, and some deduct only the postage.

Senator HITCHCOCK. Is it not a fact that many of them deduct a tenth of 1 per cent?

Mr. CANNON. Yes.

Senator HITCHCOCK. And one-quarter of 1 per cent?

Mr. CANNON. I will read you the figures we gathered through our committee from the New York banks during the month of May, 1912. The daily average amount of these foreign checks we received then was $16,000,000; on points where no charge was made at all there was $11,400,000. On quarter points it was only $365,000, which is very small in proportion.

Senator BRISTOW. Now, to get this clearly in my mind, suppose I, living at Salina, Kans., pay a bill that I may have in Chicago for $1,000 by sending to my Chicago creditor a check for $1,000——

Mr. CANNON (interposing). On your local bank?

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Senator BRISTOW. On my local bank. That settles my account with him. I am given credit for that $1,000. Now, that comes back to the bank where my account is, and is charged to me. What charge is made on that check in that process?

Mr. CANNON. You can not tell. There may not be any charge. It may be a question of reciprocal balances. It may be something that nobody knows except your bank and the Chicago bank.

Senator BRISTOW. What interest has the local bank in that check?

Mr. CANNON. All the interest he has is to pay it and charge it to your account.

Senator BRISTOW. So he gets nothing out of that?

Mr. CANNON. Well, you draw your check to-day, for instance, and send it to Chicago, on Salina, Kans. Now, if you are out there in Salina, Kans., you may go in there and draw that money and send it to Chicago and he gets the use of that money a longer time than he would ordinarily.

Senator BRISTOW. Now, the Chicago banker might charge my creditor for the collection of that check, or he might not.

Mr. CANNON. Or he might not.

Senator BRISTOW. Now, a man at Plainville, Kans., owes me $100, we will say, and he sends me a check and I deposit that in my local bank. Now, the local bank may charge me for the collection of that——

Mr. CANNON (interposing). According to your balance in the bank. If your balance is a good balance, and you only put in these out-of-town checks once in awhile it would not charge you a cent, because your balance would be ample to cover any exchange charge there might be.

Senator BRISTOW. The interchange of these checks is what you call domestic exchange?

Mr. CANNON. Yes, sir; that is it—checks.

Senator BRISTOW. Now, in some communities they charge for these collections, and in others they do not?

Mr. CANNON. But gradually extending throughout the country is the Boston system. As I said a moment ago to Senator Weeks, we take off our hat to Boston, because they originated the Boston system of exchanging these checks without charge. Kansas City has a plan now which is gradually being extended to collections throughout the country. So these checks pass quickly from the maker of the check back to their redemption without any charge and they pass as the circulating medium of the country to a great extent.

Senator BRISTOW. To carry this illustration further, suppose my creditor at Chicago deposited that check with the Chicago bank that is a member of this national organization. That bank would not charge him?

Mr. CANNON. It would not charge him; no, sir.

Senator BRISTOW. Because the Federal reserve bank would not charge him anything?

Mr. CANNON. It would not charge him anything; that is it. And you can see that the merchantile interests would be greatly benefited by that all over the country.

Senator WEEKS. Can you see any objection to transferring that business to the Federal reserve banks, unless it is the possibility of preventing all loss in earnings accruing to the country banks?

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Mr. CANNON. I can not see any at all. I think it is an advantage to the country generally.

Senator WEEKS. What do you enumerate as the advantages?

Mr. CANNON. The advantages?

Senator WEEKS. Yes.

Mr. CANNON. I would enumerate the quick returns, the same as we have in the clearing house to-day. We have this large volume of business throughout the country, and these entries would be made, as I look at it—the transfers would be made upon the books of the Federal reserve banks. I feel that the amount of money that would be saved to all concerned would be very considerable.

Senator HITCHCOCK. Would it amount to an expansion of credits?

Mr. CANNON. No, sir; it would amount to a quick payment.

Senator HITCHCOCK. Let me take an illustration. Suppose Senator Bristow's check, to which reference has been made. is in the hands of a Chicago merchant, and that is deposited in the bank to its credit on that day instead of waiting four or five days. Would they not receive that much additional credit?

Mr. CANNON. Now it extends credit in more ways than one. What would happen to the Senator's check would be that that bank in Chicago would say that I do not want to send that check out to Salina, Kans., and so I will send that to Kiowa. So the bank in Chicago sends that to Kiowa and gets a credit of $1,000 at Kiowa, and the banker at Kiowa says "I will send that to Uncle John Mulvane, at Topeka"; and so he sends that to Uncle John, and Uncle John sends it to Salina to see whether the Senator's check is good. And there is where the expansion of credit is now.

Senator WEEKS. Uncle John would not have to do that; he knows it is good. [Laughter.]

Senator HITCHCOCK. Is that done now?

Mr. CANNON. Yes; it is constantly done now. We do that in our own bank. We have checks we send to points up in Connecticut, and the bank in Connecticut sends them to another bank in Albany, N. Y., and they come back to us from Albany. We had one like that the other day. Under this scheme everything would be handled directly and quickly and with greater safety to everybody.

Senator BRISTOW. Tell me why the bank at Chicago would send it to Decatur.

Mr. CANNON. Because they think probably they may get an account out of Decatur. There are all sorts of by-arrangements. The bank at Decatur thinks they will send it to Uncle John, because they want to do something with him. That thing is coming up constantly in all sorts of ways.

Senator BRISTOW. In the meantime has the person who deposited the check originally still got a credit?

Mr. CANNON. Oh, yes; but they never know for a long time whether it has been paid. Those checks go all around, and finally it comes back to the bank in which it was originally deposited.

Senator WEEKS. As a matter of fact, if that merchant in New York, instead of Chicago, deposited Senator Bristow's check with you and you were paying him interest on his deposit, you would not pay him on that check until it had been collected?

Mr. CANNON. We would not now. We would deduct so much from his interest account. Under this scheme he would not be a

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loser, because it would be done very quickly. We do not pay mercantile accounts any interest in our house. Many banks do, however.

Senator WEEKS. Many banks pay interest on certain kinds of individual accounts.

Mr. CANNON. Yes.

Senator HITCHCOCK. Would it not be a balance that could be checked against?

Mr. CANNON. According to whether the account was good, bad, or indifferent, depending upon the depositor.

Senator HITCHCOCK. If the depositor is a man of good credit it would increase his credit with you?

Mr. CANNON. Yes.

Senator HITCHCOCK. He might put out 100 checks of that sort and his credit would be increased?

Mr. CANNON. Yes. I believe this will be very helpful in doing away with these notes current all over the country, having these Federal reserve banks acting as clearing houses in this matter. I do not know that I have been very helpful to you, but such suggestions as I have had I have been very glad to give to you.

Senator O'GORMAN. What is your idea, generally, of this proposed change in our currency system?

Mr. CANNON. How is that?

Senator O'GORMAN. What is your idea generally regarding the proposed changes in our currency system?

Mr. CANNON. I think if you can make some of these changes in your bill, and make it so it will be acceptable to a large number of people. I think it will be very advantageous to the country, with these changes incorporated in.

Senator WEEKS. What is the relative importance of the mobilization of reserves and the elasticity of currency; which do you regard as the more important?

Mr. CANNON. I would have to differentiate between them. I think they are both quite important.

Senator WEEKS. England has mobilization of resources and practically not an elastic currency.

Mr. CANNON. Our country is large, scattered over such a tremendous district; we do our business in such an entirely different way from what they do their business over there that I do not believe you can take England as an example.

Senator NELSON. They do their business on bills of exchange in drafts; we do ours on promissory notes.

Mr. CANNON. That is true.

Senator POMERENE. I want to ask you a question right there. In the earlier part of your statement, in speaking about having these notes guaranteed by the Government, you used an expression something like this, that you would fix the notes so as not to embarrass the Government in their redemption. What did you have in mind?

Mr. CANNON. To make those redeemable in gold you must have some arrangement whereby they could not in any way embarrass the Government by a great amount of them coming in upon the Government, as was the case in Mr. Cleveland's time.

Senator POMERENE. How would you do it?

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Mr. CANNON. I am not clear in my own mind about that. It is a very difficult question. The question is whether they shall be redeemed in Washington——

Senator BRISTOW. Suppose—these notes are not good for reserves, and of course they will accumulate in New York, just like national bank notes.

Mr. CANNON. Where will they accumulate?

Senator BRISTOW. In the banks at New York.

Mr. CANNON. Outside those who are not members?

Senator BRISTOW. In the general transaction of business, will not this money which can not be used for reserves in the banks finally get back to the place of redemption, just like national bank notes do?

Mr. CANNON. That is what the act provides for—prompt redemption of the notes.

Senator BRISTOW. They will come to the Treasury Department, large amounts of them, would they not, in the operation of business, just like the national bank notes do now?

Mr. CANNON. I do not believe they would under this act, because, you see, here we would be members of the Federal reserve bank, and we would deposit those notes immediately in our own Federal reserve banks.

Senator NELSON. They must be sent to the bank which issues them.

Mr. CANNON. Yes. The amended section provides what shall be done with them. They are to be sent to the bank upon which they are issued, not to be paid out again.

Senator BRISTOW. Does it say not to be paid out again?

Senator NELSON. I call your attention to line 6 on page 31 of the bill, where it says:

> Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption.

Mr. CANNON. That is it; yes.

Senator NELSON. But the question is, if they are presented to the issuing bank—that was the question submitted yesterday.

Mr. CANNON. You do not think that is quite clear in the act?

Senator NELSON. If they are presented to the issuing bank for redemption and the issuing bank redeems them, what becomes of them? Are they retired, or can they be put into circulation again?

Mr. CANNON. That is not clearly stated here.

Senator NELSON. Ought it not to be clearly stated?

Mr. CANNON. I think it should.

Senator NELSON. And inasmuch as they are based upon this asset currency ought they not to retire the notes, if they come back, after they have been redeemed by the bank?

Mr. CANNON. I do not see why they should not.

Senator NELSON. That is, the bank ought not to have the right to issue that note again? It has gone its rounds. It was issued on commercial paper with that reserve. It has performed its functions and come back and been redeemed. If the bank issued it again without having additional paper for security, there is no security back of it, nothing but the redemption fund. Ought it not to be retired?

Mr. CANNON. I should think so.

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Senator HITCHCOCK. Senator Nelson, the bank has security up for that loan; it has segregated a certain amount of that loan which is not yet due.

Senator NELSON. I know, but it has paid gold for it.

Senator HITCHCOCK. The accident of its coming back is like the accident of another deposit made in the bank.

Mr. CANNON. The bank pays a tax upon it until it comes back.

Senator WEEKS. What have you to say about paying a tax on circulation?

Senator NELSON. I want to get clear on your opinion as to that one point. Ought that note to be retired after it has gone the round and been redeemed?

Mr. CANNON. I believe it should.

Senator NELSON. Redeemed by the issuing bank?

Mr. CANNON. Redeemed by the issuing bank and a tax paid on it until it comes back.

Senator NELSON. Now, ought not the regional reserve banks that issue this currency provide this gold reserve, this 33⅓ per cent gold reserve, instead of the Government?

Mr. CANNON. I think so; generally; yes.

Senator NELSON. They ought to provide it?

Mr. CANNON. Sure.

Senator NELSON. And relieve the Government entirely of the burden?

Mr. CANNON. That is what I say.

Senator NELSON. Would it not be wise to require, instead of 5 per cent in gold for that reserve, that they should deposit 10 per cent?

Mr. CANNON. You mean for the redemption fund?

Senator NELSON. Yes.

Mr. CANNON. I do not believe that redemption fund would do; I would have the whole 33⅓ per cent, too.

Senator NELSON. In the vaults of the Government?

Mr. CANNON. No; 5 per cent in the Government vaults and the other 28 per cent in the banks.

Senator NELSON. Would it not be better to have 10 per cent of that gold reserve?

Mr. CANNON. I do not believe so, Senator. Because the history of the past in redemption of national-bank notes would show that. I do not know what the average has been.

Senator NELSON. Do you not think that redemption ought to be in gold and not in lawful money?

Mr. CANNON. That is what I said.

Senator SHAFROTH. You say you desire that the Government should be saved from any run upon its Treasury?

Mr. CANNON. Yes.

Senator SHAFROTH. Does not the system of having the United States notes redeemable in gold and this currency issued under this bill redeemable in lawful money have a tendency to relieve this in this way: If I am a holder of $1,000 of this currency and I take it to the reserve bank, and the reserve bank says, "I can not give you gold, but I can give you lawful money," and then it says, "If there is going to be a run for gold we will just simply hold this and keep it in the vault." The man gets his $1,000 in United States notes and goes to Washington, and he says, "I want my gold"; and the Gov-

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ernment says, "If there is going to be a run on this thing we will hold this United States note." Now, by the process of putting out $1,000 in gold you have practically retired $2,000 of notes that are ultimately redeemable in gold, and by reason of one of them being redeemable in lawful money there has been a redemption of $2,000 of obligations; and does not that save the Government?

Mr. CANNON. No; I think you have injured the standard of the Government.

Senator SHAFROTH. The national-bank notes are not redeemable in gold.

Mr. CANNON. No; they are not redeemable in gold.

Senator SHAFROTH. And the person having these notes goes to the bank and says, "I want legal tender," and he sends the legal tender to the United States Government and gets this gold. All the functions of the parity of the money are complied with. Now, if you have the other system, you are going to make a great drain on the gold of the country, and I think that provision allowing the bankers to pay in lawful money simply narrows the gold reserve it is necessary to keep in Washington. We have $150,000,000, which supports a currency of $356,000 in United States notes and, on top of that, $750,000,000 of bank notes, and it is done by $150,000,000, and if you make those notes so redeemable you would have to keep something like $250,000,000 in gold in addition to the $150,000,000 now there in order to redeem $356,000,000 of greenbacks, and that makes a greater drain and demand upon gold for that purpose. Inasmuch as the blanket is a little short, it seems to me it would induce much more criticism.

Mr. CANNON. I think the credit of the country is at stake in this matter.

Senator SHAFROTH. One objection made to that was that the foreign countries would be discouraged, but these notes are not supposed to go to foreign countries.

Mr. CANNON. I think in establishing any new system you want to take great pains to see that we never let down on anything we have already, and I think it would be a great mistake——

Senator SHAFROTH (interposing). The national-bank notes are not redeemable in gold?

Mr. CANNON. These notes ought to be. You would get a better note out of it in that way.

Senator SHAFROTH. If you have 12 distinct districts in the United States, each one competing for gold, and you are going to have 12 competing points, and thus it will require a good deal more to redeem these obligations than if one is payable in lawful money and that lawful money is redeemable in gold.

Mr. CANNON. That is what I said; I hope you would not have 12.

Senator POMERENE. Mr. Cannon, several witnesses have discussed before us the propriety of giving additional charter powers to the national banks in order to induce them to come into this scheme, and also, perhaps, to curtail some of the powers now enjoyed by State banks which might come in. I would like to have your views on that.

Mr. CANNON. I had not given that point any thought. It is a new thought to me. I have not even heard it mentioned. I should think that might require considerable thought, because the State banks and the national banks are so intertwined together that it might be difficult

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to act. Your idea is to make this more attractive and give the national banks new powers?

Senator POMERENE. Yes; and not to discriminate between the two classes of banks. I can understand why a State bank with certain powers might desire to come in here and get additional powers, and if it came in and enjoyed all the powers the national bank would now have it might discourage the national banks from going into the scheme.

Mr. CANNON. That is important, and it is quite a big thought, and I would not care to answer the question until I had given it some consideration.

Senator POMERENE. I would be pleased if you would send us the result of your thought on that matter.

Mr. CANNON. I would be very glad to think it over and communicate with you about it.

Senator POMERENE. Now, another matter. There has been considerable difference of opinion as to whether or not a sufficient number of banks might come into this scheme to organize the number of regional banks which may be determined upon. Of course, we understand it is to some extent problematical. Would there be any objection to providing, for instance, that these banks should have a given length of time within which to subscribe, and if a sufficient number did not come in to organize the requisite number of regional banks, then to open up the stock books to the public and permit the public to subscribe?

Mr. CANNON. I should be a little afraid of that.

Senator POMERENE. For what reason?

Mr. CANNON. I think these banks would come in. I would prefer something of the kind which I outlined and laid before you here. If the banks felt that by their coming in they were not going to be tied up, if they were able to sell their stocks to people who were acceptable as stockholders to the directors in a Federal reserve bank and sell it for investment where it could be watched; otherwise you would get a miscellaneous lot of stockholders, and the stock would be thrown upon the street, and it would see-saw up and down, and like everything else of that kind, you would have more or less speculation in it all the time, and it does not strike me as a good thing to do. I would rather remove in some way the conditions which these banks have in that matter in coming in and get them to come in and take the stock and throw it open to the public.

Senator POMERENE. The fact is that some banks may object to it, because in their judgment it ties up a certain amount of their funds?

Mr. CANNON. I think you could work out a plan which will meet that objection by permitting the sale of that stock at the proper time to investors, who would not have a vote, and who would not have a right of transfer, except, as I said, to people who were approved by the board.

Senator POMERENE. You were speaking about the call loans in New York. What portion of the loans are call loans?

Mr. CANNON. We had the annual meeting of the clearing house on Tuesday. The clearing house sent out just before this meeting to 20 banks, members of the association who have $20,000,000 and over of deposits.

Senator POMERENE. Each bank?

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Mr. CANNON. Each bank; and they asked each bank a question as to how much they were loaning out on call for out-of-town customers, and how much they were loaning out themselves on call loans. In round figures these 20 banks were loaning out for their own customers $175,000,000, for their out-of-town customers. For themselves they were loaning $265,000,000. That was out of a total of loans and discounts of $1,226,000,000 that those banks reported.

Senator POMERENE. A little over one-third of the loans are call loans?

Mr. CANNON. Yes.

Senator WEEKS. Is that right? Were they loans for themselves?

Mr. CANNON. For out-of-town banks.

Senator WEEKS. Would they be loaning for themselves $1,200,000,000?

Mr. CANNON. Let me see if those figures are right. They were loaning for themselves $265,000,000.

Senator WEEKS. What was their total loan?

Mr. CANNON. The total amount was $1,226,000,000. I can tell very quickly whether that total is correct. I think the clearing-house people added into that total what they were loaning to the out-of-town banks. The total in the New York banks was $1,324,000,000, of which they were loaning on call $265,000,000. I may possibly be mistaken in saying that was all money. It may have been what was loaned out to Wall Street, on what I understood was call money—$85,000,000 and $1,324,000,000—and they were loaning for their out-of-town correspondents $175,000,000.

Senator WEEKS. Does that include foreign banks?

Mr. CANNON. I think it does; I think it must include foreign banks as well.

Senator WEEKS. Is it not true that the Canadian banks loan in New York from $25,000,000 to $50,000,000 all the time?

Mr. CANNON. But they loan through bankers.

Senator WEEKS. They do not use very many local bankers?

Mr. CANNON. Quite a good many. They lend money to their bankers, but we do not keep track of it.

Senator WEEKS. You are giving the figures here, as I understand it, for 20 national banks?

Mr. CANNON. Twenty banks which are members of the clearing-house association, who have deposits of $20,000,000.

Senator WEEKS. There are some 66 banks in the city?

Mr. CANNON. Yes.

Senator WEEKS. And would the other banks have about the same proportion of call loans?

Mr. CANNON. I do not know. The Fifth Avenue Bank, of which I am a director, I think has $2,000,000 or $3,000,000. I do not know what that proportion would be.

Senator WEEKS. Is this about the average proportion?

Mr. CANNON. I should think that would be about the average proportion.

Senator WEEKS. Now, from your experience as a banker, what, in your judgment, would be the proper discount rates to start with if this regional bank was organized?

Mr. CANNON. I could not tell you. You are a practical banker.

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Senator WEEKS. I have not any idea on the subject.

Mr. CANNON. All that I can say—all that I did in my calculations was to take 4 and 3 per cent. I just took it as a rough calculation. It would depend upon the state of the money market. It would depend upon what changes are being made in the banking system; whether money would be very active or anything of that kind. It will be very difficult to tell until after the thing was settled down for a year or so.

Senator WEEKS. Have you any preference as between four or six banks over one?

Mr. CANNON. Of course, I would like to have one bank, but we can not have it.

Senator WEEKS. What makes you say that?

Mr. CANNON. Politically it is impossible ever to have a single central bank in this country.

Senator WEEKS. You think, from the economical standpoint, it would be better to have one than any additional number?

Mr. CANNON. Well, I would have to answer that yes and no. Some ways it would be an advantage and some ways it would not.

Senator WEEKS. What would be the disadvantage, from an economic standpoint, that would arise in having one rather than four?

Mr. CANNON. I think the centralization in one place; I do not know that you would serve the whole country as well.

Senator WEEKS. Are you not going to serve the country through branches anyway, whether you have 1 or 10?

Mr. CANNON. To an extent only. The central reserve banks are going to be of very great service to the country at large.

Senator WEEKS. Undoubtedly; each of these Federal banks is going to have numerous branches.

Mr. CANNON. Yes.

Senator WEEKS. Would it be any advantage to have branches extend from four rather than from one?

Mr. CANNON. I do not know, Senator Weeks; I would not like to say on that.

Senator WEEKS. If it were possible to provide for 1 bank instead of 12, you would prefer it?

Mr. CANNON. One instead of 12? Yes.

Senator WEEKS. If it were possible to provide one rather than six, would you prefer it?

Mr. CANNON. I do not know. I should want to consider that very carefully.

Senator WEEKS. You referred to issuing circulation. My recollection is that in the early nineties, when people drew money out of the banks for hoarding purposes, they to a considerable extent asked for gold or gold certificates, and that in 1907 they asked for circulation, without much regard for what it was. Is that your experience?

Mr. CANNON. I think you are right; yes.

Senator WEEKS. Is that not due to the fact that in the meantime we had established a gold standard and people knew that they could get redeemed whatever circulation they may have in gold?

Mr. CANNON. The people in the country know we are on a gold standard.

Senator WEEKS. If we issue these notes, in whatever form they may be, and make provision for their redemption in gold, do you not think

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the people would take them without any regard to whether they were bank notes or some other kind of notes?

Mr. CANNON. It would make a difference if they had the name of the United States Government on them.

Senator WEEKS. Mr. Cannon, you know that in the panic of 1907 in several places there were large quantities of clearing-house certificates issued?

Mr. CANNON. Oh, yes.

Senator WEEKS. And they went into circulation?

Mr. CANNON. Yes

Senator WEEKS. They were used for pay rolls, and there never was an instance where anybody refused to take them.

Mr. CANNON. I do not know about that. When they issued those checks in Chicago they had to call all the employees in and show them a check and tell them that the checks were perfectly good. When they issued the checks in Pittsburgh they had to put them in four different languages to get those fellows to take them.

Senator WEEKS. Quite likely.

Mr. CANNON. There was trouble also in Harrisburg. I have here a picture of the Harrisburg certificate, which says it may be deposited and will not be paid in cash.

Senator WEEKS. I made considerable effort to look into that at one time, and I could not find any instance where those certificates had not passed current without any serious question.

Mr. CANNON. The employers had to take a lot of them.

Senator WEEKS. Undoubtedly.

Mr. CANNON. They had to get their men together and explain them.

Senator WEEKS. Yes.

Mr. CANNON. They had to get their men together and explain the certificates.

Senator WEEKS. Undoubtedly they explained to their employees what they were doing. But was there any instance where the employees refused to take them?

Mr. CANNON. I think they had a hard time in a good many cases. I think you will find in Chicago and in Pittsburgh they had a pretty hard time with those certificates. I do not believe you could pay out a note of a regional reserve bank and have it circulate freely among certain classes without the guaranty of the Government.

Senator WEEKS. I do not believe anybody would know or care what they had if they had a note and felt sure that it could be redeemed on presentation.

Senator POMERENE. This is a case where bankers seem to differ.

Mr. CANNON. Oh, yes; on various points.

Senator WEEKS. What do you mean by prime commercial paper?

Mr. CANNON. Notes.

Senator WEEKS. The reason I ask that question is that we have got to define it, and we have got to define it with great definiteness, I think. Otherwise we are going to have paper purchased as commercial paper which really is not commercial paper. I would like your definition of what you would call prime commercial bills.

Mr. CANNON. I should say, Senator, prime commercial bills would be notes issued for money either at a bank or other commercial house, which money is to be used in the handling of legitimate mer-

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cantile business. Notes issued in the ordinary course. I do not know as you could specify the line of business.

Senator WEEKS. I do not think you have gotten that definite enough to be of any use to us. I wish you would think that over and let us know what your conclusion is.

Mr. CANNON. I will be glad to do that and give you a definition.

Senator BRISTOW. Mr. Cannon, what do you regard as the defects in our present system?

Mr. CANNON. I should hate to start in and go through all the things. I think our currency is not elastic enough. That is only one thing.

Senator BRISTOW. What else?

Mr. CANNON. I would not want to enumerate them in full. There are a great number.

Senator BRISTOW. We have only heard two objections that I remember—that is, with regard to the inelasticity of the currency and to the inability to mobilize reserves. Those two terms have been used, but I have not heard any other objection to it, any other practical objections. There have been some theoretical objections. You think there are many other defects?

Mr. CANNON. I think I could point out some others to you. I will be very glad to do so.

Senator BRISTOW. What I was getting at was what were the defects that had to be cured, and I had supposed those were the two principal defects we are seeking to remedy.

Mr. CANNON. Those are the two, but I think there are a good many others.

Senator BRISTOW. Others that this bill seeks to remedy?

Mr. CANNON. Others that this bill seeks to remedy; yes. I will be very glad to include them.

Senator BRISTOW. I am interested to know what they are, because I have not heard any others, except some theoretical objections to basing currency on debts, but that is the whole proposition, so that that could not be suggested as a defect that is to be remedied. You said that you would prefer a single bank, but it was politically impossible to get it. What made you say it was politically impossible?

Mr. CANNON. I do not think the people of the country would favor a single bank.

Senator BRISTOW. Why do they not favor a single bank?

Mr. CANNON. I think they think there would be too much concentration in the hands of the men who are running the single bank.

Senator BRISTOW. You think they would believe there would be too much concentration in the hands of the men who were managing the single bank. Would that place any greater power, to have 1 bank in the hands of this Federal board, than we are placing in it now, over the 12?

Mr. CANNON. I do not think it would.

Senator BRISTOW. Is not the objection which the people have to one central bank, not to the system but to the ownership and control of the bank?

Mr. CANNON. I know there is an objection. What is in their own minds I could not answer.

Senator BRISTOW. The objection which I have understood—and I am as much opposed to it as any one; I am one of the people as far

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as that is concerned—I am opposed to any central bank that is owned by the banks, controlled by the banks, and managed by them, because I think it would result in one set of financiers, or a combination of a few interests getting control, more than they have now, of the banking system of the country and the credit business of the country. Do you not think that is the cause of the prejudice against the central bank?

Mr. CANNON. I could not answer that. I know a prejudice exists. I would not want to say whether that was the cause unless I was pretty clear in my own mind about it.

Senator BRISTOW. What objection other than the power that would be centered in the management of this bank do you see against the central bank?

Mr. CANNON. I do not see any objection further than that, except, as I said a moment ago, whether one bank could serve the whole country. The vast area of this country is all I have ever had in my mind. Of course you could start branches, but whether the one institution could serve the whole country——

Senator BRISTOW. I believe that 1 bank located in one city could not serve the purposes of this country. It is a big country, and it is proposed here to create 12 and then establish branches in the cities. It is not proposed here that 1 bank shall serve a twelfth of the country, because, as has been pointed out by witnesses, we have had before us in the northwest part of the country, with a regional bank at St. Paul or Minneapolis, it would have to take in, in order to get the required capital, a territory 600 miles wide and 1,400 miles long. I do not believe anybody would suggest that 1 reserve bank serving a territory reaching from St. Paul to the Pacific Ocean would be enough to serve the region up there without branches. Now, if the 12 banks are to establish branches, and the purpose of organizing this association is to mobilize the reserves, could not they be more efficiently mobilized if we had 1 with branches than 12 with branches?

Mr. CANNON. I have no doubt it could.

Senator BRISTOW. Then, if the same powers that are placed in the hands of this board over the 12 were given the board in the management of the 1, would it not simplify the mechanical operation of the institution?

Mr. CANNON. If it could serve the country, if that 1 bank could serve the country?

Senator BRISTOW. Yes; by the establishment of these various branches?

Mr. CANNON. Yes; if that service could be done. As I said a moment ago, I want to think about that pretty carefully, to see if it can. Of course, as I stated at the beginning, the act provides for 12, and I thought it should be less than that number, because of the necessity for not having any disturbance when you are making this great change.

Senator BRISTOW. I think we will agree it will be better to have it that way if it can be done successfully. I was going to suggest the possibility of the concentration of control under the present system. I think it is just as easy for the great interests that we are trying to render as harmless as possible and the monopolization of certain

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credits—or not just as easy, but I think it is entirely possible—for them to get control of these regional banks organized as they are. And the thing which a good many regard as the most desirable feature in this legislation is to break up what they call the Money Trust; and the bill may fail in that respect, and those influences would control a Federal board. Although they might do it, it is not probable; but they will control the local boards that control the regional banks. Do you believe—or have you given that phase any consideration—do you believe it would be as easy for these interests to get control and dominate the credits of the country if we had the Federal bank managed by a Federal board?

Mr. CANNON. I have not given any consideration to that at all.

Senator BRISTOW. You have not?

Mr. CANNON. No.

Senator BRISTOW. There is another feature of this I would like to invite your attention to. A country bank under the present law has a 15 per cent reserve requirement. It keeps 6 per cent of it in its vaults, and has the 9 per cent—we will say 3 per cent in St. Louis, 3 per cent in Chicago, and 3 per cent in New York. In the handling of its business, it may check out the entire reserve in one city and increase it in another the same day. It might be convenient for it to carry, for a day, in the handling of its business, a reserve of 33 per cent—6 per cent in Chicago, and practically check out its balance at St. Louis, or the same between Chicago and New York. So that, as a matter of fact, in the practical operation of its business, it utilizes these reserves. That is a fact, is it not, and that under this system that will be impossible?

Mr. CANNON. I do not know. After I heard your discussion here I did not suppose it would be impossible. I thought you were going to be able to utilize the reserves in the Federal reserve banks.

Senator BRISTOW. You could not check them out. It could not use it for transfer from one city to the other, as it does now, to suit its convenience. They are there, and it can not take them out of that bank and check them to Chicago, or some other place, where it does business.

Mr. CANNON. Perhaps I do not get your clear meaning on this point. Will you repeat that once more? Do you mean to say their reserves are changed from one city to another?

Senator BRISTOW. Yes; from day to day. The reserve requirements, for instance, in one city, varies very greatly, and it can use its entire reserve on deposit in one city one day if, in the operation of its business, it becomes convenient to do so, while it increases the amount of that reserve in another city; and then in another city it might check out, and so on, if it is a usable fund, where it is divided up between three or four cities.

Mr. CANNON. Does that reserve which you speak of—is that what you mean in the items they are sending from one bank to the other? Are they to be in transit, or to be actually on deposit? In my opinion, in the running of a national bank, for instance, they have a lot of checks coming on New York to-day, and they separate them to-day and charge them off. They are not counted as reserve, notwithstanding the fact they will not reach New York for two or three days.

Senator BRISTOW. I supposed they were; that is my understanding, at least.

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Mr. CANNON. I am not familiar with that practice, at all. I understand a reserve must be in a bank before they can count it as reserve. They can not count items in transit as reserve.

Senator NELSON. I do not believe they can.

Senator SHAFROTH. If they can not, I do not see what advantage it is to have them shift around in other banks?

Senator BRISTOW. I think they do.

Mr. CANNON. For instance, if a bank in New York City received to-day a lot of checks on Chicago and St. Louis, you think it could send them out in the mail to-night, and charge them up to this bank, and charge them to reserve whether they have arrived or not?

Senator BRISTOW. Yes: I think so.

Mr. CANNON. If may be possible, Senator; but I do not know.

Senator BRISTOW. We will clear up that point before we get through. I understood it was a fact.

Mr. CANNON. I would like to know about that.

Senator NELSON. At any rate, Senator Bristow, you claim it was only a momentary change. They still have to keep it. It is only while those checks are in transit; that is all.

Senator BRISTOW. But they use it.

Senator NELSON. They use it for that time.

Senator BRISTOW. Yes,

Mr. CANNON. I do not believe they can count checks in transit as reserve. I do not understand you can count it as a reserve on anything until you get the money back on it. I do not belive the country bank does that.

Senator NELSON. I think you are right.

Mr. CANNON. Because those checks and shifting matters of that kind are mere matters of detail in the bank, all the time. I do not believe that is reserve in the bank, Senator. Will you look that up and let me know? I would not want to answer the question until I knew about that.

Senator BRISTOW. Now, I suppose you are like all these other commercial bankers: You do not believe real estate mortgages ought to be used as the basis for currency?

Mr. CANNON. Oh, no; I do not think so.

Senator BRISTOW. Why not?

Mr. CANNON. I do not see how you would turn them into a fund for redeeming that currency; how you could redeem currency issued on a real estate mortgage. Of course, you would have to sell it; there are times when it would pile up on your hands. They are long-period loans are they not?

Senator BRISTOW. Do you expect this currency to be redeemed by the maturing securities that are deposited for it?

Mr. CANNON. A good deal of it would be paid off when their notes are paid off.

Senator BRISTOW. Do you not expect other notes would be substituted?

Mr. CANNON. Oh, at times, certainly. But you want to keep your source pure and clean and have it the very best there is. Of course, I am not saying anything about real estate mortgages, because I am a firm believer in real estate mortgages, farm mortgages, and things of that kind.

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Senator BRISTOW. We will take a bank, speaking about the region with which I am familiar, at Salina, Kans. As you define it, it would have some commercial paper—that is, the notes, the one-name notes, as a rule?

Mr. CANNON. Or two-name notes of merchants in Salina, Kans.

Senator BRISTOW. The merchants in Salina, Kans., do not get two-name notes.

Mr. CANNON. Well, one-name notes. The merchants in Salina, Kans., I have been there, and they are a good crowd.

Senator BRISTOW. The two-name paper is not as good, as a rule, as the one-name paper?

Mr. CANNON. That is right.

Senator BRISTOW. Because when you ask for the second name, it is an indication you are afraid of the first?

Senator SHAFROTH. And because people have quit going security on notes?

Mr. CANNON. It is out of fashion in this country to indorse notes now.

Senator BRISTOW. And it ought to be.

Mr. CANNON. Yes; that is right.

Senator BRISTOW. They take the paper of various individuals, many of them leading farmers there, the people of that community, and they take it to the Federal bank for discount. It is discounted. They get some of this money. Now, when that bank collects in and the pressure is over it takes up these notes. They do not have to take up those notes with the security that it deposited there.

Mr. CANNON. Oh, not always; no.

Senator BRISTOW. Then what is the purpose of that security? It is for the purpose of making the Government securer or the regional bank securer in the issue of that paper, is it not?

Mr. CANNON. Yes.

Senator BRISTOW. If that security is abandoned and the bank is a commercial bank, why is not a real-estate mortgage, which is better than those notes, as far as security goes, just as good a basis for that as anything else?

Mr. CANNON. I do not think there should be anything except a liquid security behind these notes.

Senator BRISTOW. The commercial bank has what is called liquid security. Do you believe that the notes, the circulating medium of the country, should be based upon commercial business only?

Mr. CANNON. Is not that what you say in the act here?

Senator BRISTOW. The act may say that, but that is not what I say.

Mr. CANNON. Yes.

Senator BRISTOW. Why should not an investment security have as much consideration at the hands of the Government in making a currency law as a commercial security?

Mr. CANNON. Because I suppose it is not liquid, and these are inclined to be liquid and take care of themselves.

Senator BRISTOW. But, as a matter of fact, they do not do it. You are a practical man; you know that the banker at Salina, Kans., does not enforce the payment of those notes. I know it mighty well, when they are due. They may be given for 90 days, but very often,

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because it is not convenient, they are given for 6 months, and sometimes they will be paid and sometimes they will be increased.

Mr. CANNON. Like the fellow who said "If you want to have a winter go fast, you want to give a six months' note." Is that the idea? [Laughter.]

Senator BRISTOW. I think that is very good; yes. Those notes are to be renewed; the bankers know they are to be renewed. This year out in our country they are all renewed; they have to be renewed. Now, I can not understand why a note that has a mortgage security, upon which there can not be a loss, for there never was a man in the section of the country where I live who lost money on a farm mortgage if he knew enough to keep it—or if he took the farm, he would be a good deal better off, because he could make money on it.

Mr. CANNON. That is the point. They do not take farm mortgages, because they might have to take the security, the real estate back of it, and it could not handle the real estate.

Senator BRISTOW. Suppose it was the local bank?

Mr. CANNON. Suppose something happened that the local bank could not redeem those notes?

Senator BRISTOW. Do you not think to have a farm mortgage would be better rather than your note that sometimes the people can not pay at all?

Mr. CANNON. You would not want to get the bank loaded up with a lot of real estate?

Senator BRISTOW. Would it not be better than to load up with the notes of merchants?

Mr. CANNON. I do not think it should be either way; I do not think it should load up with either thing.

Senator BRISTOW. If something happens to the bank, if some of the notes would not be paid, if there is a catastrophe in that community, why is the paper which is not as good preferred over paper that is better—has better security? That is what I want to know.

Mr. CANNON. Because, as I have just said, you are likely to have to foreclose on the security that is behind those notes, and you are liable to have a lot of real estate on your hands, and it is not a liquid asset.

Senator BRISTOW. You think it is better to have a liquid asset, then, even if the man could not pay it?

Mr. CANNON. As I said, in the first place, I have no objection to either, but I would not be in favor of making real-estate notes the basis for circulation, or real-estate mortgages.

Senator NELSON. It might have five years to run?

Mr. CANNON. Yes.

The CHAIRMAN. Mr. Cannon, I was requested to ask you about one point affected by this bill whether, in your opinion, the United States should retire the national-bank notes, and, if so, why?

Mr. CANNON. You mean as secured by the twos?

The CHAIRMAN. Yes.

Mr. CANNON. Well, that would depend upon whether the issue of bank notes under this Federal reserve scheme would become too redundant at any time. It would seem better to get those old bank notes out of the way, so as not to have, finally, to go out and get that

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cleared up, and have the bank notes of the country issued through these Federal reserve banks. That would be my reason for doing it.

Senator NELSON. Then it would be better to have one kind of currency?

Mr. CANNON. Yes; it would be better to have one kind of currency. And you are liable to have a redundancy of currency if you are going to keep the old paper outstanding—you are liable to have the Federal bank currency on top of it. I should say yes it would be a good thing to retire the old bank notes, if it can be done without loss on the old 2 per cent bonds.

Senator BRISTOW. How would you retire it without loss on the 2 per cent bonds?

Mr. CANNON. I do not know; I have no remedy for that. As I say, I have not given that consideration.

Senator BRISTOW. You do not believe they ought to be retired and these bonds thrown on the market, and let the banks get what they could?

Mr. CANNON. No. I have stated here I have no remedy to suggest. I think the committee might suggest something that would meet the situation.

Senator POMERENE. Mr. Cannon, there seems to be a good deal of objection to some provisions of this bill on the part of the small country banker. I mean those with a capitalization of $25,000 or $50,000.

Mr. CANNON. Yes.

Senator POMERENE. And that objection is made for this reason, that they handle very little so-called commercial paper, as ordinarily understood. They have paper that runs for six months or nine months. Now, can you suggest any amendment to this bill which would recognize the different methods of doing business as between, for instance, a city bank like yours and one of these country banks which would, at the same time, give him the privilege of discount, etc., provided for in this bill?

Mr. CANNON. I suppose by that time the notes have matured, as a rule, because they are all the time maturing where they have a lot of paper. That is the thing; they have a lot of paper that is short of time.

Senator POMERENE. If that is true, it would avoid the objection largely. But they contend, for instance, in the wheat-growing belt that the borrowing is done at one time, and the notes are redeemed, say, late in the fall, when the crop is harvested?

Mr. CANNON. I do not know enough about interior country banks to go into that. But here is a country banker, we will say, who has six-months paper. That will become 90-day paper within a very short time. Every banker has part of his paper coming out of his portfolio all the time. You have 90-day paper right ahead of you all the time, besides your four, five, and six months paper; and I should think that would work out itself in the ordinary course of events.

Senator POMERENE. That is certainly true where the industries of the community are diversified, but it seems to be contended that is not the case; for instance, with the wheat-growing belt.

Senator NELSON. If you will allow me to interrupt you, on that point——

Senator POMERENE (interposing). Yes.

Senator NELSON. For instance, in our country, which is largely a wheat-growing country, the notes are usually given early in the

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spring. The farmer has been unable to pay all of his debts out of the last year's crop. The merchant is crowding him; the agricultural implement dealer or his help is crowding him. In the spring he gives a six months' note payable in the fall. The strain for currency for moving our crops does not come until in September and October, and by that time that paper is a 90-day paper.

Mr. CANNON. That is what I had in mind.

Senator NELSON. So that it can be utilized in that way. I can see how that can be covered in that way.

Senator POMERENE. That avoids the objection that has been raised here by many of our western friends.

Mr. CANNON. Yes; I should think that would cover the occasion. Well, gentlemen, am I to be relieved from further questions?

Senator NELSON. Suppose where they issue notes that are given for a year the strain did not come until the last part of the year, the farmers generally give a note payable just after they are thrashing, and when they commence to haul wheat to the railroad station and to the elevator.

Mr. CANNON. Yes.

Senator NELSON. By that time this year note has only 90 days or less to run. Now, then, they have harvested and thrashed and are ready to haul the grain out, so that the banker could get that money in time to move that crop?

Mr. CANNON. That is the very idea.

Senator POMERENE. And the demand is made on New York, for instance, later in the season?

Mr. CANNON. Yes.

Senator POMERENE. But that only covers a period of two or three months I take it?

Mr. CANNON. Just about 60 days.

Senator POMERENE. So that these small western banks could go to the regional bank and get their accommodations?

Senator BRISTOW. They have got to carry it, however, for three months or six months, while the city bank does not have to carry it a day, unless it wants to.

Mr. CANNON. Oh, we take six-months notes, lots of them. We give credit for six months. We have a large amount of commercial paper sold on the market which is six-months paper. There is very little four-months paper sold on the open market. Every good banker provides his pocketbook and portfolio with paper which he keeps ahead of him all the time; and most of the paper sold on the market in New York, and most of the paper sold in Chicago, and most all the notes we get from merchants, except in special cases, runs from four to six months' time. And, as I said a moment ago, he will always have in his portfolio ample paper maturing this month, next month, and the next month. Every banker ought to do that, and if he is a careful banker he will keep the maturity of his paper shifting all the time, so that he will get paper maturing all down the line.

Senator POMERENE. I wanted to direct your attention to the cotton section. Is it not true that the larger banks in the cotton States make their principal pressure upon New York for loans within 90 days of the time that the cotton crop begins to mature?

Mr. CANNON. Yes; I should say so.

Senator POMERENE. So that they then must have been able to have carried the situation in their section themselves from their supply of

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money until within about 90 days, and must then call upon their correspondents to help?

Mr. CANNON. That is right. And I think as soon as that provision is thoroughly known it can be handled.

Senator SHAFROTH. Mr. Cannon, I want to ask you what you think of this scheme or proposition for the retirement of the national-bank notes in a separate bill which I introduced?

Mr. CANNON. I have not seen the bill.

Senator SHAFROTH. I will read it to you and see what you think about it:

That as gold certificates are received into the Treasury or any subtreasury of the United States they shall be canceled and the gold represented by such certificates transferred to the reserve fund in the Division of Redemption of the Treasury, and in lieu of such canceled gold certificates there shall be issued United States notes of like denominations, redeemable in gold coin at the Treasury or any subtreasury or mint of the United States which may be designated by order of the Secretary of the Treasury, which notes shall be a legal tender in payment of all debts, public and private, within the United States and its possessions. And there shall also be issued at the same time a like amount of such United States notes for substitution for all national-bank notes and for the cancellation of the bonds of the United States securing the same until all of said national-bank notes are retired.

SEC. 2. That upon the request of any national bank the Secretary of the Treasury is authorized, at his discretion, to assume the redemption of its national-bank notes, to pay to such national bank in cash the difference between the amount due at that date on the United States bonds securing said notes and said notes, and to cancel said bonds. When national-bank notes, assumed as aforesaid, shall be received into the Treasury or any subtreasury of the United States they shall be canceled and retired, and in lieu thereof United States notes authorized by this act to the same amount and like denominations shall be issued, paid out, and kept in circulation.

SEC. 3. That as the United States notes heretofore issued are received into the Treasury or any Subtreasury the Secretary of the Treasury is directed to cancel the same and issue in lieu thereof United States notes authorized by this act, and to transfer to the redemption fund herein created a proper proportion of the $150,000,000 of gold now held to redeem the same

SEC. 4. That a gold reserve of 50 per cent of all United States notes issued and put in circulation under the provisions of this act shall be maintained in the reserve fund of the Division of Redemption of the Treasury for the purpose of redeeming the same, and the Secretary of the Treasury is authorized for that purpose to purchase gold and exercise all of the powers granted to him by section 2 of the act of Congress entitled "An act to define and fix the standard of values, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," approved March 14, 1900, and he is further authorized by general orders to require all national banks to keep in their vaults as their lawful money reserve such kinds of United States money as he may deem to the best interest of the Government.

Mr. CANNON. Good gracious! You do not ask me to pass on that right off the bat?

Senator SHAFROTH. Perhaps not. The only thing is, it is a scheme by which the money would be uniform. The gold reserve would be increased, and it would be so self-acting nobody would discover it while it was going on, and at the same time it would be sounder money than our greenback is now.

Mr. CANNON. I will read that with very great pleasure.

Senator SHAFROTH. It would save the Government $14,000,000 in interest, which it pays now on 2 per cent bonds, and it would obviate the necessity of the issuing of the 3 per cents that were spoken of.

Mr. CANNON. I will take that with me and read it with great pleasure.

Mr. Chairman, is that all you want of me to-day?

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Senator POMERENE. There are a couple of matters we will hear from Mr. Cannon on later.

Senator WEEKS. If Mr. Cannon has any tables or other matter which he might have referred to or did refer to, I would suggest that he put those tables in the record.

The CHAIRMAN. There are one or two questions I wanted to ask you. We should be glad to have placed in the record the tables which you have read.

Mr. CANNON. I will have some copies made and send them to you, with great pleasure.

(The tables referred to by the witness follow:)

Condensed summary of reports as of June 4, 1913, and changes that will be made under the Federal reserve act.

COUNTRY BANKS.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
1. Loans, discounts, and overdrafts	$3,202,437	$3,202,437	$3,202,437	$3,202,437	$3,202,437
2. United States bonds and premiums	545,195	545,195	545,195	545,195	545,195
3. Federal reserve bank stock	.....	61,005	61,005	61,005	61,005
4. Other investments	771,812	771,812	771,812	771,812	771,812
5. Due from Federal reserve banks	.....	.....	107,280	178,800	250,320
6. Due from approved agents (net)	482,508	482,508	367,900	296,380	224,860
7. Exchanges, cash items, and bills of other national banks	66,751	66,751	66,751	66,751	66,751
8. Minor coin	2,447	2,447	2,447	2,447	2,447
9. Specie and ledger tender	255,059	205,054	178,800	178,800	178,800
10. 5 per cent fund	23,332	23,332	23,332	23,332	23,332
11. Due from United States Treasurer	1,573	1,573	1,573	1,573	1,573
Total resources	5,362,114	5,362,114	5,328,532	5,328,532	5,328,532
12. Capital	610,053	610,053	610,053	610,053	610,053
13. Surplus and undivided profits	516,953	516,953	516,953	516,953	516,953
14. National bank notes outstanding	481,089	481,089	481,089	481,089	481,089
15. Due to national and State banks and trust companies (net)	101,290	101,290	101,290	101,290	101,290
16. Individual deposits and dividends unpaid	3,543,036	3,543,036	3,543,036	3,543,036	3,543,036
17. United States deposits, postal savings, and United States disbursing officers	33,582	33,582	.....	.....	.....
18. Bills rediscounted and payable, reserves, and other liabilities	76,111	76,111	76,111	76,111	76,111
Total liabilities	5,362,114	5,362,114	5,328,532	5,328,532	5,328,532
MEMORANDA.					
Net deposits subject to reserve	3,609,584	3,609,584	3,576,002	3,576,002	3,576,002
Total reserve required	15% 541,438	15% 541,438	12% 429,120	12% 429,120	12% 429,120
Cash reserve required	⅔ 207,242	5% 180,479	5% 178,800	5% 178,800	5% 178,800
Cash on hand (specie and legals)	266,059	205,054	178,800	178,800	178,800
Cash in excess of requirements	58,817	24,575	.....	.....	.....
On deposit in Federal reserve banks:					
Required	.....	.....	3% 107,280	5% 178,800	5% 178,800
Optional	.....	.....	.....	.....	2% 71,520
On deposit with approved reserve agents	⅔ 310,863	10% 360,959	4% 143,040	2% 71,520	.....
Held by approved reserve agents	482,508	482,508	367,900	296,380	224,860
Excess with approved reserve agents	171,645	121,549	224,860	224,860	224,860
Redemption fund	23,332	.....	.....	.....	.....

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Condensed summary of reports as of June 4, 1913, etc.—Continued.

RESERVE CITY BANKS.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
1. Loans, discounts, and overdrafts	$1,643,502	$1,643,502	$1,643,502	$1,643,502	$1,643,502
2. United States bonds and premiums	203,033	204,033	204,033	204,033	204,033
3. Federal reserve bank stock	.....	26,422	26,422	26,422	26,422
4. Other investments	308,714	308,714	308,714	308,714	308,714
5. Due from Federal reserve bank	.....	.....	55,838	91,777	162,882
6. Due from approved agents (net)	233,783	23[illegible]	156,360	96,991	2,457
7. Exchanges, cash items, and bills of other national banks	100,054	100,054	100,054	100,054	100,054
8. Minor coin	869	869	869	869	869
9. Specie and legal tender	242,296	215,874	167,516	165,199	162,881
10. 5 per cent fund	8,091	8,091	8,091	8,091	8,091
11. Due from United States Treasurer	3,312	3,312	3,312	3,312	3,312
Total resources	2,744,654	2,744,654	2,674,711	2,648,964	2,623,217
12. Capital	264,217	264,217	264,217	264,217	264,217
13. Surplus and undivided profits	251,428	251,428	251,428	251,428	251,428
14. National-bank notes outstanding	161,903	161,903	161,903	161,903	161,903
15. Due to national banks (net)	217,612	217,612	176,353	150,606	124,859
15a Due to State banks and trust companies (net)	352,175	352,175	352,175	352,175	352,175
16. Individual deposits and dividends unpaid	1,436,124	1,436,124	1,436,124	1,436,124	1,436,124
17. United States deposits, postal savings, and United States disbursing officers	28,684	28,684	.....	.....	.....
18. Bills rediscounted and payable, reserves, and other liabilities	32,511	32,511	32,511	32,511	32,511
Total liabilities	2,744,654	2,744,654	2,674,711	2,648,964	2,623,217
MEMORANDA.					
Net deposits subject to reserve	1,931,229	1,931,229	1,851,286	1,835,539	1,809,792
Total reserve required	25% 482,807	20% 386,246	18% 335,031	18% 330,397	18% 325,763
Cash reserve required	½% 237,358	10% 193,123	9% 167,516	9% 165,199	9% 162,881
Cash reserve optional	.....	.....	.....	.....	.....
Cash on hand (specie and legal)	242,296	215,974	167,516	165,199	162,881
Cash in excess of requirements	4,938	22,651	.....	.....	.....
On deposit in Federal reserve bank, required	.....	.....	3% 55,838	5% 91,777	5% 90,490
On deposit in Federal reserve bank, optional	.....	.....	.....	.....	72,392
On deposit with approved reserve agents	½% 237,358	10% 193,123	6% 111,677	4% 73,421	.....
Held by approved reserve agents	233,783	233,783	156,360	96,528	2,457
Excess with approved reserve agents	3,575	40,660	44,683	22,974	2,457
Redemption fund	8,091	.....	.....	.....	.....

CENTRAL RESERVE BANKS.

1. Loans, discounts, and overdrafts	$1,316,095	$1,316,095	$1,316,095	$1,316,095	$1,316,095
2. United States bonds and premiums	89,874	89,874	89,874	89,874	89,874
3. Federal reserve bank stock	.....	18,265	18,265	18,265	18,265
4. Other investments	250,284	250,284	250,284	250,284	250,284
5. Due from Federal reserve banks	.....	.....	42,315	65,268	58,253
6. Due from approved reserve agents (net)	.....	.....	.....	.....	.....
7. Exchanges, cash items, and bills of other national banks	179,386	179,386	179,386	179,386	179,38

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Condensed summary of reports as of June 4, 1913, etc.—Continued.

CENTRAL RESERVE BANKS—Continued.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
8. Minor coin	$264	$264	$264	$264	$264
9. Specie and legal tender	405,628	387,363	211,575	169,696	151,456
10. 5 per cent fund	3,972	3,972	3,972	3,972	3,972
11. Due from United States Treasurer	4,752	4,752	4,752	4,752	4,752
Total resources	2,250,255	2,250,255	2,116,782	2,097,856	2,072,601
12. Capital	182,650	182,650	182,650	182,650	182,650
13. Surplus and undivided profits	220,367	220,367	220,367	220,367	220,367
14. National bank notes outstanding	79,133	79,133	79,133	79,133	79,133
15. Due to national banks (net)	390,180	390,180	239,408	134,266	6,041
15a. Due to State banks and trust companies (net)	379,398	378,398	378,398	378,398	378,398
16. Individual deposits and dividends unpaid	975,831	975,831	975,831	975,831	975,831
17. United States deposits, postal savings, and United States disbursing officers	6,120	6,120	.....	.....	.....
18. Bills rediscounted and payable, reserves, and other liabilities	16,576	16,576	16,576	16,576	16,576
19. Rediscounts due to Federal reserve bank	.....	.....	23,419	109,635	224,687
Total liabilities	2,250,255	2,250,255	2,116,782	2,097,856	2,072,601
MEMORANDA.					
Net deposits subject to reserve	1,567,391	1,561,271	1,410,499	1,305,357	1,165,050
Total reserve required	25% 391,848	20% 312,254	18% 253,890	18% 234,964	18% 209,709
Cash reserve required	25% 387,876	10% 156,127	9% 126,945	9% 117,482	9% 104,854
Cash reserve optional	.....	10% 156,127	6% 84,630	4% 52,214	4% 46,602
Cash on hand (specie and legals)	405,628	387,363	211,575	169,696	151,456
Cash in excess of requirements	17,752	75,109	.....	.....	.....
On deposit in Federal reserve banks:					
Required	.....	.....	3% 42,315	5% 65,268	5% 58,253
Optional	.....	.....	.....	.....	.....
Redemption fund	3,972	.....	.....	.....	.....

NEW YORK CITY BANKS.

1. Loans, discounts, and overdrafts	$887,137	$887,137	$887,137	$887,137	$887,137
2. United States bonds and premiums	53,227	53,227	53,227	53,227	53,227
3. Federal reserve bank stock	.....	11,970	11,970	11,970	11,970
4. Other investments	210,880	210,880	210,880	210,880	210,880
5. Due from Federal reserve banks	.....	.....	29,596	45,791	41,075
6. Due from approved reserve agents (net)	.....	.....	.....	.....	.....
7. Exchange, cash items, and bills of other national banks	156,851	156,851	156,851	156,851	156,851
8. Minor coin	142	142	142	142	142
9. Specie and legal tender	292,518	280,548	147,979	119,058	106,794
10. 5 per cent fund	2,477	2,477	2,477	2,477	2,477
11. Due from United States Treasurer	3,171	3,171	3,171	3,171	3,171
Total resources	1,606,403	1,606,403	1,503,430	1,490,704	1,473,724
12. Capital	119,700	119,700	119,700	119,700	119,700
13. Surplus and undivided profits	176,442	176,442	176,442	176,442	176,442
14. National-bank notes outstanding	48,013	48,013	48,013	48,013	48,013
15. Due to national banks (net)	262,345	262,345	160,966	90,268	4,074
15a. Due to State banks and trust companies (net)	280,471	280,471	280,471	280,471	280,471
16. Individual deposits and dividends unpaid	705,113	705,113	705,113	705,113	705,113
17. United States deposits, postal savings, and United States disbursing officers	3,586	3,586	.....	.....	.....

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Condensed summary of reports as of June 4, 1913, etc.—Continued.

NEW YORK CITY BANKS—Continued.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
18. Bills rediscounted and payable, reserves, and other liabilities	$10,733	1$0,733	$10,733	$10,733	$10,733
19. Rediscounts—due to Federal reserve banks	.....	.....	1,992	59,964	137,326
Total liabilities	1,606,403	1,606,403	1,503,430	1,490,704	1,473,724
MEMORANDA.					
Net deposits subject to reserve	1,091,493	1,091,493	986,528	915,830	821,488
Total reserve required	272,876	218,298	177,575	164,849	147,869
Cash reserve:					
Required	270,399	109,149	88,787	82,425	73,934
Optional	.....	109,149	59,192	36,633	32,860
Cash on hand (specie and legals)	292,518	280,548	147,979	119,058	106,794
Cash in excess of requirements	22,119	62,250	.....	.....	.....
On deposit in Federal reserve bank:					
Required	.....	.....	29,596	45,791	41,075
Optional	.....	.....	.....	.....	.....
Redemption fund	2,477	.....	.....	.....	.....

Tentative balance sheet Federal reserve bank of New York.

	First year.	Second year.	Third year.
ASSETS.			
Cash reserve required on deposits	$42,298,000	$53,830,000	$55,000,000
Cash reserve required on note liability	33,334,000	33,334,000	33,334,000
Rediscounts	100,000,000	100,000,000	100,000,000
Investments	70,770,000	93,834,000	96,174,000
Total	246,402,000	270,998,000	284,508,000
LIABILITIES.			
Capital 10 per cent paid in	19,508,000	19,508,000	19,508,000
General fund [1]	75,000,000	75,000,000	75,000,000
Required deposit of subscribing banks	51,894,000	86,490,000	90,000,000
Note issue or deposit credit arbitrary	100,000,000	100,000,000	100,000,000
	246,402,000	280,998,000	284,508,000

[1] If the general fund is distributed on the basis of capital New York would get about 18.5 per cent or $55,500,000. I have arbitrarily raised this figure to $75,000,000 assuming that New York would be favored to that extent because of the larger amount of work it would be called upon to do as fiscal agent.

The CHAIRMAN. I wanted to ask you what you would think of allowing the stock subscriptions by the proposed member banks to be lowered to this point: Six per cent against the amount of the capital stock and the surplus with one-half paid in? That would make above $51,000,000 for the whole national-bank system, which would be about half the present requirement.

Mr. CANNON. That is to say, your regional fund would be about half the size?

The CHAIRMAN. No; their reserves would be about the same and the Government deposits would be about the same, but the capital would be about one-half.

Mr. CANNON. It had looked that up a little bit——

The CHAIRMAN (interposing). The total capital stock of the national banks is $1,056,000,000 and the reserves are $720,000,000. Three per cent of that would be something over $50,000,000.

Mr. CANNON. Your idea is that the regional banks would have a capital of $50,000,000?

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Senator NELSON. Would you mean to have 3 per cent paid in cash and 3 per cent——

The CHAIRMAN (interposing). Subject to call.

Senator NELSON. In 60 days?

The CHAIRMAN. Oh, no; 3 per cent paid in in cash during such period of time as may be convenient and 3 per cent subject to call.

Senator NELSON. So the amount would be only 6 per cent instead of 20 per cent?

The CHAIRMAN. Yes; I thought perhaps that would be more agreeable to the banks.

Mr. CANNON. Could they still handle the business and at the same time come in competition with the large banks?

The CHAIRMAN. They would not be in competition with the large banks, because they have the opportunity to issue currency, which the large banks have not.

Mr. CANNON. For instance, the First National Bank of New York has a total capital with undivided profits of $31,600,000; the National Bank of Commerce, $41,200,000; the National City Bank, $51,500,000; National Park Bank, $15,000,000; Continental Commercial, $30,600,000; St. Louis Bank of Commerce, $12,700,000. I just noted those down as the sizes of the other large banks of the country.

The CHAIRMAN. The total of the system would be $720,000,000, with $1,056,000,000 of capital. That would make somewhere near $1,800,000,000 of total capital, surplus, and undivided profits.

Mr. CANNON. You think that would be more likely to meet with the approval of the national banks than having such a large contribution? As far as we are concerned, we would like that. We would have to put up under this bill $1,000,000. If you could finance the system on that basis I think it would be acceptable to the banks.

Senator NELSON. Would you include the surplus, too?

The CHAIRMAN. Oh, yes; the surplus, too.

Mr. CANNON. We would certainly look with favor upon that if it would finance the system properly.

Senator NELSON. Your capital and surplus is how much?

Mr. CANNON. $10,000,000.

The CHAIRMAN. I understand you would be content with the present requirements?

Mr. CANNON. This would certainly be very much better. We would be content if we could get out of it some way at the proper time.

The CHAIRMAN. You would prefer this?

Mr. CANNON. Yes, sir; I would, if it would finance the system properly.

The CHAIRMAN. A good many of the country banks have been rather timid at the idea of subscribing an amount equal to 20 per cent, whereas I think they would not mind at all subscribing an amount equal to 6 per cent of their capital and surplus. Some of the banks which have a large surplus would be getting corresponding benefits in excess of what others would get, and it seemed to me it might be more equitable to arrange it on capital and surplus. You think, that being smaller, it would not seem——

Mr. CANNON (interposing). It would not seem quite as if you were putting your hand in their pockets too much.

The CHAIRMAN. I just thought I would ask you what you thought of it.

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Mr. CANNON. I should think that would meet with the approval of the banks.

Senator NELSON. But the regional bank in New York ought to have a bigger capital than any of the local banks.

Mr. CANNON. It would not anyway under the present scheme.

Senator NELSON. It would depend upon what territory you took in. I mean, counting the capital and the deposit account.

Mr. CANNON. Oh, yes.

The CHAIRMAN. What would you think of allowing the banks the privilege of placing with the Federal reserve bank the amount which now they are compelled by this bill to keep in their own vaults, leaving it optional with them to leave it with the Federal reserve bank or not, as they please?

Mr. CANNON. Would not that weaken your reserve system a little bit? I am afraid that would weaken your reserve system.

The CHAIRMAN. Why?

Mr. CANNON. Here is a bank that is some distance off from your Federal reserve bank. Something comes up in that town, some man drops dead, and you have a run on the bank. If all the reserve is off at the Federal reserve bank you might have difficulty in handling that crowd. They ought to have a substantial amount in their own vaults.

The CHAIRMAN. They would exercise their option as to that. If they were far removed from the reserve bank they would carry more money, but if they were in the same city they would do as they pleased about it. They themselves would consult their own convenience——

Mr. CANNON. I should be afraid it might weaken your reserve.

Senator NELSON. And then, Senator, as long as they do not get any interest on their deposit with the Federal reserve bank, what is the object of putting it there?

The CHAIRMAN. The object would be that you would have a larger gold reserve, and therefore a greater power in the Federal reserve bank.

Mr. CANNON. You want to consider a little bit the effect it would have upon the general reserves. How could you give that privilege to a bank in a city where the Federal reserve bank is situated and not give it to all the banks?

The CHAIRMAN. It is not proposed to give it to all the banks, but those in one city would exercise that right.

Mr. CANNON. Would not they consider that a kind of favoritism? They can not do as they please, because they might please to put it in and could not.

The CHAIRMAN. If the city banks should put this money in, it would give the reserve bank greater power to accommodate other banks.

Mr. CANNON. I should want to give further consideration to that.

Senator WEEKS. You do not think any country banker would deposit any such large percentage of reserve with a reserve bank that he would be embarrassed in his daily business?

Mr. CANNON. It does not seem to me that he would, but you can not tell what bankers would do.

The CHAIRMAN. We are very much obliged to you, Mr. Cannon.

Mr. CANNON. Not at all, sir. I hope I have been of some service.

(Senator Reed presented the table facing this page for insertion in the record.)

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Federal Reserve Bank of St. Louis

Statement showing money in circulation from 1860 to 1912.

Year.	Gold in circulation.	United States notes in circulation.	Average gold value of United States notes.[1]	Gold certificates in circulation.	Silver in circulation.		Silver certificates in circulation.	National bank notes in circulation.	Total circulation per capita of national bank notes.	Capital of national banks.	Surplus of national banks.	Individual deposits of national banks.	Number of national banks.	Population.	Total circulation per capita.	Year.
					Standard silver dollars.	Subsidiary silver.										
1860..	$228,304,775	.....	.....	None.	(2)	(2)	None.	.....	.....	.....	.....	.....	.....	31,443,321	$13.85	1860
1861..	246,400,000	.....	.....	None.	(2)	(2)	None.	.....	.....	.....	.....	.....	.....	32,064,000	13.98	1861
1862..	309,697,744	$72,865,665	88.3	None.	(2)	(2)	None.	.....	.....	.....	.....	.....	.....	32,704,000	10.23	1862
1863..	570,394,038	312,481,418	68.9	None.	(2)	(2)	None.	.....	.....	$7,188,393.00	$128,030.26	$8,497,681.84	66	33,365,000	17.84	1863
1864..	644,641,478	415,115,990	49.2	None.	(2)	(2)	None.	$31,235,270	$0.09	86,782,802.00	2,010,286.10	122,166,536.40	508	34,046,000	19.67	1864
1865..	689,971,860	378,916,742	63.6	None.	(2)	(2)	None.	146,406,725	4.12	393,157,206.00	38,713,380.72	500,910,873.22	1,513	34,748,000	20.58	1865
1866..	648,591,701	327,792,305	71	None.	(2)	(2)	None.	276,116,170	7.77	415,472,369.00	53,359,277.64	564,616,777.64	1,664	35,469,000	18.99	1866
1867..	637,126,128	319,437,702	72.4	None.	(2)	(2)	None.	286,889,020	7.92	420,073,415.00	66,695,589.01	540,797,837.51	1,642	36,211,000	18.29	1867
1868..	655,886,198	328,571,665	71.6	None.	(2)	(2)	None.	295,151,410	7.98	420,634,511.00	77,995,761.40	580,940,820.85	1,643	36,973,000	18.42	1868
1869..	640,573,364	314,702,094	75.2	None.	(2)	(2)	None.	292,876,157	7.76	426,399,151.00	86,165,335.32	511,400,196.63	1,617	37,756,000	17.63	1869
1870..	651,284,427	324,962,638	87	None.	(2)	(2)	None.	289,719,714	7.51	435,356,004.00	94,705,740.34	507,368,618.67	1,648	38,558,371	17.51	1870
1871..	693,616,114	343,068,970	89.5	None.	(2)	(2)	None.	314,132,781	7.94	460,225,866.00	101,573,153.62	596,586,487.54	1,790	39,655,000	18.17	1871
1872..	716,548,708	346,168,680	89	None.	(2)	(2)	None.	332,276,164	8.18	482,606,252.00	111,410,248.98	598,114,679.26	1,940	40,596,000	18.27	1872
1873..	728,799,412	348,464,145	87.9	None.	(2)	(2)	None.	340,880,078	8.22	490,266,611.00	120,961,267.91	540,510,602.78	1,976	41,677,000	18.09	1873
1874..	751,083,051	371,421,452	89.9	None.	(2)	(2)	None.	340,265,544	7.97	495,802,481.00	130,485,641.37	682,846,607.45	2,027	42,796,000	18.13	1874
1875..	729,101,947	349,686,335	87	None.	(2)	(2)	None.	340,546,545	7.74	505,485,865.00	133,085,422.30	618,517,245.74	2,086	43,951,000	17.16	1875
1876..	702,609,388	331,447,378	89.8	None.	(2)	(2)	None.	316,120,702	7.00	497,482,016.00	131,390,664.67	619,350,223.06	2,082	45,137,000	16.12	1876
1877..	697,314,883	337,899,344	94.4	None.	(2)	(2)	None.	301,289,025	6.49	477,128,771.00	121,618,455.32	604,512,514.52	2,074	46,353,000	15.58	1877
1878..	704,132,634	320,905,895	99.2	None.	$1,209,251	$53,918,322	$7,080	311,724,361	6.13	464,874,996.00	116,402,118.84	598,805,775.56	2,055	47,598,000	15.32	1878
1879..	110,505,362	301,644,112	100	$15,279,820	81,036,439	61,346,584	414,480	321,404,996	6.16	454,498,515.00	115,429,031.93	755,459,996.01	2,052	48,866,000	16.75	1879
1880..	225,695,779	327,895,457	100	7,963,900	20,110,557	48,511,788	5,789,569	337,415,178	6.72	458,540,085.00	121,824,629.03	1,006,452,852.82	2,095	50,155,783	9.41	1880
1881..	315,312,877	328,126,924	100	5,759,520	29,342,412	46,839,364	39,110,729	349,746,293	6.81	465,639,835.00	129,867,493.92	1,102,679,163.71	2,164	51,316,000	21.71	1881
1882..	358,251,325	325,255,427	100	5,029,020	32,403,820	46,379,949	54,506,090	352,464,788	6.73	484,883,492.00	135,930,969.31	1,066,901,719.85	2,308	52,495,000	22.37	1882
1883..	344,653,495	323,242,177	100	59,807,370	35,651,450	46,474,299	72,620,686	348,598,488	6.49	511,837,575.00	144,800,252.13	1,106,453,118.23	2,529	53,693,000	22.93	1883
1884..	340,624,203	318,687,214	100	71,146,640	40,690,200	45,660,808	96,427,011	330,689,893	6.00	524,089,065.00	146,867,119.06	987,649,055.68	2,664	54,911,000	22.65	1884
1885..	341,668,411	331,218,637	100	126,729,730	39,086,969	43,702,921	101,530,946	309,124,222	5.50	529,360,725.00	150,155,549.52	1,111,429,914.98	2732	56,148,000	23.03	1885
1886..	358,219,575	323,812,699	100	76,044,375	52,668,623	46,173,990	88,116,225	304,976,044	6.09	550,698,675.00	159,573,479.21	1,169,716,413.13	2875	57,404,000	21.78	1886
1887..	376,540,681	326,667,219	100	91,225,437	55,548,721	48,583,865	142,118,017	276,855,203	4.71	580,733,094.42	175,246,408.26	1,235,757,941.59	3070	58,680,000	22.45	1887
1888..	391,114,033	300,000,040	100	121,094,650	55,527,396	50,362,314	200,759,657	245,306,780	4.16	593,848,247.29	187,292,469.97	1,331,265,617.08	3150	59,974,000	22.88	1888
1889..	376,481,568	316,439,191	100	117,130,229	54,457,299	51,477,164	257,155,565	207,220,633	3.38	617,840,164.67	198,508,794.14	1,436,402,685.65	3326	61,289,000	22.52	1889
1890..	374,258,923	334,688,977	100	130,830,859	56,278,749	54,032,587	297,556,238	181,604,937	2.90	657,877,225.00	214,965,633.67	1,485,095,855.70	3573	62,622,250	22.82	1890
1891..	407,319,163	343,207,360	100	120,063,069	58,826,179	58,219,220	307,235,966	162,220,646	2.54	677,356,927.00	228,221,530.31	1,602,052,766.59	3692	63,844,000	23.45	1891
1892..	408,568,824	309,559,904	100	141,093,619	56,817,462	63,293,704	326,693,465	167,221,517	2.56	689,698,017.50	239,931,932.08	1,764,456,177.11	3784	65,086,000	24.60	1892
1893..	408,535,663	319,059,426	100	92,642,189	56,929,673	65,469,866	326,823,848	174,669,786	2.63	681,812,960.00	246,739,602.09	1,539,399,795.23	3787	66,349,000	24.06	1893
1894..	495,976,730	266,589,602	100	66,339,849	52,564,662	58,510,957	326,990,726	200,718,200	2.96	666,271,045.00	244,937,179.48	1,695,489,346.08	3737	67,632,000	24.56	1894
1895..	479,637,961	263,648,985	100	48,381,309	51,986,043	60,350,014	319,622,941	206,953,051	3.00	656,956,245.00	246,177,563.53	1,720,550,241.03	3,706	68,934,000	26.24	1895
1896..	454,905,064	224,249,868	100	42,198,119	52,116,904	60,204,451	330,657,191	215,168,122	3.06	647,186,395.00	247,399,567.15	1,639,688,393.60	3,661	70,254,000	21.44	1896
1897..	517,589,688	245,954,622	100	37,285,339	51,940,281	59,616,409	357,849,312	226,318,003	3.16	629,655,365.00	246,416,688.48	1,916,630,252.25	3,607	71,592,000	22.92	1897
1898..	657,950,463	284,569,022	100	35,811,589	58,482,966	64,056,920	390,126,510	222,990,987	3.05	620,516,245.00	246,695,552.28	2,225,269,813.21	3,590	72,947,000	25.19	1898
1899..	679,738,050	308,351,842	100	32,655,919	61,481,426	69,065,824	402,136,617	237,805,439	3.19	606,725,265.00	250,367,691.89	2,380,610,361.43	3,602	74,318,000	25.62	1899
1900..	610,806,472	313,971,545	100	200,733,019	65,889,346	76,160,988	408,465,574	300,115,111	3.93	632,353,405.00	262,387,647.59	2,623,997,521.88	3,942	76,303,387	26.93	1900
1901..	629,790,765	330,045,406	100	247,036,359	66,921,323	79,235,214	429,643,556	345,110,800	4.43	665,340,664.00	287,170,337.92	2,964,417,965.82	4,291	77,754,000	27.98	1901
1902..	632,394,289	334,291,722	100	306,399,009	68,747,349	85,721,228	446,559,662	345,476,516	4.36	714,616,353.00	335,763,730.38	3,152,878,796.65	4,666	79,117,000	28.43	1902
1903..	617,266,739	334,248,567	100	377,258,559	72,391,240	92,726,694	454,733,013	399,996,709	4.09	758,315,170.00	375,503,102.21	3,176,201,572.89	5,118	80,487,000	29.42	1903
1904..	645,817,576	333,759,425	100	465,655,099	71,313,826	95,528,343	461,138,698	433,027,835	5.29	776,089,401.00	399,961,534.15	3,707,706,530.93	5,477	81,867,000	30.77	1904
1905..	651,063,589	332,420,697	100	485,210,749	73,584,336	101,437,707	454,864,708	480,028,849	5.76	808,328,658.00	420,785,055.00	3,989,582,834.59	5,833	83,260,000	31.08	1905
1906..	668,655,075	335,940,220	100	516,561,849	77,001,368	111,509,624	471,520,054	548,001,238	6.48	847,514,653.00	504,548,213.62	4,289,773,899.28	6,199	83,662,000	32.32	1906
1907..	561,697,371	342,270,055	100	600,072,299	81,710,444	121,777,401	470,211,225	589,242,125	7.08	901,681,682.00	549,614,684.05	4,176,873,717.48	6,625	86,074,000	32.22	1907
1908..	613,244,810	339,396,322	100	782,976,619	76,328,657	124,178,165	465,287,705	631,648,680	7.44	921,019,383.66	568,159,292.92	4,720,284,640.40	6,865	87,496,000	34.72	1908
1909..	599,337,698	340,118,267	100	615,005,449	71,987,900	132,331,798	477,717,324	665,538,806	7.48	953,963,472.81	603,246,750.20	5,120,442,963.08	7,006	88,926,000	34.93	1909
1910..	590,877,993	334,787,870	100	802,754,199	72,432,514	135,583,731	487,597,238	683,659,535	7.56	1,004,288,107.37	652,462,489.68	5,304,788,306.45	7,204	90,363,000	34.33	1910
1911..	589,295,538	338,989,122	100	943,435,618	72,446,049	139,421,723	453,543,696	687,701,283	7.31	1,026,440,500.00	672,891,252.01	5,536,042,281.16	7,328	93,983,000	34.20	1911
1912..	610,724,154	337,697,321	100	943,435,618	70,399,574	145,034,198	469,224,400	705,142,259	7.37	1,046,012,580.00	701,021,452.71	5,891,670,007.00	7,397	95,656,000	34.34	1912

[1] Specie payments suspended 1862 to 1879.
[2] No figures available.

Total of all State banks June 14, 1912, and all mutual savings banks, stock savings banks, private banks, loan and trust companies:

Capital..... $964,235,780.49
Surplus..... 870,684,492.80

In case all banks and trust companies in the United States and the island possessions of the United States would join the different Federal reserve banks and take out their 20 per cent capital stock as provided in the act they would deposit in these regional banks the sum of $402,049,672.09.

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Federal Reserve Bank of St. Louis

(The chairman presented the following statistical table and requested that it be inserted in the record:)

Aggregate resources and liabilities of national banks, 1908 to 1912.

Classification.	1908 (July 15).	1909 (Apr. 28).	1910 (June 30).	1911 (June 7).	1912 (June 14).
	6,824 banks.	6,893 banks.	7,145 banks.	7,277 banks.	7,372 banks.
RESOURCES.					
Loans on real estate	.....	$57,070,962.46	.....	$65,112,003.29	$74,831,997.28
Loans on other collateral security	[1] $1,990,152,632.00	1,939,431,702.85	$2,050,590,293.00	2,004,993,992.88	2,135,767,904.39
Other loans and discounts	2,625,522,899.59	2,966,608,204.24	3,379,568,893.75	3,540,732,790.84	3,743,304,530.18
Overdrafts	24,705,023.68	24,584,055.22	25,743,314.27	23,397,257.78	19,849,391.65
United States bonds	732,599,187.16	740,167,972.67	748,797,808.97	754,744,891.34	783,497,976.72
State, county, and municipal bonds	[2] 179,384,137.05	156,612,965.93	[2] 161,998,193.97	176,284,278.64	210,426,073.39
Railroad bonds and stocks	[3] 507,425,613.60	351,371,083.96	298,692,105.00	361,221,071.31	384,321,275.41
Bank stocks	.....	.....	.....	.....	.....
Bonds of other public-service corporations	.....	148,643,966.78	153,025,132.00	182,297,622.00	195,707,108.25
Other stocks, bonds, etc	153,305,600.23	208,165,517.21	249,447,101.58	287,840,448.00	287,328,544.09
Due from other banks and bankers	1,104,458,684.94	1,232,556,106.45	1,201,606,823.38	1,376,785,821.33	1,424,091,680.31
Real estate, furniture, etc	198,279,190.33	215,966,786.14	236,463,370.67	253,009,304.09	266,625,008.70
Checks and other cash items	271,464,243.39	338,333,768.51	482,805,231.42	317,477,121.00	295,215,400.32
Cash on hand	889,213,394.43	926,776,902.82	865,452,856.21	998,061,441.05	996,142,823.46
Other resources	37,553,793.69	62,593,847.89	42,433,572.51	41,090,650.76	44,654,163.00
Total	8,714,064,400.09	9,368,883,843.13	9,896,624,696.73	10,383,048,694.31	10,861,763,877.15
LIABILITIES.					
Capital stock	919,100,850.00	933,979,903.00	989,567,114.00	1,019,633,152.25	1,033,570,675.00
Surplus fund	564,045,022.80	587,132,286.31	644,857,482.82	671,946,796.68	693,990,419.08
Other undivided profits	184,656,576.85	207,944,821.08	216,546,125.10	241,554,106.09	256,837,095.57
Dividends unpaid	2,849,822.39	1,130,750.07	15,144,463.48	1,851,823.47	1,622,560.16
Individual deposits	4,374,551,208.33	4,826,060,384.38	5,287,216,312.20	5,477,991,156.45	5,825,461,163.36
United States deposits [4]	130,266,023.63	70,401,818.99	54,541,349.41	48,455,641.54	58,945,980.66
Due to other banks and bankers	1,822,853,669.00	2,036,753,287.47	1,900,135,622.01	2,147,440,999.04	2,178,163,418.11
Other liabilities	715,741,227.09	705,480,591.83	788,616,227.71	774,175,018.79	813,172,565.21
Total	8,714,064,400.09	9,368,883,843.13	9,896,624,696.73	10,383,048,694.31	10,861,763,877.15

[1] Classification as of September call.
[2] Includes State, etc., and railway bonds held by Treasurer of United States to secure public deposits
[3] Includes bonds of other corporations.
[4] Includes deposits of United States disbursing officers.

NOTE.—For consolidated statement of all banks, see text of this report.

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Federal Reserve Bank of St. Louis

Aggregate resources and liabilities of State banks from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	11,220 banks.	11,319 banks.	12,166 banks.	12,864 banks.	13,381 banks.
RESOURCES.					
Loans on real estate	$188,352,185	$414,820,580.12	$472,428,488.53	$489,660,852.27	$572,934,870.29
Loans on other collateral security	127,270,669	559,690,457.10	594,419,425.26	606,377,489.15	563,942,284.11
Other loans and discounts	2,090,944,681	1,112,841,061.34	1,308,646,565.82	1,311,054,107.83	1,379,585,928.04
Overdrafts	29,447,901	34,316,574.20	30,972,194.87	32,322,218.37	32,860,093.94
United States bonds	2,888,514	5,221,710.94	2,050,780.00	2,848,777.50	4,330,539.47
State, county, and municipal bonds	3,729,479	65,892,211.21	63,952,194.59	55,096,142.18	81,967,470.56
Railroad bonds and stock	2,698,260	75,036,949.01	69,343,008.35	75,753,959.38	71,549,647.21
Bank stocks	184,385	.....	.....	.....	.....
Bonds of other public service corporations	.....	50,977,866.08	44,484,912.86	52,742,087.88	53,609,977.26
Other stocks, bonds, etc.	492,935,533	95,892,443.89	123,793,905.69	129,109,896.01	130,339,491.98
Due from other banks and bankers	549,297,603	491,961,365.43	485,361,856.14	525,822,785.89	530,161,901.29
Real estate, furniture, etc.	136,146,988	119,702,242.64	130,844,382.91	135,115,589.73	138,428,757.38
Checks and other cash items	71,251,438	75,096,440.72	105,187,734.98	77,855,345.68	77,752,380.52
Cash on hand	308,736,342	227,039,134.90	240,580,836.12	236,662,497.38	241,756,724.48
Other resources	28,754,507	10,180,096.61	22,892,480.69	17,364,546.20	18,550,760.18
Total	4,032,638,485	3,338,669,134.19	3,694,958,766.81	3,747,786,296.35	3,897,770,826.71
LIABILITIES.					
Capital stock	502,513,303	416,059,900.00	435,822,833.58	452,944,684.44	459,067,206.81
Surplus fund	217,112,085	152,639,305.36	187,571,005.45	170,566,937.42	271,373,944.18
Other undivided profits	86,503,972	91,213,767.57	65,678,941.67	92,785,739.26	.....
Dividends unpaid	682,749	1,039,492.86	2,441,796.41	1,235,652.15	829,045.40
Individual deposits	2,937,129,598	2,466,958,665.76	2,727,926,986.03	2,777,566,835.81	2,919,977,897.99
Due to other banks and bankers	207,432,987	158,958,549.87	129,768,527.09	144,578,103.41	142,644,643.99
Other liabilities	81,263,791	51,799,452.77	145,748,676.58	108,108,343.86	103,878,088.34
Total	4,032,638,485	3,338,669,134.19	3,694,958,766.81	3,747,786,296.35	3,897,770,826.71

Aggregate resources and liabilities of savings banks (mutual and stock savings) from 1907–8 to 1912.

Classification.	1907–8	1909	1910	1911	1912
	1,453 banks.	1,703 banks.	1,759 banks.	1,884 banks.	1,922 banks.
RESOURCES.					
Loans on real estate	$1,440,061,503	$1,620,131,445.62	$1,832,097,713.03	$1,963,906,841.51	$2,087,677,677.90
Loans on other collateral security	66,624,785	232,893,152.92	226,704,806.91	205,912,380.77	240,472,906.77
Other loans and discounts	364,362,059	177,977,493.04	233,707,955.82	243,857,140.37	259,374,577.22
Overdrafts	1,050,343	2,266,509.26	1,906,951.03	1,595,816.33	1,978,070.99
United States bonds	13,860,545	43,566,428.18	32,082,745.00	13,226,534.10	29,031,138.45
State, county, and municipal bonds	587,155,390	710,159,543.86	743,463,260.89	779,927,236.80	776,431,140.75
Railroad bonds and stocks	618,193,415	769,980,508.90	783,704,137.70	792,998,933.33	794,083,005.53
Bank stocks	24,265,271	.....	.....	.....	.....
Bonds of other public service corporations	.....	96,554,513.65	120,134,242.69	101,139,974.97	143,565,265.60
Other stocks, bonds, etc.	343,465,167	93,009,919.88	117,727,439.77	161,976,217.67	179,809,612.84
Due from other banks and bankers	163,616,708	218,477,832.87	214,327,121.92	242,389,433.46	258,280,430.86
Real estate, furniture, etc.	57,010,988	68,123,675.81	73,955,091.77	75,866,650.82	80,830,846.65
Checks and other cash items	779,228	3,944,728.46	5,397,201.49	4,552,812.46	4,594,881.48
Cash on hand	43,483,533	32,697,021.94	50,880,340.23	42,408,336.78	45,452,063.85
Other resources	85,604,217	2,927,330.95	45,782,436.65	22,554,993.25	21,141,671.69
Total	3,809,533,152	4,072,710,105.34	4,481,871,444.90	4,652,313,302.62	4,922,723,290.63
LIABILITIES.					
Capital stock	36,013,455	59,506,420.00	68,320,822.30	72,177,899.09	76,871,811.79
Surplus fund	244,711,801	224,424,711.93	276,229,027.77	261,834,083.46	280,036,025.43
Other undivided profits	39,412,250	62,160,100.11	53,814,779.06	77,264,792.69	89,595,370.89
Dividends unpaid	.....	92,707.96	364,639.25	51,294.48	262,835.16
Individual deposits	3,479,192.891	3,713,405,709.80	4,070,486,246.70	4,212,583,598.53	4,451,555,687.72
Due to other banks and bankers	3,187,417	8,234,513.44	6,690,451.96	8,084,294.10	10,181,417.50
Other liabilities	7,015,338	4,885,942.10	5,965,477.86	20,317,340.27	14,220,142.14
Total	3,809,533,152	4,072,710,105.34	4,481,871,444.90	4,652,313,302.62	4,922,723,290.63

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Aggregate resources and liabilities of private banks from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	1,007 banks.	1,497 banks.	934 banks.	1,116 banks.	1,110 banks.
RESOURCES.					
Loans on real estate	$19,610,740	$36,636,702.07	$22,746,018.18	$37,536,422.83	$39,531,511.77
Loans on other collateral security	7,521,699	21,096,873.66	13,832,195.89	16,316,121.32	19,775,745.64
Other loans and discounts	80,226,816	103,569,194.24	70,224,281.77	71,559,680.21	68,106,577.60
Overdrafts	1,796,144	4,616,218.90	1,646,968.46	2,633,647.85	2,370,427.64
United States bonds	297,157	609,219.30	389,190.00	410,282.47	422,117.74
State, county, and municipal bonds	1,100,443	3,228,802.32	2,336,285.00	2,466,506.72	2,436,189.39
Railroad bonds and stocks	550,901	1,213,577.66	584,460.18	448,547.28	1,412,833.27
Bank stocks	205,348	.....	.....	.....	.....
Bonds of other public service corporations	.....	1,760,406.73	1,106,865.55	1,418,865.04	1,986,671.33
Other stocks, bonds, etc	5,821,879	6,187,297.87	5,992,780.67	5,125,443.71	7,667,677.09
Due from other banks and bankers	27,298,378	40,832,891.79	24,069,188.01	26,168,941.51	29,622,664.53
Real estate, furniture, etc	6,448,497	13,026,388.49	7,482,500.61	9,621,350.43	14,214,049.23
Checks and other cash items	1,529,589	1,387,731.95	704,623.55	1,039,498.54	860,206.87
Cash on hand	8,497,540	11,053,706.52	6,764,890.90	7,189,327.84	7,450,404.38
Other resources	636,349	1,037,343.91	2,135,304.04	889,584.93	1,083,320.94
Total	161,541,480	246,256,355.41	160,015,552.81	182,824,220.68	196,940,397.42
LIABILITIES.					
Capital stock	21,122,836	27,726,922.00	18,899,561.74	21,872,416.34	22,348,040.33
Surplus fund	5,556,239	10,195,237.01	6,541,431.06	7,329,974.38	9,333,680.83
Other undivided profits	3,475,238	5,533,006.44	3,160,559.55	3,421,956.92	4,250,634.46
Dividends unpaid	35,160	62,003.43	62,448.49	189,643.09	74,638.22
Individual deposits	126,673,158	193,263,224.31	124,644,003.22	142,277,224.21	152,494,618.90
Due to other banks and bankers	1,561,453	3,404,236.54	1,644,318.25	1,583,296.84	1,707,139.16
Other liabilities	3,117,396	6,071,725.68	5,063,230.50	6,149,708.90	6,731,645.52
Total	161,541,480	246,256,355.41	160,015,552.81	182,824,220.68	196,940,397.42

Aggregate resources and liabilities of loan and trust companies from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	842 companies.	1,079 companies.	1,091 companies.	1,251 companies.	1,410 companies.
RESOURCES.					
Loans on real estate	$153,727,485	$377,318,280.19	$369,161,435.56	$467,531,456.44	$526,509,702.69
Loans on other collateral security	821,341,681	1,222,881,129.16	1,230,282,986.02	1,289,452,721.54	1,279,983,539.16
Other loans and discounts	404,412,308	460,550,859.39	655,016,724.24	668,650,649.78	900,350,885.96
Overdrafts	860,744	3,916,235.40	2,111,764.82	3,786,253.54	4,397,620.37
United States bonds	555,303	3,222,380.20	1,271,940.00	2,224,692.43	5,985,094.59
State, county, and municipal bonds	89,639,659	155,647,931.87	144,495,162.24	187,123,910.87	202,293,176.75
Railroad bonds and stocks	29,576,312	362,404,241.30	312,518,321.28	371,707,846.78	380,190,967.79
Bank stocks	4,805,849	.....	.....	.....	.....
Bonds of other public-service corporations	.....	168,589,933.84	159,294,782.36	212,593,716.76	208,673,579.15
Other stocks, bonds, etc	651,298,154	468,914,756.87 300,324,823.03	541,978,126.32 382,683,343.96	341,128,520.22	421,996,627.13
Due from other banks and bankers	391,573,223	578,243,506.14	467,643,271.31	617,605,590.28	605,669,597.26
Real estate, furniture, etc	97,112,461	127,216,448.81	125,486,325.05	143,081,102.71	157,188,159.03
Checks and other cash items	5,878,676	19,129,908.47	26,374,390.56	21,763,736.38	51,677,976.00
Cash on hand	118,398,874	254,447,910.16	260,129,890.91	269,825,566.23	282,151,463.26
Other resources	96,452,153	34,641,394.69	80,379,723.21	68,635,104.75	80,375,993.13
Total	2,865,632,876	4,068,534,982.65	4,216,850,061.52	4,665,110,868.71	5,107,444,382.27
LIABILITIES.					
Capital stock	278,408,759	362,763,223.00	367,333,556.37	385,782,933.44	418,985,771.77
Surplus fund	370,145,308	351,699,101.89	432,718,233.98	400,406,067.99	424,313,939.08
Other undivided profits	45,894,591	141,683,091.23	65,448,601.52	138,464,384.81	136,428,039.39
Dividends unpaid	467,115	985,990.44	2,842,956.53	2,360,771.04	850,048.81
Individual deposits	1,866,964,314	2,835,835,180.79	3,073,122,706.20	3,295,855,895.27	3,674,578,238.92
Due to other banks and bankers	163,014,678	276,753,308.05	187,141,876.31	319,368,254.43	299,938,456.82
Other liabilities	140,738,111	98,815,087.25	88,242,130.61	122,872,561.73	152,349,887.48
Total	2,865,632,876	4,068,534,982.65	4,216,850,061.52	4,665,110,868.71	5,107,444,382.27

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Aggregate resources and liabilities of national and other reporting banks on or about June 30, 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	21,346 banks.	22,491 banks.	23,095 banks.	24,392 banks.	25,195 banks.
RESOURCES.					
Loans on real estate	$1,801,751,913.00	[1]$2,505,977,970.46	[1]$2,696,433,655.30	[1]$3,023,747,576.34	[1]$3,301,485,759.93
Loans on other collateral security	3,012,911,466.00	3,975,993,315.69	4,115,829,707.08	4,123,052,705.66	4,239,942,380.07
Other loans and discounts	5,565,468,763.59	4,821,546,812.25	5,647,164,421.40	5,835,854,369.03	6,350,722,499.00
Overdrafts	57,860,155.68	69,699,592.98	62,381,193.45	63,735,193.87	61,455,604.59
United States bonds	750,200,706.16	792,787,711.29	784,592,463.97	773,455,177.84	823,266,866.97
State, county, and municipal bonds	[2] 861,009,108.05	1,091,541,455.19	1,116,245,096.69	1,200,898,075.21	1,273,554,050.84
Railroad bonds and stocks	1,158,444,501.60	1,560,006,360.83	1,464,842,032.51	1,602,130,358.08	1,631,544,479.26
Bonds of other public-service corporations	.....	466,526,687.08	478,045,935.46	550,192,266.65	603,542,601.59
Bank stocks	29,460,847.00	.....	.....	.....	.....
Other stocks, bonds, etc	1,646,826,333.23	703,580,001.88	979,644,571.67	925,180,526.51	1,026,975,383.45
Due from other banks and bankers	2,236,244,596.94	2,562,071,702.68	2,393,008,260.76	2,788,772,572.47	2,847,992,843.93
Real estate, furniture, etc	494,998,124.33	544,035,541.89	574,231,671.01	616,693,997.78	657,299,660.36
Checks and other cash items	350,903,174.39	437,892,578.11	620,469,182.00	422,688,514.06	430,101,255.82
Cash on hand	1,368,329,683.43	1,452,014,676.34	1,423,808,814.37	1,554,147,169.28	1,572,953,479.43
Other resources	249,001,019.69	111,380,014.05	193,623,517.10	150,534,879.89	165,805,908.94
Total	19,583,410,393.09	21,095,054,420.72	22,450,320,522.77	23,631,083,382.67	24,986,642,774.18
LIABILITIES.					
Capital stock	1,757,159,203.00	1,800,036,368.00	1,879,943,887.99	1,952,411,085.56	2,010,843,505.70
Surplus fund	1,401,570,455.80	1,326,090,642.50	1,547,917,181.08	1,512,083,859.93	1,584,981,106.44
Other undivided profits	359,942,627.85	508,534,786.43	404,649,006.90	553,490,979.77	581,178,042.47
Circulation (national banks)	613,663,963.00	636,367,526.00	675,632,565.00	681,740,513.00	708,690,593.00
Dividends unpaid	94,034,846.39	3,310,944.76	20,856,304.16	5,689,184.23	3,639,127.75
Individual deposits	12,784,511,169.33	14,035,523,165.04	15,283,396,254.35	15,906,274,710.27	17,024,067,606.89
United States deposits	130,266,023.63	70,401,818.99	54,541,349.41	48,455,641.54	58,945,980.66
Due to other banks and bankers	2,198,050,204.00	2,484,103,895.37	2,225,380,795.62	2,621,054,947.82	2,632,635,075.58
Other liabilities	344,211,900.69	230,685,273.63	358,003,178.26	349,882,460.55	381,661,735.69
Total	19,583,410,393.09	21,095,054,420.72	22,450,320,522.77	23,631,083,382.67	24,986,642,774.18

[1] Includes mortgages owned. [2] Includes bonds of other corporations for national banks

Aggregate loans, resources, capital, and deposits for the fiscal years 1908 to 1912, inclusive, of banks reporting to Comptroller of the Currency.

[In millions of dollars.]

Year.	Number of banks.	Loans.	Resources.	Capital.	Individual deposits.
1908	21,346	$10,437.9	$19,583.4	$1,757.1	$12,784.5
1909	22,491	11,393.1	21,095.0	1,800.0	14,035.5
1910	23,095	12,521.7	22,450.3	1,879.9	15,283.3
1911	24,392	13,046.4	23,631.0	1,952.4	15,906.3
1912	25,195	13,953.6	24,986.6	2,010.8	17,024.0

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Summary of reports of condition from 25,195 banks in the United States and island possessions (including National, State, savings, and private banks and loan and trust companies), showing their condition at the close of business June 14, 1912.

RESOURCES.

Loans and discounts:		
Secured by real estate (including mortgages owned)	$3,301,485,759.93	
Secured by collateral other than real estate	4,239,942,380.07	
All other loans	6,350,722,499.00	
Overdrafts	61,455,604.59	
		$13,953,606,243.59
Bonds, securities, etc., including premiums thereon:		
United States bonds	$823,266,866.97	
State, county, and municipal bonds	1,273,554,050.84	
Railroad bonds	1,631,544,479.26	
Bonds of other public-service corporations (including street and interurban railways bonds)	603,542,601.59	
Other bonds, stocks, warrants, etc	1,026,975,383.45	
		$5,358,883,382.11
Banking house, furniture, and fixtures		550,326,884.44
Other real estate owned		106,972,775.92
Due from banks		2,847,992,843.93
Checks and other cash items		55,236,223.74
Exchanges for clearing house		374,865,032.08
Actual cash on hand:		
Gold coin	238,389,386.74	
Gold certificates	[1] 643,547,090.00	
Silver dollars	22,957,395.00	
Silver certificates	194,374,169.00	
Subsidiary and minor coins	37,738,008.29	
Legal-tender notes	253,122,053.00	
National-bank notes	108,281,687.00	
Cash not classified	74,543,690.40	
		1,572,953,479.43
Other resources		165,805,908.94
Total resources		24,986,642,774.18

LIABILITIES.

Capital stock paid in		$2,010,843,505.70
Surplus		1,584,981,106.44
Undivided profits		581,178,042.47
National-bank circulation		708,690,593.00
Due to banks		2,632,635,075.58
Dividends unpaid		3,639,127.75
Individual deposits subject to check without notice	$8,323,485,623.53	
Saving deposits or deposits in interest or savings department	6,496,192,707.60	
Certificates of deposit	1,952,784,093.94	
Certified checks	135,241,263.20	
Cashier's checks outstanding	116,363,918.62	
		17,024,067,606.89
United States deposits		58,945,980.66
Notes and bills rediscounted		21,836,346.24
Bills payable, including certificates of deposit representing money borrowed		127,778,722.66
Other liabilities		232,046,666.79
Total liabilities		24,986,642,774.18

[1] Includes $80,479,000 clearing-house certificates.

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Principal items of resources and liabilities of State, savings, and private banks, loan and trust companies, and national banks, from 1863 to 1912.

[From 1863 to 1872, inclusive, data from various sources; from 1873 compiled from reports obtained by the Comptroller of the Currency.]

[Amounts in millions of dollars.]

Year.	Number of banks reporting.	Loans and discounts (including overdrafts).	Bonds, stocks, etc.	Due from banks and bankers.	Specie.	Paper currency.[1]	Total cash in bank.	Capital.	Surplus and profits.	Circulation.[2]	United States deposits.[3]	Individual deposits.	Due to banks.	Total assets.
1863	1,466	$648.6	$180.5	$96.9	$46.1	.....	[4] $205.5	$405.0	.....	$238.7	.....	$393.7	$100.5	$1,191.7
1864	[5] 1,089	.....	.....	.....	50.7	.....	.....	311.5	.....	163.3	.....	.....	.....	.....
	[6] 467	70.7	93.4	33.3	.....	.....	47.6	75.2	$4.2	189.1	.....	119.4	27.4	252.3
1865	1,960	362.4	404.3	103.0	9.4	$190.0	199.4	397.0	54.5	131.5	$58.0	641.0	157.8	1,126.5
1866	2,267	550.4	465.2	110.7	12.6	219.3	231.9	480.8	79.4	267.8	39.1	815.8	122.4	1,476.4
1867	2,279	588.5	443.1	100.0	11.1	194.5	205.6	483.8	93.9	291.8	33.3	876.6	112.5	1,494.1
1868	2,293	655.7	440.5	123.1	20.8	179.9	200.7	486.4	109.4	294.9	28.3	968.6	140.7	1,572.2
1869	2,354	686.3	414.6	107.6	18.5	144.0	162.5	489.7	126.0	292.7	12.8	1,032.0	129.0	1,564.2
1870	2,457	719.3	406.1	121.2	31.1	156.6	187.7	513.7	132.7	291.8	13.2	1,051.3	148.5	1,510.7
1871	2,796	789.4	419.9	143.8	19.9	174.1	194.0	561.7	143.1	315.5	11.1	1,251.6	176.4	1,730.6
1872	3,066	871.5	431.2	144.0	24.3	153.3	177.6	592.6	155.4	327.1	12.4	1,353.8	172.7	1,770.8
1873	[7] 1,968	1,439.9	713.2	167.1	[8] 27.9	.....	218.2	532.9	215.6	340.2	15.1	1,421.2	178.6	2,731.3
1874	[7] 1,893	1,564.5	723.2	193.6	[8] 22.3	.....	252.2	550.3	199.9	338.7	10.6	1,526.5	232.5	2,890.4
1875	3,336	1,748.1	793.1	195.0	[8] 19.0	.....	238.7	592.6	254.2	318.1	10.2	1,787.0	194.7	3,204.6
1876	3,448	1,727.1	807.3	198.2	[8] 25.4	.....	226.4	602.3	261.6	294.8	11.1	1,778.6	183.3	3,183.1
1877	3,384	1,720.9	841.2	184.6	[8] 21.3	.....	230.5	614.2	260.5	290.4	10.9	1,813.6	170.1	3,204.1
1878	3,229	1,561.2	865.9	183.2	[8] 29.7	.....	214.6	587.7	237.7	300.4	25.6	1,717.4	161.7	3,080.6
1879	3,335	1,507.4	1,032.9	204.0	[8] 42.7	.....	216.3	580.4	246.1	307.7	252.1	1,694.2	187.9	3,212.6
1880	3,355	1,662.1	900.6	248.9	[8] 100.2	.....	285.5	565.2	260.2	318.4	10.7	1,951.6	239.6	3,399.0
1881	3,427	1,901.9	500.9	346.1	[8] 129.5	.....	295.0	572.3	292.0	312.5	12.2	2,296.8	314.7	3,869.1
1882	3,572	2,050.3	1,049.1	307.3	[8] 112.4	.....	287.1	590.6	310.1	309.2	12.6	2,460.1	279.0	4,031.1
1883	3,835	2,133.6	951.2	392.8	[8] 116.2	.....	321.0	625.6	347.8	312.2	13.9	2,568.4	288.2	4,208.0
1884	4,111	2,260.7	1,030.4	294.1	[8] 110.2	.....	321.2	656.4	379.6	295.3	14.2	2,566.4	227.0	4,221.3
1885	4,350	2,272.3	952.0	432.9	[8] 179.0	.....	414.3	678.0	362.0	269.2	14.0	2,734.3	293.0	4,426.9
1886	4,378	2,456.7	1,031.1	349.8	[8] 152.2	.....	375.5	686.7	393.8	238.0	17.1	2,812.0	308.9	4,521.5
1887	6,179	2,944.9	999.9	632.1	[8] 165.1	.....	432.8	806.8	460.2	166.8	23.2	3,308.2	350.1	5,203.7
1888	6,647	3,161.1	1,112.1	439.1	226.4	219.7	446.1	853.7	493.7	155.5	58.4	3,422.7	366.1	5,470.4
1889	7,203	3,475.2	1,111.9	513.7	[9] 221.5	277.6	499.1	893.3	531.9	129.0	46.7	3,778.1	434.6	5,940.9
1890	7,999	3,842.1	1,158.0	531.3	221.9	256.4	478.3	968.7	584.0	126.5	30.6	4,062.5	432.3	6,343.0
1891	8,641	3,965.9	1,042.5	652.6	217.3	261.8	479.1	1,029.7	619.2	124.0	25.9	4,196.8	415.7	6,562.1
1892	9,338	4,336.6	1,269.4	684.3	262.2	324.2	586.4	1,071.1	650.3	141.2	14.2	4,664.9	464.9	7,245.3
1893	9,492	4,368.6	1,354.1	549.2	210.9	305.0	515.9	1,091.8	689.3	155.1	13.7	4,627.3	419.9	7,192.3
1894	9,508	4,085.0	1,445.3	705.1	283.4	405.5	688.9	1,069.8	682.4	171.8	14.1	4,651.2	599.1	7,290.6
1895	9,818	4,268.8	1,565.2	714.4	246.3	384.8	631.1	1,060.3	699.3	178.8	13.2	4,921.3	600.5	7,609.6
1896	9,469	4,251.1	1,674.4	645.0	251.2	280.6	531.8	1,051.9	694.4	199.2	15.4	4,945.1	521.7	7,553.9
97	9,457	4,216.0	1,732.3	781.4	297.7	330.5	628.2	1,012.3	712.7	196.6	16.4	5,094.7	673.4	7,822.1

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1898	9,485	4,652.2	1,859.7	924.9	402.2	285.6	687.8	992.0	732.7	189.9	52.9	5,688.2	809.8	8,609.0
1899	9,732	5,177.6	2,179.0	1,203.1	449.1	274.2	723.3	973.6	761.1	199.4	76.3	6,768.7	1,046.4	9,904.9
1900	10,382	5,657.5	2,398.3	1,272.8	449.7	300.2	749.9	1,024.7	882.2	265.3	98.9	7,238.9	1,172.5	10,785.9
1901	11,406	6,425.2	2,821.2	1,448.0	479.0	328.5	807.5	1,076.1	955.6	319.0	99.1	8,460.6	1,333.0	12,357.5
1902	12,424	7,189.0	3,039.2	1,561.2	541.0	307.1	848.1	1,201.6	1,096.9	309.4	124.0	9,104.7	1,393.2	13,363.9
1903	13,684	7,738.9	3,400.1	1,570.6	478.2	379.0	857.2	1,321.9	1,273.4	359.2	147.3	9,553.6	1,475.9	14,303.1
1904	14,850	7,982.0	3,654.2	1,842.9	612.2	378.4	990.6	1,392.5	1,360.9	399.6	110.3	10,000.5	1,752.2	15,198.8
1905	16,410	9,027.2	3,987.9	1,981.9	617.3	376.8	994.1	1,463.2	1,439.5	445.4	75.3	11,350.7	1,904.3	16,918.2
1906	17,905	9,893.7	4,073.5	2,029.2	633.0	383.4	1,016.4	1,565.3	1,558.9	510.9	89.9	12,215.8	1,899.0	18,147.6
1907	19,746	10,763.9	4,377.1	2,135.6	719.5	394.2	1,113.7	1,690.8	1,645.0	547.9	180.7	13,099.6	2,875.4	19,645.0
1908	21,346	10,438.0	4,445.9	2,236.2	860.5	507.8	1,368.3	1,757.2	1,761.5	613.7	130.3	12,784.5	2,198.0	19,583.4
1909	22,491	11,373.2	4,614.4	2,562.0	1,044.6	407.4	1,452.0	1,800.0	1,834.6	636.3	70.4	14,035.5	2,484.1	21,095.0
1910	23,095	12,521.8	4,723.4	2,393.0	1,009.6	414.2	1,423.8	1,880.0	1,952.6	675.6	54.5	15,283.4	2,225.3	22,450.3
1911	24,392	13,046.4	5,051.9	2,788.8	1,110.7	443.4	1,554.2	1,952.4	2,065.6	681.7	48.5	15,906.3	2,621.1	23,631.1
1912	25,195	13,953.6	5,358.9	2,848.0	1,137.0	435.9	1,572.9	2,010.8	2,166.1	708.7	58.9	17,024.0	2,632.6	24,986.6

[1] Includes cash not classified.
[2] Includes State bank circulation.
[3] Includes deposits of United States disbursing officers.
[4] Specie funds and notes of other banks.
[5] From Homan's Banker's Almanac.
[6] National banks.
[7] Number of national banks only; number of State and savings banks not reported.
[8] Specie in national banks; incomplete for State banks.
[9] Includes coin certificates from 1889: specie for 1902 partially estimated.

NOTE.—Since 1873 the Comptroller of the Currency has collected and published statistics of State banks, but complete data for compiling these statistics for a number of years thereafter were available only for those States in which the banks were required to report to some State official. For recent years the statistics are practically complete.

(Thereupon, at 5.45 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. to-morrow, Saturday, October 11, 1913.)

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SATURDAY, OCTOBER 11, 1913.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.33 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

The CHAIRMAN. Judge Montgomery, we will hear you now, if you please.

STATEMENT OF S. B. MONTGOMERY, OF QUINCY, ILL.

Mr. MONTGOMERY. It was suggested that I should be called first, because I was appointed chairman of this committee and in view of the fact that I was president of the Illinois Bankers' Association, and not because I was expected to do much of the talking. This morning I dictated a little statement, and if it is not objectionable I will just read it.

The CHAIRMAN. That will be all right.

Mr. MONTGOMERY. The committee appearing here was authorized at the meeting of the Illinois Bankers' Association on October 26, 1913. That convention was the largest ever held in Illinois. In fact, double as large as the largest State convention that was ever held. There is no doubt that interest in the pending legislation in Congress is responsible for so large an attendance.

Senator SHAFROTH. What date did you say it was?

Mr. MONTGOMERY. October 26.

Senator SHAFROTH. October?

Mr. MONTGOMERY. Oh, I do not mean October; September 26.

Senator SHAFROTH. I thought we had not arrived at that date.

Mr. MONTGOMERY. No; as president of that association I was authorized to appoint this committee. In doing this I thought it best to confine myself to down-State bankers. Those selected I think represent the various sections and localities of the State and the different systems of banking. The resolution adopted at Chicago provided that we indorsed and approved the Chicago conference report, but that has largely been modified, and I think we are here not for the purpose of urging any part of that now. It is only the different items we think of interest to what we call ourselves—country bankers. The names of the members of this committee and their banks, and location of the same, are as follows: William George, president of the Old Second National Bank of Aurora; B. F. Harris, vice president of the First National Bank of Champaign (both of these gentlemen are ex-presidents of the Illinois Bankers' Association); John M. Crebs, president National Bank of Carmi; H. D. Sexton, president Southern Illinois National Bank; Ashe V. Cox, Xenia, president of Orchard City Bank (a private bank); William C. White, president Illinois National Bank, Peoria; and J. S. Aisthorpe, president First Bank & Trust Co., Cairo, Ill.

In reference to Mr. Crebs, I want to say one word. He has been for a long time in the southeastern part of the State, and for a long time has been president of the State fair association, and is quite

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well acquainted in the State. Mr. Harris is one of the ex-presidents of the Illinois Bankers' Association, and is right here by me, and he is just as big an apostle of the farmer.

The CHAIRMAN. Yes; I have had the pleasure of meeting Mr. Harris a number of times.

Mr. MONTGOMERY. The organization in Illinois is made up of 10 groups, covering the State, one in the city of Chicago and counties adjoining it, and nine others down State. I was only made chairman of the committee because I happened to be president of the Illinois Bankers' Association, and not on account of my fitness. I practised law a good part of my life and, besides, being a State banker, we are not so vitally interested at present, at least, as are the national banks.

You have heard this bill discussed from so many angles and by so many experts that I do not feel we should consume much of your time. We are not experts. I think the entire committee comes here with the feeling that your committee is working conscientiously and faithfully to make a banking and currency law that will be a credit and help to all the people, and that includes the bankers.

We are not here attempting or wishing to defeat this bill. We are favoring many parts of it, especially that which provides the banks a place to go for credit when they need it. That is the greatest need of the American banking system to-day. Under the present system at the first appearance of trouble we at once become selfish and try to strengthen ourselves at the expense of everyone else, and thus accentuate, precipitate, and bring on the very trouble we were fearing. It would appear that this bill if enacted into law would cure that trouble. At the same time we are compelled to say to you that there exists among country bankers a very widespread and almost universal sentiment unfavorable to some of the features of the proposed law.

For the past month I have talked with, I might say, hundreds of bankers, and while they are favorable to the law in the main, it is always with the qualification that it be modified in many of its features. I shall mention only a few of these points and then ask other members of the committee who are real bankers to express their views to you.

First. There is a wish among country bankers that the amount they should be required to subscribe to the Federal reserve bank, should be reduced from 20 to 10 per cent, 5 per cent of the same to be paid in.

Second. Bankers have suggested that the Federal reserve board be composed of seven men to be appointed by the President. The suggestion I am about to make, I saw in the paper yesterday, Mr. Cannon has already made to the committee. As I say, bankers have suggested that the Federal reserve board be composed of seven men to be appointed by the President, but instead of the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency being members of the Federal reserve board, our suggestion is that they be left off, and that the President appoint three bankers to be selected by him.

I think that the Comptroller of the Currency would be very properly one of this board, but he is so extremely busy it seems to me it would be hard for him to perform the duties that would be required.

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Third. It seems unnecessary that there should be a requirement for 12 regional Federal reserve banks. It would be easier to put the law in operation with half that number.

Fourth. Another thing that would be popular with the bankers would be that the stock should pay 6 per cent cumulative instead of 5 per cent cumulative interest.

Fifth. Another objection is the proposition to transfer items at par without exchange. Bankers would hope that this might be changed so that it would only be items "drawn by" one member bank instead of "drawn on" member banks.

Sixth. The savings bank feature seems unnecessary. Many small country banks are in the habit of accepting savings and yet the business done does not develop very largely, and it would be extremely burdensome to them to segregate their capital and their investments and be compelled to carry on this small savings part of their business separately.

Seventh. Bankers in our section do not understand the proposition of allowing real estate loans to be made for a period of one year only. I understand that is hardly sufficient to cover that feature and other legislation may follow it, and that it had reference to some particular locality. No loans on real estate are made for one year in that section. The maturity is almost invariably 5 or 10 years, and so for as that section is concerned it would be utterly useless. My colleagues on this committee will elaborate on these objections, and others of which they may speak.

The CHAIRMAN. I think most of those objections are recognized by the members of the committee as having force, and that the committee will take some steps toward granting relief along the lines of those objections. I will not go into the details about it, but I think that is really the attitude of the committee.

Mr. MONTGOMERY. Now, shall I introduce the other speakers?

The CHAIRMAN. If you please.

Mr. MONTGOMERY. Mr. Aisthorpe is the next speaker.

STATEMENT OF J. S. AISTHORPE, VICE-PRESIDENT OF THE ILLINOIS BANKERS' ASSOCIATION, CAIRO, ILL.

Mr. AISTHORPE. Gentlemen, I represent perhaps what is known as the country banker. While in some respects not occupying the position directly of the country banker, I am in a small city surrounded by what are termed country banks. They object to the fact that this law really makes a clearing house through the reserve bank of country checks, as we term them.

The CHAIRMAN. Checks of your depositors, you mean?

Mr. AISTHORPE. Checks of our depositors—individual checks. Now, as you know, the country banker, or at least a large per cent of them, charge for remitting those checks.

The CHAIRMAN. That is, for remitting the proceeds of those checks?

Mr. AISTHORPE. Yes; the proceeds of those checks. And in some respects it is a burden upon them to do that.

The CHAIRMAN. It costs you money to run that business?

Mr. AISTHORPE. Certainly.

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The CHAIRMAN. And you have to have men employed for that express purpose?

Mr. AISTHORPE. Yes. This section is not quite understood, if it applies to individual checks; that is, depositors' checks drawn on the member bank.

The CHAIRMAN. I think that is a fair interpretation of it.

Mr. AISTHORPE. They object to that check being collected at par or deposited at par and collected at par through the reserve or regional bank, whatever you may call it.

The CHAIRMAN. There is a net profit to the country bank on that business?

Mr. AISTHORPE. Yes.

The CHAIRMAN. And that net profit is what they wish to retain. That is right, is it not?

Mr. AISTHORPE. Yes. I do not know whether the committee really understands the fact that that is an item of profit to the small country bank, and it is one of the things they exist upon; while, taking it in my city, we kick against it all the time. We do not like the charges the way they do. At the same time it is fair that should be retained. It does not seem fair that the city banker, the large city banker, the reserve banks of the cities at the present time, should be allowed to deposit in the regional bank or the reserve bank those checks and receive credit at par.

The CHAIRMAN. It was thought, I think, that the depositors of the country banks who remitted to their wholesale merchants, for instance, while they do not pay directly it is believed that the wholesalers in reality charge them more for their goods in order to meet any incidental expenses of that kind.

Mr. AISTHORPE. I do not know whether they do that, because they take it for granted it can be collected at very little expense. The clearing houses in some of the reserve cities, of course, have a fixed charge on collecting country checks of $1 a thousand. They do that; but the individual merchant, the wholesaler, or jobber in the town, or even a retail merchant, rather than go to a bank and buy his exchange, or get a post-office order, or an express order, he will send his own individual check.

The CHAIRMAN. That is a thing that may be illustrated by the popular song, "Everybody's doing it." [Laughter.]

Mr. AISTHORPE. Everybody's doing it; that is true. And he does that not only because it does not cost him anything to do it, but it also gives him time to meet that check when it is presented at the bank. Now, if this law gives the right to the depositing bank that is a member of the reserve bank to deposit that check at par, then it will be sent to the member bank on whom it is drawn, and they will have to remit at par or, rather, it is charged to their account, whichever way you put it.

The CHAIRMAN. That is the way it is to be done under this bill. They would not remit at all, but simply charge it to their account. And, in like manner, their checks would be credited to them.

Mr. AISTHORPE. I presume it would be charged at the reserve bank as of the date of its receipt.

The CHAIRMAN. Oh, yes; there is no waiting. But in the same way the member bank would be given credit when it sent in its own checks on other banks.

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Mr. AISTHORPE. That does not seem to be fair to the country banker. In the first place, it opens the gateway for check discounting.

The CHAIRMAN. The country bank, of course, would get credit immediately for all its checks sent in in the same way.

Mr. AISTHORPE. Yes; but the country bank does not get as many checks in proportion as the large city banks do. Of course, there are no jobbing houses in the country towns, and they do not have checks to handle at their end of the line like the banks in the towns where the large retail houses and wholesale houses are located. Therefore they would get no remuneration in that respect.

Senator NELSON. I want to call your attention to this phraseology in the bill on page 33. After referring to the other matter, it says:

Nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Mr. AISTHORPE. Yes; that is true that it does contain that. But I take it for granted that will be largely in the control of the managers of the reserve bank as to what shall be done in that respect. If they say, "Why, no; we credit you at par on any items you send to us, and therefore we charge you direct the items we send you," it is a little bit misunderstood—the language there—and I think it should be made plain. My idea is, taking it from the small country bank, that its check—the bank's check—drawn on another bank should be charged to him at par in the regional bank or the reserve bank, but his depositor's checks should not be permitted to be charged to his account at all. In other words, I think the committee should amend that section there and let it stop.

Senator NELSON. You would distinguish between individual checks and bank checks?

Mr. AISTHORPE. And the bank's checks; yes.

Senator NELSON. The check of one bank on another would be within the rule?

Mr. AISTHORPE. Yes; within the rule.

Senator NELSON. And the individual check you would exclude?

Mr. AISTHORPE. I would exclude that entirely. When you stop to think about it, gentlemen—for instance, take a retail man who buys a bill of goods in New Orleans. I am in Cairo, Ill., and he buys a bill of goods from New Orleans. Now, instead of going into the bank and buying a New Orleans exchange he sends his own individual check.

Senator NELSON. On his local bank.

Mr. AISTHORPE. On his local bank. Now, that check is deposited in the regional bank in New Orleans and is deposited at par. That regional bank sends it, of course, to me as a member of the association—the reserve bank—and I have to remit at par or, rather, it is charged to my account. It is not a question of remitting, exactly; it is charged to my account. Now, the bank has made no profit and has had nothing to do with the transaction whatever.

The CHAIRMAN. It would save you from the expense of keeping these extra accounts.

Mr. AISTHORPE. You mean with the reserve agents in different cities?

The CHAIRMAN. Yes; keeping accounts with banks in different cities.

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Mr. AISTHORPE. I take it for granted, as far as that is concerned, the bank will have to keep what we might call our individual accounts with another bank, even were this banking law in effect.

The CHAIRMAN. Doubtless they would keep accounts anyway for the purpose of obtaining rediscounts, in case they need it.

Mr. AISTHORPE. Certainly. But here is the point: You are imposing on the bank at Cairo, through the transfer of funds at New Orleans, where the wholesaler there made a profit on his sale of goods to the merchant in my town—you are imposing that burden on the bank. It does not seem that burden ought to be imposed. Between the banks that is a different proposition.

The CHAIRMAN. The proposal is that your bank should be allowed to send all of its checks at par to the Federal reserve bank, and you would immediately get credit for those checks, and it would save you from carrying on the miscellaneous correspondence incident to sending checks to the various parts of the country for collection.

Mr. AISTHORPE. That is true.

The CHAIRMAN. And save you time and expense, and you get immediate credit, which is a positive advantage. Another advantage is, as far as the exchange is concerned, you will not be compelled to carry accounts in banks in various parts of the country upon which your customers may desire exchange, but you can give them exchange on any part of the country by your own checks.

Mr. AISTHORPE. I agree with you in that; but the volume of business which is transacted is so much larger against the country bank that the country bank can not remunerate itself from its end of the line.

The CHAIRMAN. You mean to say the income and outgo do not balance each other?

Mr. AISTHORPE. The checks do not. In our country banks, you know, the farmer does not come in, as a rule, and deposit a check. He generally has the money, or if it is a check it is a local check in the part of the town in which he lives.

Senator NELSON. Pardon me for interrupting you, but would it not be fair for the local bank to charge the local customer for it? The local customer instead of buying his draft, as he should do, to send to New Orleans gives his check.

Mr. AISTHORPE. Yes; he ought to do that; I admit that.

Senator NELSON. It is up to him. Now, the store merchant in Cairo could go to the bank and buy New Orleans exchange instead of sending his check on the Cairo bank, and that is what he should do.

Mr. AISTHORPE. That is what he ought to do, but what he don't do and won't do.

Senator NELSON. If he neglects that he should bear that burden.

Mr. AISTHORPE. Not the banks; that is what I am trying to eliminate.

Senator SHAFROTH. But he does it that way in order to have a receipt right on the back of his check.

The CHAIRMAN. And it is so convenient to inclose a check in a letter, rather than to go out and buy a draft, and be bothered in that way, and that is why it has grown to be a universal custom. It has been estimated that there are 15,000,000 checks in circulation in this country daily in process of collection. It has become the habit of the citizen, who consults his own convenience when he wants to pay

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an account in a distant place, to slip his own check in a letter and send it through the mail, and that saves his time.

Senator SHAFROTH. Some times he has to wait in line in order to get a draft.

The CHAIRMAN. It is not convenient to him. It may take 15 or 20 minutes, or it may take an hour to send his boy down to get a draft. It is a matter of convenience all around and obtains in the whole country.

Mr. AISTHORPE. The wholesaler and jobber are benefited, and the banks have been trying to break up that practice.

The CHAIRMAN. The depositor is benefited, because it saves him the expense of sending a man down to the bank with his check to exchange for a bank check on that center to which he wants to remit, and he might send a boy down there and have to wait half an hour or an hour, and it may be necessary to do that, perhaps, three or four times a day, and he sends his own check as a matter of convenience.

Mr. AISTHORPE. I admit what you say, that it is an accommodation to the customer in that respect, but the individual bank, with this method that the committee proposes here, is absolutely placing those checks at a premium, in a sense. That is, it is allowing the merchants to run their checks out, and the regional bank that is at the point where they are received—they will be deposited there by the bank which will get credit for them at par immediately, and they will be charged to the country bank against its account, before it has had an opportunity to know whether that check is good or whether, really, any check has been drawn or not.

The CHAIRMAN. I think an item should be placed in this bill that would bar checks of any persons who have sent through the bank a check that is not good at the time it was made. I think there should be a barrier placed on that.

Mr. AISTHORPE. I do not think individual checks ought to be charged to the account of the bank on which they are drawn at the time they are deposited.

The CHAIRMAN. When they are drawn, of course, they go to the wholesaler, and then he underwrites that check, puts his name on it, and he is good for it. Then it goes to his bank and his bank underwrites it, and so there are two additional parties underwriting that check before it goes to the reserve bank. Therefore there is no reasonable doubt about that check. Yet, there will occur a time when some check will be found wrongfully drawn, perhaps.

Senator NELSON. If you will allow me, I do not think such a check as we have referred to, a check by a merchant in Cairo upon the local bank there, comes within the scope of this bill, if you will read it. I call your attention to the language—

> It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor—

Now, the depositors of the regional bank are not individuals; they are the banks.

The CHAIRMAN. And the checks drawn upon a depositor would be drawn upon a member bank.

Senator NELSON. The depositors of the regional banks are only member banks, not individuals.

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The CHAIRMAN. That is right.

Senator NELSON. Therefore this check that he describes would not come within the provisions of this bill—

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors.

Who are its depositors? The member banks.

Mr. AISTHORPE. If you stop right there, that is true.

Senator NELSON. "Or by any of its depositors upon any other depositor." If you make that clear, so as to apply to the member banks, there can not be any doubt about it.

Mr. AISTHORPE. No; that is the point exactly, sir.

The CHAIRMAN. If you would read that checks and drafts drawn upon any of its "depositors" or "member banks," it would mean the same thing.

Senator NELSON. "Or by any of its depositors upon any other depositor."

Senator POMERENE. That is, drawn by one member bank upon another bank.

Mr. AISTHORPE. That is just the point I am trying to make.

Mr. MONTGOMERY. That suggestion is in my paper there, just what the gentleman said, "drawn by" one member bank, instead of "drawn on" member banks.

The CHAIRMAN. Yes; but a check drawn upon any of its depositors means drawn upon any of its member banks, and does not mean anything but that.

Senator NELSON. I do not think such checks as you describe here, checks drawn by your local merchant, on your local bank, would come within the scope of this bill at all.

The CHAIRMAN. I do not understand how you interpret it, Senator; I think, however, we are depriving the witness of an opportunity to give his views.

Senator WEEKS. I was going to suggest that we might take this up among ourselves later.

Mr. AISTHORPE. But here, Senator, it reads this way, "checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor." There is too much there in the language. I can be misconstrued. If you would eliminate all of this "depositor" business, after you get down to "it shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors," and put a period in there, then you are applying it directly to the member banks of the reserve bank.

The CHAIRMAN. That is not the intention of the section; it is intended to cover private checks.

Mr. AISTHORPE. I am taking for granted it is.

The CHAIRMAN. You are objecting to that, and your reason is that it deprives the country bank of its revenue.

Mr. AISTHORPE. That is true.

The CHAIRMAN. And the question is, How much revenue?

Mr. AISTHORPE. In my bank it does not make so much difference. I am talking to you particularly for the small banks, where I know a large proportion of their income is derived from these charges.

The CHAIRMAN. You mean their net income?

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Mr. AISTHORPE. Net income, derived from the charges they make in remitting for checks drawn on them.

The CHAIRMAN. Could they charge their depositors for checks sent to outside parties, which come in that way, without causing unfriendly comment from their depositors?

Mr. AISTHORPE. Yes, sir. That has been discussed a number of times among the bankers.

The CHAIRMAN. Could they not, through the banking associations, agree they would charge a depositor a reasonable fee for checks sent outside and which they collect for the Federal reserve bank?

Mr. AISTHORPE. That was taken up in the Illinois Bankers' Association.

The CHAIRMAN. Would not that really be right?

Mr. AISTHORPE. They could not get any concerted action on it at all.

The CHAIRMAN. You have no such system?

Mr. AISTHORPE. Yes; we tried.

The CHAIRMAN. Not an adequate system, because you would have to deal with so many clearing places, so many different clearing banks and reserve agents.

Mr. AISTHORPE. The idea was to get a charge by all banks in the State on checks drawn on them that came through other sources.

The CHAIRMAN. It seems to me the country banks could easily, through group arrangements, agree to make a reasonable charge upon checks sent outside and collected at foreign points against the bank, that that could be easily obtained and would compensate them for their trouble in the matter, and of course return a reasonable profit.

Mr. AISTHORPE. If you will just stop and think a moment, I do not believe that could be enforced, for the reason it is a question left entirely in the hands of the reserve bank or the regional bank.

The CHAIRMAN. The local deposits of the member banks could be arranged by group arrangements.

Mr. AISTHORPE. It says it shall not prohibit. It is just the same now.

The CHAIRMAN. Where two banks are in competition with one another, and the one gives free exchange and the other will not, of course you have difficulty with the depositors. But if that is adjusted by group arrangement, I should think it might be provided for without violating the antitrust law.

Mr. AISTHORPE. I will ask you this question: Why is it that these checks, these individual checks, should be handled at par, and that forced on the bank?

The CHAIRMAN. For economic conditions; for economy, to save in handling credit.

Mr. AISTHORPE. That is simply between the bank.

The CHAIRMAN. I am not talking about clearing personal checks, but the matter of transferring more quickly and at less expense to the country, including the banks. I believe the banks have a right to charge their customers for sending checks out in that way. I think that would be a reasonable change to make.

Mr. AISTHORPE. Would it be the intention of the committee in framing up this section that the reserve bank shall permit that to be done?

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The CHAIRMAN. Yes; that is obviously done in this, because exception is made in here. I think that is perfectly right, and I think the country banks ought to have a right to do that if they want to. I do not see why it can not be adjusted by group arrangement.

Mr. AISTHORPE. All I am asking for, gentlemen, is that I think you ought to stop at bank checks, bank drafts.

The CHAIRMAN. Yes; we have heard the argument, of course, and we understand and appreciate the point of view you have.

Senator WEEKS. Let me ask you this question: If there is going to be a great economic saving by the clearing of all checks—private checks and otherwise—through the reserve banks, could it be arranged so that the country banks could, as they should, as the chairman has stated, make a charge for collecting individual checks? Do you not think this committee ought to recommend some kind of legislation which would provide for that?

Mr. AISTHORPE. That is true.

Senator WEEKS. You and I agree, undoubtedly, that there is a great economic waste in the collections on domestic exchange in this country. I recall a case some years ago which was brought to my attention, where a concern kept an account of $20,000 in a bank. The bank was paying interest on $10,000 of it, and $10,000 was a free deposit. They had not made a careful examination of the cost of collections on that account until one day somebody did make that investigation, and it was found that the firm only had an actual balance of $4,000, $16,000 being in the process of collection all the time. In other words, the bank had been paying interest on $6,000 which was not in the bank at all, and the concern had no free balance at any time during the year. Now, that is occurring everywhere, all over the United States, and if some method can be developed to produce a more prompt collection agency and to prevent what is an abuse, in my judgment—that is, drawing a private check on a bank in Cairo to pay a bill in New Orleans and requiring that check to be sent to New Orleans and then sent back for collection to you and then sending it to a little bank of a town near Cairo—if that can be prevented it ought to be done.

Mr. AISTHORPE. I agree with you on that absolutely; but I think you want to make it plain in that section, so that when it comes to the individual checks there shall be a charge, and let the reserve bank fix what that charge shall be.

Senator SHAFROTH. Mr. Weeks, I do not understand why there would not be a balance there of $20,000, because when the individual check is given it does not come back to be charged on the debit side of the account until after it reaches there, and the bank, in the meantime, has had the full use of that money.

Senator WEEKS. I do not think we ought to take this witness's time to discuss it; but let us suppose you deposited five checks of $4,000 each in your bank. One is to pay a bill in Boston, one is to pay a bill in San Francisco, another in New Orleans, and another in Atlanta, and the other is local. Those four checks that are going to foreign places are going to be in process of collection several days.

Senator SHAFROTH. Yes; but my balance remains at the bank all the time.

Senator WEEKS. But, as far as your checks are concerned, you have not $20,000 in the bank.

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Senator SHAFROTH. The bank gets the benefit of the $20,000. It does not know what my books show.

Senator WEEKS. Yes; but those checks are outstanding against your account.

Senator SHAFROTH. That is true; but that money remains in the bank until the checks come in.

Senator WEEKS. I do not think we should discuss that now, but we ought to let the witness proceed.

Mr. AISTHORPE. You are charging up the individual checks of the member bank to the reserve bank. Suppose, now, a customer of mine has drawn a check of $25,000. I am not advised of it at all. His account is good for it. He sends that check to Cleveland, Ohio, in some transaction. That check is deposited in the reserve or regional bank, and the regional bank charges it to my account and sends it down to me. I have not had any notice of the check at all, but my balance has been reduced. I won't know of that check, and I may have to remit in some way or other to make that balance good. Suppose that is all I have in excess of the reserve requirements of the law, which says I shall keep there a reserve balance?

The CHAIRMAN. The effect of that is that if he were to draw that check immediately on you you would have to remit earlier than you would under this arrangement, and therefore you get the benefit of the use of the money a few days longer, until you are notified to make good your deficit?

Mr. AISTHORPE. I do not think so; not in this present way.

Senator HITCHCOCK. The provision of the law is that a regional bank may notify a member bank to make good whenever its balance falls below the legal reserve. If it goes below the legal requirement all the reserve bank could do would be to notify the member bank to make good its deficit. As the chairman says, it seems to me it would not be in any worse plight than if the individual had come in to draw out the cash.

Mr. Aisthorpe, we are using up your time in discussing this matter. I think you ought to give some attention to this section, distinguishing very clearly as to what it shall apply to. We will let the matter rest.

It is your view a bank should not be charged with a check drawn by one of its depositors; it should simply be sent out for collection?

Mr. AISTHORPE. Yes.

Mr. HARRIS. I think that Senator Weeks, as he expressed himself a few moments ago, expressed our view, and we are willing to take his statement and save the committee's time by passing on.

Mr. MONTGOMERY. I should like Mr. Harris to be heard next, if you please.

STATEMENT OF B. F. HARRIS, VICE PRESIDENT FIRST NATIONAL BANK, CHAMPAIGN, ILL.

Mr. HARRIS. Our chairman has told you that we are not experts, and I want to emphasize that in my case. I am not a banking expert, but, as he said, I have devoted most of my time to agriculture, especially with respect to the banker's relation to the subject.

Senator HITCHCOCK. Will you please state the size of your town and the size of your bank?

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Mr. HARRIS. The town has a population of 15,000. The bank has a capital of $100,000, a surplus of $130,000, and deposits of about $1,300,000. It is the First National Bank.

Senator POMERENE. Your position?

Mr. HARRIS. Vice president, although I am not active in the bank in any way.

In the second place, I do not know of any way in which this bill as it passed the House would hurt or help our bank, unless it might affect our 2 per cents, of which we have $65,000. On the other hand, I want you to feel that anything I have to say is in no way influenced by the personal side, although the personal side has a right to come in, every man speaking for the effect the bill might have on him or his bank. So I want you to get my point of view as trying to be of service and understand that any comments I make are entirely with reference to the general public aspect of the bill.

Senator HITCHCOCK. The committee would like to know the effect this will have upon the bank, because the witness can testify to that, and can give the committee a clear idea.

Mr. HARRIS. Well, I was asked to talk on one or two points, more especially concerning control, and I think some time will be saved if you will let me run over that. I want to say for the bankers in general, so far as I can speak for them, that I believe the banker understands and appreciates better than anybody else the need, the urgent need, for this legislation. I have not seen any bankers who want to delay this legislation if there is any opportunity to get a bill along reasonable lines, and I think I can say I have not seen any banker who thinks that the bill as it passed the House is what it should be. Further than that, I believe every good banker and every good business man believes in supervision and regulation, but the further we go in that direction, especially toward more or less absolute control—which some have said comes within the definition of socialism—the more careful we should be.

That brings up the point on which I am supposed to talk. We are to have a Federal board of seven men. Only one of those men is supposed to know or is required to know anything about banking. It would seem to me, from the economic point of view, you ought to have experienced men on the board, and, further, that the bankers who contribute the capital and reserves to this bank ought to have a reasonable minority voice; in other words, three out of seven. There is an unfair reflection on the banker, which he resents, when the bill says, in effect, that the President, who has the selection of all these men, can not find, or is not to find, more than one man among the banking fraternity who is morally fit to fill the position. That is a thing that goes against the grain more than any other feature of the bill.

Senator HITCHCOCK. The bill, as I recall it, does not exclude bankers from his choice.

Mr. HARRIS. No; it does not, but the inference is that he shall not; and when you think of the possible political effect and all that, the President might not be inclined to go further than he is expected to go, because the people, to whom some of us "appeal," would say that the President was favoring too many bankers.

Senator SHAFROTH. You know, there is not a banker on the board of directors of the Bank of England or the Bank of France?

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Mr. HARRIS. I have heard that statement made many times, but I think that is hardly correct in this respect, that several large banking houses are indirectly represented——

Senator SHAFROTH (interposing). Not check-paying houses; they are investment houses.

Mr. HARRIS. Of course, that is a matter of information.

Senator WEEKS. You would not imagine that any one would advovate, and you would not advocate, I presume, that any man should be put on that board who continued to be actively connected with a bank?

Mr. HARRIS. Not for one moment.

Senator WEEKS. I do not understand that anyone would advocate having a man connected with a private bank a member of that board.

Mr. HARRIS. He should have no banking connections in any way that would challenge his action.

Senator WEEKS. What you are advocating is that the board shall have the benefit of the experience of men who have been connected with the banking business?

Mr. HARRIS. I consider this absolutely necessary, to have at least a minority of the board—and, from a business standpoint, they should be the majority of the board—men of more or less wide financial experience, because they are to exercise the greatest power that has ever been given, in my opinion, to any board.

Senator POMERENE. Do you imagine any President would put men on that board who were not able men, of wide experience?

Mr. HARRIS. I do not imagine that any man we elect President, in so far as his own ability or knowledge is concerned, would deliberately appoint any such men, but those accidents do happen. What I should say is this, three of the seven men the bill provides to be appointed by the President—the Secretary of the Treasury, the Comptroller of the Currency, and the Secretary of Agriculture—should be left off, because they have all they can do if they run their departments as they should run them; and the bill should be so drawn that no President in his first term should appoint more than three of those seven men. This would prevent a change in practice with each presidential administration. I should say that three out of the seven men should be bankers, but not connected in any way with banking institutions.

Senator NELSON. Either as stockholders or officers?

Mr. HARRIS. Not in any way, nor in any measure.

Senator SHAFROTH. I think all four of them could be, under this bill.

Mr. HARRIS. I do not imagine, when the bill reads as it does, that any President would feel like going so far. I do not think that President Wilson would, from the attitude he seems to hold and the expressions he has made on the subject. I think, as President Wilson was quoted as saying the other day, that the power to control the credits of this country is the power to absolutely shape and control the direction in which all our industries and all our development, financially and commercially, shall go. That is what this tremendous power means; and, as I have said, it is a reflection upon the bankers that even when the President himself has the choice he is not supposed or required to select more than one man of banking experience,

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and the rest are merely political appointees. It seems to me that the mobilization of credit is the one thing that we should have uppermost, and that we should reduce the number of banks from 12 to not more than 5 and 3 would be better.

Then our people feel that the subscription to the stock should be reduced from 20 per cent to 10 per cent——

Senator HITCHCOCK (interposing). Why do you feel that, Mr. Harris? Will you state your reason?

Mr. HARRIS. When I say our people feel that, I am telling you what they tell me, without having all their reasons at hand.

Senator HITCHCOCK. Is it because you would estimate the higher amount too heavy a drain on the banks?

Mr. HARRIS. Yes. I think when a bank is compelled to tie up, in the first instance, at 5 per cent interest, 10 per cent of its capital, subject to a demand for another 10 per cent, and then tie up at least 5 per cent, and possibly 7 per cent of its reserves without interest, that infringes on the earning capacity of the bank. Now, that does not apply in my case, because in the case of my bank we do not use rediscounts; we probably would not use them under the new bill. Our circumstances and conservative practices are such that we would not. On the other hand, we keep about 12 to 15 per cent cash on hand, and we keep about 20 to 25 per cent with our reserve banks. In other words, we have from 40 to 45 per cent cash and exchange.

Senator HITCHCOCK. What benefits would you get out of the bill?

Mr. HARRIS. No benefit, as I said when I began. As a matter of fact, in the last few years I consider we have been at a great disadvantage in being a national bank. We have 42 banks in our county, which is an agricultural county, and the State banks take mortgages and may do many things that we may not do. And I will say to you frankly that, for a number of reasons, I think we should become a State bank; and under the House bill, even if we should have to take a loss on our 2 per cents, we would reorganize as a State bank. You might provide that the member banks could pay for their regional-bank stock with 2 per cent Government bonds.

Senator SHAFROTH. This bill is presumed to give you a reservoir from which you may draw, so you do not have to keep as large a reserve. That being true, it would release to you 18 per cent——

Mr. HARRIS. I understand the purpose of the bill, but we do not release now half of what we could release.

Senator SHAFROTH. That is because you have not got this reservoir, but if you had this reservoir to draw upon you could release it.

Mr. HARRIS. My bank is more conservative, perhaps, than it ought to be, because we like to be on the safe side. I know there is the danger, under some conditions, of a little too much expansion.

Senator SHAFROTH. If that 18 per cent, which you have been in the habit of using, were released so you could use it, it would be a great thing, would it not?

Mr. HARRIS. Yes; for banks and the people generally; but why am I compelled under the bill to go into this whether I want to or not? The State banks have the privilege of going in or not as they please. I think that is one of the worst and most un-American features of the bill.

Senator WEEKS. Don't you think that legislation which will promote commerce and create stability in banking and in business

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generally ought to be encouraged, even if the personal equation does not seem to be benefited?

Mr. HARRIS. Yes, sir; I do. That is my whole attitude. I am not speaking from the personal point of view, because the general interest is the banker's interest.

Senator WEEKS. Of course, we can not make any progress in this world without seeming to affect individual and personal interests.

Mr. HARRIS. Exactly.

Senator WEEKS. That must be taken into consideration. But if it is going to be of marked benefit to the whole country and the commerce of the country, without wantonly endangering private and vested interests, you would agree that we ought to take some action, I think.

Mr. HARRIS. There is no question about it. There is no direct way of arriving at the percentage, but I think you would be amazed to find how few national banks would go into the scheme on the basis of the bill as it passed the House.

Senator HITCHCOCK. How many national banks have you in Illinois?

Mr. HARRIS. We have about 600. We have about 1,800 banks of all kinds, and they are almost equally divided. There is a larger percentage of State banks than private and national banks. Statistics we have gathered show that in Illinois, outside of Chicago, 65 per cent of bank stockholders are farmers directly or indirectly interested in farming.

Senator HITCHCOCK. Have you any estimate of the number of national banks that would denationalize if the bill should be passed as it came from the House?

Mr. HARRIS. It is mere guesswork, but I should imagine that the proportion would be very large.

Senator HITCHCOCK. Half of them?

Mr. HARRIS. Yes; 80 per cent of them; perhaps 90 per cent.

Senator HITCHCOCK. Do you think any State banks would come into the organization?

Mr. HARRIS. I have not seen any State banks that would come in.

Senator WEEKS. Were you present at the Boston meeting?

Mr. HARRIS. Yes, sir.

Senator WEEKS. Were you present at the meeting of the country bankers?

Mr. HARRIS. I was.

Senator WEEKS. Do you think the country bankers were embarrassed by the influence of others in the conclusion which they came to?

Mr. HARRIS. Not in the slightest. It was a splendidly attended meeting. I do not think any city banker embarrasses any country banker, or that the country bankers are affected by the views of the city bankers.

Senator WEEKS. Do you not think it is a reflection upon the character and ability of country bankers to assume even that their action in such matters would be influenced by anyone?

Mr. HARRIS. I do, most emphatically, and I think the several statements that have been made with reference to that very point are unfair, to say the least. I was in the meeting and I made only one sug-

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gestion—that the bankers be polled on this subject—because I thought in that way Congress would get information that it needs and that it could not get otherwise with reference to the percentage of banks that would come in. But I am as sure of the statement I made as I am of anything undetermined, that the percentage of national banks and State banks that would come in would be so small you would not accomplish anything at all. And even if all national banks came in, you would have only 30 or 35 per cent of the total banking resources of the country at that, and any system which proposes to make a successful currency system is not a success if you can only get one-third of the banking fraternity into it.

Senator HITCHCOCK. Do you personally indorse the recommendations made by this bankers' convention in Boston?

Mr. HARRIS. I personally indorse the recommendations and the action they took. And, personally, I think the recommendations made at the Chicago conference, at which I was present, were admirable and remarkably conciliatory, considering all the facts in the case.

Senator HITCHCOCK. Will you distinguish between the two?

Mr. HARRIS. The Chicago conference, if I keep the details fairly well in mind—I have not read the action of either conference lately—comprehend practically the action of the country bankers in Boston, but went further and referred to other matters in the bill. The country bankers in Boston had this viewpoint; I did not go into the little meeting of the men that issued the call. Their feeling was that they must only state before this committee the things that directly concern the country bank or that would affect it on its personal side. They said, "We do not like the way in which this control is affected; we do not like the compulsory feature, but we are not going to go into that. In order to save time, we will just refer to four or five points," which you have seen in their resolution.

Senator HITCHCOCK. You were present at this meeting?

Mr. HARRIS. I was.

Senator HITCHCOCK. Of the 2,000 estimated to be present, what number do you think objected to the conclusions?

Mr. HARRIS. I do not think any of them, and I can give you the test of that. I was present at the best-attended session of the convention, the best-attended session I have ever seen of an American bankers' meeting, when the whole matter was subdivided into five resolutions, and on four of those there was not even a dissenting vote.

Senator HITCHCOCK. Have you a copy of the resolutions here?

Mr. HARRIS. The general purport of that resolution was to indorse the Chicago conference. Mr. O'Neil had a resolution; Mr. Hill had a resolution—there was only one dissenting voice on any of those, and that was from Mr. McRae, of Arkansas.

Senator HITCHCOCK. Was there any attempt to railroad resolutions through?

Mr. HARRIS. On the contrary, Mr. George M. Reynolds and several other prominent members of the association came forward on the platform and said that every man who had a word to say, especially those opposed to the action, should be given ample opportunity to speak; and this received large applause, and to help that matter along

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they adjourned for luncheon before voting on the resolution and had an hour's recess, and afterwards every man who wanted to say a word had an opportunity to say it.

Senator HITCHCOCK. What was the purpose of that recess?

Mr. HARRIS. They took a recess from half past 1 to half past 2. They had not had luncheon, and the whole purpose, as stated, was to stop any idle talk that they were trying to railroad the matter through. Mr. McRae made statements that the facts did not justify, and there were cries from the house of "No," and hissing and "Question," because Mr. McRae was not fair in his statements.

Senator HITCHCOCK. Was Mr. McRae given a fair hearing?

Mr. HARRIS. Yes; Mr. McRae was invited to the platform and talked for 15 or 20 minutes, and once or twice when he said he was through and the crowd said, "Good," that started him off again. The chairman said, "Mr. McRae, you may have all the time you please."

Senator HITCHCOCK. Did he have any sympathizers?

Mr. HARRIS. He voted by himself. He called for a division on the resolutions. He said, "I have the right to call for a division on this resolution; it can really be divided into five parts." So he called for the question on the five different features.

Senator HITCHCOCK. A viva voce vote?

Mr. MONTGOMERY. Finally it was by a rising vote.

Mr. HARRIS. They first had a viva voce vote, and then they had a rising vote, too.

Senator HITCHCOCK. How many voted against the resolution?

Mr. HARRIS. Only Mr. McRae, of Arkansas.

Senator HITCHCOCK. Out of 2,000 people?

Mr. HARRIS. There were probably 2,500 or 3,000 at the convention; the 2,000 were at the separate country bankers' meeting Monday.

Senator HITCHCOCK. The committee wanted to talk with some one who had personally been at the convention.

Mr. HARRIS. That committee, I understand, is to be here Monday.

Senator REED. I have not heard all the testimony, but I am curious about one matter. Is it true that the bankers applauded the statement that Congress was being run by Socialists, etc.?

Mr. HARRIS. No; the statement was not made in that way. If I can repeat the language correctly, Mr. Hepburn made this statement; he defined very briefly what socialism was, and said, "If this definition is correct, then this bill approaches socialism." You can find the exact language.

Senator REED. You spoke in innuendo, and gently insinuated that most of the people down here were cranks?

Mr. HARRIS. No; he read this statement, which you may get, and you may draw your own inference. But he defined socialism and then said that this bill amounted to socialism.

Senator WEEKS. What inference did you draw from his statement?

Mr. HARRIS. Well, having told you how I feel—that I believe thoroughly in supervision and regulation for every form of public or quasi-public business whatever it may be—I do feel that the bill as passed in the House is just what Mr. Hepburn said it was. And yet that bill would not affect me in my individual banking business; but, as a whole, taking the make-up of the board, the fact that the Presi-

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dent, in one administration could control that whole board by appointment——

Senator REED (interposing). Let me ask your view on this question——

Mr. HARRIS (interposing). I will say to you this is not a political matter. In reaching my conclusions I should remove myself from the banking field, just as I believe you gentlemen should remove yourselves from the political field——

Senator NELSON (interposing). Allow me to make a suggestion at this point, which, I think, would clear up this matter a little. Socialism is divided into what they call state socialism and private or personal socialism. State socialism is simply where the State undertakes to do a thing that many people believe ought to be done by private parties. For instance, we are doing a lot of Government work here in this country that comes under the head of state socialism. The Post Office Department, the Interstate Commerce Commission, and the meat inspection, the pure-food law, all come under the head of state socialism, and that was the great fad of Bismarck. He was a state socialist, but socialism in its odious sense is not state socialism; it is that other species of socialism.

Mr. HARRIS. Mr. Hepburn, I think, had the state socialism sense in mind.

Senator NELSON. The work done by the Government, which I have referred to, is what I would call state socialism, and in that sense it is not an odious term, as it is when used in the other sense.

Senator REED. I do not know in what sense he used it. I find that bankers, like other people, have their limitations.

Mr. HARRIS. There is no question about it.

Senator REED. A banker, not more than other people, and I am inclined to think not less, and they sometimes go off at a tangent.

I want to suggest two or three things to you, because you are a banker.

Mr. HARRIS. One moment, please. I would like to be here as long as you want me, but I am only one member of our committee, and I do not want to take up any unnecessary time.

Senator REED. I am taking the time, not you.

Mr. HARRIS. I am glad to be at your service.

Senator REED. That the board under this bill does not possess in any particular, or in all particulars together, as much power as the Secretary of the Treasury now exercises as one man.

Mr. HARRIS. Personally I do not object to control—or, rather, supervision and regulation, though it is control in this bill—but I do object, as I said, perhaps before you came in, to the way in which the board is constituted.

Senator REED. The general board. I am calling your attention just to this one thought, that there is a more arbitrary power vested to-day in the Secretary of the Treasury than is vested in this board by this bill.

Mr. HARRIS. Without being familiar with all the details, there can be no question, it seems to me, but that you are wrong in that, because the Secretary of the Treasury can not control credits, can not control rates of interest, and all that sort of thing. It would be a very easy matter, Senator, it seems to me, for a President from the West or a President from the South, for instance, as we saw it re-

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cently. There was a great demand for more money when Secretary McAdoo——

Senator REED (interposing). You are talking about the bill?

Mr. HARRIS. I am talking about what the board can do. You say that the Secretary of the Treasury has more power to-day, more arbitrary power, than the board would have?

Senator REED. Yes; that is, more than this board will have when this committee gets through with this bill.

Mr. HARRIS. That is an unknown quantity. If this committee——

Senator REED (interposing). What I mean is this: This bill permits certain things that are not now permitted to any department of the Government. The question of how the bill will come out of this committee, whether there will be legal restrictions placed upon the whole matter, is a question; but I am speaking now just about this exercise of arbitrary power that the Secretary of the Treasury has under the Aldrich-Vreeland Act. He can issue $500,000,000 worth of currency or he can refuse to issue it. He is vested with the arbitrary power, in the case of a panic, to sit here and let the country suffer under it, or he is vested with the power, of course, upon application and in conformity with the measure, of issuing this vast sum of money. I am only suggesting this; I do not say it in the way of antagonism.

Mr. HARRIS. I understand that. There is not any antagonism, sir, from either of us.

Senator REED. This charge of so-called socialism, of which our friend spoke with the same temperance of expression that some people use when they call bankers scalawags and pickpockets and things of that sort, is not true, and let me say to you and all other bankers that abuse of the character that Mr. Hepburn indulges in very seldom convinces a man.

Mr. HARRIS. If I get the sentiment of the bankers correctly, the only hope the bankers have is in this committee, and if I did not believe that this committee was going to do what I think they are going to do after they have had information from all parts of the country, I would not take my time and pay my expenses to come down here and talk to you. I think the only hope is in this committee.

Senator POMERENE. You have spoken here of the position of the bankers generally. Have you not been impressed with the idea that the bankers themselves can not agree among themselves as to what ought to be done?

Mr. HARRIS. No; I have not been so impressed. You have a splendid example that they are agreed by the action that was taken at the Chicago conference.

Senator POMERENE. Have you kept in touch with the hearings before this committee? We had such men as Mr. Vanderlip and Mr. Cannon, who both said the bankers could not agree among themselves as to what should be done.

Mr. HARRIS. We have that with the tariff and with every other matter of large importance, and some men come here representing interests of one kind or another, and some with a selfish idea. I do not think that means anything because the real thing you want to get is not what Mr. Vanderlip or Mr. Cannon or I may tell you, but what you get from a conference like the Chicago conference,

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which comes down to specific recommendations from all sections and from all classes of bankers.

Senator SHAFROTH. What do you think of the action of the State Bankers' Association of Virginia, which indorsed this bill the other day, passing resolutions indorsing it, and then two or three weeks afterwards condemned it?

Mr. HARRIS. I was present at the Virginia bankers' convention, and addressed that convention, and Senator Owen made the first public address that was made after the bill was introduced into the House. The Virginia bankers' convention was held before the bill was passed. It was held at the time the bill was introduced by the House committee.

Senator SHAFROTH. That was the first convention?

Mr. HARRIS. The Virginia bankers have only had one convention this year that I know anything about.

Senator SHAFROTH. Was there a reversal of former action?

Mr. HARRIS. Probably, and very properly so, I should say, for the reason that the bill had just been introduced, and the convention had had no opportunity to consider it aside from comments made to them by Senator Owen. Senator Owen made his talk before the bankers and it was made plain that Senator Owen was a Virginian, and that Congressman Glass was a Virginian, and President Wilson was a Virginian.

Senator WEEKS. That the authors of the bill were Virginians?

Mr. HARRIS. Yes; that Congressman Glass, Senator Owen, and President Wilson were all Virginians, and it would therefore be a very proper compliment to indorse the action because originating from Virginians.

Senator SHAFROTH. The present bill is very much more favorable to the bankers than the first one.

Senator REED. Do you think that the fact which you mentioned a while ago in reference to the nativity of the gentlemen you named carried the day—that sentiment?

Mr. HARRIS. Yes. I tell you, Senator, you can go into a large gathering of people, where everything goes along smoothly and nicely and in good spirit, and you can get resolutions of that sort passed.

Senator REED. That is what I think about your convention in Boston. I think that is the way it was run.

Mr. HARRIS. No; the banker went there, having in mind the discussion of the bill and having looked into and studied the provisions of the bill and the effects of the bill. The bankers at the Virginia convention knew nothing about the bill until they received knowledge at first hand and for the first time, as Senator Owen presented it, and his address created a favorable impression.

Senator POMERENE. Did he misrepresent anything?

Mr. HARRIS. Not that I know of. I told the Senator that I had heard a good many progressive talks, but that he had made the most progressive talk I had heard, because he referred to the initiative, referendum, and recall and other progressive principles, and that it was a first-class progressive talk, and he impressed his audience.

Senator POMERENE. I am referring to his discussion of the banking and currency matter. Did any of them take issue with any of his proposals, so far as the banking question was concerned?

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Mr. HARRIS. It was not much of an argument; they were trying to get information. I suppose an hour and a half was used in interrogating him.

Senator REED. After all that they passed a resolution favoring the bill, and about three weeks afterwards they took it all back.

Mr. HARRIS. That would not be wrong. Do you not sometimes change your mind?

Senator REED. That is why I have been suggesting these things to you, because I believe you will change your mind; that this bill, while it may have some imperfections, which we are trying to discover, was not passed upon as a final proposition by this convention, in which one of the prominent men characterized Congress as a pack of Socialists.

Mr. HARRIS. Do not put it that way. I do not think Mr. Hepburn's statement permits that conclusion.

Senator HITCHCOCK. I think what Mr. Hepburn said, Senator Reed, was that the bill was socialistic, and gave as a reason for that statement that it took 10 per cent of the capital away from some banks and put it under the control of others, and if they could take 10 per cent they could take 30 per cent or 40 per cent or take it all, and that, therefore, it amounted to a socialistic measure. I do not think he referred to Members of Congress as being socialistic, but to the measure as being directed toward socialism.

Mr. HARRIS. I think you should read Mr. Hepburn's statement in justice to yourself and Mr. Hepburn, and the worst impression that you may get from reading an account of the proceedings, I think, would be more from what Mr. Hill, of Connecticut, said. He did not represent anybody, simply speaking individually. He offered a resolution, which was voted on, and that was an entirely separate matter.

Senator REED. Is that Mr. James J. Hill, of the Great Northern Railroad?

Mr. HARRIS. No; Mr. Hill, of Connecticut, a former Member of the House, who was on the Banking and Currency Committee of the House for many years.

Senator REED. I just wanted to get you convinced that the Members of Congress were not such a bad lot. That sort of talk about Congress is exactly on a par with the talk of the man who says the bankers are the enemies of the public and all that sort of stuff. We are trying to act on a different basis from that.

Mr. HARRIS. I am satisfied of that.

Senator POMERENE. After that Chicago meeting the papers announced that it was the sense at least of some of the bankers that this bill should be so amended as that the action of the reserve board would be subject to a veto by the bankers. Did you see that?

Mr. HARRIS. No; I did not see that.

Senator POMERENE. You saw a statement in the papers?

Mr. HARRIS. Oh, yes. There was so much in the papers——

Senator POMERENE (interposing). Did it occur?

Mr. HARRIS. No; it did not. Mr. Reynolds had made a suggestion and, I think, he has made it to your committee, that there should be an advisory committee. I think that has been passed up. I do not think that is necessary, taking the seven men and giving them the power you have given them now, but make a change as suggested, in the selection of the seven men.

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Senator POMERENE. Does that feeling prevail that there should be a power of veto for the bankers?

Mr. HARRIS. I do not think so.

Senator POMERENE. I should hope not, in this Republic.

Mr. HARRIS. I do not believe it. I belong to the banking fraternity, but, more than that, I belong to the agricultural fraternity. Eighty per cent of my worldly goods is in agriculture, and I have been devoting my time to this agricultural work among the bankers, getting the bankers interested in these welfare matters. I think the bankers are just as selfish and just as unselfish as any other class of men, it's not a question of the business, but of human nature.

Senator NELSON. I would like to hear the substance of the resolution that was adopted.

Senator HITCHCOCK. Yes; I think that would be desirable. Could you not give us the substance of the resolutions of the Boston conference?

Mr. HARRIS. The Boston conference simply indorsed the action of the Chicago conference. Mr. Hepburn in his report told the story of his committees, and made this reference to socialism. This was simply his report.

Senator POMERENE. Was that all?

Mr. HARRIS. That was all there was to it. Mr. Hill had an individual resolution of his own.

Senator NELSON. What I was after, if you will allow, Mr. Chairman, I want to know what the country bankers' resolution was.

Mr. HARRIS. Senator Reed has the resolutions there. You will have the whole committee here on Monday.

Senator O'GORMAN. Mr. Harris, I am going to ask you a question——

Mr. HARRIS (interposing). Mr. Crampton reminds me that the American Bankers' Association is not going to send a committee down here. They simply indorsed the action of the Chicago conference.

Senator O'GORMAN. As I understand, you have been a banker in Illinois?

Mr. HARRIS. Yes.

Senator O'GORMAN. And you have been a banker for some years?

Mr. HARRIS. Yes, sir.

Senator O'GORMAN. You have been active in a movement to encourage the development of agriculture?

Mr. HARRIS. And roads and education, and so forth.

Senator O'GORMAN. It has been stated from time to time that the attitude of the country bankers regarding the pending legislation have been dictated by the so-called money power of New York and Chicago and St. Louis. I would like to know whether that is true or not.

Mr. HARRIS. Well, I resent that personally, and I resent it on the part of the country bankers. I think that any suggestion toward dictation by the city bankers would be resented even if what they stated had some merit. I think it is entirely unfounded. There are so many large city banks competing for country bank business that the country banker has many opportunities to do the dictating himself.

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Senator O'GORMAN. You state that claim is entirely unfounded and groundless, and based on invention and ignorance?

Mr. HARRIS. Without any question, and the two meetings at Boston, the meeting of the country bankers and then the general meeting, where every voice indorsed the Chicago conference, would refute that.

Senator O'GORMAN. A witnss came before us about a week ago, who was the president of the bankers' association of the State of Wisconsin, and he stated, in substance, that everything done at the Chicago conference was the result of a program enforced upon the conference by influential bankers from the large cities.

Mr. HARRIS. I could not find terms strong enough to resent that.

Senator NELSON. Was not that man present at Boston?

Mr. HARRIS. Yes; he was one of those present at Boston. I heard him at Chicago and at Boston. I believe it was Mr. Moehlenpah. Mr. Moehlenpah does not know what he is talking about. Mr. Frame, in his own State of Wisconsin, is the only person I know of who conducted a canvass of the situation, and only found three or four bankers in the State who would come in under the House bill.

Senator O'GORMAN. That is not an answer to my question. My inquiry is why those who like to indulge in inflated speech say that this agitation by the bankers who are anxious to see salutary and wise banking and currency measures adopted is the result of a conspiracy, and every time the word "conspiracy" is used by these gentlemen you can imagine it is in large capitals. What have you to say in regard to that?

Mr. HARRIS. If I am not misunderstood, I have to say to that charge that it seems to me that when any interest—and every interest has a right to have its day——

Senator O'GORMAN (interposing). Undoubtedly.

Mr. HARRIS. When any interest takes action or comes down here we get the "Stop thief" or the "Wolf" cry. I read in the Post yesterday a statement credited to the chairman of this committee, in which he said:

> I think this Boston meeting had for its obvious purpose to work up opposition to this bill and either to force the bankers' views or to delay or to defeat this bill.

That is not so, for one moment. The bankers, better than anybody else, know the urgent need, more important than any other legislation that can take place, for legislation on the matter of currency. They are willing to make many personal sacrifices, both financial and in principle, to get some workable bill on the books before this Congress adjourns, if possible.

Senator O'GORMAN. But they tremble at the prospect of a dangerous and unscientific system being imposed upon the people of the country?

Mr. HARRIS. They do.

Senator O'GORMAN. That is all I care to ask.

Senator WEEKS. You stated you were present at both the Boston and Chicago meetings?

Mr. HARRIS. I was not present during the last half day at Chicago. There was a two-day session there. There has been a strong attempt on the part of some bankers—bankers like Mr. Reynolds—to go to the

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extreme to prevent pronounced opposition to this bill wherever they could, and yet, as citizens, maintain their property rights, at the same time leaving out of the question the fact that they were bankers.

Mr. AISTHORPE. I attended that Chicago conference and I can assure you there was not anything there at all in the shape of the influence of the large bankers. Everybody had a right to discuss the sections as they were taken up, and to discuss them fully. I want to disabuse the minds of the members of this committee of the idea that there was any preconcerted program to get certain resolutions passed.

Senator REED. Could you tell us why it was that all the leading members of that committee happened to be men who believed in the central banks, privately owned and controlled, issuing the currency of the country. How did it happen that the leading spirits on that committee were men of that class?

Mr. AISTHORPE. I do not understand that was the way. Probably they were put on there because they are prominent bankers of the United States.

Senator REED. Bankers generally are not committed to that theory, are they?

Mr. AISTHORPE. The general attendance there was not of that class of bankers.

Senator REED. I say bankers generally are not committed to the theory of a central bank privately controlled and owned.

Mr. HARRIS. Not at all. That was not even discussed.

Senator HITCHCOCK. Who is your next witness, Mr. Montgomery?

Mr. MONTGOMERY. Mr. Sexton will be our next witness.

STATEMENT OF HENRY D. SEXTON, PRESIDENT SOUTHERN ILLINOIS NATIONAL BANK, EAST ST. LOUIS, ILL.

Senator HITCHCOCK. Will you state your name and banking connections?

Mr. SEXTON. Henry D. Sexton, president of the Southern Illinois National Bank, at East St. Louis, Ill.

Senator HITCHCOCK. What is the population of East St. Louis?

Mr. SEXTON. About 75,000 population, a very large and growing city in that State, largely built up through industrial developments. I believe the way the town is growing we are satisfied it is going to be one of the industrial centers of the country. It is the second city now in the State of Illinois in population.

I have discussed the question, and I want to make a statement as to the position of country bankers on that question.

Under the national bank law in recent years we have had a great number of very small country banks established, particularly in southern Illinois. Now, a large part of their revenue is derived from the exchange from their checks which they give to their customers and forward to St. Louis and Chicago in payment of their bills. If they would draw their personal checks their customers in Cincinnati or Chicago will not take them and charge for the collection of that check, and they prefer to make the payment that way instead of to the merchant in the other city. In addition to that, because they get their accommodations there, a lot of them feel that your proposed method of collection or payment through the regional reserve bank is going to affect their own power.

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Senator POMERENE. You mean that is general throughout the section?

Mr. SEXTON. The majority of those I have spoken to feel that way about it.

Senator POMERENE. I mean general; that they send exchange rather than send individual checks?

Mr. SEXTON. Naturally so, because the bank is after that little fee, and naturally they serve the man who favors them.

Senator O'GORMAN. Do they appreciate the benefits that will come to them under this system?

Mr. SEXTON. The banker feels that the local fellow can send his check to the merchant in the other city; he deposits it in the reserve bank, and the reserve bank pays it without cost, and he avoids that cost, and in that way he will not go to his local banker and get his exchange.

Senator POMERENE. At the same time, the other man goes and buys his exchange?

Mr. SEXTON. He won't do that, then.

Senator POMERENE. You say he does it now?

Mr. SEXTON. He does it now; yes.

Senator POMERENE. And the bank is out that deposit?

Mr. SEXTON. We are out that fee.

Senator POMERENE. And the deposit also?

Mr. SEXTON. We will always be out the deposit.

Senator POMERENE. If a check is sent from East St. Louis to Cincinnati, it takes one day to go and another day to come back, and the bank has not the use of that money.

Mr. SEXTON. It would be the same with a draft. A draft is drawn upon a Cincinnati bank, and the Cincinnati bank is paying him interest until they pay it.

Senator NELSON. Say I have an account with this gentleman here, in his bank, and I want to remit to New York, and give my check to him for $1,000, on my account, and he draws a draft on New York and forwards it and charges me a moderate fee for that draft. That is the modus operandi, is it not?

Mr. SEXTON. Yes, sir.

Senator NELSON. And that charge varies according to the state of exchange?

Mr. SEXTON. That is right.

Senator O'GORMAN. Apart from the inconvenience that the country bank may experience, do you not think this proposed change is an improvement on the existing practice?

Mr. SEXTON. It is, to the larger fellows.

Senator O'GORMAN. Will it not be a benefit to the people who support the bank?

Mr. SEXTON. Not if the little fellow can not make money enough to allow him to continue in his business at a profit, if that profit is necessary for him to continue in business——

Senator O'GORMAN (interposing). As a matter of fact, do you not think that when a banker is vitally dependent upon the income derived from this practice, that there is little excuse for this bank being in business at all?

Mr. SEXTON. I would not go into business if I could the day after, but there are a lot of men in such places who will.

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Senator HITCHCOCK. What places?

Mr. SEXTON. Banks of $25,000 capital.

Senator HITCHCOCK. I mean the size of the town.

Mr. SEXTON. The smaller towns.

Senator HITCHCOCK. Of about what population?

Mr. SEXTON. About 1,000 people and under.

Senator HITCHCOCK. They need banking facilities of some kind?

Mr. SEXTON. I do not think so, because personally I am selfish enough to think the less country banks there are of that kind the more in the larger cities. We do not get active accounts, we get inactive accounts in many of those localities.

Senator HITCHCOCK. Where would the people in such a town go if they had no bank? Would they just keep their cash and have no place of safety for it?

Mr. SEXTON. Yes; if they had no bank.

Senator HITCHCOCK. They would have to keep it in stockings?

Mr. SEXTON. Yes; I guess they would.

Senator HITCHCOCK. That is the practice in Europe, and that is one reason why I justify the country bank in making these charges.

Mr. SEXTON. That does not apply to my bank. My bank has a capital of $150.000, and we have about $2,000,000 deposits. We are practically a suburban bank in a big city, because East St. Louis is, I might say, the manufacturing district of the city of St. Louis.

Senator POMERENE. Right across the river?

Mr. SEXTON. Yes.

Senator NELSON. I think, as a rule, if a merchant keeps an account of any consequence with a local bank, and has occasion to buy a moderate-sized draft, they never charge him anything.

Mr. SEXTON. That is practically the case in these places where there is only one bank.

Senator NELSON. Where they have a monopoly?

Mr. SEXTON. Where a man does not interfere with another man's profits. You will find it to be the case in a great many towns. I simply made that statement because you are endeavoring under this bill to ask these gentlemen to come in and become members of those regional reserve banks, and that is one of the objections that they are making at this time. I submit it for your consideration, as a member of this committee, and as representing those men. That is the reason for my statement.

Senator NELSON. Here is one thing I want to suggest. As Senator O'Gorman has said, this would be a great saving to the public at large. Is there not anything we could do for those banks to compensate them for this in some way, and give them some advantage that they have not now?

Mr. SEXTON. I am not prepared to answer that now.

Senator HITCHCOCK. If they remain under the State banking system they can still continue to make their charges.

Mr. SEXTON. They can make any charges they want.

Senator SHAFROTH. State banks would lose their customers when the national banks would clear free?

Mr. SEXTON. Not in all instances. You are taking away the earning power, and it is up to you gentlemen to determine whether or not it is going to induce these men to come in. There are twice as many State banks in our section as national banks.

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Senator HITCHCOCK. Do you recommend that the provision be changed?

Mr. SEXTON. No; I do not do that. I am not prepared to say that. I do think it ought to be modified in some way so as not to destroy these little banks or to prevent them from becoming members of the regional bank.

Senator HITCHCOCK. What is the charge for a Chicago draft?

Mr. MONTGOMERY. It depends upon what territory a man is located in. The average in Illinois is between 75 cents and $1 a thousand. Some make a practice of charging 10 cents an item on small items, but the average in Illinois will be from 75 cents to $1 a thousand. As it gets to the more southern points the rate is higher.

Senator O'GORMAN. Has not this practice led to some exactions on a draft coming through banks that have exposed the system to severe criticism?

Mr. MONTGOMERY. Here and there there are banks that do make excessive charges, but it is not general, and those bad features are being reached now to some extent, so that the inordinate charges do not prevail so much as they did even three or four years ago.

Senator REED. You understand that this system will lead to the absolute taking away of the profits from exchange?

Mr. MONTGOMERY. I am not clear as to the exact meaning of that clause.

Senator REED. Would there not be still a considerable amount of local exchange; I mean local in the sense that it would not go to one of these large regional reserve banks, but would go directly from one bank to another, or within a radius of 100 miles?

Mr. MONTGOMERY. The practice is——

Senator HITCHCOCK (interposing). Do you always sell on Chicago? You have been a banker for a number of years. Are you not a banker?

Mr. MONTGOMERY. No; I am not a banker.

Senator HITCHCOCK. If I wanted a draft, of course, I might say I wanted Chicago or New York exchange, but are there not a lot of checks passing from bank to bank that would not necessarily go through the regional bank, upon which these banks would still be enabled to make a collection? That is what I am trying to get at.

Mr. SEXTON. Every bank is going to shoot it into a reserve bank unless you make a clearing house out of it, so that you get that credit. Take our bank. Our bank will have to keep a good deal of money in the regional bank to take care of the checks that will flow in there that now go to the St. Louis clearing house, which we check up before 2 o'clock every day.

Senator REED. You mean to say, then, that in the case of the notes you have this system will just simply absorb all the exchange business, by which I mean the checks. What I had in mind was whether there would not be a source of income still on checks that would be gathered in by these smaller banks, checks that would not go through this method of clearing and out of which they could still get a revenue under this bill?

Mr. SEXTON. I do not see how. Suppose the customer has a check and the regional bank does not pay it, it would go back to the bank and the bank would send it to the other fellow to make a collection.

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If you send it to the other fellow he makes you a charge, which you must charge your customer.

Senator REED. Take this sort of a case, and I am asking the question because there have been a number of bankers before us who have said that if this bill passes they will lose the money they make on exchange, and the question with me is whether they would lose. I am not very familiar with the actual workings of a bank. Suppose a man in a small town, say 50 or 100 miles from your city, having a bank in his own town, was to send a check to a merchant in your town to pay a bill, and he would bring that down and deposit it in your bank. Do you think under this bill you would invariably send this check to the regional bank?

Mr. SEXTON. Yes, certainly; because we get a credit there and that takes care of the checks that come in against me.

Senator REED. You could not do that as against a nonmember bank?

Mr. SEXTON. That is just the question I was going to ask this committee. I am not clear, after reading that section—and bankers I have talked with are not clear upon it—whether or not I could send a check through them on a nonmember bank.

Senator REED. If the nonmember bank was not entitled to this benefit there would still remain to the country bank a profit on that business?

Mr. SEXTON. Sure.

Senator REED. The tendency, then, would be to turn all that kind of business he possibly could into the nonmember banks?

Mr. SEXTON. I think it would. We would send them——

Senator REED (interposing). I wish some practical banker like yourself would think about that with reference to this bill. I would like to know if there is not a source of profit left.

Senator SHAFROTH. Let me ask you a question. Suppose there was a regional bank in Chicago and St. Louis, and the check was drawn on some bank in St. Louis. You would not send that to Chicago through the reserve bank, would you? You would have it cleared by the clearing house?

Mr. SEXTON. The clearing house?

Senator SHAFROTH. In St. Louis.

Mr. SEXTON. No.

Senator SHAFROTH. What would you do?

Mr. SEXTON. I would send it to Chicago, because that is where my checks are going to come against my account.

Senator SHAFROTH. Notwithstanding St. Louis is just across the river, you would send it to Chicago?

Mr. SEXTON. I would have to, because I have a balance there and my checks would go there. Because there is no charge on them, all the other banks would forward them there to get a credit and avoid the charge.

Senator SHAFROTH. Would that dissolve the clearing houses?

Mr. SEXTON. It looks that to me, to a large extent.

Senator REED. You now clear through St. Louis?

Mr. SEXTON. We have to, in order to protect our customers. We are not members of the St. Louis clearing house; we can not be under their present rules, because we are outside the State, but they permit

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their members to clear them through banks located as we are, and we have made a clearing arrangement with the St. Louis clearing house by which we can clear our checks.

Senator REED. I think Senator Shafroth must be right in regard to local clearings. I can not imagine banks in Kansas City, which now meet and in two hours settle their balances for the day through their clearing house, sending those checks to St. Louis to be cleared.

Senator O'GORMAN. Except for the reason suggested by the witness, that the local bank will find it necessary to keep money in the reserve bank to meet checks coming in.

Senator REED. I know; but they can not afford to hold off their daily settlements to adjust them.

Mr. SEXTON. They will not do that.

Mr. WHITE. May I interpose a word there? I do not think this would interfere at all with the local clearing houses.

Senator REED. I do not, either.

Mr. WHITE. The checks between Kansas City banks would be cleared between the Kansas City banks.

Senator SHAFROTH. Oh, yes. But how about the Wichita and Topeka banks?

Mr. WHITE. Those drafts and checks would go outside. I want to make this statement in reference to the number of regional reserve banks. I gather from my talks with other bankers in our neighborhood that they feel that the less regional reserve banks you have the better, realizing that there must be five or six, or something like that, covering the entire country, for this reason: That it will leave this rediscounting between the regional banks; one will not rediscount for the other. That seems to be an objection on the part of a great many, which will be removed to a great extent.

Senator REED. I want to spend a minute on that. Let us see about that. Most bankers have said that 1 central bank would be an ideal thing—just 1 bank instead of 12. That is a combination of all these powers and all this capital into one place. Then they say if you are going to divide it, do it as little as possible; have 4 and not over 5. If you have 12, they say you have got too many, and you have weakened yourself, and yet the way we propose to tie those 12 banks together and make each mutually of help to the other is practically welding them into one system under one central control; but they object. I can not see the logic of that. It seems to me, if it is right to have a central bank with innumerable branches in the way which has been spoken of, or to have 12 regional banks, and yet to have a means by which each must aid the other, you are illogical when you say that the one central bank when it is all under one power, that is a good thing, but if you have 12 banks, each mutually helpful to the other, that is a bad thing.

Mr. SEXTON. My statement is—I want to say my opinion is, you lessen the need of aid with fewer banks. You have got to take care of certain territory, because the people in the different territory need aid at different times.

Senator REED. That is very true. Suppose you had a central bank with 12 branches in the country.

Senator NELSON. Or 24.

Senator REED. Yes; or 24. Here is the heart and center—the central bank. It has a branch out here in St. Paul. If St. Paul wants

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money, St. Paul, through its branch, calls on the central bank for some aid. And if you have one in New Orleans, New Orleans calls for some aid.

Mr. SEXTON. Yes; I say that would be an ideal system.

Senator REED. Now, suppose you had 12 banks with 12 separate organizations and an arrangement by which a central board could direct funds to be sent from one point to another. Has not that in it the same elements as the central bank?

Mr. SEXTON. The branches are different from these regional banks, in my opinion. They would not have the same power as a central bank. It is simply to receive applications, make examinations of securities, and things of that kind. You are dividing up this power into 12 different places. My opinion is now you will need in the neighborhood of 5. And in addition to that, I want to say this: You are going to lessen the expense of it; you are going to minimize——

Senator REED (interposing). I do not know whether you are or not.

Mr. SEXTON. That is my opinion about it.

Senator REED. The power, after all, to direct where the money goes is the same power. If you have a central bank with innumerable branches, these seven men sitting there as the board of directors say where the money shall go. If you have 12 regional banks and those regional banks have rather broad powers themselves, but this central board can direct the money to be sent from one to the other, they are doing exactly the same thing there as they would if they had a branch-bank system. Now, it seems to me that brings us down to the question whether the organization of a regional bank is a sound one, and not the question of numbers; and yet there has been constant talk about the numbers.

Senator POMERENE. This thought was presented here the other day, that there ought not to be more than a night's distance from any member bank to the regional bank in that region, because if they did need accommodations they would need them. Ought not that to be considered when you are determining the number of regional banks?

Mr. SEXTON. No; for this reason: When this act goes into effect, my opinion is, it is going to restore financial confidence in this country; it is going to wipe out just that very thing you are speaking of. It is going to establish confidence in the financial situation in this country.

Senator POMERENE. I am glad to hear you say that.

Mr. SEXTON. I make that at a person statement. I do not think you are going to have the need of all these regional banks; and, in addition to that, for the very same reason I want to say to you that I believe that 5 per cent paid in with 5 per cent on call is going to give your regional reserve board all the money they will need.

Senator REED. You think the central idea of this bill is all right, but you want to suggest changes in the way of working it out?

Mr. SEXTON. I want to say this to you now. This is personal. I am, like every other banker, in favor of this currency proposition—what I might call this asset currency. But this banking system, starting with clearing houses, collecting checks, and all that sort of thing—I think the banks could arrange that among the groups much

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better, and they ought to do it. There is not any question that that ought to be done. It ought to be done without any law to compel them to do it. But you are establishing banks of discount, and things of that kind.

Senator POMERENE. Are you in love with the present system of reserves we have in this country?

Mr. SEXTON. Absolutely not.

Senator SHAFROTH. Don't you think this opportunity to go to a central bank and cash your paper in case of a run would be of inestimable advantage to every member bank?

Mr. SEXTON. Not to every member bank. I will say this: You will find that unless they change a great number of their present loans, they won't have that kind of paper. They can get enough, however.

Senator REED. Let us see how that works out——

Mr. SEXTON (interposing). That can be taken care of. You can exchange paper with any bank that has it.

Senator REED. Suppose your bank has $100,000 of absolutely good paper——

Mr. SEXTON (interposing). I have good bonds——

Senator REED (interposing). And as long as the bank over in St. Louis with which you do business has paper of the kind required, and it can go down to the regional bank and get all the money it needs, it will take care of you, won't it?

Mr. SEXTON. Surely, there is no question about that.

There is one other thing I should like to say a few words about, and that is the question of savings banks. The question of savings in this bill is not understood at all. As the clause in the present bill refers to bankers, it is not well understood by the bankers. You see, they are conducting a business to-day so entirely different from that, I do not know what is going to happen to them. It is going to disturb their investments and everything of that kind. The majority of those investments are too old; they are not the kind mentioned in the bill. I would much prefer to see that eliminated from the bill. It does not, however, apply to me.

Senator REED. Suppose the bill gave you the right to establish a savings bank upon broad and generous lines, and you were given the option to exercise it or not. You would not object to that? You are a national bank?

Mr. SEXTON. Yes; sir; and I am also connected with a savings bank, which is a State bank.

Senator REED. You do not object to the savings-bank proposition being incorporated if it is optional with you to have it or not to have it as a national bank?

Mr. SEXTON. No; because it does not affect me; but how is it going to affect the man who has a savings department in his bank now?

Senator REED. If there were broad principles laid down, as broad as they can safely be made, he would not have any objection, would he?

Mr. SEXTON. Speaking of an amendment?

Senator REED. That is what we are here for, to see whether it needs amendment.

Mr. SEXTON. In my opinion it does.

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Senator REED. Is there anybody here that can give us complete information about what is necessary to put into this bill in order to make the savings-bank feature workable and safe?

Mr. SEXTON. I think Judge Montgomery, the president of our State association, who is president of the largest savings bank in our State, outside of Chicago, is eminently qualified. Whether or not he is prepared to do that I do not know.

FURTHER STATEMENT OF S. B. MONTGOMERY.

Senator HITCHCOCK. Judge Montgomery, have you already been on the stand?

Mr. MONTGOMERY. Yes, sir.

Senator HITCHCOCK. Senator Reed wanted to ask some questions about how the law should be amended in order to make the bill acceptable. Did you refer to that in your statement?

Mr. MONTGOMERY. I did not make a statement at all; I handed a written statement to the chairman of the committee. I just said with reference to that that a great many small country banks have some savings. They attempt to get deposits, and they do get them, but they do not get enough to justify the segregation. I think I said that in my paper; I have forgotten now.

Senator POMERENE. Did you in your paper suggest what changes you thought should be made?

Mr. MONTGOMERY. I suggested that the savings-bank section be left out altogether.

Senator HITCHCOCK. Where would that leave the national banks that now have savings departments?

Senator NELSON. It would leave them just as they are.

Mr. MONTGOMERY. I was just about to answer that. They have been taking savings right along.

Senator HITCHCOCK. How do they invest them?

Mr. MONTGOMERY. As they please.

Senator HITCHCOCK. There is no limit?

Mr. MONTGOMERY. No, sir.

Senator POMERENE. The most of them carry the same reserves against their savings accounts now as they do against others.

Senator REED. Are they not proceeding in violation of law now?

Mr. MONTGOMERY. Ours is a State bank. There is nothing against it in our law. I have always felt that it was simply winked at.

Senator REED. Nothing ought to be winked at in a great financial system.

Mr. MONTGOMERY. I do not know; I may be wrong——

Senator REED (interposing). Now let us assume that we are going to try to create a system here that will invite into it your State bank. You have a State bank, you say?

Mr. MONTGOMERY. Yes, sir.

Senator REED. And you have a trust department?

Mr. MONTGOMERY. Yes, sir.

Senator REED. And a savings department?

Mr. MONTGOMERY. Yes, sir.

Senator REED. Now, if we were to try and make this bill so that your bank could come in, and all similar banks in the State of Illinois,

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and so that you could legitimately carry on this business under this system and a national bank could have the same privileges, what would be necessary to write into this bill to accomplish that?

Mr. MONTGOMERY. That is a pretty hard question.

Senator REED. That is the question we have to solve, and you people are here to help us.

Mr. MONTGOMERY. You mean you are going to solve the problem of how to make this law so satisfactory that a State bank will come into the system?

Senator REED. We want to make it so that all banks can come in that desire to come in.

Mr. MONTGOMERY. That brings up all the objections that are mentioned. I mentioned, I think, seven in my paper.

Senator REED. You mentioned objections to this bill. What I want is suggestions as to what ought to go into the bill.

Mr. MONTGOMERY. We have a capital of $1,000,000. If we have to put up 10 per cent and subscribe another 10 per cent to this organization, it will take $100,000 from us, in the first place, and I have not yet seen anything in the bill that tells how we will ever get it back. We subscribe another 10 per cent, and I do not know whether we would have to pay that or not. We have not much regulation in our State with reference to reserves. We carry a good reserve always, and we carry a great many demand loans, so as to keep ourselves safe. But we are not now under anything like as rigid laws as we would be under this system.

Senator REED. And therefore you would hesitate to come in?

Mr. MONTGOMERY. We are running as we please, very much.

Senator REED. You do not think that is a wise thing to do in a banking system? You do not think that a banker ought to be allowed to do just as he pleases?

Mr. MONTGOMERY. I do not think I should say we are running as we please; that is too broad.

Senator HITCHCOCK. You are running according to your judgment?

Mr. MONTGOMERY. We are running according to our judgment and according to the law of the State of Illinois.

Senator REED. But that law is——

Mr. MONTGOMERY (interposing). That is a very liberal law.

Senator REED. I do not speak for anybody but myself, but I should like to know what suggestions the State bankers have to make by way of amendment to this bill which would enable them to come into the system with all their various departments and continue to prosper and at the same time have the system safe. Now, some of you practical gentlemen ought to be able to tell us, and if you are not prepared to do it now, Judge, I wish you would write it out in the form of suggested amendments and send it to us within the next 8 or 10 days at least.

Mr. MONTGOMERY. Well, I should be glad to write anything I can that will help. I am as anxious to see this law made satisfactory and adopted as anybody.

Senator SHAFROTH. Mr. Montgomery, this amount that is called for here is identically the same as that provided by the Aldrich bill, which seemed to be very satisfactory to the bankers, was it not—10 per cent in cash on a subscription of 20 per cent?

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Mr. MONTGOMERY. I confess I do not remember. I am afraid we are trespassing on your time. Mr. White wanted to say something, I think.

STATEMENT OF WILLIAM C. WHITE, PRESIDENT ILLINOIS NATIONAL BANK, PEORIA, ILL.

Senator HITCHCOCK. Where do you live, Mr. White?

Mr. WHITE. Peoria.

Senator HITCHCOCK. Your bank?

Mr. WHITE. The Illinois National Bank.

Senator HITCHCOCK. What is your capital?

Mr. WHITE. $200,000.

Senator POMERENE. Will you give the surplus and your deposits?

Mr. WHITE. We have a surplus and undivided profits of $130,000 and deposits of about $2,000,000.

I just want to say a word in regard to this matter of a savings department. We have about $400,000 of savings in our savings department. We are a commercial bank. Our funds are largely loaned out to local business houses, jobbers, and manufacturers.

I think there is a matter of principle involved there that possibly you gentlemen have not thought of. I think the logical place for a man to keep his savings deposits is in a bank that furnishes money to the concern by which he is employed.

Senator HITCHCOCK. You do it by time certificates of deposit?

Mr. WHITE. We have savings books and certificates of deposit both.

Senator HITCHCOCK. Are the savings deposits withdrawable on demand?

Mr. WHITE. Yes.

Senator HITCHCOCK. Does the State law permit you to require that a notice shall be given?

Mr. WHITE. We are a national bank. I do not know just what the State law is. We have followed the regular savings bank's books, that we can give a notice——

Senator HITCHCOCK (interposing). That is by individual arrangement with the depositor?

Mr. WHITE. Yes. The idea I mean to convey is this: Say there were a thousand men working for one of the Peoria manufacturers. If we are restricted to their deposits we have to loan those possibly on real estate or some investment designated by this bill. We might possibly find it hard to take care of the manufacturer that employs these men. I think there ought to be a good deal of latitude and room for discretion on the part of the bank officers in loaning those funds and not just be restricted to some narrow investment.

Senator REED. There ought to be some restriction, ought there not, to insure safety?

Mr. WHITE. Possibly some restriction, but I would not know what percentage to say, or anything of that sort.

Senator REED. You recognize the fact that there are two things every banker has to consider, I take it; one is, he wants to make money, and the other is that his bank must be regarded as sound and be kept sound in order for him to be successful in making money.

Mr. WHITE. That is very essential.

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Senator REED. And the whole system, as a system, must be protected so that the confidence of the people will not be shaken in the system and thus a run produced.

Mr. WHITE. It is largely a matter of confidence.

Senator REED. Taking these two things into consideration, what suggestions have you to make as to amendments to this bill which will make it a better bill along those lines?

Mr. WHITE. Well, I really think the matter of investment of savings funds ought to be left largely to the executive officers of the banks.

Senator HITCHCOCK. What do you mean by "largely"?

Mr. WHITE. Altogether, in fact.

Senator HITCHCOCK. Altogether. What reserve do you think ought to be kept against those deposits?

Senator NELSON. Now, Mr. Chairman [Senator Hitchcock], if you will allow me, I want to see the witness on that point. I think I can clear the matter up. As a matter of fact, these national banks are not doing a savings-bank business in the full sense of the term. The only part of the savings-bank business they do is to pay interest on time deposits of their depositors, either by book or by certificate of deposit. When it comes to the matter of reserves and the investment of this money it is not segregated from the other moneys of the bank, but is subject to all the conditions of the national-bank law. They can no more invest those savings deposits in other securities than they can their commercial deposits. It is only to that extent the national banks have been doing a savings business. It has grown up of itself. Depositors come in and say, "We want to deposit this and we want to get interest on it." This interest is paid either on certificates of deposit or upon books, as you say. After the money comes in it is kept with the other money of the bank, and is invested in just the same manner as its other money. It is only to that extent they are doing a savings business. Is not that correct?

Mr. WHITE. That is right.

Senator REED. I understand, Senator, that this bill proposes to legalize that form of business, and, secondly, to enlarge it and to make it a true savings-bank department, and give it the power to take the money not only on time deposits but give them whatever other advantages there are.

Senator NELSON. The point here is, Senator Reed, that the bill proposes to create a full-fledged savings bank, and the limitations under that are distinguished from the other. In the first place, they only require a reserve of 5 per cent. In the next place, they can invest the money they get in almost any kind of security—in stocks and bonds, real-estate mortgages, and permanent investments—instead of using it for commercial and trade purposes. That is the trouble. You can see in the small country town how difficult it is to keep up such an institution as a part of a national bank.

Senator HITCHCOCK. Now, I would like to ask the witness this question: Suppose they have the alternative—suppose the law permitted you to have a savings-bank department on a reserve of only 5 per cent, but limited your investment strictly to savings-bank business. Suppose it also permitted you to do a savings-bank business on the present commercial basis that you are now doing it on, provided you kept the legal reserve.

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Which alternative would you take?

Mr. WHITE. I would take the one allowing us to make the investments in a commercial way.

Senator HITCHCOCK. Then what you object to is being compelled to go into the savings investment, practically?

Mr. WHITE. Yes; to segregate it as a separate fund.

Senator HITCHCOCK. Rather than do that, you would prefer to keep a larger reserve?

Mr. WHITE. To keep a larger reserve; yes.

Senator POMERENE. That is due, I take it, to the fact that it is what your community requires?

Mr. WHITE. That is the commercial business generally which the banks are doing.

Senator REED. Then you would be content if this bill provided, in express terms, that any national bank could receive time deposits and pay interest thereon, provided further it may, if it so desires, establish a savings-bank department, in which event it shall have certain rights and privileges but shall not have to keep its funds segregated.

Mr. WHITE. Yes; without having to segregate its funds.

Senator REED. And you would go on as you now are. But if you undertake to establish a separate department and have an opportunity to do all of the savings-bank business, then you recognize the justice of the savings-department provision?

Mr. WHITE. Oh, yes.

Senator REED. So, if it were left optional, and you had all the rights you have been heretofore exercising and had it legalized, you would be content?

Mr. WHITE. We would be content.

Senator NELSON. You would prefer that system?

Mr. WHITE. Yes; if you do not segregate the funds.

Senator HITCHCOCK. Do you call it a savings department?

Mr. WHITE. A savings department of the national bank.

Senator HITCHCOCK. Is there any value to you in calling it a savings department?

Mr. WHITE. Yes.

Senator HITCHCOCK. Would you still want that privilege and maintain a commercial reserve?

Mr. WHITE. Yes.

Senator POMERENE. It attracts the small depositor?

Mr. WHITE. Yes.

Senator BRISTOW. Do you not think it would be desirable to have permission to lend a certain percentage of those funds on real estate, if you desired?

Mr. WHITE. I think it would be a good provision for national banks. That is what we have been waiting for all these years, to have some provision for making loans on real estate.

Senator NELSON. And measured by the percentage that the time deposits run to the percentage of commercial, would not that be fairer?

Mr. WHITE. Yes; that would be fairer. I think it ought to be left largely in the discretion of the bank officials.

Mr. HARRIS. Mr. Chairman, may I say just a word on that question? It seems to me that the purposed permitting of these savings

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departments is another thing that helps to defeat the purpose you want to accomplish. In other words, the whole purpose is to mobilize everything you can. The minute you begin to segregate, then you help to defeat the purpose you have in mind.

Another thought is this, that this is a currency measure, and the provision for making 12 months' farm loans represents a savings-bank feature.

Would it not be expedient to consider leaving both of these features out of the bill and then go ahead and modify the national-bank act, and, as I understand you will perhaps do, later give the banks all the powers you think they ought to have? But let this bill stand purely as a currency measure without the savings measure or anything of that kind. The national-bank act must be modernized, because we will not have any national banks in this country unless it is, aside from this bill, one way or the other.

Senator REED. In view of the national banks saying they do not want to come into this system, anyway, what some of us have in mind is trying to make a bill that will take care of the national banks, the State banks, and the loan and trust companies, and the idea now is to create a system which will. I do not much like the idea of dividing the load, because sometimes it is hard to get the load through Congress even if you take it there at once and have everybody pushing.

Mr. HARRIS. The fact that most of the national banks have a feeling that they will have to segregate their savings capital might be another reason why they would not want to come in.

Senator REED. That is just why I suggested leaving that in the alternative in the bill.

Senator NELSON. I want to add just one word, and that is this: The deposits of these small country banks of $25,000, etc., in farming communities—practically one-half to two-thirds of their deposits are time deposits paying interest. They are practically savings deposits. Now, I live in a town where we have three banks, one of $60,000, one of $100,000 capital, both national banks, and a State bank with $50,000 capital. The average amount of deposits of those three banks is about $1,000,000, and one-half to two-thirds of the deposits in both the National and State banks are time deposits—deposits of the farmers, on which they get interest. They are practically savings deposits. But when the moneys come into the bank they are treated like all the other funds of the bank and used for the same purposes. Is not that practically true?

Mr. WHITE. That is the condition.

Senator NELSON. And if you segregate those savings deposits in the little country banks the commercial end of it will be the small end, and there will not be anything left of it.

Mr. MONTGOMERY. There is a provision here that the capital thus set apart for uses of the savings department aforesaid shall in no case be less than $15,000, or than a sum equal to 20 per cent of the paid-up capital and surplus of the said national bank. Now, I do not know exactly what that means. Does it mean 20 per cent of the capital of $25,000 banks?

Senator HITCHCOCK. Capital and surplus, it says.

Mr. MONTGOMERY. Assume it has no surplus, for the sake of the argument.

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Senator REED. That language is very vague and ought to be changed.

Mr. WHITE. It is very vague, and I do not know what it means. I do not know whether it means $5,000 or $15,000.

Senator HITCHCOCK. Have you any others who desire to make statements?

Mr. MONTGOMERY. Mr. Crebs is the only other speaker.

Senator HITCHCOCK. Please state your name and place of business.

STATEMENT OF JOHN N. CREBS, OF CARMI, ILL.

The CHAIRMAN. How large is Carmi?

Mr. CREBS. It is a town of 3,000 inhabitants.

Senator HITCHCOCK. What bank are you connected with?

Mr. CREBS. The national bank.

Senator HITCHCOCK. And what is the size of your bank?

Mr. CREBS. $40,000 capital.

Senator HITCHCOCK. Is it the only national bank there?

Mr. CREBS. No; there is the First National.

Senator SHAFROTH. What are the deposits and surplus?

Mr. CREBS. Surplus $10,000 and deposits now about $200,000.

Senator HITCHCOCK. Proceed.

Mr. CREBS. Judge Montgomery asked me to say a word about the amount that the national banks were expected to contribute toward the capital stock of the reserve banks. I told him I believed I was better able to speak on that than any other subject, possibly because it is the smallest part of the whole matter.

I have heard, in talking with those I have met in our section, more on this point than any other, and I am convinced, in my own mind, that it would be better for the banks—I do not want to put it that we are only interested in what is better for the banks, but I can not help but believe you would get more banks interested if the amount required was 10 per cent instead of 20.

Senator NELSON. The subscription?

Mr. CREBS. Yes; the subscription.

Senator NELSON. Five cash and five subject to call?

Mr. CREBS. Yes.

Senator HITCHCOCK. I want to ask you a question there: Suppose the small country banks were permitted to pay their part of the capital in 2 per cent United States bonds instead of cash, and retire their currency to that extent?

Mr. CREBS. On first thought, it seems to me, as that now stands under the present arrangement, they might fall over themselves to get in. [Laughter.]

Senator NELSON. I guess they would.

Senator REED. Now, let me ask you a question. Suppose the bill was amended so that the forced retirement of national-bank notes was striken out and suppose the tax upon the national-bank circulation was cut down, then you would want to hang on to those bonds, would you not?

Mr. CREBS. Well, I can not answer that, because I am not familiar enough with the situation. It is not a big enough matter with us.

Senator HITCHCOCK. How many United States bonds have you for circulation purposes?

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Mr. CREBS. $40,000.

Senator HITCHCOCK. The full amount of your capital?

Mr. CREBS. Yes.

Senator HITCHCOCK. You issue the full amount of your currency, then, I suppose?

Mr. CREBS. Yes.

Senator REED. How much tax did you pay on those last year; do you remember?

Mr. CREBS. No, sir; I do not remember.

Senator SHAFROTH. $200.

Mr. CREBS. I presume it would be.

Senator HITCHCOCK. You think, then, that more banks would want to come in if they were permitted to subscribe 10 per cent of their capital?

Mr. CREBS. I think so, for the reason the small banks think it is taking too much of their capital away from them to enable them to feel satisfied in coming into the regional bank.

Senator POMERENE. How old is your bank?

Mr. CREBS. About 15 years.

Senator POMERENE. What advantages do you have now in being a national bank from what you would have if you surrendered your charter and reincorporated under the State laws?

Mr. CREBS. The main advantage I see is the fact of being a national bank—the name.

Senator NELSON. And the circulation privilege at present?

Mr. CREBS. I can not feel myself that there is for the individual bank an advantage in that. It is an advantage in a general way to the many banks collectively, but to the individual small bank I do not see where it is an advantage, except raising the total amount of the figures of the bank for advertising purposes.

Senator BRISTOW. You think you do not make much money on your circulation?

Mr. CREBS. I do not know how we do.

Senator NELSON. What rate of interest do you get where you are?

Mr. CREBS. Six per cent is the prevailing rate.

Senator NELSON. You would have more advantages under the State law, then—that is, if you became a State bank?

Mr. CREBS. The stronger the bank the more the advantage it would be, Senator, because of the privilege of loaning as a State bank that you do not enjoy as a national bank.

Senator BRISTOW. Do you have all your funds in demand there that you can supply?

Mr. CREBS. Indeed we do, always.

Senator NELSON. What class of people are your borrowers?

Mr. CREBS. Farmers, altogether. It is an agricultural district.

Senator NELSON. Your loans are on farm paper?

Mr. CREBS. Yes; altogether.

Senator BRISTOW. What time do you usually make your notes?

Mr. CREBS. We try to make them on short time—90 days; but with us it makes no difference. When we loan our money we have to wait until the farmer gets ready to pay it back.

Senator BRISTOW. You renew your loans?

Mr. CREBS. Yes.

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Senator REED. How would Mr. Farmer like it for you to take his note and discount it with another bank, and when he comes in to settle for you to say it is in another bank?

Mr. CREBS. I presume you have reference to the reserve bank. Conditions are changing so rapidly that it would make no difference whatever.

Senator REED. Provided you took care of his loan when he wanted to renew it?

Mr. CREBS. Yes.

Senator REED. What dividend did you make last year—what do you generally make?

Mr. CREBS. We generally make about 10 per cent.

Senator REED. Are you laying aside any surplus?

Mr. CREBS. We organized our bank for $25,000, and have accumulated $10,000 and had an extra $15,000 surplus earnings.

Senator HITCHCOCK. In how many years?

Mr. CREBS. Just since the act enabling banks to organize at $25,000.

Senator REED. You have $25,000 capital now?

Mr. CREBS. No; $40,000.

Senator REED. And you made the extra $15,000 out of earnings, did you?

Mr. CREBS. Yes. I do not think we should take this bank of mine as a general rule, however, because it was a family affair. We have made good earnings and paid a good deal out for clerk hire.

Senator REED. You pay pretty liberal salaries to yourselves?

Mr. CREBS. Well; no, sir——

Senator REED (interposing). There is no objection to that. I am just trying to get at the facts. It being a sort of a family affair, you in that respect have not gotten down to cold business, but have a family consideration introduced into it.

Mr. CREBS. That is true.

Senator REED. So that your bank has done pretty well?

Mr. CREBS. It has, yes; and will continue to do well, too, we expect.

Senator REED. Did you suspend payments in 1907 for the time being—limit the payments?

Mr. CREBS. No, sir.

Senator REED. You went right along?

Mr. CREBS. Yes.

Senator REED. I find a great many of the smaller banks did that. They did in my county. The big fellow is the man you are afraid of, are you not, in this equation?

Mr. CREBS. I am not afraid of him. I think it is all right.

Senator NELSON. You do not want to assume, Senator Reed, that we little fellows in the country are afraid of the big fellows of the city?

Senator REED. I mean afraid he will make the disturbance, make the trouble. I do not mean afraid of them personally.

Mr. CREBS. No; I am not afraid of them.

Senator REED. But really, seriously speaking, you recognize there is a danger from our banking system at present that ought to be obviated, coming from various causes and culminating in a shortage of currency at times through business fear?

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Mr. CREBS. Yes.

Senator REED. And feel that that ought to be obviated?

Mr. CREBS. Indeed, I do. I gladly welcome the prospect we have before us.

Senator NELSON. Could you get your reserve in 1907? Could you draw on other banks freely?

Mr. CREBS. We were advised we could in the event we needed it.

Senator REED. You deposit principally in Chicago, I suppose?

Mr. CREBS. Chicago and St. Louis.

Senator HITCHCOCK. If there are no further questions, you may be excused.

Mr. MONTGOMERY. Gentlemen, we want to thank you for our treatment here.

Senator NELSON. We want to thank you for coming; you have helped the committee.

Senator HITCHCOCK. The committee will now stand adjourned until Monday morning at 11 o'clock.

(Thereupon, at 1 o'clock p m., the committee adjourned until Monday, October 13, 1913, at 11 o'clock a m.)

MONDAY, OCTOBER 13, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 11 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

The CHAIRMAN. Mr. Scudder, we will give you an opportunity to appear now.

STATEMENT OF S. D. SCUDDER, VICE PRESIDENT RICHMOND TRUST & SAVINGS CO., RICHMOND, VA.

Mr. SCUDDER. Mr. Chairman and Senators, I had the pleasure and privilege of attending the country bankers' conference on Monday at Boston, and I believe that their action was most sane and safe.

Senator REED. Just a moment, Mr. Scudder.

Senator O'GORMAN. Will you state your residence, occupation, and the bank with which you are connected?

Mr. SCUDDER. My name is S. D. Scudder, vice president Richmond Trust & Savings Co., Richmond, Va.

Senator O'GORMAN. Have you been connected with that bank for many years?

Mr. SCUDDER. I have been in the banking business about 20 years.

Senator O'GORMAN. What is the capital of your bank?

Mr. SCUDDER. $1,000,000.

Senator O'GORMAN. And surplus?

Mr. SCUDDER. We have only recently established. We have about $50,000 surplus. We established the bank about eight months ago.

Senator WEEKS. You were selected as chairman of this delegation?

Mr. SCUDDER. No, sir. Senator Owen simply asked me to come before you, having been the only one who stood up and voted "no" in the convention at Boston on the resolutions of the committee.

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Senator WEEKS. You are not representing the——

Mr. SCUDDER (interposing). No; I am not representing the country bankers. The rule established at the country bankers' conference on Monday excluded any participation on my part, because the capital of our bank is $1,000,000, and the rule established or promulgated by the chairman of that conference was that no bank having over $250,000 should have any say before the country bankers' conference.

Senator REED. How long have you been in the banking business yourself?

Mr. SCUDDER. Between 20 and 25 years.

Senator REED. Before you became connected with this bank what class of bank were you with?

Mr. SCUDDER. My first job was in the Bank of Montreal. Although an American, I had the privilege of being in the Bank of Montreal, Canada, and from there I went to Minnesota and established a little bank.

Senator NELSON. At what place?

Mr. SCUDDER. At Sleepy Eye, Minn.—the State Bank at Sleepy Eye.

Senator REED. I didn't suppose there was any such town in Minnesota.

Mr. SCUDDER. Yes; a good, vigorous town.

Senator NELSON. It is a good, lively town.

The CHAIRMAN. I think we had better come to the point.

Mr. SCUDDER. I was simply answering the question.

The CHAIRMAN. I know that; I was admonishing the committee as well as the witness.

Senator O'GORMAN. I do not think it is fair to say, Mr. Chairman, that time is being wasted. The Senator from Missouri asked a question that I think is very pertinent and enables us to place an appropriate value on the views of this witness. I think it is well for us to allow him to continue his experience in Sleepy Eye.

Senator WEEKS. It seems to me anything that would dispel an illusion as to the character of Sleepy Eye had better be given. [Laughter.]

Senator NELSON. It is a good, lively town of 2,500 people.

Senator O'GORMAN. What were your activities after you left that place?

Mr. SCUDDER. My health became poor and I had to go to Texas. I was given up by the doctors. I went to Texas and became a rough rider. I got in the mortgage-banking business, representing the Scottish-American Mortgage Co., of Edinburgh, for the State of Texas. I loaned a great deal of money throughout Texas on ranches and farms for the Scottish-American Mortgage Co. I also got in the insurance business, and was appointed sole agent of the Scottish-American Mortgage Co. and the manager for Texas of the Germania Fire Insurance Co., of New York. In a few years they added other territory, so that I finally became their manager for the Southern States, with headquarters at New Orleans. After that they moved me to New York and I managed the Southern States for the Germania Fire Insurance Co. from New York. An offer then came to me from the Trust Co. of America, then the North American Trust Co., to become its treasurer.

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Senator O'GORMAN. When was that?

Mr. SCUDDER. In 1900. The North American Trust Co.

Senator NELSON. Of New York?

Mr. SCUDDER. Of New York.

In 1904, I think it was, the Trust Co. of America amalgamated with the North American Trust Co. and I was elected the treasurer of the amalgamated company. I served as treasurer for the Trust Co. of America something like five or six years, and then became interested in a little bank called the Jefferson Bank of New York. That was merged with the Century Bank. While vice president of the Century Bank I was called to Richmond and undertook the formation and management of the Richmond Trust Co.

Senator O'GORMAN. You were connected with the Century Bank at One hundred and fourth Street and Broadway?

Mr. SCUDDER. Yes, sir; I was vice president of that bank.

It was at the general convention of the Boston bankers that I became the insurgent. I will read you a short synopsis of the reason for my vote there.

I am in sympathy with some of the suggestions made by the association's currency commission and believe they would be adopted by the administration if presented in the spirit of fairness and real helpfulness. But I was not willing to lend myself to any action that will cut the very heart out of the bill now before Congress and thus destroy the honest efforts which are being made in Washington to reform our financial system. I refer particularly to the entire change asked for by the bankers' committee as to the proposed note issue. When all is said and done, the whole question now really resolves itself into whether this Government shall issue and control the currency or whether the banks shall do it. Please forget for a moment the question as to whether it shall be a Federal reserve bank, with a main institution located at Washington, on the idea that this "headquarters institution" shall serve only the 5, 7, or 12 "artery Federal banks" throughout the country, and not have any direct dealings whatever with the local banks or the general public, or whether it will be the establishment of 5, 7, or 12 Federal banks, without any "headquarters bank," but with simply a controlling "Federal board" in Washington. There really is very little difference between these two plans, although I am inclined to believe the former would prove the more practical.

A condition and not a theory confronts us, and we as bankers are blind if we do not reckon with it. The same condition here as it is carried on in Canada and European countries makes it also impossible to seriously consider any permanent currency issue by our banks unless such issue is practically guaranteed and entirely controlled by our Government, as is the case at present. In Canada seven or eight large banks do all the business, each having its branches scattered all over that country. Is there any community, large or small, in the United States which would support such a system? You know very well that any "branch" of the largest bank in New York city would find itself outwitted by competition at every turn by an independent local banker or bank in any given spot in the United States. If you omit that part of the committee's report referring to the note issue, which the committee desires the banks to undertake instead of

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the Government, you will stand a good chance to be heard at Washington regarding the other recommendations submitted by the committee; but if you leave it in the administration—and remember the people are back of this administration—will understand that the gage of battle has been cast and your action may result in producing a more drastic measure than should be passed.

"Come, let us reason together" should be the slogan of this convention, and not "Come on and fight." We are partners in the great business of this country, and the only way any partnership can ever permanently succeed is when both sides are conciliatory and willing to give and take. In adopting the entire report of the bankers' currency committee we will place ourselves in the same category as the man who wanted to argue religion, but who started out with the hypothesis that there was no God. There can be no arguing with such a man and there will be no arguing with us if you demand what the people have said they will not have. The people of this country have, through their representatives, settled the two fundamental principles of currency reform. In no uncertain voice have they stated, first, that they shall be no central bank in the United States governed by the bankers themselves, and, second, that the Government shall make the note issue. Even if you do not agree with my argument that we can not do as Canada and other foreign countries do in respect to our note issues, wouldn't it be wise to take our cue from what we know to be the sentiment of the people of the United States and act diplomatically at this time? Why should we commit an unfriendly act against the people? To do so just at this psychological moment will put us out of the line of consideration. We bankers represent the investors of bank stocks; but the Government at Washington represents the people of this country who have created the investor. If the people want their Government to issue the currency, the investor should bow to this decision and cooperate to the end that the past friendly relations may continue and redound to mutual advantage.

I shall be glad to answer any questions, Senator.

Senator HITCHCOCK. You think the Government should issue currency. Why should not that currency be issued direct to individual banks entitled to it rather than create this great machinery which is going to revolutionize our banking system?

Mr. SCUDDER. Because I believe, Senator, that if the banks issued the currency, even though the Government controlled it through a Federal board, that a condition is more likely conceivable—an adverse condition—against that currency than if the Government issued it. I for one would rather have the obligation of all of the people than have the obligation of part of the people. And if the banks issued the currency it would be an obligation of part of the people, no matter how strong the bank may be nor by whom controlled.

Senator HITCHCOCK. I think you misunderstood me. I say if the Government of the United States issued the currency——

Mr. SCUDDER (interposing). As its own obligation?

Senator HITCHCOCK. Yes. Why should it not issue it direct to individual banks where they need it and when they need it instead of creating all this machinery which is going to revolutionize our banking system?

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Mr. SCUDDER. I have no objection to your plan if it is the Government's obligation.

Senator HITCHCOCK. Now, then, I understand you advocate Government obligation?

Mr. SCUDDER. I do.

Senator HITCHCOCK. If the Government under any system is to issue its obligations so as to wipe out $700,000,000 of national-bank notes, and had in addition some elastic currency, the total of which may amount to a billion dollars——

Mr. SCUDDER (interposing). Emergency currency?

Senator HITCHCOCK. Yes. Do you think it is safe for the Government to do that without providing a reserve fund in the Treasury to meet any possible demand?

Mr. SCUDDER. No; I should say a reserve fund is absolutely necessary.

Senator HITCHCOCK. There is no reserve fund provided for in this bill.

Mr. SCUDDER. I think there ought to be a reserve fund.

Senator HITCHCOCK. Then, you criticize it on that account?

Mr. SCUDDER. Yes, sir.

Senator NELSON. Suppose the Government were to issue this currency as suggested by Senator Hitchcock, what would become of all these bank reserves? How would they be gathered together and utilized for the benefit of the system? Could that be done under the Government?

Mr. SCUDDER. Yes, sir; that is all provided for in the bill.

Senator NELSON. It is? I don't so understand it. It is the banks that are to do this——

Mr. SCUDDER (interposing). No; but it is the banks—as I understand the Senator's question, the Government working through the banks under this system.

Senator HITCHCOCK. No.

Senator NELSON. No. The Senator's question was to do away with the banks; have the Government issue the currency direct without the intervention of the banks.

Mr. SCUDDER. And without having the system of Federal bank reserves?

Senator HITCHCOCK. Without all that machinery.

Mr. SCUDDER. I misunderstood you, then.

Senator HITCHCOCK. Will you state why you think that is not desirable or possible?

Mr. SCUDDER. You have to have a banking system; you have to have a method through which you can reach all the people in all the sections of the country.

Senator HITCHCOCK. Well, could you not do that much better by 50 subtreasuries than you can possibly do it by 12 or 3 or 5 regional banks?

Mr. SCUDDER. The question had not occurred to me. I had not given it a thought. You mean abolish entirely the system of reserve banks?

Senator HITCHCOCK. Don't abolish anything; you haven't created it yet.

Mr. SCUDDER. I mean the principle.

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Senator HITCHCOCK. Drop that revolutionary idea and extend the operations of the Treasury through 40 additional subtreasuries at which the individual bank could apply for a limited amount of currency when it needs it, upon the deposit of security, giving the Government also a first lien upon all of the assets of the individual bank.

Mr. SCUDDER. Well, that is a new thought to me.

Senator HITCHCOCK. That allows the banks to have all their reserves; it takes no capital away from any of them, and gives them this Treasury facility in addition——

Mr. SCUDDER. With a proper reserve?

Senator HITCHCOCK. With the Government providing a reserve procured by the sale of bonds, the banks to pay a rate of interest which will much more than pay the interest on the bonds, and in addition will pile up a fund for, possibly, the protection against losses, or possibly for the guarantee of bank deposits.

Mr. SCUDDER. I would not care to offhand give an opinion upon that. I am reminded of what Jefferson said. Jefferson believed that the people would always take the obligations of the Government. You remember he makes the remark that in times of great distress or great national disaster it will be found that the simple Treasury notes will be accepted by the people on faith.

Senator O'GORMAN. That is part of the plan suggested by Senator Hitchcock. You are asked now your judgment on it, and I understand you have not any opinion to express?

Mr. SCUDDER. I have not, except the general opinion that the people would accept such an issue. I have not had time enough to think about the general working of such a plan.

Senator NELSON. What are the fundamental and radical things that are sought to be accomplished by this legislation? Have you any idea what they are?

Mr. SCUDDER. I think the mobilization of the reserves of the country and the utilization of those reserves, especially in times of panic, and, secondly—well, I should say general currency reform would cover what is in that.

Senator NELSON. How could the Government of the United States, unless it went into the banking business to some extent, gather together the reserves and utilize them in the manner you indicate?

Mr. SCUDDER. In the manner that Senator Hitchcock indicated?

Senator NELSON. No; in the outline proposed in the bill.

Mr. SCUDDER. I consider that the present bill before Congress covers entirely the question of the mobilization of the reserves of the country.

Senator NELSON. Could the Government do that business without, to some extent, going into the banking business?

Mr. SCUDDER. I should not say so.

Senator NELSON. Then, if you leave this matter to the Government, it would only leave it with the naked power to issue currency and then supply gold reserves?

Mr. SCUDDER. That is Senator Hitchcock's suggestion.

Senator REED. Let me suggest to you this thought—and I do not know that you are prepared to speak upon it now. I have heard a good deal here about the mobilization of reserves. It is one of these phrases that sound well, and it implies that there is no use now made

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of the reserves of the bank. This bill provides for a bank holding in its own vaults a certain portion of its reserves, the balance ultimately to go into the reserve bank. Of course, every bank under any system will have some reserve that it does not invade. Now, is it not a fact that these reserves which are now redeposited in other banks are utilized every day by the banks almost to the same extent that they would utilize their ordinary balances deposited with other banks?

Mr. SCUDDER. The great trouble with the reserves of this country is that when they are needed they are not available, because they are pyramided; they are piled up.

Senator REED. I understand, but are they not now utilized day by day by the banks in this way: You are required, we will say, to have a reserve of $200,000, and you have $100,000 in your vaults and $100,000 deposited in New York. As a matter of fact, if you were not required to keep any reserve at all you would have to keep about that same $100,000 in New York for the purpose of doing business, would you not?

Mr. SCUDDER. Perhaps not to the extent that is now required. I think the requirements now are much too high.

Senator REED. Would not the banks be required to keep substantially as much in New York if there were no reserve requirement as they do now?

Mr. SCUDDER. I should not think as much; no. I think our institution keeps more in New York than it would keep if it were not required to keep these large reserves.

Senator REED. But you are a State bank. The Federal law does not make you keep anything in New York.

Mr. SCUDDER. No; except only the general feeling——

Senator REED (interposing). And the State law does not require you to keep anything in New York?

Mr. SCUDDER. No; it does not.

Senator REED. Then it is entirely voluntary on your part?

Mr. SCUDDER. I know it is, but it is regulated by the feeling of others and what others do. Naturally, I can not publish a statement of my institution and be below the others in my reserve. I should be discredited at once if I should do so.

I say that more than is necessary is required now under the present reserve system of the country, considering the system we have. Considering the system we have, I think we have a proper reserve requirement, but I believe there is where this bill is going to bring more relief to this country.

Senator REED. By cutting down this reserve?

Mr. SCUDDER. By cutting down the reserve and making it possible to utilize it.

Senator REED. I am just raising the question whether you do not utilize it. Now, there have been one or two bankers here who have frankly stated that they kept their reserves in New York, Chicago, and St. Louis, and that they maintained that reserve, and yet they use it day by day, turning it over every few days.

Senator WEEKS. As frequently as every 48 hours.

Senator REED. I just suggest that to you.

Senator WEEKS. Mr. Scudder, you are treating this question of the issuing of circulation as a practical proposition rather than an economic proposition, are you not?

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Mr. SCUDDER. No; I am trying to look at it from the economic standpoint as well.

Senator WEEKS. Then you believe that as an economic proposition the Government should issue circulation, do you?

Mr. SCUDDER. Under this bill; yes, sir.

Senator WEEKS. You seem to criticize the convention in Boston for having advocated something else. What this committee wants is for the convention in Boston and all the witnesses to state their criticisms or approbation just exactly as they feel, and if the convention in Boston believed that it was economically sound and wise to issue bank notes instead of Government notes it followed exactly the right course in saying so. It is for this committee to decide whether that course is practical and wise.

Mr. SCUDDER. Surely.

Senator WEEKS. But we need the opinion of everybody, and all kinds of opinions, and then we will take that up and try to get it into shape in the form of a practicable bill. So I do not think the convention in Boston is to be criticized because it seemed to pass resolutions which are opposed to what some one wants—the administration or anybody else.

Mr. SCUDDER. Oh, no; I was simply explaining my vote——

Senator WEEKS. Your views?

Mr. SCUDDER. And my views.

The CHAIRMAN. The Chair wishes to remind the committee that we have a large number of gentlemen who expect to be heard to-day.

Senator WEEKS. Mr. Chairman, if the committee did not expect to ask this witness questions, he ought not to have been put on, because frequently we get a great deal more out of the questions we ask than from the statements of the witness himself.

The CHAIRMAN. The Chair has discharged his duty to the committee when he reminds the committee of the facts.

Senator HITCHCOCK. Are the members of this committee able to stay over until to-morrow?

Senator WEEKS. This gentleman is not a member of the committee. Here are a large number of gentlemen who have come here as a committee to appear before the Senate committee. They were put down to be heard this morning.

The CHAIRMAN. The gentleman was allotted 10 minutes, he having said he could finish in 10 minutes, and now he has used a half hour. I merely remind the committee of the facts.

Senator WEEKS. You know, Mr. Chairman, perfectly well that no witness can get through until the members of the committee get through asking questions.

The CHAIRMAN. And they will not get through until they are reminded of the exigencies of the situation, which the Chair is trying to do.

Senator BRISTOW. I should like to know whether I understand the witness correctly or not. I understood you, Mr. Scudder, in your written statement to say that if we had a central bank governed by the same rules that these regional banks are to be governed by, with money issued by the Government and the bank controlled by the Government, as it will be under this bill, and if that Government bank had branches, that would be a better system than to have the various heads, such as the regional bank——

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Mr. SCUDDER (interposing). I said that in following out the practical workings of the bill now before Congress instead of having a simple board at Washington if the Federal board were a part of the system it would be more practicable.

Senator BRISTOW. If this Federal board were in control of a bank located here, and these 12 branches of the bank, it would be a more practicable system?

Mr. SCUDDER. I do not know that you would call them branches. They would all be on an equal footing, only that the headquarters at Washington would be the controlling interest. It would have the controlling board located at Washington.

Senator BRISTOW. Of course, they could not be on an equal footing with the controlling board at Washington any more than the controlling board of a regional bank could be on an equal footing with them. Of course, that would not be practicable, and the controlling board at Washington would not have authority over it. The impression I got from your statement was that if we could have a central board in control of the central bank here, and let the reserves be mobilized under the control of that one institution and then scattered through the country when required, through its agencies it would be a more practicable system.

Mr. SCUDDER. I am inclined to believe it would.

Senator SHAFROTH. The three benefits, that I understand you believe this bill will confer on banks, will be the lowering of the reserve requirement; the mobilization of the reserves in some bank which is close to the individual banks that join the system; and, third, the right to take 30, 60, and 90 day paper to this bank and have currency issued upon the same?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. I did not understand the witness to allude to that before.

Senator SHAFROTH. He did; yes.

Senator WEEKS. Are you in favor of the bill as it passed the House?

Mr. SCUDDER. Yes, sir; with certain amendments that would not destroy the underlying principle.

Senator WEEKS. What amendments do you suggest?

Mr. SCUDDER. Well, I should say I believe the capitalization required from the different banks is a little high. I believe that 6 per cent of the capital and surplus would be a better plan than 20 per cent of the capital.

Senator O'GORMAN. Do you think it would be possible to get the required capital from each regional bank if you had the stock requirement fixed at 6 per cent instead of 20?

Mr. SCUDDER. I have not figured it out by districts. That is a matter to be figured. It figures out in the whole United States, I believe, all right. But you have to take each district, and you do not know where the districts are.

Senator O'GORMAN. You have not made that calculation?

Mr. SCUDDER. No; it is impossible, because you do not know where the districts are.

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I believe that 6 per cent of the earnings would be small enough instead of 5. I think it is reasonable, and I think the people would support such a proposition.

I think in the clause which reads:

The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and Federal reserve board, shall be the active executive officer of the Federal reserve board.

I suppose that would probably mean the comptroller in the Secretary's department.

The CHAIRMAN. The suggestion has been made to the Chair that the majority of these gentlemen desire to leave this afternoon. Does the committee wish to continue with this witness?

Senator O'GORMAN. I think we ought to let this witness take as much time as we need to ascertain what his views are regarding this legislation, and when he gets through we will hear some representative of the visiting bankers from Boston and ascertain what their program is. Personally I should have preferred to have listened to a representative of the visiting bankers from Boston first.

Mr. SCUDDER. May I make a suggestion, Mr. Chairman? I am perfectly willing to come back to the committee later if they wish.

Senator O'GORMAN. I move that we conclude the examination of the witness now before the committee.

(The motion was agreed to.)

The CHAIRMAN. The witness will proceed.

Senator NELSON. You had better go on and state the other curative propositions which you have. In what other respects would you improve the bill?

Mr. SCUDDER. In regard to the exchange proposition, it seems to me that the country bankers have asked a reasonable consideration of this proposition and that there ought to be some method by which at least the items which are long in transit and difficult to collect—that the bankers should be reimbursed for them, perhaps on the basis of a time calculation, at 6 per cent interest on their money. If a simple clause were put in, that the Federal board is authorized to promulgate equitable rates and rules, that would cover the point.

Senator REED. In other words, you would amend this bill so that, as to the collection of exchange and the regulation of exchange charges, the Federal reserve board should be empowered to make such rules and regulations as in its judgment would be equitable and just?

Mr. SCUDDER. Yes, sir.

Senator REED. Leaving the details, not to the bill, but to the board?

Mr. SCUDDER. To the board. I think that could be very safely done, because it is a detail of the management of the business.

Senator REED. Will you draw an amendment of that kind and hand it to the committee, that would state your views?

Mr. SCUDDER. I shall be very glad to do so. That is all, gentlemen.

Senator O'GORMAN. I should like to ask one question. Your bank is a State bank?

Mr. SCUDDER. Yes, sir; a trust company.

Senator O'GORMAN. You are not compelled to enter this system?

Mr. SCUDDER. No, sir.

Senator O'GORMAN. Will you enter the system?

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Mr. SCUDDER. Well, I think that is a matter I would leave to my stockholders. Personally I should be inclined to enter the system if there were reasonable amendments to the bill.

Senator O'GORMAN. You believe there are amendments necessary to satisfy you as to the wisdom of passing this bill?

Mr. SCUDDER. I think so.

Senator O'GORMAN. Do you think a State institution ought to be permitted to enter into this system and enjoy those advantages——

Mr. SCUDDER (interposing). I certainly do.

Senator O'GORMAN. One moment [continuing]. And yet possess opportunities for the development of their business beyond those opportunities possessed by the national banks?

Mr. SCUDDER. No, sir; I do not. I believe that all should be put on an equal footing, except as to fiduciary business.

Senator O'GORMAN. Do you believe that the State banks and the State trust companies should have their State functions curtailed, and be restricted to the business that the Congress permits national banks to engage in?

Mr. SCUDDER. No; I do not. But, as I understood it, the national banks are given privileges which they had not before.

Senator O'GORMAN. Oh, yes; and they have other privileges, but the question is——

Mr. SCUDDER (interposing). I am in favor of doing that rather than curtailing any rights given us by our own State.

Senator O'GORMAN. You can take it as a fair assumption that the Congress will not confer upon national banks all the powers now possessed by State banks, and it has been suggested that if the State banks are permitted to come into this system their powers ought to be more or less uniform with the powers exercised by the national banks, and there should be a curtailment with respect to the functions of State banks, and at the same time some gradual enlargement perhaps of the functions of the national banks. I am asking your view with respect to that proposal.

Mr. SCUDDER. My view is rather an inclination toward your latter statement, that the national banks should be given other functions.

Senator O'GORMAN. Yes; and the State banks' functions reduced so as to conform to the enlarged functions bestowed upon the national banks?

Mr. SCUDDER. In what way reduced, for instance? What is in your mind, Senator?

Senator O'GORMAN. You know that your State banks and State trust companies can now do much banking business that a national bank can not do?

Mr. SCUDDER. Yes; we can loan on real estate. Take that one point. I believe in an enlargement of the national banking system.

Senator O'GORMAN. And you would act as trustee and executor?

Mr. SCUDDER. That I am not so sure about; I do not know that they will want it.

Senator O'GORMAN. I do not know whether you have that power or not.

Mr. SCUDDER. I know we have that power.

Senator O'GORMAN. But the national banks do not possess it?

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Mr. SCUDDER. The national banks do not possess it and I do not think they want it, but I have not studied it from the national bank's standpoint.

Senator O'GORMAN. Would you be willing to have your trust company in Richmond enter this system if the operations of the trust company were confined to the business that national banks are permitted to engage in?

Mr. SCUDDER. If we were to come in under any such condition as that I would proceed to organize something that would take care of the business that now is taken care of, which would under those conditions be curtailed. I would not like to see it done.

Senator O'GORMAN. Do you know whether or not the restrictions that are contained in the proposed bill regarding the character of paper that might be rediscounted in the regional reserve banks will be likely to confer any substantial benefit upon the country banker?

Mr. SCUDDER. In other countries——

Senator NELSON (interposing). No; confine yourself to America.

Mr. SCUDDER. Yes; I will. In other countries the initiator of the transaction draws on his customer for the purchase price of his goods, and that becomes at once a commercial transaction, just like a check. I would like to see that occur in this country, the system of two-name paper. That would help the country banker immensely, because all the grain sold, all the cotton sold, could be turned into a country-bank transaction.

Senator O'GORMAN. Have you heard the objections urged by country bankers with respect to the character of the paper to which they would be confined for the purpose of rediscounting at the regional reserve bank?

Mr. SCUDDER. Yes; but country banks in Minnesota loan a great deal on real estate, and under the provisions of the bill we could not use that paper in rediscounting.

Senator O'GORMAN. Can you tell us to what extent, if at all, the country bank would be benefited by going into this system?

Senator NELSON. Small country banks, like the bank at Sleepy Eye, for instance.

Mr. SCUDDER. I do not know that a country bank, under the present wording of the bill, would have very much paper to offer for rediscount.

Senator O'GORMAN. The country bank, as well as all other banks, would be restricted to 90 days' paper?

Mr. SCUDDER. Yes.

Senator O'GORMAN. For rediscount?

Mr. SCUDDER. Yes.

Senator O'GORMAN. Do you think that should be increased?

Mr. SCUDDER. I think some provision should be made.

Senator O'GORMAN. To what extent?

Senator NELSON. Six or nine months' paper?

Mr. SCUDDER. I think, in order to carry over the crop, nine months' time is necessary.

Senator O'GORMAN. Would you object to having it increased so that it would mature in a year?

Mr. SCUDDER. No, sir; I would not, up to a certain limit.

Senator O'GORMAN. What would be the limit you would suggest on that?

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Mr. SCUDDER. I had not thought that over, but there ought to be some reasonable limit on that class of paper.

Senator O'GORMAN. Does it occur to you that if we had paper extending nine months it would affect the elasticity of the currency?

Mr. SCUDDER. Yes; in case of the existing volume it would.

Senator O'GORMAN. Then you would permit it, but you would reduce the volume?

Mr. SCUDDER. Oh, yes; restrict the volume.

Senator O'GORMAN. To what extent would you reduce it?

Mr. SCUDDER. I am not prepared to say.

Senator O'GORMAN. Have you considered the subject?

Mr. SCUDDER. I have not, from the standpoint that you mention.

Senator O'GORMAN. In a word, you think this bill contains some commendable features?

Mr. SCUDDER. Some very commendable features.

Senator O'GORMAN. But you think the bill as pending before us requires some change?

Mr. SCUDDER. I think it is a little raw; yes, sir.

Senator O'GORMAN. A little raw?

Mr. SCUDDER. Yes, sir.

Senator NELSON. That is the opinion of a good many bankers, I believe.

Senator BRISTOW. I understand you to say that national banks should be permitted to loan on real estate?

Mr. SCUDDER. Yes, sir; some provision should be made for that.

Senator BRISTOW. To what extent?

Mr. SCUDDER. That is a proposition, as I told Senator O'Gorman, which I have not considered, and I am not prepared to say.

Senator BRISTOW. As to how much?

Mr. SCUDDER. I am not prepared to say about that.

Senator BRISTOW. Do you think a good real-estate mortgage, conservatively made, would be as good a security for rediscount as a commercial note?

Mr. SCUDDER. I do, sir.

Senator O'GORMAN. As I understand, you say you were a delegate at this Boston convention?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. How many attended?

Mr. SCUDDER. I should think about 3,500 or 4,000.

Senator O'GORMAN. They came from all parts of the country?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. Did you know, personally, a number of those who were present?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. Do you know the general reason why they assembled?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. What was it?

Mr. SCUDDER. It was to proceed with our annual business. We have an annual meeting, and have had one for 25 or 30 years. I have attended them for nearly 20 years.

Senator O'GORMAN. Do you know why they took up the consideration of the pending currency legislation?

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Mr. SCUDDER. Yes. A committee was appointed some time ago—a committee of bankers—to consider this question and to report to this convention.

Senator O'GORMAN. As I understand it, you were perhaps the only delegate who voted "no" on some proposition regarding this bill?

Mr. SCUDDER. Yes, sir; on the general proposition to adopt the entire report of the committee, I seemed to be the only one who stood up and was counted. I know there were others who spoke against it.

Senator O'GORMAN. Did you see any evidence of a conspiracy at this convention?

Mr. SCUDDER. No; no conspiracy.

Senator O'GORMAN. To defeat or control this legislation?

Mr. SCUDDER. I felt that during the morning session there was a very friendly feeling to anybody who wanted to speak on the subject, but that there was considerable pandemonium there. Those who endeavored to speak in favor of the committee's report were listened to, but when they came to the opposition, there were interruptions and catcalls and great confusion, and the temper of the meeting in the morning, anyway, was—and I think everyone who was there will bear me out in the statement—that the temper of the meeting was very hostile to any suggestion that did not include the adoption of the committee's report. I rather left in disgust, at lunch time.

Senator O'GORMAN. Notwithstanding the fact that you represented the minority element there—and perhaps a very small minority—did you see anything to create a doubt in your mind as to the earnestness or patriotism that was animating the membership of the convention?

Mr. SCUDDER. No; I got the impression that the leaders were rather trying to rush things through.

Senator O'GORMAN. That is not so objectionable, sometimes.

Mr. SCUDDER. And to override anybody who would dare to get upon his feet.

Senator NELSON. Did you get the impression that they were not acting in good faith?

Mr. SCUDDER. Oh, no; I think not. I think there was good faith. They simply were anxious to get the committee report adopted.

Senator NELSON. Did you see any signs of conspiracy on the part of the money power?

Mr. SCUDDER. I think there was no conspiracy.

Senator WEEKS. Did it occur to you that possibly the leaders in the convention were following the leaders in very high authority in trying to rush things through?

Mr. SCUDDER. Perhaps so.

Senator WEEKS. Senator O'Gorman has just suggested a question to me. If my recollection does not fail me, I have seen in the press a statement that the Virginia Bankers' Association—do you belong to it?

Mr. SCUDDER. Yes, sir.

Senator WEEKS. That the Virginia Bankers' Association had at two different meetings passed resolutions which seemed to be antagonistic. At first there were resolutions passed which advocated the general principles of this bill, and at a second meeting resolutions indorsing the currency report adopted at the Chicago conference. Do

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you know the reason for taking that action, or action which seems to be unfriendly to the first resolution?

Mr. SCUDDER. Well, I think that a large number of the Virginia bankers were for more conservative action, but somehow the radical element got into the saddle and carried the point. I myself did not get a notice to attend the Virginia bankers' convention, although I understand my failure to get a notice was a mistake, an omission. I do not know whether anybody else was omitted, but I did not get a notice to go to the meeting.

Senator WEEKS. Are you representing the Virginia Bankers' Association here to-day?

Mr. SCUDDER. No, sir; I am not.

Mr. GEORGE W. ROGERS. Mr. Chairman, are you ready to hear the country bankers now?

Senator HITCHCOCK. How many representatives have you who desire to speak?

Mr. ROGERS. Four or five.

Senator HITCHCOCK. Have you any estimate as to the length of time you will require?

Mr. ROGERS. Probably about 15 minutes each.

Senator HITCHCOCK. The Senate has a session at 12 o'clock to-day, and it is almost 12 o'clock now, and I do not know whether it is worth while to go on now to hear your representatives. We can adjourn now to go to the Senate and hear you later.

Mr. ROGERS. Senator Hitchcock, we have an appointment with the President at half past 2 o'clock. Our time up to the time when it would be necessary for us to leave here in order to get to the White House at half past 2 o'clock is in the hands of the committee, but we feet that inasmuch as the President said he would receive us at half past 2 o'clock we should be there.

Senator HITCHCOCK. You could come back here at 3 o'clock?

Mr. ROGERS. Probably so; yes, sir.

Senator WEEKS. I move that the committee take a recess now and reconvene 30 minutes after the Senate adjourns, with the hope that these gentlemen will be here at that time.

Senator HITCHCOCK. I think we might adjourn until half past 1 o'clock and hear some of these gentlemen, and then if they do not get through they could go to the White House and we could go on with somebody else and hear these gentlemen when they return.

Senator O'GORMAN. I desire to express the hope that all the visiting bankers from the Boston convention will remain here, even though it may inconvenience them a little. I hope they will all stay until they are heard, even though they may have to stay over until to-morrow.

Senator NELSON. I feel that way too.

Senator HITCHCOCK. We want to hear all the gentlemen who are here to be heard.

(Thereupon, at 11.45 o'clock a. m., the committee took a recess until 1.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Gentlemen, in view of the fact that the Senate is in session and some of the members of the committee are engaged there, and in view of the further fact that the members of

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the delegation representing the country bankers have an engagement at the White House at 2.30, the committee will take a further recess until 3.30 o'clock this afternoon.

(Thereupon, at 1.40 o'clock p. m., the committee took a recess until 3.30 o'clock p. m.)

The committee reassembled pursuant to the taking of recess.

Senator O'GORMAN. Gentlemen, we will now resume the hearing. Who is the first speaker?

STATEMENT OF GEORGE W. ROGERS, OF THE BANK OF COMMERCE, LITTLE ROCK, ARK.

Mr. ROGERS. I am the first speaker, if you please, Senator.

I appear as the chairman of the committee of country bankers. There has been so much discussion in regard to this meeting of the country bankers at Boston that I believe it only fair to the country bankers and to the members of this committee to make a statement in regard to how this meeting was organized, the purposes of the meeting, and what it tried to accomplish. It has been questioned that the members of the conference were sincere; that the so-called country bankers were acting on their own initiative and in their own interests. I wish to assure the members of the committee that we have not been instructed or directed by anybody except ourselves.

The movement was started by Mr. Foote in Mississippi and Mr. Tilton in Alabama and myself in Arkansas to try to arouse the sentiment of southern bankers as to how this bill would affect their interests, and for some time we were quite active. We wrote a number of letters and sent many letters and a great many telegrams. We had agreed on a meeting in Boston, which had been called by Mr. Tilton. About that time I received a letter from Mr. Gordon Jones, of Denver, Colo., suggesting a meeting of the western bankers and asking if I would join in that meeting. I wired him I would be glad to do so. We met in Boston on Sunday and agreed that it would not be practicable to have two meetings of country bankers. On Sunday night we met at dinner, and we discussed this matter from about 7 until 11 o'clock. We wanted to arrive at some common ground that we all could agree upon. I believe that we did. I believe everyone at that meeting was in hearty accord with the resolutions that were offered. Mr. Tilton and myself drew a copy of the resolution which was offered at the meeting on Monday.

That was the largest meeting of bankers I had ever attended at that time. It was held in the ballroom of the Copley Plaza Hotel. We did not attempt to have chairs, because the crowd was so great that we could not sit them in that way. About a third of the room was occupied by chairs, and the balance of the gentlemen stood.

The meeting was called to order by Mr. Gordon Jones, of Denver. We thought it very proper that Mr. Jones should call this meeting to order on account of the active interest he had taken. Mr. Gordon Jones is president of the United States National Bank of Denver, situated in a reserve city, and he is also president of seven or eight country banks in Colorado; but I understand his interests in the country banks are much larger than his interests in the city banks.

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Mr. Jones is the only gentleman connected with the movement who had any connection whatsoever with a reserve or central reserve bank.

The meeting, after being called to order, elected ex-Gov. Bailey, of Kansas, as its chairman. After a little discussion Mr. McRae, of Arkansas, offered a motion to approve the great fundamental principles of the bill as it passed the House and spoke upon that at some length. He said that the object of the meeting was not to go into details. The Senate committee did not want details, did not want suggestions in regard to the details of the bill, he said, but the meeting should, in his opinion, approve the great fundamental principles of the bill and let the Senate committee work out the details.

Unfortunately I could not agree with Mr. McRae, and I told the meeting that if we approved the great fundamental principles of the bill we would not do anything, and we might as well not have a meeting; that anything to us was fundamental which materially affected our business.

I offered the following resolutions:

A banking and currency bill is now pending in the Congress. Its speedy passage into law is desirable. Any new financial system adequate to the needs of the Nation must be one that country bankers, National and State, can support with justice to themselves as bodies corporate, and with justice to their customers.

Country banks, as distinguished from the banks in the fiscal centers, represent in number about 75 per cent of all the banks in the United States. They bear the burden of national prosperity in proportion to their numbers—legislation hostile to the welfare of American citizens, whether farmers, wage earners, or business men. A satisfactory banking system has long been needed by the people. Legislation upon this subject has already been too long delayed. The efforts of administration leaders at Washington to pass this statute at a special session is to be commended. Recognizing these facts, and having had no opportunity to go on record concerning this legislation, a large number of country bankers present at Boston, attending the convention of the American Bankers' Association, held a meeting on the 6th day of October, 1913, and the following resolutions were presented and adopted:

First. That Government bonds have been purchased by country bankers at a price that would be unjustified except for circulation and depository privileges that attach to them. These bonds are now selling under par. The good faith of the Nation and its credit must remain unimpaired. If national bank notes are to be retired there should be exchanged for these bonds a new security that will sell upon its own merits at 100 cents on the dollar in the markets of the world, and banks desiring to liquidate their circulation should be given the right to have their bonds retired at not less than their face value.

Senator REED. Let me interrupt you a moment. "Banks desiring to liquidate their circulation should be given the right to have their bonds retired at not less than their face value" is the concluding sentence?

Mr. ROGERS. Yes, sir.

Senator REED. You mean by that that if a national bank decides to refuse to come into this system then special provision should be made in order to let it out without any loss?

Mr. ROGERS. Yes, sir.

Senator REED. That is the meaning of that phrase?

Mr. ROGERS. Yes, sir; that was the understanding of the committee; that was their intention in wording it that way.

Senator REED. In other words, if Congress now, making an honest endeavor to take out of our currency and banking system the great elements of danger which at times have imperiled the entire banking

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system, and national banks thereupon desire to withdraw, we ought to make it as easy for them as possible?

Mr. ROGERS. Senator, I am not a national banker.

Senator REED. That is the thought?

Mr. ROGERS. Just a minute; if you will allow me to answer in my own way I will answer your question. I am not a national banker; I have no bonds to make a profit or a loss on, and I believe that inasmuch as the Government has existed for more than 100 years, and its promises to pay have always been worth 100 cents on a dollar, they should always be worth 100 cents on the dollar.

Senator REED. So do I, and so does every member of this committee. I want to put the proposition to you and to everybody else who is here.

There is a sort of contract between the Government and the national bank?

Mr. ROGERS. Yes, sir.

Senator REED. The Government says, Take these bonds and we will allow you to issue currency upon them. The banks took them. If the Government now was to repeal the circulation privilege, it would seem, if they decided that was what ought to be done, undoubtedly the Government ought to take care of these bonds.

But there was another part of that contract, and that was that this national bank—and speaking broadly this national-banking system—should perform the functions of banks, keep their doors open, receive deposits, and pay out to depositors. We found out, either from the imperfections of the system or the way the banks have operated under it, that the system several times has broken down, and notably in 1907, at a time when the country was in an exceedingly prosperous condition, substantially all of the national banks of the cities, and indeed all the banks of large cities and nearly all the rest, practically closed their doors to their customers; that is to say, they stopped paying out on demand.

Mr. ROGERS. Paying cash; paying current money.

Senator REED. Paying cash. When they issued anything else but cash they violated the spirit if not the letter of the statute. So that it has been found that the banks are unable to carry out their part of this contract.

Now comes the Government, undertaking to modify this system so that the banks can carry out their part of the contract. Do you think the same reason applies for aiding them to defeat the purposes of the Government that would, in the first illustration that I gave, where the Government was simply going to take away their circulation privilege?

Mr. ROGERS. No, sir; but if the Government writes into this contract something that the banks can live under——

Senator REED (interposing). Oh, yes; certainly.

Mr. ROGERS. They should take care of the bonds.

Senator REED. Yes; certainly, if we write something into this contract that the banker can live under, the national——

Mr. ROGERS (interposing). No, sir; if you write into this contract something that the individual banks can not exist under, the Government ought to take care of that proposition.

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Senator REED. As long as the Government allows the banks to keep this money in circulation it has given the banks all it originally agreed to, hasn't it?

Mr. ROGERS. No, sir.

Senator REED. Let me state it differently. The bonds were taken by the banks with the understanding that they would be used as a basis for circulation. As long as the Government does not interfere with that right the Government has kept its part of the obligation, has it not?

Mr. ROGERS. I do not think so. If the Government writes something else into the national banking act which makes it unprofitable or impossible for the banks to continue in successful operation, I think they should fulfill their part of the contract and not penalize these banks.

Senator REED. That is true. We will agree to that. Then your complaint is not—you have no complaint under this first subdivision, provided this plan is so worked out that a bank can live and make a reasonable profit?

Mr. ROGERS. None whatever; no, sir.

Senator REED. This, then, is dependent——

Mr. ROGERS (interposing). Upon the other provisions of the bill.

Senator REED. Very well. I have interrupted you too long.

Mr. ROGERS. The second paragraph of the resolutions is in relation to the segregation of the savings-bank deposits.

Second. That any unnecessary restrictions placed upon the acceptance and investment of savings deposits is unwise. The prosperity of the people depends much upon the profitable use of their earnings. Country banks have always encouraged thrift on the part of their customers and others resident in their respective localities. Many millions of savings deposits have thus been created. In rural communities there is no need for separate savings banks. Banks doing a commercial business are now satisfactorily caring for this business. These deposits are safely loaned out at home. There is rarely any local market for bonds of any character. To require country banks to invest savings deposits in any one class of securities, to forbid their use for local farming and business needs, to divert this money from local to foreign purposes, will seriously cripple the credit of their customers and result in the very disaster which it is the aim of this legislation to prevent. Segregation of savings deposits, the setting aside of separate capital, the creation of two banks under the same management and under one roof, will place a burden upon country banks which they can not bear, and will deny to their patrons facilities which they require and now enjoy.

Senator REED. Do you apply that to national banks, or do you mean to apply that to State banks which may desire to come in?

Mr. ROGERS. Both.

Senator REED. The national bank at present has no right to have a savings-bank business, has it?

Mr. ROGERS. But they have.

Senator REED. They are doing it in violation of law, are they not?

Mr. ROGERS. That is a question for the comptroller, I believe, and not for me to answer. But they do do a savings-bank business right now.

Senator REED. Do you mean by that—when you say they do a savings-bank business—do you mean that they receive money upon time deposits, paying interest upon them, or do you mean that they go farther than that and do a regular savings-bank business?

Mr. ROGERS. I am speaking of the one I am familiar with in my home town. They do a regular savings-bank business. They issue

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a pass book, and in that pass book they require a notice of withdrawal. They do not segregate their capital or their funds; they mingle them.

Senator REED. If they are doing that all illegally now, they would not have any just complaint if they were given, in this bill, a limited right to do that which they now do without any right whatever, would they?

Mr. ROGERS. Well, if it required them to invest in securities that were not local. We think that this money owned at home should be used at home.

Senator REED. Undoubtedly, but if a bank is proceeding, ultra vires, in violation of law, and has no right to maintain a savings-bank department at all, this bill gives them a right and limits that right; if the bill does that, it is at least a step in the direction of what the bankers want, although it may not go as far as you think it ought.

Mr. ROGERS. We would prefer a law that could be lived up to and would not have to be winked at.

Senator REED. I am inclined to give it to you, and I was just asking you the question.

Mr. ROGERS. I say the gentlemen who will follow me will speak on these four different subjects which were mentioned in these resolutions, and each one of them has prepared himself to discuss his own special subject.

Senator POMERENE. Will you mention their names?

Mr. ROGERS. Mr. Gordon Jones, of Denver, will speak on the first paragraph, Mr. McLane Tilton, jr., of Alabama, will speak on the segregation of deposits, and Mr. George Woodruff, of Joliet, Ill., will speak on the third section, and Mr. David Barry, of Pennsylvania, will speak on the fourth section in regard to the reserves.

I want to say for Mr. Woodruff that he is thoroughly competent to deal with the subject which has been assigned to him. He comes here with a long experience, and with actual facts and figures. He does a very large business of this nature, which last year amounted to more than $90,000,000. He has with him the exact figures taken from his books.

I made a statement when I was before the committee on a previous occasion that the overhead cost, if the country clearing-house system was put into effect, would eat up all the profits of the bill. I believe, from the figures which Mr. Woodruff will present to you that you will agree with me.

Section 3 of the resolutions is in regard to the matter of exchange.

That section 17 of the bill should be so amended in so far as it refers to matters pertaining to exchange. We suggest that section 17, page 33, be amended by eliminating the last word on line 15, the first five words on line 16, the balance of the section after the eighteenth line, leaving the last paragraph of section 17 to read as follows:

"It shall be the duty of every Federal reserve bank to receive on deposit at par and without charge for exchange or collections checks and drafts drawn by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned."

Senator SHAFROTH. Do you strike out the word "other" in line 18?

Senator HITCHCOCK. What is the first word stricken out?

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Mr. ROGERS. The word "upon," in line 15, and then the five words, and then everything after line 19.

Senator SHAFROTH. You omitted to read the word "other," and I thought you left the word "other" in.

Mr. ROGERS. The remainder of section 3 is:

Exchange profits represent a large part of the total net earnings of country banks. It is a proper charge for a fair service rendered. The bill as now drawn will decrease the net earnings of the average country bank by not less than 25 per cent and many of them much more. This gain will not go into the pockets of the business men of America, but will be enjoyed solely by the banks of the collection centers which are now making satisfactory profits. The result of this section will be to take income from banks that can least afford the loss and give this money to banks that are already earning satisfactory profits.

In addition to the above the bill provides a radical change in the method of handling country items. It provides that they shall be cleared and not collected. To accomplish this it would require that the small country banks keep in the Federal reserve banks an amount in excess of their legal reserve sufficient to care for their clearings from two to six days, depending entirely upon the distance and time they are from the bank acting as such clearing house.

Senator REED. You say there is one man who is going to discuss that section?

Mr. ROGERS. Yes, sir. I would like to make the statement that it was the contention of the committee that the member banks could issue their checks on another member bank, and those would be cleared at par by a similar process and charged to the account; that it would eliminate entirely the enormous volume of individual checks on various banks. These checks so cleared would undoubtedly be good; if they were not good, the reserve, the first lien on the assets, and other things would protect the Federal reserve bank. Mr. Woodruff will speak at length with regard to the amount of returned items, etc.

Section 4 of the resolutions says:

That whatever percentage of reserves is agreed upon should carry with it the right to keep not less than one-third of such reserve with approved reserve agents in fiscal centers. The reduction of reserve from 15 to 12 per cent is no real advantage to the country bank. Very few country banks can do business without having a larger amount of funds either in vault or with near-by connections. These connections must be maintained after the passage of this law. The money so held by them should be counted as a part of country-bank reserve.

(5) That the above matters include only those features that country bankers are especially concerned with. There are others of equal importance which concern the larger banks in the fiscal centers. With these subjects we do not propose to express an opinion, but we believe that unless this bill is amended so as to meet the objections and recommendations made herein that very few country banks, either State or National, can afford to become members of the new Federal system. This means that the great majority of country national banks must surrender their charters or retire from business.

The exchange and savings sections of the bill so reduce our earnings that most country banks will show net operating losses instead of the reasonable profits we now enjoy. We desire to do our full duty to the country, but our duty to stockholders and customers must not be disregarded. We desire to become members of the Federal system and assist in making it the success it ought to be and can be made. We earnestly call upon the Congress to consider this resolution as a formal expression of opinion on the part of country bankers who realize the seriousness of the situation that now confronts them. And, finally, we ask for the committee that will present these resolutions to the Hon. Robert L. Owen, chairman, and the Committee on Banking and Currency of the United States Senate for an opportunity to be fully heard in the premises.

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We discussed quite freely the attitude of the gentlemen who would speak, in the event that they were questioned in regard to matters not in the resolutions proper, and it was the consensus of opinion that they should answer any questions to the fullest extent of their ability. But when they give an opinion on any matter that is not covered by the resolutions they ask that it be considered as their individual and personal opinion and not as their opinion as the representative of the committee. We feel that we have no right, as members of the committee, to exceed the authority given us by the meeting in Boston.

Senator REED. You think that if the things that are recommended in those resolutions are done, with the exception of the first proposition in regard to bonds, and if that was made by framing this bill so that all banks could properly come in and not be dragged to ruin or injured seriously that the country banks represented by this committee, some 2,000 in number, would then be content?

Mr. ROGERS. I believe so.

Senator REED. Generally speaking, they favor a bill drawn along the lines of this bill, but they object to certain details?

Mr. ROGERS. Yes, sir. Those details they consider vital. If the suggestions made here meet with the approval of this committee and finally become a law, I believe that a very large number, a majority, of the country banks, both State and National, that are large enough to come into the system would do so.

Senator HITCHCOCK. Mr. Rogers, country banks generally rediscount paper at certain seasons of the year now?

Mr. ROGERS. In my section; yes, sir.

Senator HITCHCOCK. Does that not take place all over the country, from information which you have?

Mr. ROGERS. I believe so. I am only thoroughly familiar with my part of the country. I know that is the fact in some parts of the country. Practically every bank in my part of the country discounts at those times.

Senator HITCHCOCK. Will you explain your idea of the advantage it is to a country bank to come into this new system, when the country bank already has the rediscount privilege by using its city correspondents?

Mr. ROGERS. Well, at other times—as the Senator from Missouri says, the big city banks run out, and the little fellows want to feel that the big banks to which they go—the retailer wants to feel that the wholesaler can carry him, if necessary.

Senator HITCHCOCK. Now, would not that be provided for if the big fellow in the cities joined the association and the country banker stays out?

Mr. ROGERS. I believe so.

Senator HITCHCOCK. So that it is not necessary for the country banker to come in in order to get rediscounts?

Mr. ROGERS. No, sir; it is not now, but my personal opinion is that a bill should be framed not only for times of panic but for times of prosperity, to take care of the banks in both times.

Senator HITCHCOCK. Do you think that the country banks would rediscount more under such a system as we propose than they do at the present time?

Mr. ROGERS. No; I do not.

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Senator HITCHCOCK. Do you think they would get lower rates of interest on the discounts?

Mr. ROGERS. No; I do not; only to a very small extent. The difference in the rate of interest would be very small.

Senator POMERENE. Where do you do your rediscounting?

Mr. ROGERS. New York and St. Louis.

Senator REED. Have you filed a copy of those resolutions?

Mr. ROGERS. Yes, sir.

Senator POMERENE. Did you have any trouble in 1907?

Mr. ROGERS. No, sir; in 1907 I borrowed all the money I wanted to. Fortunately I was paying off discounts instead of borowing at the time. But I received from the banks of New York that I did business with cash at par to an amount three times the amount of my balance at the time they put the lid on. That is the only time I ever shipped any money out of New York. I only shipped money to New York twice in the 25 years that I have been in the banking business. Once was in 1903, when I had the money, and they had been so good to me. I thought they needed it, and I sent what I had to them. And once, afterwards, I got hold of a lot of $10,000 bills, and I shipped them there, because I needed exchange.

Senator HITCHCOCK. A lot of $10,000 bills? [Laughter.]

Mr. ROGERS. Well, it was a lot for me. I had 25 or 30, and it was a lot of them for me.

Senator HITCHCOCK. It would be for most any of us.

Mr. ROGERS. Yes, sir.

Senator SHAFROTH. Mr. Rogers, one of the objects of this bill in establishing 12 regional banks is to have a reserve bank close to a given territory in which it is included. Do you not think that the right of the bank to keep these reserves there in a place which is rather close to it, together with the power to get money from that bank in times of stress, would relieve the country bank from keeping large reservese?

Mr. ROGERS. No, sir.

Senator SHAFROTH. It would not keep large reserves if it could get plenty of money at any time, would it?

Mr. ROGERS. Banking business is a little peculiar business, and it has been expressed in an Irish way, "that the bank only made its money by loaning it, and that a bank that loaned all its money never made any money; the bank that always had plenty of money on hand always made plenty of money." That is on the theory that the public knows what is going on inside of the bank. I do not know how, but they do. And when they know a bank runs along and keeps plenty of cash one hand, and can take care of its customers under any circumstances, the customers go to them.

Senator SHAFROTH. Don't you think the customers knowing the country bank had joined this department and knowing this reserve bank could give this country bank money at any time would make such a confidence in them that it would make money for them?

Mr. ROGERS. No, sir; Senator, I do not for this reason: If the bank kept continually going there and continually borrowing their limit, it would be an invitation for parties to work the country bank by making it borrow and borrow and reborrow so that they could use the funds in their various interests. Instead of using a bank for the

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handling of a commercial transaction, it would be used more to supply fixed capital for business. That I do not think is a good thing.

Senator SHAFROTH. That would bring more income to the bank, would it not. It would have more money out, more money at interest, if they used the bank for that purpose; and it would increase the earnings of the bank, would it not, by having that much more interest?

Mr. ROGERS. Senator, if you will just pardon me, and the stenographer will not listen for a minute, I will tell you. Once upon a time there was a bullfrog, and it was out in the field, and he met coming back another frog who said he saw such a great big thing he came away. The bullfrog said, "What was it?" and the other frog said, "It was a bull." The bullfrog said, "Was it bigger than I am?" The other frog said, "Yes; it was heap bigger than you," and the bullfrog commenced to swell up, and he said. "Bigger than that?" And the other frog said, "Yes; bigger than that." The bullfrog swelled up some more, and he said, "Bigger than that?" "Yes; bigger than that;" and the bullfrog swelled up four or five times, and finally he busted.

Now, that is the way with a bank that is trying to borrow itself rich. [Laughter.]

Senator SHAFROTH. As a matter of fact, the inspections which are made by the department are intended to remedy that, are they not?

Mr. ROGERS. They can not; I do not believe it is possible.

Senator SHAFROTH. You do not think regulation can prevent bank failures?

Mr. ROGERS. Yes; I do believe that it does.

Senator O'GORMAN. We will now hear Mr. Jones.

Senator BRISTOW. I would just like to ask one question.

Senator O'GORMAN. Senator Bristow would like to ask you a question.

Senator BRISTOW. Mr. Rogers, unfortunately, I could not be present when you were here before, because I was detained in the Senate, and I would like to inquire how you use these reserves. I understood you to say you would have to carry the reserves anyway, that you have now, in order to handle the business properly, even if this new association were formed. You now have your reserves where?

Mr. ROGERS. New York, Chicago, St. Louis, Kansas City, New Orleans, and Memphis.

Senator BRISTOW. You have them in those five places?

Mr. ROGERS. Yes.

Senator BRISTOW. How much do you keep in those reserve cities?

Mr. ROGERS. That fluctuates very widely, according to the seasons of the year and the character of the business that is moving at that time. In the active cotton-moving season, we try to keep the larger part of our money in St. Louis. We sell them our domestic cotton bills, and we ship them money against it. If we have a draft of Massachusetts drawn on three days' sight, it would take us about nine days—from seven to nine days—to turn that into money and get it to our credit in New York. Instead of that we sell that in St. Louis and it makes that fund immediately available there. That is part of it. Then, again, we have a good many cotton concerns doing business with us that draw their drafts against the St. Louis office

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and we discount that exchange and give them the money on it, and allow them to use it.

Senator BRISTOW. About how much do you have in your reserves as a rule? What would be your legal requirements?

Mr. ROGERS. In our State at the present time the banks are organized under the general incorporation act. They have to make a statement to the county court once each year. There is no provision in regard to reserves and no limitation on loans. Fortunately our new banking law will go into effect on the 1st of January, and I think we will then have an excellent law. That will provide 15 per cent reserve for country banks, and a minimum of 20 per cent reserve for any bank that desires to act as reserve agent for another bank. Our reserve runs anywhere from 25 to 45 per cent.

Senator BRISTOW. You have been carrying a reserve without the law requiring you to?

Mr. ROGERS. Yes.

Senator BRISTOW. Simply as a matter of business?

Mr. ROGERS. Yes.

Senator BRISTOW. From 25 to 45 per cent?

Mr. ROGERS. Yes, sir.

Senator REED. Senator, won't you ask if he had this reserve bank at New Orleans if he could not do the same thing with them, or if he had it at St. Louis?

Senator BRISTOW. Senator Reed has suggested if you had a reserve bank at New Orleans or St. Louis, that is contemplated in this bill, what exchange would that provide for you so as to relieve you from carrying this amount of reserve elsewhere?

Mr. ROGERS. We would have to have some account elsewhere to handle these cotton bills, for instance. They have now in the bill a provision which would enable these Federal reserve banks to handle the individual checks. They do not provide for handling domestic bills of exchange, which is the very much larger portion of our business at certain seasons of the year.

Senator HITCHCOCK. Does it not provide that reserve banks can buy those bills of exchange?

Mr. ROGERS. Foreign, not domestic.

Senator HITCHCOCK. They can buy of member banks, can they not?

Mr. ROGERS. That would put them into the collection business, and I did not understand that was there. I do not think so.

Senator REED. Would it be, then, an advantage to your bank, if it became a member of this system, if it could take these bills of exchange for cotton to this bank and gets its money?

Mr. ROGERS. No; because they are presented immediately on receipt by the central reserve city bank, or the bank we send them to, and collected that day.

Senator REED. From you?

Mr. ROGERS. No; from the drawee.

Senator REED. Now, let me understand. You advance $100,000 to a cotton dealer.

Mr. ROGERS. Senator, if you will just permit me——

Senator REED (interposing). Yes; just explain it to us.

Mr. ROGERS. I had one account I made no loans to whatever. I allowed them to check during the day, and prior to the close of busi-

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ness they deposited their drafts in round sums on the St. Louis office. Those drafts ran all the way from $10,000, which was the minimum in one month, to $163,000, which was the maximum. They were discounting the drafts; that is, paying the money out the day the drafts were deposited with us. We had already advanced the funds. We forwarded those to our St. Louis correspondent and he collected them that day and put the money to our credit. We made a charge for that service of $1 a thousand. For that $1 a thousand we had to keep in shape at all times to take care of that business. It costs from 27 to 30 cents a thousand to ship that money from St. Louis to Little Rock. This cotton concern figured for a long time whether it would be more profitable to ship the money down at 27 cents a thousand than to pay us $1 a thousand. But when they went into the proposition they found they would lose a large amount of money by doing so. They would have to advance the money at least one day in advance of its payment, whereas they paid it in the St. Louis office the day after the payment. At 6 per cent interest that two days was 33⅓ cents, which, added to the 27 cents, made 60 cents right there. Then they would have the disadvantage of the mail being late sometimes or the draft coming on Saturday, and they would have to hold it over until Monday, and they figured that was 65 to 70 cents a thousand. So, if they could not tell each day what the requirements were, they would have to carry a large amount of cash on hand themselves, and they figured that while the cost of the transportation of money was only 27 cents a thousand, it was much cheaper to them to pay us $1 a thousand exchange.

Senator REED. I still do not understand why you could not do that business, why you could not have those bills of exchange paid right into the reserve bank, instead of, as you are doing now, paying them into the bank of your correspondent.

Mr. ROGERS. Senator, I believe I can tell you in straight English what is way down deep in the heart of the country banks and what makes them afraid of this.

Senator REED. That is what we want to know.

Mr. ROGERS. Yes. They are afraid of being dependent only upon this one concern they would have to go to for their money. This man—and he has got to be human; he has got to be able to exercise some judgment as to whether this collateral there is good or not good—if for any reason whatsoever he should have a grouch against the bank, or any reason—if he does not feel well, or for any other reason you don't get the money, the bank that goes to him is busted. Now, if one bank does not let you have it, presupposing that you are good, you can go across the street or go over on the other corner and say, "Here is my average balance; here is my security; here is what I want," and if the average balance justifies the loan asked for and the security is good, if one man does not take it others will. But, to get back to this proposition, you are absolutely dependent for the existence of your concern on the judgment or approval of one man.

Senator REED. But you still could take your bill of exchange and go to an outside bank. This is not going to wipe out the banks of St. Louis; they will still be there.

Mr. ROGERS. But you are switching the question.

Senator REED. I am trying not to.

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Mr. ROGERS. I am talking about loan deposits. That is my understanding of the question you were asking. If you can not keep a balance with the bank that will justify them in giving you accommodations, they are under no obligations to you whatever; but if you do keep an account with the bank, you have a right to call on them to take care of you when you need the accommodation. And all well-managed banks recognize that right and live up to it.

Senator POMERENE. Let me suggest right there: Under this bill the country banks would have to keep in the regional banks 5 per cent. The other 2 it can place where it chooses. Now, you said, as I recall your testimony, that you kept reserves, perhaps, from 30 to 45 per cent?

Mr. ROGERS. At times, yes. Down as low as 20, up as high as 45.

Senator POMERENE. If you are only pledged under the terms of this bill to keep 5 per cent in the regional bank, you still have a very substantial amount of reserve which you heretofore kept, and you would be free to place it wherever you chose. You could still have the same banking connections outside of the regional-reserve bank that you would have had heretofore, under those circumstances.

Mr. ROGERS. That is as far as I am concerned; but all the banks in our country do not carry that large reserve. I am speaking for the bank that carries approximately the legal reserve carried by national banks. The 2 per cent of their deposits would not be large enough if kept in a reserve bank to pay for the trouble of handling the account. The account would be unprofitable to the city bank. Therefore they can not keep them.

Senator BRISTOW. Mr. Rogers, if a system could be devised here, whereby we could have the Federal reserve bank stock owned by the public, and that should be a bank of discount and a bank of issue and a bank of reserve, and it should establish branches wherever they were needed, something like the reserve cities now, and under the law any banking institution in the country that was creditable, that presented proper securities could get its discounts at this reserve bank, do you think that would relieve the situation so far as currency and bank business is concerned?

Mr. ROGERS. You are asking me a mighty big question. All I have testified to so far was about something I was familiar with. You are now getting a proposition that is too big for me. I would rather you would not ask me to answer that question, as what I have spoken of so far was where I knew what I was talking about.

Senator REED. Let me ask you: You say you have not told us anything but what you knew about. What about that frog story? Do you vouch for that, of your own personal knowledge?

Mr. ROGERS. Yes; I was there the day it happened. [Laughter.] I think, Senator, if in the wisdom of this Congress they should see their way clear to divide the reserve, allowing approximately a minimum of one-third cash, a minimum of one-third with the Federal reserve bank and the balance with approved reserve agents, that it would meet the wishes of a great many, and it would eliminate some harsh features,and would produce a great amount of good.

Senator O'GORMAN. If we make provision for regional banks, will there be any need for other reserve agents?

Mr. ROGERS. That is another question. I am just answering from my particular end of the business, and the friends of mine where I

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am familiar with their business. There might not be a thing for the reserve agents to the extent that it is going to borrow, but it will enable them to transact their business in the usual, ordinary, and customary way and to handle the general line of business and carry a portion of those items that, of necessity, would go to a privately owned bank as their reserve.

Senator O'GORMAN. These regional banks are intended to perform every function now discharged by central reserve and reserve city banks.

Mr. ROGERS. I think it is a mistake.

Senator O'GORMAN. Why can't you continue the deposit system? All the Government deposits will be in the regional banks instead of the central reserve banks, as at the present time.

Mr. ROGERS. Yes; but the Government deposits are a very small part of the business of these great central reserve and reserve city banks.

Senator O'GORMAN. We will hear from Mr. Jones now.

Senator HITCHCOCK. One question, if you please, Mr. Chairman [Senator O'Gorman].

Mr. Rogers, if you should go to a regional reserve bank and ask for a discount of some paper, and the reserve bank should decline, for any reason, good or bad, to discount it for you, you would like to have another harbor of refuge, would you not?

Mr. ROGERS. I certainly would. That is what I have been trying to explain.

Senator HITCHCOCK. And a bank in which you keep a line of deposits, should you ask them for an accommodation, would feel under obligations to give consideration to your wishes?

Mr. ROGERS. They would be under obligations, because if they did not grant the accommodations they would know I had something to take away from them to offer as an inducement to another bank.

Senator HITCHCOCK. That is all.

Senator O'GORMAN. Mr. Jones we will hear you now. Please state your full name, residence, and banking connections, and how long you have been in the banking business.

STATEMENT OF GORDON JONES, PRESIDENT OF THE UNITED STATES NATIONAL BANK, OF DENVER, COLO.

Mr. JONES. My name is Gordon Jones; my residence is Denver, Colo. I have been in the banking business since 1887, and as to my present banking connections I am president of the United States National Bank of Denver; president of five country national banks of Colorado, one of which has a capital of $50,000 and the other four a capital of $25,000 each, and of two small State banks of Colorado.

Senator O'GORMAN. Now, will you state your views in regard to the pending bill or that part of it to which you care to address yourself?

Mr. JONES. I am glad that our chairman, Mr. Rogers, explained away that I was no Jonah on this committee, by reason of being connected with a reserve city bank and my participation in this call of conference, which was absolutely voluntary on account of the country banking interests which I hold. This call was brought about

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by correspondence with country banks scattered through some 18 States of the West and South.

Senator SHAFROTH. I would like to have you also say, Mr. Jones, that you attended the conference over in Europe last summer where the question of country deposits and country banking was discussed.

Mr. JONES. Yes; I was a member of the American commission that visited Europe this last summer representing our State of Colorado, and I was honored with the position of vice chairman of the finance committee, which was the largest and most important committee of the European commission.

Senator HITCHCOCK. That was investigating the question of rural credits?

Mr. JONES. Rural credits; yes, sir. I am to undertake particularly to present to you the views of the country bankers upon section 1 of their Boston resolutions and I have been delegated by them to do so. First, I will present the contention of the country banks regarding the needed good faith of the Government on its own behalf and in order to protect the small banks. At the outset it might be well to ask, who is the country banker? One of the banks in which I am interested is a bank in which the most active officer has no stock. He has none because sickness and distress of a financial nature has caused him to invest most of his means in the recovery of his own health and to protect a small growing family. He is recognized as being a most careful and conservative banker.

Now, in speaking of the country bank, in speaking of the officers of that bank, he would naturally be referred to as the country banker. But the country bank is not only the man who sits behind the counter; it is the stockholders and directors. And the stockholders and directors of the country banks are the local farmers, the merchants, women, and often widows of some farmer who has died, or children of the deceased stockholders. Now, any legislation that affects the country banks, or the one we are pleased to term "the country banker" because he is holding his office, affects the stockholder, who is the farmer, the merchant, or the widow, or minors.

Any measure that is enacted, we feel, of itself should be sufficiently attractive to induce banks to join, just as was the enactment of the national banking act in the early sixties, which offered sufficient inducements to banks to come into the national system.

I will lay down another proposition: Any measure that, intentionally or otherwise, requires the meeting of additional requirements other than originally provided at the time of granting charters, which would prove oppressive to the small banks, would not be attractive, so far as the small bank is concerned. We are impressed with the fact that you desire to give us a fair, just, and workable measure.

In 1900 the Government refunded its 3, 4, and 5 per cent bonds with 2 per cents. In order to establish a market for such bonds, it granted national banks the full circulation privilege and reduced the tax on such circulation from 1 per cent to one-half per cent, provided they were secured by 2 per cent bonds. The banks furnished the market. This was as near a contract as can be entered into between a sovereignty and the people. Although the people can not enforce it, we do not feel the Government can honorably evade it. The country banks now find themselves the owners of several hundred

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millions of dollars of these bonds which are declining in market value on account of the threatened removal of the circulation privilege and the placing of the twos on an investment basis. We commend that portion of the bill which provides for retiring the twos at a fixed date, or giving the national banks the privilege of exchanging them for threes in installments, if they elect so to do. We do not feel this will keep faith, however, with the bank that prefers to surrender its charter, or those whose charters expire before the maturity of the bonds, or the date set for their redemption. In this connection I will touch on reasons why some banks would feel obliged to surrender their charters of necessity, which would necessitate the sale of their bonds. There are some small banks to whom to belong to the Federal reserve bank would be no real benefit to them or their communities, but might prove a detriment to both for the reason they would be required to take from their community a portion of their loanable funds and invest it in the stock of a large Federal bank located in some fiscal center and, at the same time, redeposit 5 per cent of its own deposits in that Federal bank, neither being available for use except in the liquidation of the country bank. While the 5 per cent deposit to be carried with the Federal reserve bank is termed a reserve, in fact it is but an investment without interest. This point as to reserve, however, will be elaborated upon by another speaker who will follow me.

Now, the only real benefit the small bank may have is the privilege of borrowing from the Federal reserve bank. There are many small country banks that do not have the character of assets that will be available, but the membership of such banks is not necessary to the success of this act. That is a fact I should like to impress upon you, that the success of this measure does not depend at all on the membership of these small banks that do not feel they can afford to do so.

For such banks we submit there should be some provision for returning to the banks 100 cents on the dollar, which the Government originally received for their 2 per cent bonds. In fact, the Government received a premium, and the banks have already suffered the loss of this premium, though with some banks it has been compensated for by profits on their circulation by reason of the length of time they have been operating, but with others it has not been compensated for.

Some such banks hold these Government twos, securing their Government deposits as well. In any plan that contemplates the withdrawal of these deposits provision should be made for redeeming such 2 per cent bonds in cash or exchanging a security for them that is worth 100 cents on the dollar in the markets of the world, in order that the banks surrendering the deposits may do so without reducing their available loanable funds needed at home and suffer no financial loss in the transaction. Unless these provisions are made, what will be the effect on the banks and on the Government? Such banks as feel obliged to liquidate will have to market the 2 per cent bonds in order to get the cash with which to retire their circulation, for the small bank can not afford to hold a 2 per cent investment. Such banks as feel they can not afford to join the Federal reserve bank therefore stand to lose the difference between what they paid for the bonds and what they will sell for on an investment basis, and

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such banks as hold Government deposits secured by twos stand to lose an additional amount.

This is serious, and already some of our stockholders are figuring this out; and I know of cases where stock is being offered for sale on account of this threatened depreciation. Just before I left Colorado one banker had been offered stock in his bank at $50 a share less—on account of this possible depreciation—than he had paid for some of the stock last January, and he would not buy it because he did not know what he would be buying, owing to this uncertainty.

We beg of you, therefore, to make proper provision for refunding such twos outstanding as are surrendered by member banks in order to give up their Government deposits, and by such banks as do not feel they can afford to join and who therefore must not only surrender their Government deposits where held but must retire their circulation as well. I believe it will be well for us to keep in mind that in the refunding of the 3, 4, and 5 per cent bonds in 1900 the Government found a market for its 2 per cent bonds with the national banks, and that the Government made about $16,000,000 by the transaction, and has profited by a material reduction in the rate of interest since. The effect on the Government—unless it protected these bonds from liquidating banks that do not feel they could afford to join—would be to see its good credit impaired; its bonds, long selling at par and better, would soon be on the toboggan slide. What figure they will reach, unless we have an early indication of what will be done in the disposition of these bonds, no one can tell. In this connection, we might call to mind that 2½ per cent English consols are selling at 72 on an investment basis. Should our 2 per cents decline to 60 on an investment basis, a small bank with $25,000 of these bonds would lose $10,000. Other banks in proportion. That money is the money of local stockholders—farmers, country merchants, women, trusteeships, and minors.

Therefore we urge an amendment to the bill, as speedily as possible, that will assure us and the nations of the world that this Government will keep faith with the purchaser of its securities, in order that the uneasiness now being felt will subside and that the market on such bonds may be restored to par or better. And we believe if you can devise some plan to protect these bonds on a par basis they will immediately go back to par and the Government will continue its good credit. If this is not done and the bonds continue to decline, will we be required, as bankers, to charge down the book value of such bonds, or will we be required to put up additional security in order that the solvency and liquidity of our present national-bank notes may be maintained?

In brief, gentlemen, we are asking that the Government keep faith and maintain its credit. If that is done, our small national banks, whose stockholders would prefer to liquidate, can do so without impairment of their investment, and will only have to meet the additional expenses incident to conversion under a State system.

In other words, we beg, for the small banker who accepts the death penalty, that you enact no law that will render his estate insolvent. At the same time I would not imply that I believe there would be any considerable number of national banks to go into liquidation rather than join the association, but we do feel that if there is only one small bank that can not afford to join provision should be made for

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that one. With an attractive measure, a great many banks will ultimately grow to proportions to justify their joining.

Here is another aspect of this optional feature of the bill that we would like you to consider. A bank that to-day may not feel it can afford to join may in a few years, if it may continue its national charter, grow to such proportions that it will want to join and can afford to join. The larger the bank the greater the need for the facilities to be afforded by the Federal reserve bank and the more apt the bank is to have the class of securities that are to be accepted by the reserve bank; and there are few of our country banks in the West that to-day have the character of securities described and required in obtaining accommodations from the Federal reserve bank, more particularly on account of the time limit. Therefore many banks that at the outset could not afford to join would undoubtedly ultimately want to do so before their charters expired.

In talking upon the disposal of the Government 2 per cent bonds, I have been obliged to elaborate somewhat, and I thank you for your patience and your courtesy.

In conclusion I would add that it has occured to us that there are two or three ways to accomplish what we are asking regarding the disposal of the bonds. The first is the optional feature removing the tax or reducing the tax further on the circulating of such banks as come in under the system, raising the tax, if necessary, on the banks that do not come into the system if they continue their circulation. In other words, let us find something that invites the banks to come in, and make it as attractive as I suggested at the beginning, as the national bank act made it for banks to join the present national banking system.

If the optional feature be not considered permit the member banks to continue circulation and the Government pay par for the bonds from liquidating banks not joining; or, third, require the Federal reserve bank in the locality of the bank liquidating to take over the 2 per cent bonds on a par basis from the bank liquidating, and assume the circulating privilege. There would then pass from the small bank that can not afford to continue under the national bank system the circulation privilege, and give its advantages to the combined banks in the locality that can afford to go in the Federal reserve system.

I thank you, gentlemen.

Senator SHAFROTH. Mr. Jones, what do you think of the provision in the bill for the substitution of 3 per cents for 2 per cents?

Mr. JONES. If I understand the provision correctly—and before committing myself I would like to know that I do understand it correctly—it now provides, does it not, Mr. Chairman, that at the expiration of 20 years all national banks are to be paid par for the 2 per cent bonds, or the 2 per cent bonds are to be redeemed at par?

Senator HITCHCOCK. That is the provision.

Mr. JONES. And the bank does not have to accept the exchange in 3 per cent bonds meanwhile unless it so elects?

Senator HITCHCOCK. That is right.

Mr. JONES. We have no objection to find to that. We should like to know that the 3 per cent bond, however, would be marketable at par. Now, there may be large city banks that can afford to accept

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the exchange, but you won't find a country bank that would exercise that privilege unless it could immediately sell its 3 per cent bonds on a par basis; and if it can sell its 3 per cent bonds on a par basis, why should the Government ask small banks to market their bonds for it? In other words, each small bank accepting 5 per cent of its circulation each year will have to turn around and market this small amount of bonds.

Senator SHAFROTH. You would prefer that the Government pay these bonds at par to the banks instead of issuing the 3 per cents, would you?

Mr. JONES. I think it would be keeping better faith.

Senator SHAFROTH. These bonds, I understand, do not mature until 1930, and then they do not mature as against the Government at that time, but, nevertheless, the Government can pay them after that time. Consequently, the bonds not maturing, the Government could not force the banks to take cash for their 2 per cent bonds without their consent. Now, do you think that if the Government were to offer to pay these bonds in cash the banks would be willing to take it?

Mr. JONES. I can only answer for myself and those whom I have heard express themselves. I believe, gentlemen, we would be glad to-day to surrender our bonds and get cash for them and withdraw our circulation. I believe that would be pretty nearly the consensus of opinion, but I am not stating that as a fact. However, we should like to continue the circulation privilege, because there is a little benefit in it, but we do not know what we may be up against later.

Senator REED. Let me say a word to you. I am only speaking for one member of this committee, but I believe I know this committee and I do not think this committee has the slightest idea of doing anything to break faith with any man that has an honest contract with the Government or to repudiate any obligation at all.

Mr. JONES. I assure you there is not any such impression in the minds of our committee to-day.

Senator REED. I know you are not impugning our motive, but I am speaking with reference to this constant impression that something is about to be done to ruin these 2 per cent bonds and leave you, to use an expression that my friend from Arkansas will understand, "holding the sack" on the bonds. I do not think you need waste much time with the committee on that, except to suggest a means by which we could work the problem out.

Senator NELSON. There was one suggestion you made there, the last of the three plans you suggested, that the regional banks take over the 2 per cent bonds and issue circulation on them. There is something in that idea. That was a part of your theory, was it not?

Mr. JONES. Yes; and to explain that——

Senator NELSON (interposing). Could they not do that gradually?

Mr. JONES. Yes; but what about the bank going out of business?

Senator NELSON. If they would take them off your hands at par gradually and, as they took them off, issue circulation on them, you would still be allowed to remain with the balance of your bonds and gradually work them off——

Mr. JONES (interposing). Why would it be necessary to take them gradually?

Senator NELSON. We would not want to change our whole credit at one leap.

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Mr. JONES. The regional bank would be out nothing. They buy these bonds. If they amount to $200,000,000 they buy them for $200,000,000 and issue the currency immediately for $200,000,000.

Senator NELSON. We would get just the same kind of credit in effect that we have to-day, so far as that is concerned?

Mr. JONES. Yes, sir.

Senator NELSON. The theory of this bill is that the banks will gradually retire their own bonds and circulation, giving them 20 years for it, and consequently this new currency will take the place of the retired national-bank currency. That is the theory on which the bill is based; do you not so understand it?

Mr. JONES. Yes; but would it not work out just the same if the Federal reserve bank carried the circulation?

Senator NELSON. No; if you shifted it bodily over from one to the other you would get the same condition you have now, only you would have it grouped in these regional banks instead of the little banks.

Mr. JONES. I predict that every member bank will continue its circulation rather than accept 3 per cent bonds. What is the difference whether they continue their circulation or the Federal reserve bank continues a like amount? For the sake of argument say that all the banks will come in. Would the condition be any different whatever if the regional bank takes over the circulation?

Senator NELSON. The regional bank could discount paper and issue currency on it, and that is what the little banks could not do. There is the difference.

Senator POMERENE. Your position seems to be that you want all these banks to have the privilege of going in or staying out as they see fit?

Mr. JONES. That is one of the alternatives we have put up to you.

Senator POMERENE. But that does not answer my question directly. You want the privilege of staying out or going in as you see fit?

Mr. JONES. Yes. sir.

Senator REED. Then, you would like to have the Government fix a place where you could go and get money whenever you wanted to, and not have to contribute much to it and just have it voluntary?

Mr. JONES. We are talking for the country banker. I do not think the country bank would have to apply to the regional reserve bank for money.

Senator REED. Well, he is in the banking business, is he not? And when we have the conditions as they are now he is liable to suffer by reason of a general financial stringency or a panic. That is a danger that hovers over you all the time.

Mr. JONES. Quite true.

Senator REED. Now, do you not think it is worth your while to help obviate that?

Mr. JONES. You will find sufficient banks that will, with needed modifications, voluntarily join to make it a success, without requiring the little bank that could not afford to do so to come in. That is the fellow we are appealing for. I can analyze the statements of many small country banks and show you that they can not afford to come join.

Senator HITCHCOCK. How many national banks have you in Colorado, Mr. Jones?

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Mr. JONES. I am very poor at remembering figures. Senator Shafroth, do you recall? We have discussed that often among ourselves.

Senator SHAFROTH. No; I do not remember.

Senator HITCHCOCK. What per cent do you think would come into the new system, if they could stay out without serious loss on their bonds?

Mr. JONES. I do not believe I could undertake to answer that. I think all of our large banks will come in. I would say, gentlemen, that our Denver bank stands ready to come in under that measure with proper modifications. But I do not think some of the little country banks can afford to come in.

Senator REED. Suppose we were to make a third classification. We already have the provision for the reserve city banks maintaining a certain reserve, and then a less reserve for what is called country banks. Suppose there were a third classification made of the country bank or trust company with only $25,000 of capital and a smaller reserve required from them. Would that be of any help?

Senator NELSON. And a smaller subscription to the capital stock.

Mr. JONES. You mean, to graduate the requirements?

Senator REED. Yes; we now have two steps, and my suggestion is to make a third step.

Mr. JONES. You are asking my individual opinion?

Senator REED. Yes.

Mr. JONES. I think every concession you can make that makes it easier and more inviting for the banks to join without feeling that they have to come in to save their charters, the more they will come in and cooperate to the fullest extent.

Senator SHAEROTH. Mr. Jones, the report of the Comptroller of the Currency for 1912 gives the number of national banks in Colorado as 126. There are probably six or eight more now.

Senator HITCHCOCK. Can you tell the number of State banks in Colorado, approximately?

Mr. JONES. We had more national banks than State banks up to a short time ago, but Gov. Shafroth assisted to get a mighty good bill through which united State bank organizations under a safer system, and the State banks are growing in numbers.

Senator NELSON. What proportion of your national banks do you think are the small banks of $25,000 capital? Are there as many of them as of the banks of great capital?

Mr. JONES. There are a great many. In a growing country they start with small capital.

Senator NELSON. I want to follow up the suggestion of Senator Reed; I think he was on the right track. Suppose we had these little banks, and, instead of requiring them to subscribe and pay in 10 per cent of their capital, require them to pay only 5 per cent, and only pay in 3 per cent of their deposits instead of 5. Would not that help a great deal?

Mr. JONES. You would have more members.

Senator NELSON. And that would make it much easier. They would only have to contribute one-half of their capital stock; all the other big banks have to. They would only contribute three-fifths, or you might make it 2½ per cent, say. That would put them on

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"easy street" as compared to this. Instead of paying in 10 per cent of their capital they would pay in 5 per cent, and instead of 5 per cent of their deposits, say 3 per cent. That would make a big difference?

Mr. JONES. Quite a difference.

Senator REED. They must ultimately put in 12 per cent of their deposits, or else hold it in their own vaults.

Senator NELSON. They can hold the balance in their own vaults.

Senator REED. The Senator has gone more into detail. I should like to know what you think about that.

Senator NELSON. Would not that be a great help to them?

Mr. JONES. Undoubtedly.

Senator REED. Now, suppose we just draw this bill in this form, gentlemen: We require the reserves that are now provided in this bill from banks that go in, perhaps adopting the suggestion that Senator Nelson and I have been suggesting as to smaller banks, but as to banks that do not go in we require them to keep the same amount of reserves as they have now.

Mr. JONES. You are getting at something that is fairer.

Senator REED. And maybe stop them pyramiding by putting it in other banks.

Mr. JONES. If you mean to make it more inviting to those that come in, that is along my idea.

Senator REED. You banks have got to get in a safe position. I do not mean you gentlemen individually, but the banking system must be gotten in a safe position, if we can put it there. Congress owes that duty to the country and owes that duty to the banks. Now, there is a system here outlined; we are trying to perfect it. The first thing it does, it reduces materially the amount of reserves that banks are now required to carry. And there may be a further reduction——

Mr. JONES (interposing). In theory; we do not believe it will in practice.

Senator REED. I mean it reduces it as far as putting it into these banks is concerned. As far as the amount they are required to keep in their own vaults is concerned, there is a reduction. You may have to keep it some place else. There may be further possible reductions.

Now, suppose we enact this law as favorable as we can make it, and then were to provide that as to any national bank not coming into the system it should maintain the same reserves which it is now required under the law to maintain, and that when a reserve was deposited in some other bank that other bank could not redeposit it but would be obliged to hold it so as to stop pyramiding. How would that strike you?

Mr. JONES. Do you think it would be possible to follow the deposit?

Senator REED. Oh; very easy. You simply specify in the bill that the bank puts $100,000 into another bank and counts it as reserve, and that other bank has to hold that money and can not redeposit it, counting it again.

Mr. JONES. Senator Reed, I spent a few years as State bank examiner in your State, and I do not believe I could follow that deposit and find out whether the bank was living up to the requirement or not.

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Senator REED. I think that is a very small matter of bookkeeping, if I understand it.

Mr. JONES. I do not think it would be. I do not believe you would ever be able to find out where that specific deposit went.

Senator REED. Let me give you an example. I do not want to take up your time and the time of the committee in arguing it. Let us say there are 100 country banks depositing their balances with the First National Bank in Denver. The bank examiner and the comptroller know what their aggregate deposits are and everybody knows the amount of reserves which they must have on hand in their own vault or in the vault of the First National Bank of Denver. They know the amount of deposits that the First National Bank of Denver has received from this bank and the amounts received from other banks. It seems to me it would be very easy, then, to ascertain whether the First National Bank of Denver had taken these moneys and deposited them some place else, only holding a reserve and treating them as an ordinary deposit.

Mr. JONES. In other words, the bank may not loan it at all.

Senator REED. No, sir; it must have it in cash.

Mr. JONES. The bank would not receive the deposit, then?

Senator REED. Exactly; that is what I am talking about. Of course I think I state this rather dully. I can see it better than I can say it. Of course we all understand that if I put a million dollars in your bank and the law requires you to hold as a reserve 25 per cent of it 12½ per cent in your own vaults that that cash has got to be actually in your vaults and 12½ per cent in the vaults of another bank. If that other bank then takes that other 12½ per cent and proceeds to loan it out or to redeposit it, it is, in fact, no longer a cash reserve. It has ceased to be a cash reserve, and hence we have what we call the pyramiding of reserves. Since that can be stopped—and you do not question but what that can be stopped?

Mr. JONES. I do not question but what you can stop almost any bank practice by law.

Senator REED. The bank would rather keep the entire 25 per cent in its own vaults?

Mr. JONES. Undoubtedly.

Senator BRISTOW. Why so, if they have this money? Suppose there was a bank which had $20,000,000 deposits and it keeps $4,000,000 or $5,000,000 there; of course that would be within the law.

Senator REED. You do not seem to catch my thought, Senator. The bank—that is, the second bank—is required to hold 12½ per cent of the other's deposits in its own vaults.

Senator NELSON. Less 5 per cent of circulation.

Senator REED. Well, I am leaving that out for the present. It thereupon treats that money as an ordinary deposit, holding its own reserve against it.

Now, we could very easily provide by law that when a bank deposited with another bank a part of its reserve that that reserve should no more be used in that other bank than if it held it in its own vault. I was asking the question how a bank would like to have this pyramiding stopped and be allowed to stay in or out, as they pleased, because I think you all agree that pyramiding is a dangerous thing.

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Mr. JONES. Would you allow the first bank receiving the deposits from the country bank the use of it at all, or prohibit them from using it?

Senator REED. I do not see how you allow them to use it, because if they loan it out it would no longer be a cash reserve.

Senator HITCHCOCK. Senator Reed, would you allow them to keep a reserve of 25 per cent in cash to get that, the way some banks can now? You would not have them keep all the cash there.

Senator REED. I simply say it is—I was going to say—a farce; it is nearly a farce to talk about a reserve of 25 per cent—cash reserve, for instance—when you take 12½ per cent and put it in another bank and that bank loans it out or redeposits it. It may be redeposited half a dozen times, so that in the end if trouble comes that 12½ per cent has been passed from bank to bank and ceases to really be a reserve within the meaning of the law.

Senator SHAFROTH. I think Mr. Jones is in error——

Senator HITCHCOCK (interposing). I think Senator Reed has misstated his own proposition.

Senator REED. Perhaps.

Senator HITCHCOCK. I think what you meant was to stop the bank from sending to New York a part of the deposits which it had received from the country bank, and you would permit that bank to keep them all in cash, but loan out a safe proportion of them to its customers.

Senator REED. That would be a modification and could be adopted under particular circumstances.

Senator HITCHCOCK. In this bill you allow a Federal reserve bank to loan 66⅔ per cent and keep 33⅓ per cent reserve.

Senator REED. I am talking about a plan by which these banks can come in or stay out, if we provide what we think is a safe system. That is what we are trying to do.

Mr. JONES. Make it what I have said. Make it attractive for the banks to come in, but do not penalize the banks who do not come in.

Senator NELSON. Suppose we cut the tax of a half of 1 per cent in two? Would that not help the bonds a little? Suppose we made it a quarter of 1 per cent, just nominal; would that not relieve the banks of a good deal of a burden?

Mr. JONES. We beg of you to let it be known definitely, as quickly as you can reach a conclusion, what you decide to do about these bonds in order to prevent their further decline.

Senator NELSON. We are trying to do that, but you can see how difficult it is. They want us to go at railroad speed, but we are using deliberation and trying to get a good bill, and we are constantly prodded because we are not rapid enough.

Mr. JONES. We are not very large bankers, but we want to give you the benefit of what experience we have.

Senator NELSON. You do not want us to go at railroad speed and give you a bad bill?

Mr. JONES. No; we do not.

Senator REED. If we had accepted some advice that has been given us this bill would have been out of the way some time ago, and you gentlemen would not have had half a chance; you would not have been here to-day.

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Mr. JONES. Senators, anything else in regard to reserves it might be well to take up with the gentleman to whom has been especially designated this subject who is to follow me, but anything bearing on the protection of the bonds I will be very glad to answer.

Senator BRISTOW. You referred to one matter about which I desire to ask you some questions. You said that the small banks, the country banks proper, could not afford to come into this; that the country banker could not afford the loss on his bonds, etc.; but that it was somewhat different with the banks in the cities like Denver—these reserve cities.

Senator NELSON. Big banks.

Senator BRISTOW. The big banks. What advantage, under the proposed system, has the big bank over the little bank?

Mr. JONES. The large bank feels more keenly the need of relying upon such a system as you are providing. The small banks have not the security, in the first place, to a great extent, so that they can come to the regional bank under the definition as it stands now and get help upon that security. They can get it from our city banks. We hold live-stock loans as collateral in our bank which represent money loaned by country banks over the West, which have a year to mature. It sometimes takes a year or more to mature live stock from the time the farmer begins the process. Sometimes he has to carry the loan over for another year. Such are liquid at the expiration of the time, for the live stock is marketable. Such country bank will always live in the hope that there will be no need of calling upon the Federal reserve bank for 9 months after it makes a 12-months' loan, in order to get them within the 90-day period.

When the little banks send such paper to us we make them a 90-day loan collateralized by this paper, but the 90-day paper is in turn secured by the longer term paper. We can discount that 90-day paper with the reserve bank. The small country banker is the man we are pleading for. He is the man who is likely to suffer.

Senator BRISTOW. I agree with you. I am not an expert, but I think the heaviest burden in this arrangement falls on the small man. Unfortunately that is his lot in life in most things, and this is no exception to that, and he is the fellow who is here asking for a hearing and for justice, and it is not any malign influence which is operating upon us. I want that to be distinctly understood. I think every member of this committee is trying to devise some way of relieving the banking situation of the defects that we all admit it has, and we are trying to do it in a way to help the country most.

Now, why should we retire the 2 per cent bonds anyway? Why not let the general banking circulation go on just as it has before and provide for elasticity outside of that?

Mr. JONES. I would ask why.

Senator BRISTOW. That would not disturb the whole situation nearly so much as this proposition would—this proposition to get rid of the national-bank circulation.

Mr. JONES. That does not take care of the bonds of the banks retiring from business.

Senator BRISTOW. Of course, that is true, but if you maintain the circulation as it is and let the banks run on just as they are now and not change materially this implied contract that we have with them, and then provide means by which banks can rediscount when

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they desire and get additional currency on their assets somewhat similar to this, would not that relieve the entire situation? That is, if your bank in Denver, when there was stress, could take your assets to the subtreasury and get money on them and relieve whatever pressing necessity might exist, if there was any call, usual or unusual, and let them be quickly retired under certain provisions, would not that——

Mr. JONES (interposing). Without enacting this Federal reserve act?

Senator BRISTOW. Without creating this complicated machinery and disturbing the entire banking system, which has grown up here in half a century.

Mr. JONES. That injects an entirely new thought which is outside the Federal reserve act. That means the Government issuing money direct to the banks.

Senator BRISTOW. The Government does it now, except it is creating an agency here for the purpose of issuing this money through that agency. Why not utilize the agency that now exists and issue it upon the same kind of collateral and the same security? What is the use of this complicated machinery in order to accomplish that purpose?

Senator NELSON. In other words, what the Senator means is that instead of walking up to Uncle Sam's counter with Government bonds, you walk up with your commercial paper and say you want notes for it.

Mr. JONES. I understand what he means. His proposition is foreign to the matter which this committee has had under consideration, and foreign to the proposed system which I have studied.

Senator BRISTOW. It is an additional facility to that which now exists to provide a means by which a bank when it needs help can surely get it if it has proper assets.

Mr. JONES. I think it is worthy of consideration. It has been suggested before. I heard the suggestion several years ago.

Senator BRISTOW. That is not my idea. It is Senator Hitchcock's idea. He has been bringing it out here for almost a month.

Then there is another suggestion on which I would like your view. There has been a suggestion made by Senator O'Gorman that we create one Federal reserve bank instead of 12.

Senator NELSON. Under the control of the Government.

Senator BRISTOW. Under the control of the Government, managed by a board appointed by the President, similar to the present provision in this bill, and have it a bank of discount, a bank of issue, and a bank of reserve.

Senator HITCHCOCK. The hour of 6 has arrived.

Senator NELSON. Mr. Chairman, before we adjourn I should like to submit a matter to the committee. I have received a letter from Minnesota stating that a delegation of country bankers want to come down here and asking if they can get a hearing. I want to know what to say to them.

Senator HITCHCOCK. If they arrive between the 22d and the 25th they can be heard.

Senator NELSON. Very well; then I can write them to come between the 22d and the 25th.

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Senator HITCHCOCK. I think we ought to know pretty soon when they expect to be here so we can put the date down.

Senator NELSON. I will wire them in the morning. I ask the consent of the committee to invite them to come.

Senator REED. I make a motion to that effect.

(The motion was duly agreed to.)

Senator SHAFROTH. I think you had better make the invitation for the 22d.

Senator HITCHCOCK. The 22d is full.

Senator NELSON. Very well; I will make it for the 23d.

Senator BRISTOW. Will Mr. Jones be here to-morrow? There are some more questions I should like to ask him.

Senator HITCHCOCK. This delegation will be heard further to-morrow morning if desired; and they will be followed by two gentlemen from New York, Mr. Perkins, of Albany, and Mr. Treman, of Ithaca; and there are several Kansas bankers here.

Mr. JONES. At what hour shall I be here to-morrow?

Senator HITCHCOCK. At 10.30, please.

(Thereupon at 6.03 o'clock p. m. the committee stood adjourned to meet to-morrow, Tuesday, October 14, 1913, at 10.30 o'clock a. m.)

TUESDAY, OCTOBER 14, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Reed (presiding), Hitchcock, O'Gorman, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

STATEMENT OF GORDON JONES—Resumed.

Senator REED. Is there any member of the committee who desires to ask Mr. Jones further questions?

Senator BRISTOW. I was asking Mr. Jones last night when we adjourned about the advisability of having one central reserve bank, governed by a board similar to that created in this bill, which should be a bank of discount, a bank of issue, and a bank of reserve.

Senator NELSON. A bank run by the Government under absolute Government control.

Senator BRISTOW. Yes; under Government control.

Senator NELSON. And a central bank——

Senator BRISTOW. With branches to take care of the different localities of the country. What would you think of that kind of a system?

Mr. JONES. A Government bank without the banks owning the stock?

Senator BRISTOW. Two suggestions have been made: One would be by popular subscription, like the Bank of France, and another only the banks to subscribe.

Mr. JONES. That is a matter that would entirely change the scope and plan of the present measure. I did not feel competent to talk upon the present measure until after about a month's study of the

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bill. I would not feel like giving an offhand reply to another plan unless I had gone into it carefully.

Senator BRISTOW. Suppose the same stock provisions that are provided for in this bill should be provided for in a bank such as I have indicated, a central reserve bank controlled by the Government, and the stock owned by the banks, just as under this bill.

Mr. JONES. Ownership without representation?

Senator BRISTOW. Yes; just exactly as this is.

Mr. JONES. I do not think any plan for a bank as proposed without proper representation from the ownership of the bank would be feasible or would work out satisfactorily either to Government or the people.

Senator BRISTOW. If the Government should establish a central reserve bank with branches, and the subscriptions to the stock be voluntary by any citizen who desired to subscribe, and the Government, through that bank, would perform all the functions that are desired for the relief of the banking institutions of the country—let them have money, discount their paper, etc.——

Senator NELSON. Issue bills.

Senator BRISTOW. And issue bills, and let it be voluntary with the banks as to whether they subscribe to the stock or not; and whether they did subscribe or not, if they had good paper and were reputable banking institutions, they would have the facilities which the bank afforded—what would you think of a plan of that kind?

Mr. JONES. That would mean an entire reconstruction of the bill, would it not?

Senator BRISTOW. Yes.

Senator NELSON. Not in its fundamentals.

Senator BRISTOW. Not in the principles of the mobilizing of reserves and making the currency elastic, which are the only things which have been asked for.

Mr. JONES. Requiring the banks to maintain balances with it?

Senator BRISTOW. Yes; any bank that desires help would, of course, maintain a balance. It would be a bank of reserve.

Mr. JONES. A plan might be worked out along that line that would be feasible. It is very easy, theoretically, to devise something that would not be practicable.

Senator BRISTOW. Are you familiar with the Bank of France?

Senator REED. I would like to interrupt for a moment to call the attention of the committee to a matter which I think ought to be settled, because I think an answer should be given one way or the other. I have a letter here, which was just handed to me by Senator Owen's clerk, from the Chamber of Commerce of the United States, Riggs Building, Washington, D. C., dated October 14, 1913, and addressed to Hon. Robert L. Owen, etc. It states that the report of the chamber's committee on banking and currency has been approved by a large majority of the constituent members by referendum vote, and requests that the chamber be given an opportunity to be heard by the committee. The letter is signed by Elliott H. Goodwin, general secretary.

The question, of course, is whether we will hear them; and if so, when can we hear them.

Senator HITCHCOCK. I move that we put them down for Thursday.

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Senator REED. If there is no objection to hearing these gentleman on that date, that will be the arrangement of the day.

Senator BRISTOW. Now, Mr. Jones, I want to inquire a little further of you. What are the deposits of your Denver bank?

Mr. JONES. My bank in Denver?

Senator BRISTOW. Yes.

Mr. JONES. $6,000,000 deposits.

Senator BRISTOW. And what is the amount of your stock?

Mr. JONES $400,000, with surplus and undivided profits of a like amount.

Senator BRISTOW. In the panic of 1907 did you use clearing-house certificates in Denver or did you pay out the money?

Mr. JONES. Some of the banks put out certificates and others did not.

Senator BRISTOW. Did you use certificates?

Mr. JONES. No.

Senator BRISTOW. Did you limit your payments or did you pay your depositors whatever they called for? Was there a limit on the amount?

Mr. JONES. There was a limit.

Senator BRISTOW. There was a limit?

Mr. JONES. A limit as to the cash payments for 10 days.

Senator BRISTOW. Yes. How much of cash would you have had to have not put any limit—just to have paid out whatever anyone wanted? How much additional money would you have needed, in your opinion?

Mr. JONES. I can not answer that, because I do not know if we had not put on the lid what would have been demanded of us. But I do not believe any bank in Denver would have had to have had any additional amount to have met all the demands on them. In other words, I am sure the putting on of the lid was unnecessary.

Senator BRISTOW. If the banks of Denver could have gone to a subtreasury and secured the amount of their capital stock in cash at any time they wanted it, would there have been any uneasiness on the part of the banks as to their ability to have met their demands?

Mr. JONES. None whatever.

Senator BRISTOW. None whatever?

Mr. JONES. Or of the people, either.

Senator BRISTOW. Would not that be a very simple way, then, to meet an emergency?

Mr. JONES. It would be a very delightful way, if we could go to the Treasury and get cash as fast as we want it.

Senator BRISTOW. Of course that takes for granted you would give security to get it?

Mr. JONES. Yes; and we would have it.

Senator BRISTOW. You would have it?

Mr. JONES. Provided the Government machinery would not be too cumbersome and could give it to us as readily and conveniently as our correspondents do when we have need.

Senator BRISTOW. Can you see any dangers in a system of that kind?

Mr. JONES. Offhand I can not see but what something could not be devised along that line; but it would mean an entire reconstruction, would it not, of the present bill?

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Senator BRISTOW. It would require some quite radical amendments to it, yes; but there seems to be an impression on the part of some of the gentlemen who come before us that it won't do to suggest anything that would be a very radical departure from the bill. I think I voice at least the views of some of the members of the committee when I say we would like suggestions of all kinds that might be of use to us, regardless of whether they are in conflict with the bill or in harmony with it.

Mr. JONES. May I offer a suggestion right there, then——

Senator BRISTOW. Yes; I will be glad to have it.

Mr. JONES (continuing). Which your questioning has led up to. I think the present bill is entirely too cumbersome. I think the machinery is too elaborate to make it workable, especially for the small bank, in whose interests we are here to-day. In other words, it may require borrowing on behalf of the banks to keep it going. You have such a large machinery, requiring immense office buildings, absorption of exchange, salaries, and other expenses to operate the regional bank that to make it a success the banks might be compelled to borrow. That would be contrary to the ideas of conservative banking. We have all been educated that banks should borrow for emergency only or to meet temporary demands. This bill contemplates a large amount of deposits will be carried by banks called reserves. These will not be reserves in fact, but merely permanent investments, as I said yesterday afternoon, without interest. We can not draw it out except in case of liquidation. The banks and the Government deposit large amounts, and in order to keep the machinery going it may become necessary to reloan to the banks. The banks do not want to borrow except for emergencies.

Senator BRISTOW. If you retire the national-bank currency, the banks have got to borrow or there will be a stringency in the currency, because the currency would depend on the borrowing of the banks.

Mr. JONES. The banks would not have to borrow if they could sell their bonds and retire their note circulation.

Senator BRISTOW. But, then, would not that result in a contraction of the currency if they took $750,000,000 of the national-bank notes out of circulation?

Mr. JONES. Would it be necessary for the banks to borrow from the Federal reserve banks in order to take out currency?

Senator BRISTOW. There is not any other way to get currency out.

Mr. JONES. We could build up our balances with them and demand it in currency, couldn't we?

Senator BRISTOW. No; the basis of the currency is 90-day paper; that is the only basis for currency that this bill contemplates.

Mr. JONES. Could the Federal reserve banks under section 15 make loans to commercial interests?

Senator NELSON. No; only to banks.

Mr. JONES. I think you will find——

Senator BRISTOW. It can discount paper.

Mr. JONES. I think you will find this section would permit them to do so.

Senator BRISTOW. That is one of the controverted questions, as to whether these regional banks are going into the open market.

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Senator HITCHCOCK. It is agreed, I think, that the only purpose for which a regional bank can go into the market and buy paper is to establish the rate of discount which it has made—to force the other banks to loan money at the rate it has established.

Mr. JONES. How is that, Senator?

Senator HITCHCOCK. I say the only purpose for which the reserve bank can go into the market and make loans or buy commercial paper is to establish the interest rate which it has created; that is, to force the other banks to loan at the rate which it establishes.

Mr. JONES. If it does do that, then it can issue currency against that paper?

Senator HITCHCOCK. Yes.

Mr. JONES. Then it will not be necessary for banks to borrow in order for the Federal reserve banks to have assets against which currency can be issued?

Senator REED. No; this is what the Senator from Kansas means: That if the $700,000,000 of national-bank notes are retired there would then be a shortage in currency, and the banks, in order to get money, would have to deposit their 90-day paper and call upon the Government to issue currency against it. That was the suggestion of the Senator from Kansas.

Senator BRISTOW. There is no other way of getting currency. But Mr. Jones suggests that these Federal reserve banks could buy commercial paper and issue currency for it.

Mr. JONES. Yes; in order to meet the withdrawal of deposits that may be built up, in excess of the 5 per cent reserve fund, for the express purpose of demanding the currency. There would be no other way to credit deposits.

Senator REED. I should think that would be a very bad sort of deal.

Mr. JONES. I am expressing myself in a personal way. We were not delegated to talk about that, however, as representatives of the country banks.

Senator HITCHCOCK. They all agreed it should not be allowed to go into the market and buy paper except possibly to establish the interest rate.

Mr. JONES. Your bill does not say so; if they could buy it they would come in competition with the banks.

Senator WEEKS. Mr. Jones, this is not our bill; it is a bill that has been sent to us which we are investigating.

Mr. JONES. That is the reason we are appealing to you to get it in shape so it may be workable.

Senator BRISTOW. Mr. Jones, how much balance do you carry in your reserve cities and in what cities do you have your reserve in fact?

Mr. JONES. The United States National Bank of Denver keeps about 20 per cent of its deposits in New York, St. Louis, and Chicago, divided between the three central reserve cities.

Senator REED. How much in your bank as a reserve?

Mr. JONES. Usually nearly 15 per cent, and about 10 per cent more scattered in other parts of the country, necessitated on account of collections, like at San Francisco and Kansas City.

Senator NELSON. That is your exchange business?

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Mr. JONES. No; necessitated on account of items we handle that are cleared through those points.

Senator HITCHCOCK. It that an average amount?

Mr. JONES. I should say that is nearly so.

Senator HITCHCOCK. What is the total?

Mr. JONES. We generally keep 45 to 50 per cent reserve. In 1907 we closed the panic, what was called the panic, with nearly 58 per cent reserve—not legal; reserve but cash and all balances due from banks.

Senator BRISTOW. If these regional banks should be established, provided for in this bill, Colorado might be attached to San Francisco or it might be St. Louis. In the event it was, or to New Orleans, have you ever figured as to what effect it would have upon Denver in the transferring of the reserves of the banks that are kept in Denver now to the regional reserve banks?

Mr. JONES. I believe that will be gone into by another member of our delegation who has studied that matter and who is to follow me.

Senator BRISTOW. If that is the case I won't ask that now.

Mr. JONES. I do not like to anticipate him. There are one or two matters I would like to add to what I said yesterday covering one or two questions asked me, with your indulgence. Answering the Senator from Missouri, I think he was questioning as to whether it would be possible to devise some plan to prevent the pyramiding of deposits by prohibiting the bank receiving the deposits from the first bank—where it originated—from reusing it. After giving the matter some little study last night, I am confident there is not enough cash in the country to provide sufficient reserves if such deposits were to be held in cash by reserve or central reserve banks.

Senator NELSON. Without using them?

Mr. JONES. Yes; without using them, if such banks were required to hold such deposits in cash it would contract the currency beyond conception and it would be wasteful and add to our present hoarding system.

Senator REED. At the same time, you recognize the fact that the pyramiding of reserves impairs the actual utility of the reserves as a reserve, do you not?

Mr. JONES. Not when things are working smoothly.

Senator REED. Nothing is the trouble when everything is working smoothly. That implies the absence of trouble, the very statement of it.

Mr. JONES. That is true. I made the remark a moment ago we are building up a big machinery to keep going all the time when we do not need it. And, to be frank with you, I do not believe there is any need of arguing whether the dividends should be 5 per cent or 6 per cent. It might be wiser to figure as to the amount of assessments that may be necessary to keep it going. I do not think under the present plan there would be much dividends for us to quibble over, unless you provide for the Federal reserve banks doing a general banking business. That I would regret very much to see.

Senator HITCHCOCK. Where you said a moment ago a bank would not be able to operate profitably and successfully, except by borrowing or rediscounting——

Mr. JONES (interposing). A bank would not?

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Senator HITCHCOCK. I understood you to say that under the system which this bill proposes to establish a bank would be compelled to rediscount paper in order to operate profitably.

Mr. JONES. I said it might be necessary for the member banks to become continual borrowers of the Federal reserve banks in order that those banks might operate profitably.

Senator HITCHCOCK. Oh, you are speaking of the reserve banks?

Mr. JONES. Yes, sir.

Senator HITCHCOCK. Is it also true that in order that the reserve bank might earn a dividend it would be required to adopt such a policy as would procure currency from the Treasury? It could not operate simply by the reserve deposits with it, could it, at a profit?

Mr. JONES. I thought that was the plan—that it should operate upon the deposits of the Government and the deposits of the banks and its own capital stock.

Senator HITCHCOCK. Let us see: The law provides that it must keep a reserve of one-third of all the money deposited with it. That means that it can only lend out two-thirds of its deposits; do you think that it would be able to operate at a profit when it only had two-thirds of its deposits to lend and only had the demand for those deposits at certain seasons of the year when banks required discounts?

Mr. JONES. We are getting into a very deep phase of the subject, and I am confident the bankers of the large cities are more competent to answer that than we of the country. I have been under the impression that the bank, to make a success, must loan its loanable funds. To whom is it to loan its loanable funds? The intention, as has been stated, is to reloan it to the banks. We object to our banks becoming chronic borrowers, but they might have to become chronic borrowers to make this a success as planned now with the great machinery built up, unless the Federal reserve banks enter the field as competitors of the existing banks.

Senator NELSON. Aside from that if they can not do a general banking business, their whole discount business will simply be limited to the demand for note issue, won't it?

Mr. JONES. It seems to me——

Senator HITCHCOCK (interposing). Before you go into that, let me ask you this question: Besides being a stockholder in many country banks you are a city banker, are you?

Mr. JONES. I am so considered.

Senator HITCHCOCK. In Denver. Now, can you give the committee any idea of the cost of handling the business of the country banks? You have a lot of country bank depositors, have you not?

Mr. JONES. Yes. The cost depends on how we handle the business, as to whether we are allowed to charge their account with the items we receive on their town or whether we must send them as funds in transit and upon the interest paid on their balances, and as to the average balance they carry and as to what items they send us, and as to the territory they cover, whether within a limited area or scattered over a large area.

Senator HITCHCOCK. Under the terms of this bill the reserve bank must credit the checks upon deposits.

Mr. JONES. The gentleman to follow me has been delegated to go into that feature.

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Senator HITCHCOCK. Is he going into the necessity for doing that?

Mr. JONES. Yes; he has analyzed it for you.

Senator HITCHCOCK. As I understand this proposition, the reserve bank becomes a clearing house for hundreds of banks and will be compelled to maintain a great force to handle the business of those reserve banks; but if you are going to have somebody go into that I would be glad to hear them.

Mr. JONES. Adding to the suggestion made yesterday that the Federal reserve banks should take over the 2 per cent bonds of nonmembers or of such banks that prefer to give up their charters rather than become members under the terms of the bill we would submit that the Federal reserve banks should certainly take over the 2 per cent bonds held by the banks that are now securing Government deposits, because the Government deposits are to be transferred from the banks to the Federal reserve banks. This we would like to impress upon you, and to give you an illustration I will use my own case: A few months ago I was notified that our bank was designated a regular United States depository. We received a deposit under the prevailing rules that had been established for years.

Senator NELSON. How much was the deposit?

Mr. JONES. $50,000 was the amount we received, which I believe was with interest at a nominal amount or without interest maybe.

Senator NELSON. One and a half?

Mr. JONES. Not at that time. We were asked to send down Government bonds as security. Feeling we always wanted to help maintain the market on twos, as we have always taken a pride in the fact that our Government was floating a 2 per cent bond, we authorized the purchase of 2 per cent bonds. They were purchased, we paying 101⅛ for them. They were deposited with the Secretary of the Treasury as security for our deposit. Within a short time thereafter we received notice that a new rule had been established and we would have to pay 2 per cent on the deposit. Gentlemen, we are paying 2 per cent on that deposit to-day, and the 2 per cent bonds for which we paid a premium are with the Government as security. Now, there are many other banks which hold Government deposits on which they are paying 2 per cent, and many of which paid a larger premium on the 2 per cents than we did. Now, these deposits are to be removed to the Federal reserve banks, and in justice we ask that the Federal reserve banks take these bonds on a par basis.

Senator HITCHCOCK. Can you state what amount of 2 per cent bonds are now held by the national banks to secure deposits?

Mr. JONES. I have not the information at hand.

Now, adding to the suggestion I made on behalf of the country bankers yesterday to endeavor to devise some plan that does not penalize the bank that does not feel it can afford to come in and to make it as inviting as possible in order to build up that which the country needs more than the banks, for the banks do not need relief as much as the country needs it. We can protect ourselves, as has been demonstrated, by contracting. The public always suffers more, because we see the trouble and accentuate it and do get in shape to protect ourselves better than the borrowing public can. I understand, by reading history, that at one time even religion was endeavored to be forced by coercion and not made attractive, and it was never successful until it was made inviting and voluntary to the

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people. Now, I believe if something could be devised by which it was made inviting and voluntary we could build up a system which all would be glad to join.

Senator POMERENE. Do you think there is an analogy between the banking system and religion in this country?

Mr. JONES. There may be an analogy between religion and anything else that is good for the people.

Senator NELSON. Unless you assume that money is the root of all evil. [Laughter.]

Mr. JONES. Another thing, gentlemen. We country bankers never expect to have reprepresentation on the board, but we do believe that there has been provided a sufficient banking representation on the board. Now, I am speaking personally; not for the country bankers at all. One of my reasons for it is we do not feel the machinery will work smoothly without there are more men of approved banking experience on the Federal board. We know what it is to go up against theoretical and technical banking. If a good bank wants to borrow from its correspondent on account of sudden need, it can wire that correspondent it is sending sufficient securities to cover, and the bank can get credit before the securities are received.

Senator NELSON. But do not overlook how smoothly this bill passed the House without the aid of bankers.

Mr. JONES (continuing). And we have asked, for the purpose of protecting our capital stock there, that we be given more liberal representation.

Senator NELSON. Don't you see how easy that could be done without the aid of the bankers? I mean the passing of the bill.

(No answer.)

Senator WEEKS. Mr. Jones, do I understand you to say your Denver bank had 58 per cent of deposits in reserve at the end of the panic?

Mr. JONES. Yes. But since I said that it has occurred to me it might have been 52 per cent.

Senator WEEKS. 52 per cent.

Mr. JONES. Above 50 per cent.

Senator WEEKS. How much did you have at the beginning of the panic?

Mr. JONES. In speaking of reserve, I meant what we had in our vaults and scattered over the country—actual reserve. We call it not legal. We probably had 40 per cent.

Senator WEEKS. You increased your reserve 12 per cent?

Mr. JONES. Yes; I think so.

Senator WEEKS. Where did you get it?

Mr. JONES. Commercial paper that was paid. We are quite a commercial paper buying bank and the maturity of our commercial paper which was credited to our accounts with our eastern correspondents provided funds greater than demands upon us.

Senator WEEKS. Then you did not reloan?

Mr. JONES. We did not deny loans or renewals to local customers. A loan that came to us from a regular bank correspondent or from a local depositor—we did not deny them, because we knew our ground on account of having so much commercial paper.

Senator WEEKS. You did not renew your loans that were bought?

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Mr. JONES. We were not asked to renew outside commercial paper—we protected our own community.

Senator WEEKS. I would like to call the committee's attention to what happened in 1907. Here is a bank that certainly increased its reserve more than 12 per cent. Now, the New York banks at the beginning of the panic had $300,000,000 in reserves. If all the country banks of the country had increased their reserves 12 per cent, it would have taken more than $300,000,000 to have done it. In other words, the New York banks would not have had any reserve left if every country bank had increased their reserve as much as did this country bank.

Mr. JONES. I beg your pardon; you do not understand the way our reserves were increased. Our balances increased in New York through the maturity of our commercial paper payable there.

Senator WEEKS. I understand how you increased your reserve.

Mr. JONES. Our cash in vaults may not have increased.

Senator WEEKS. That does not make any difference. The reserve was increased 12 per cent by your bank. Somebody had to loan those people who had paper maturing.

Mr. JONES. That is true.

Senator POMERENE. If every bank had increased its reserve to that extent, how much money would have been out in the hands of the public—the pockets of the public?

Mr. JONES. How is that?

Senator POMERENE. I say, to change the question a little, if every bank had increased its reserve 12 per cent during that panic, how much would there have been out in actual use?

Mr. JONES. We did not increase our cash reserve. Our cash reserve may have been reduced, but our general reserve with other banks was increased by reason of the maturity of outside paper.

Senator NELSON. Do you not know what they did with it? They probably held it?

Mr. JONES. They probably used it for the protection of their own communities.

Senator SHAFROTH. The table was presented here by which it was shown that the New York banks did not have as much reserve in the panic of 1907 as the country banks. Very few banks has as much reserve as the witness's bank.

Senator REED. Mr. Woodruff, will you take the stand?

We will now hear from Mr. Woodruff.

STATEMENT OF GEORGE WOODRUFF, PRESIDENT FIRST NATIONAL BANK, JOLIET, ILL.

Senator REED. Mr. Woodruff, you appear as one of the representatives of this committee of country bankers?

Mr. WOODRUFF. Yes, sir.

Senator REED. Where is your bank?

Mr. WOODRUFF. My bank is the First National Bank of Joliet, Ill.

Senator REED. What is the capital?

Mr. WOODRUFF. $200,000.

Senator REED. And the surplus?

Mr. WOODRUFF. $150,000.

Senator REED. How long have you been in the banking business?

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Mr. WOODRUFF. Ever since I was 5 years old.

Senator REED. That is still a little indefinite, but I take it you have been in some 12 or 15 years, at least. [Laughter.]

Mr. WOODRUFF. About 27 years.

Senator REED. You have been in the banking business practically all your life?

Mr. WOODRUFF. I have been in the banking business practically all my life; yes, sir. My father was in the banking business before me, and when I was a little boy he put me in the business. I would spend my vacations in the bank, and go to school at the same time. I have been actively engaged as an officer of the bank for 10 years.

Senator REED. I believe you have one particular thing you desire to discuss, and I will thank you to go ahead with that now.

Mr. WOODRUFF. Now, gentlemen of the committee, the committee appointed by the country bankers have asked me to talk to you a few minutes about the exchange section of the bill. So it seemed to me it might be a good scheme for me to take it up briefly from five different standpoints, and then I will be very glad to answer any questions that I can. I desire to take it up first from the standpoint of the reserve bank itself, then from the standpoint of the city bank, then from the standpoint of the country bank, and then discuss the principle involved, and then suggest the changes that the country bankers desire made in the bill.

Now, from the standpoint of the Federal reserve bank itself. We have read the law over, and it seems, from the wording of the law, that the reserve banks will be compelled under this act to accept at par checks drawn by individual depositors upon any member bank, and also the checks drawn by any member bank, which we will call drafts, because that is what we call those checks drawn by one bank against any other bank, and then in addition, of course, the bank drafts of any bank upon any other Federal reserve association. So there are three classes of checks or drafts involved in that provision. From the standpoint of the Federal reserve bank, if it should attempt to handle the personal checks, I believe it would be a very expensive proposition.

In the first place, it would probably involve the taking over of much of the so-called transit business by the Federal reserve bank from the member banks. Of course that business would consist only of checks or transit items upon member banks, but that might be a very large amount of business.

The reason the bankers asked me to talk was because I am a country banker, and therefore interested from the standpoint of the country banker, and also because I happened to clear a great many of these items which come to country banks in my State. There are about 200 country banks who send their business to me, and we cooperate, and we make a small profit in handling the business.

We handle this out-of-town business through what we call a transit department.

Now it is necessary for us to also have an analysis department, because if we did not have some way of knowing whether we would lose money or make money we would run our business at a loss. Every bank which opens an account with my bank—and it is also true of reserve center banks—is listed in our analysis department, and at the end of each month we have an analysis of all the business

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we have handled for that bank. We figure the profits we have made out of the handling of that business, and at the end of the month we know how much we have made or lost.

In that connection I have the figures which I sent for the other night, when the members of the committee asked me if I would talk to you. I have the figures from our analysis department covering this year's operations, in which we have handled 799,420 individual checks. That is the number of checks.

Senator HITCHCOCK. What time is that?

Mr. WOODRUFF. From January 1.

Senator HITCHCOCK. There were 799,420 checks?

Mr. WOODRUFF. Yes; down to the last of August.

Senator HITCHCOCK. How many months is that?

Mr. WOODRUFF. Eight months, amounting in the aggregate to $29,900,000. I find that that cost me for overhead expenses, $12,600, which means 42 cents a thousand for overhead expenses. Overhead expense means the cost of the clerical help, stationery, postage, and all of the expenses inside of the bank.

Senator HITCHCOCK. You mean 42 cents per thousand checks?

Mr. WOODRUFF. No, sir; per $1,000. That does not figure rent or the expenses of the salaries of the overhead officers. The salaries of the officers directly in charge of the out-of-town department are figured in, but the other officers, the general officers of the bank, are not figured in in figuring the overhead charge of the transit department. Neither is the rent.

Senator REED. You mean the president and the cashier; those officers of the bank which you have anyway?

Mr. WOODRUFF. They are not figured in. We had one vice president whose salary was figured in. An assistant cashier does the work now and gives his exclusive time to this department.

Senator REED. The only thing you charge as overhead charge, as far as salaries are concerned, are the salaries of those men who actually devote all their time to handling this particular branch of the business? Am I right in that?

Mr. WOODRUFF. Yes, sir.

Senator REED. That is $12,600?

Mr. WOODRUFF. Yes, sir. Since I have been president of the bank I have divided the bank into departments, and we have some degree of segregation. We have our savings department and our commercial department and our out-of-town department very well segregated, although we do not segregate the investments, and consequently we can divide our overhead expenses very accurately.

We find the cost of collecting that amount of business, which involves exchange charges and the loss of time in the mails would be about $28,300, and I would estimate that to be about 94 cents.

Senator HITCHCOCK. 94 cents per what?

Mr. WOODRUFF. Per $1,000.

Senator BRISTOW. What were the items of expense? This last item——

Mr. WOODRUFF (interposing). The last item covers the exchange charges plus the loss of time in the mails.

Senator BRISTOW. That is the interest on the money while it is in transit?

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Mr. WOODRUFF. Yes. We figure $1,000 to be worth 14 cents per day, that is, at 5 per cent interest. If you come into our bank and cash a check on some bank that is five days away, we give you the $1,000, as we would do whenever a man comes in and we know him. We usually do not quibble about a matter like $1,000 if the man is good, and we absorb the little loss. If he were a stranger we would not do that.

It takes five days to get that back in cash. We have given him cash for it. There would be a loss on those five days of 70 cents. That is carefully figured in our analysis department. We figure how long it is going to take to get that check back from actual experience, and when it comes back we know how much time we lost in collecting it; that is, we know how much money we lost, because otherwise we could have loaned that amount at 5 per cent. We figure a flat rate of 5 per cent. Sometimes we get more and sometimes less. We find a charge of 94 cents per $1,000 is our average cost.

Senator NELSON. Exchange and interest?

Mr. WOODRUFF. Yes, sir; that is, interest and exchange.

Senator REED. How much is the exchange?

Mr. WOODRUFF. We would allow about one-third as exchange and about two-thirds for loss of interest, because of time lost in the mails. That gives you, roughly, a little idea of our experience from actual business in handling a small amount of this business, and you can easily figure what a central reserve bank would have to consider in handling a sum amounting to hundreds of millions of dollars. It would amount to a tremendous expense, and in addition to that it would be a tremendous undertaking to organize transit departments that could even handle the business physically. We find that the banks of this country, many of them, which have built up transit departments have started them in a small way. Even in our little bank down in the country, if we had to develop a transit department and would have our volume of business suddenly thrown upon us, it would necessitate very much loss to us, particularly from the standpoint of the organization of the department; it would take a long time to get that department organized.

Senator HITCHCOCK. You are clearing for about 200 State banks?

Mr. WOODRUFF. Yes; some State, some national, and some private banks.

Senator HITCHCOCK. All of Illinois?

Mr. WOODRUFF. Practically all.

Senator HITCHCOCK. Do you handle all the checks that they send out?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. And all the drafts made on them?

Mr. WOODRUFF. We would if we received any. You know there is a difference between checks and drafts. A check is looked upon as a personal check, a check which an individual draws against his bank; and a draft we call a bank draft, which means that one bank has drawn its draft against another bank.

Senator HITCHCOCK. I want to know what you actually receive. Suppose a bank in my town received a check from one of the Illinois banks, would that go through your hands?

Mr. WOODRUFF. If the bank in your town had an account with me and was using my bank as a clearing center.

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Senator HITCHCOCK. Suppose it had only an account with Chicago?

Mr. WOODRUFF. It would not come near me.

Senator HITCHCOCK. You do not get all the checks on Illinois banks?

Mr. WOODRUFF. Of course not.

Senator HITCHCOCK. The reserve bank located in Chicago would get all the checks?

Mr. WOODRUFF. Yes; all the checks upon its members, because the law does not allow it to take any other checks. The transit departments would remain as they always have, because there would be such a vast amount of checks that would not go through the Federal reserve bank anyway. They would divide all their transit business and then dump in the Federal reserve bank all checks drawn upon members of the reserve bank.

Senator HITCHCOCK. Have you any estimate of what that business would amount to, if a reserve bank were located in Chicago and had, say, 1,000 country members?

Mr. WOODRUFF. Of course, that would be a very hard thing to estimate, because there is no way of determining how much transit business is now handled in Chicago. I think, however, that I can give you a formula that you could use to estimate that. I find that my deposits from country banks amount to about a million and a half; sometimes a little more and sometimes a little less. I find that we clear every month a little better than twice that amount of items. If you use that as a general rule, you will get somewhere near the truth.

The average reserve city bank probably handles about twice as much per month in out-of-town items as is held in bank balances. Of course that might not be true with many banks. Many banks might have dormant balances and not be handling so many of the items. Then in large city banks the local deposits would make the items much greater in number. However, in our bank the monthly items will average about twice the amount of the bank balances. That is about the only estimate that could be made. I think that is about as near as you could get to it.

Senator HITCHCOCK. If the country balances in Chicago were $75,000,000?

Mr. WOODRUFF. In such a case we would figure that there is practically in the neighborhood of $150,000,000 of transit business passing through the Chicago banks.

Senator HITCHCOCK. That would be on the basis on which you are doing business?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. This reserve bank would naturally handle not only Illinois checks but outside checks, and therefore would it not handle a much larger proportionate volume of business than you handle?

Mr. WOODRUFF. I doubt it. The Federal reserve bank only handles checks on its members, which would mean only the member banks inside of that reserve district.

Senator HITCHCOCK. Suppose it did handle in the same proportion, which would be $150,000,000 a month, what would the overhead charge on that be, on the same basis as yours?

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Mr. WOODRUFF. My overhead cost, taking the average all through, is less than the overhead cost of the average collecting bank; that is, 42 cents per $1,000.

Senator HITCHCOCK. What would that be on $150,000,000; that is, in eight months? What would it be on $150,000,000? That would be $63,000 per month, would it not?

Mr. WOODRUFF. That is the way I estimate it.

Senator HITCHCOCK. What would the cost of collection, exchange, and interest be?

Mr. WOODRUFF. 94 cents per $1,000 is my experience in Joliet.

Senator HITCHCOCK. That would be about $130,000 on $150,000,000?

Mr. WOODRUFF. Of course, this $150,000,000 that we are estimating on is, as I have explained, a very rough estimate, but it is the nearest we can get.

Senator REED. In making those figures you ought to take out the one-third you pay for exchange, because, I take it, the regional banks would not have to pay exchange.

Mr. WOODRUFF. We will discuss that in a moment. Answering Senator Hitchcock, I think that amount would be $141,000. That is the way I figure it.

Senator HITCHCOCK. Then that would be a total of $204,000 a month that would be the cost of operating a reserve bank in Chicago, as far as the handling of checks and exchange is concerned?

Mr. WOODRUFF. Only provided we have that $150,000,000 a month. Of course I feel that, as a matter of fact, the Federal reserve bank in Chicago would handle more than that amount of these items. Whether it would or not, I can not say. The bankers of Chicago could give you more definite information on that point.

Another thing you must remember, the reserve bank will not take all the business. It will only take the items on member banks within the reserve district, and that makes a difference.

Senator HITCHCOCK. What proportion of the total cost of operating a reserve bank would be represented by this $200,000 a month? What additional cost of operating can you estimate?

Mr. WOODRUFF. I do not quite understand what you mean.

Senator HITCHCOCK. Would this $200,000 a month represent all the cost of operating a reserve bank?

Mr. WOODRUFF. Oh, no. That $204,000 a month which you are estimating would merely represent the cost of handling $150,000,000 of checks per month. Of course, that department is entirely separate from the general expense of operating a Federal reserve bank. I am only discussing the exchange section.

Senator HITCHCOCK. You are not in a position to make an estimate except on that exchange section; to estimate what additional monthly cost there would be in operating such a reserve bank?

Mr. WOODRUFF. That would be impossible, because you do not know how many employees you would have to have and how much space you would have to have, and things of that kind. Of course, you would have to have a large amount of space to have a transit department which could handle this business. It is impossible to say how much it would cost to operate the bank. Other bankers could give you a better estimate as to their exact cost on that large business.

Senator REED. You are not estimating the cost for clerk hire alone $200,000 a month?

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Mr. WOODRUFF. For all the expense of handling $150,000,000 of checks. If you will pardon me for suggesting, suppose I go ahead and come back to that, and take the next point now.

Senator POMERENE. I want to ask you one question right there. You stated awhile ago that if a customer presented his check for $1,000 and it would require five days to collect that check, and you gave him the money, the cost would be 14 cents a day, as I recollect your statement?

Mr. WOODRUFF. That is 5 per cent on $1,000 for one day.

Senator POMERENE. For instance, if I deposited $1,000 in your bank and issued checks on it, and it required five days for the return of those checks to your bank for payment, you do not take into consideration the profits you would have on the $1,000 during those five days?

Mr. WOODRUFF. No, sir.

Senator WEEKS. How much of the cost is for postage?

Mr. WOODRUFF. That is a thing I can not tell you, because I have not the detail figures. I have them at home, but I have not them here, and I would not like to guess on that.

Senator SHAFROTH. Does not the gain which a bank makes on checks drawn by its own depositors, and which would take five days to come back to be cashed by you—does not the gain which the bank makes on that about offset the loss which it makes by advancing money on checks coming in?

Mr. WOODRUFF. In my case, it would not compensate in any way.

Senator SHAFROTH. How about the average bank? Would it not be about that way in the average bank not having a special clearing department like yours?

Mr. WOODRUFF. Well, I doubt that very much. Of course, it is impossible for a bank to know what checks are outstanding, and you must remember also that many banks pay interest on these accounts.

For instance, if you deposit $1,000 with me and then you send out a check for $1,000 that takes five days to get back—and five days is not the average time; it is merely the time I took in that example. Suppose it did take five days to get back. Perhaps you are getting 2 per cent on your balance during that time.

Senator SHAFROTH. So the loss would only be the difference between 5 and 2 per cent?

Mr. WOODRUFF. I doubt very much whether the outstanding checks in the mail would compensate the banks. The bank feels it is entitled to the balance which a man puts in. There is a very prevalent habit on the part of individuals to draw checks before they put the money in the banks. A man may figure it is going to take five days to get the check back, and he may not put the money in the bank until four days after he draws it.

Suppose I just go along and discuss these other things, and we will have the subject in mind better.

Gentlemen, I feel that from the standpoint of the Federal reserve bank, this will be a very expensive proposition, and will be very embarrassing for the bank to handle. It will be hard to build up the organization.

I understand by this bill that the framers of the bill feel that the reserve banks will accept these individual checks at par and will

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compel its depositors to cash them at par, allowing no exchange charge, and that instead of sending them for collection, that they will immediately charge them against the account of the depositor. It does not say that in the bill, and personally I have wondered what right the Federal reserve bank is going to have to do that. But it seems to be the general impression that the bank will have the power to do that under this bill; that when it gets the check drawn against the bank out in the country it will immediately charge that check against the balance that is due to that bank in the country, and then it will send it on to that bank in the country which can not collect any exchange. Of course the check is not drawn on the Federal reserve bank; it is drawn on the country bank, and I can not see what right the reserve bank would have to charge it against the account of the country bank. The impression seems to be that the framers of the bill feel confident that the bank can do that.

Senator REED. Suppose a man drew a check on his bank in Springfield, Ill., and deposited that check with your bank in Joliet, and your bank accepted it and then sent it to the reserve bank in Chicago, and the reserve bank in Chicago would credit your account with that check and charge that check to the Springfield bank's balance. That is your idea?

Mr. WOODRUFF. Yes, sir.

Senator REED. And the check might go to the Springfield bank and come back, in which event the reserve bank would have to hold you responsible?

Mr. WOODRUFF. Yes, sir.

Senator REED. And get the money back. Is there any other objection to the system except that in regard to the cost?

Mr. WOODRUFF. Oh, yes. I am coming to the others.

Senator REED. I mean to that particular transaction; would there be any other trouble in the way?

Mr. WOODRUFF. I can not understand under this bill what right the Federal reserve bank would have to charge that to the account of the Springfield bank. The check is not against the reserve bank, and I can not see how it can be presented for payment without being presented at the counter of the Springfield bank. Many reserve city banks at this time try to do that with their correspondents. We have had reserve city banks try to do this, but we refuse to allow them to charge checks against our account, because the checks are payable at our counter, and consequently they must send them to us and we will remit for them.

Senator O'GORMAN. What would be the personal advantage to you under the present system in meeting these checks at your counter rather than have them charged against you by the reserve bank?

Mr. WOODRUFF. Now, I was going to explain that under another head.

Senator O'GORMAN. Does it not mean that you really have the use of the money a little longer time?

Mr. WOODRUFF. Yes, sir.

Senator O'GORMAN. That is the only advantage?

Mr. WOODRUFF. No, sir.

Senator O'GORMAN. What other advantage is there?

Mr. WOODRUFF. If the reserve city bank, in the example I have just given, charges the check against us and then sends it down to us, we

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never know what our balance is in the reserve city bank. We may have $50,000 on deposit and our books show $50,000 to our credit in the reserve city bank, and we are carrying that as a reserve; and yet, to-day that reserve city bank, many miles away, may have $60,000 worth of checks come in to it drawn against us. They immediately debit our account and our account is consequently $10,000 overdrawn, and yet on our books we have $50,000 in cash in that bank. We get a telegram stating that our account is overdrawn; and such a case has actually happened with us. We had an account on our books showing that we had $50,000 in the reserve city bank. Four days afterwards we get in the items that have come through and a notice showing that they have debited so much money against out account without our knowledge. The correspondent bank has had trouble with our overdraft. Perhaps some of those checks are not even good checks, and we have to send them back again to the reserve center, in which case our money has been used and our reserve has been depleted without even our knowledge by checks that were worthless.

Senator HITCHCOCK. And then you may possibly have to send currency on and pay the express charges on the currency sent to that reserve center; instead of paying the money over your counter, you may be compelled to do that?

Mr. WOODRUFF. That might perhaps be. Of course, we might have to ship currency in order to make our balance good. We sometimes have to do that, although usually we horse trade with another bank, and as a matter of fact very seldom ship currency. That happens to be our position in Joliet, because we are near Chicago. Now, gentlemen, I desire to discuss this from the standpoint of the city bank. That is the second point I have in mind.

We find it would be very profitable for the city bank, because the city bank now has a large transit department handling this business. It would hand over a part of this business to the Federal reserve bank and have it credited at once and would save the loss in the mail and also the exchange which it now pays, and, in addition, it would save a large amount of overhead expense, because it would merely record the items and send them to the reserve bank in one package. From the standpoint of the city banker it would be a very good proposition, and the city bankers could make money out of this provision.

From the standpoint of the country banker—nearly all that I said a moment ago in reply to the questions of the Senators applies to the country banker. The country bank would have these items charged against its account without its knowledge, as I have explained. Then, it would be compelled to take these items at par if I understand the intention of the framers of the bill correctly. At the present time the country banks get exchange for this. There are two different kinds of exchange, and I think that sometimes we get those two different kinds of exchange mixed up. There is an exchange a banker charges his correspondents on checks drawn against him, and there is also the exchange that a bank charges people who come in to cash checks on some other bank. There is a difference between the two kinds of exchange. Perhaps I can illustrate that better by an example.

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Suppose a man comes into my bank in Joliet and he says, "I have a check on San Francisco for $1,000 that I want to deposit," and I say, "All right; I am very glad to accept that on deposit," and he puts it in. I figure that my loss on that will be 10 days, and it costs me 14 cents a day, and that is therefore worth $1.40 and that is only provided I do not have to pay any charges in San Francisco. Perhaps I say to him, "That will cost you $1.50 in exchange." In most small towns competition makes it impossible to make that charge, and consequently we absorb that charge. In other towns, where the banks have done that and have found that it ate up their profits, they had to make a clearing-house arrangement, and therefore we find the much-talked about clearing-house agreements in the reserve centers. But in my town, suppose competition does not compel me to absorb that charge, and I say to that man, "It will cost you $1.50 a thousand." That is what is known as charging the customer exchange, and that is provided for by the section on page 33 of this bill which says that nothing in this bill shall be construed to forbid that. That is now the kind of exchange that is practiced by the reserve centers through clearing-house agreements.

That check goes to San Francisco and I get the money back in 10 days, and if I get it at par, all right, and consequently we feel we have a right to make that charge.

The other kind of exchange would be where a man would come into my bank—let us follow out the same example. I send that check to San Francisco. When the San Francisco banker gets that he says, "Well, I have got to remit down there to Woodruff this $1,000, and New York exchange is at a premium, and I have to send him eastern exchange. He has got to get his money East." He says, "I have got to be out a 2-cent stamp and I have got to send him this eastern draft, and consequently I feel I ought to be entitled to an exchange charge." Therefore he charges me, we will say, $1 for doing it, or maybe 10 cents. Those charges vary in all kinds of ways. He makes that charge and he remits to me. That is the other kind of exchange, and that is the exchange the country banker is interested in. When you send checks for collection on the country banker he wants to charge an exchange for them when he remits outside, because they are payable at his counter. If a man walks into the bank and gets cash, that is all right. If a man sends in by mail and the banker has to send the money by draft, he wants to charge a little something for doing that work.

Senator HITCHCOCK. What is the ordinary charge?

Mr. WOODRUFF. The transit business is a horse-trade business. In my transit business I have very many different kinds of charges, and it would take a long time to explain them all to you. We have in our transit department an alphabetical index of all banks we remit to. On each card there is a letter or figure, and the man in charge of that department commits those to memory. They might be X Y, and that might mean 5 cents a letter. Perhaps some banker down the State is friendly with us, and we say here suppose you take our business down there. You do not care; it will come from somewhere else anyhow. Suppose you take it and charge us 5 cents a letter, no matter how much comes down; you only have to draw one draft, anyhow. He says will you do the same for me, and we say yes,

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and we practice a little cooperation, and maybe we will make a charge of 5 cents a letter. It may be that the letters X Y mean that.

And then, perhaps the letter M means 10 cents a letter, and perhaps the letters A B mean 10 cents a thousand or maybe a dollar a thousand. A dollar a thousand is looked upon as a standard, although in some parts of the country it is as high as $2.50 a thousand. But there is a minimum charge. A man will say, for instance, I will take your business at $1 a thousand, with a minimum charge of 10 cents. A dollar a thousand means 10 cents a hundred. Suppose a $10 check comes in, and he charges 10 cents on that; of course that would figure at the rate of $10 a thousand.

Senator SHAFROTH. What do you think of fixing a maximum that they can make?

Mr. WOODRUFF. If you will forgive me for suggesting, I would like to discuss that a little farther along.

Now, I was discussing this from the standpoint of the country banker. Have I made myself clear in regard to the different kinds of exchange?

Senator SHAFROTH. It is clear to me.

Mr. WOODRUFF. The country banker feels that he ought to get paid for that work, if that check is not presented at his counter. He feels that the item ought not to be charged against his account without his knowing something about it. He feels that he ought to get a little money for this business because everybody else does. The express companies do not send money for nothing; the telegraph companies do not send it for nothing; and the United States Government makes the largest charge of all for its post-office money orders. The Government can not afford to send that money and remit it to different places for nothing, and the country banker feels that the principle involved is much the same.

Senator SHAFROTH. It costs money to handle money through the Post Office Department, and do you not think this system, when it is organized, will be such that the business can be done without any expense?

Mr. WOODRUFF. I regret that I can not say that I believe that to be true. I will touch upon that a little farther down, Senator.

Now, I want to take up the question of the principles involved. You know here again we find two subdivisions of this question that we want to try to get clearly in mind.

Now, there is a difference between facilitating exchange and cashing personal checks. I tried at the start to make that difference plain, by calling bank checks "drafts," because usually in the parlance of banking we call them bank drafts. The checks that are drawn by banks, that are the checks of the bank itself and signed by one of its officers, we call bank drafts, and checks that are simply signed by individual depositors we call individual checks, and that separates the two classes.

Now, there are two principles involved here: First, the facilitation of exchange. That means that in this country we should make it easy to transmit sums of money from one place to another. That we all want, and that ought to be done, and that is a thing that is hard to do now. We have domestic exchange premiums and discounts to-day, and sometimes they are very burdensome. We ought to facilitate exchange.

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Then the other thing is the cashing or rather the clearing of personal checks. That is a thing that I doubt very much should be done. The difference is just this: If we leave in this bill the provision in regard to personal checks, we help to encourage in this country the flotation of a large number of personal checks. Bankers differ upon that, but we believe that to be wrong in principle. We believe personal checks were designed for the use of the community where the maker is fairly well known, where conditions are understood, and where the check will get right back to the bank. They were never supposed to be floating around over large areas, encouraging what we call the "kiting" of checks, a thing that causes many losses and a very bad situation in the banking business. If we encourage the sending out of these personal checks a man who has no money in the bank can pay a bill five or six days away with a personal check and never bother about putting any money in the bank until the check comes back. You realize that in the meantime, under this bill, a very bad situation might be created.

A man who had perhaps $10 in the bank would draw a check for $1,000, and would send it to some place, say, three days away. It would come to the reserve bank, and the reserve bank would charge that to the account of the bank upon which it was drawn. The bank would therefore be out that $1,000 immediately, but the check would not come back to the bank for three days, and perhaps the man who gave the check in the first place would not bother about putting in the $1,000 until the three days had elapsed, and the bank would be out the use of the money for three days.

Senator REED. And the man that drew the check would be out of the country?

Mr. WOODRUFF. That occasionally happens. We hate to acknowledge it, but it sometimes does happen.

Senator REED. You think that is facilitating fraud?

Mr. WOODRUFF. That facilitates transportation to Canada, sir.

Now, we do not believe we should encourage that sort of thing. We believe we should discourage these little personal checks as much as we can, and limit them to small areas. We will get around that by facilitating exchange, and now we get to the thing we should have. Instead of allowing the very little fellow who happens to have a bank account to draw checks and send them all over the face of the earth, as this would tend to encourage him to do, and as is largely done now, suppose we provide what is already provided in this bill, that bank drafts of member banks, drawn against any other member banks, shall be received at par, and that bank drafts drawn by any bank against any Federal reserve bank shall be received at par. That would make it possible for any bank draft to be received practically every place at par.

Now, let us see how that would work. Suppose that John Smith, who is a little merchant in my town of Joliet, has no money in the bank, and he pays a bill down in Kokomo, Ind., with a personal check. All the bad things I have been telling you about may happen under that arrangement. Suppose we can say to John Smith, "Now, those checks do not go through the Federal reserve bank at par, and consequently there is a good deal of difficulty in connection with them when they are sent away from home." He will be discouraged from using those checks for long-distance payments, and furthermore

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the people down in Kokomo will write and tell him they do not want a personal check; they want a draft provided these drafts are easy to get and are par at every place. That is what we want, and this law amended as we suggest would make that so.

Now, suppose he does the other thing, that this law is drawn as suggested by our committee, and he is encouraged in every way to give a bank draft. Well, John Smith comes down to my bank, and he says, "Mr. Woodruff, I want to remit $1,000 down to Kokomo, and I want a bank draft." I can give him my bank draft, signed by my cashier, upon any other bank that happens to be a member of my reserve district, and it will go at par; or I can give him a draft against the Federal reserve bank, and that, of course, would go at par any place in America. We sometimes use New York exchange now; usually use New York exchange for doing that. New York exchange goes all over America, just as I figure these drafts on Federal reserve banks would go all over America, but the trouble with that New York exchange is that there is oftentimes a heavy charge for those New York drafts, because New York exchange is at a big premium, for instance, at certain seasons in Texas.

Under the arrangement which we propose the exchange would never cost much because the reserve bank would always be near at hand, and everybody will know that those bank drafts are accepted at par, and consequently I do not think there is going to be much chance to make any charge to John Smith.

Senator REED. Would you object to the bill providing that a bank could issue drafts without charge?

Mr. WOODRUFF. I think that is a very good suggestion, personally. I do not believe that the country bankers as a whole would approve that. I am being very frank with you on this subject. I think probably many country bankers would want to make some small charge, because they think they should make a little out of that business.

Senator REED. Let me ask you another question on that point. That necessity for a small charge is felt most keenly by the very small country bankers is it not?

Mr. WOODRUFF. Yes, sir.

Senator REED. That is, a bank that is confined to a little local community, and is one of those banks that somebody described here as a "one-man bank?"

Mr. WOODRUFF. Yes, sir.

Senator REED. Where one man is cashier, janitor, bookkeeper, and everything else?

Mr. WOODRUFF. We have lots of those.

Senator REED. Where a small income becomes material, and yet it is a very good thing in a community, I take it, especially in these little towns that have only one bank?

Mr. WOODRUFF. Yes, sir.

Senator REED. Now, would the banks object if, as to that class of banks, the very small banks, there was permission given for a maximum charge, which would be very low, for the issuing of drafts, and the other classes of banks required to furnish the drafts free?

Mr. WOODRUFF. Personally, and I speak only for myself, I would have no objection to that. But remember; do not get the two kinds of exchange confused. Remember this is a charge for drafts that are

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issued to customers, and we are coming back to this other kind of exchange in a minute.

Senator BRISTOW. Mr. Woodruff, before you leave that let me say I am afraid you do not appreciate fully how convenient it is for a business man, we will say at Salina, Kans., who has a bill due on the 1st day of November at Chicago, to draw his check on the 31st day of October and mail it, and depend on his collections on the 1st to replenish his account in the local bank.

Mr. WOODRUFF. Senator, I certainly appreciate how convenient that is. We have that to contend with all the time. He sometimes does not get in his collections to replenish his account, and that is the trouble.

Senator SHAFROTH. That is wrong; he ought not to do that.

Mr. WOODRUFF. That is one of the difficulties we have to contend with.

Senator NELSON. But, Mr. Woodruff, take the case you put. The man, instead of coming to you with his check, or drawing his check to remit to his customer at Kokomo—if, instead of that, you would encourage him to buy a draft from you and you charge nothing for that draft, you would not gain anything by the operation? Your bank would not gain anything?

Mr. WOODRUFF. No, sir.

Senator NELSON. If, instead of sending a check on your bank to that customer, he came into your bank and bought a draft from you and you charged him nothing for it, you would be making nothing?

Mr. WOODRUFF. That is perfectly true.

Senator SHAFROTH. You would have the use of the money a little longer.

Mr. WOODRUFF. Perhaps a day, until our draft could get into the reserve bank. There is no doubt that I personally would make more money by letting them draw their checks if I can keep them from skinning me in the meantime.

Senator NELSON. So there would not be any saving in that operation?

Mr. WOODRUFF. Not for the banker.

Senator NELSON. Suppose you furnished the draft at cost?

Mr. WOODRUFF. As a matter of fact we never charge for a draft to a customer over the counter, because we consider it good business to encourage them to do business that way. And, by making these drafts go at par, as would be done by this bill as amended in accordance with the suggestion of this committee, we feel it would not be necessary to limit the charge, because it would be known that a bank draft drawn against any member bank or drawn against the Federal reserve bank was free, and I think competition would curb any charges. For competitive reasons it would be impossible to make them. For competitive reasons we never make a charge for a New York draft; it is good business to encourage people to come into our bank.

Senator SHAFROTH. What percentage of the checks drawn on your account would you regard as having been drawn on the kiting principle?

Mr. WOODRUFF. That is a very hard thing to answer. We have every day in the volume of business we handle a number of checks that come back. To come back to the first principle I spoke about—the

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Federal reserve bank—you must remember that the clerical department necessary to handle the hundreds of returned checks that would come back because of insufficient funds, because of improper indorsements, because of wrong signatures, because of not being signed, because of being dated ahead—that the hundreds and thousands of those checks that would have to be credited back to the bank would involve, of course, a very large clerical force, and many chances for error.

Senator O'GORMAN. Will you permit a question right there? Have you any idea what is the average amount of checks cleared through the New York Clearing House in a month?

Mr. WOODRUFF. No, sir; that is a thing we tried to get at on the start—where I estimated $150,000,000. It is hard to get at, but I think you could get it from the officers of those reserve centers themselves.

Senator O'GORMAN. You have no doubt, I assume, that it exceeds $150,000,000 a month?

Mr. WOODRUFF. I feel that there is no doubt that it does.

Senator O'GORMAN. Do you know whether the clerical force of the clearing house there finds any difficulty in disposing of that business?

Mr. WOODRUFF. The clearing house, Senator, never sees those items. They are handled through transit departments. They never go to the clearing house. Clearing houses never touch out-of-town individual checks.

Senator O'GORMAN. I have reference to the value of the business represented by the checks that actually are cleared in the New York clearing house.

Mr. WOODRUFF. That is a thing you can easily get from the reports of the New York clearing house, but it does not refer to this question in any way. There is no exchange involved there whatever. Those are local checks.

Senator O'GORMAN. And consequently the item of expense would not be comparable?

Mr. WOODRUFF. It could not be compared in any way, sir.

Senator NELSON. I do not understand that the New York clearing house clears out-of-town checks.

Mr. WOODRUFF. No, sir; that is the point I make.

Senator SHAFROTH. Every other town does that has a clearing house, does it not?

Mr. WOODRUFF. No town in America.

Senator SHAFROTH. You mean the checks that come through the Denver banks from outside are not collected in the Denver clearing house?

Mr. WOODRUFF. Only the checks on Denver. There is just one exception to that, and that is in connection with what they call the out-of-town clearing department operated in Boston. That has been very successful, and I will try to remember to speak about that in a minute.

Senator SHAFROTH. Are there any statistics as to the amount of out-of-town checks that come into these various clearing houses?

Mr. WOODRUFF. Out-of-town checks do not come into the clearing houses, sir; they are handled in the individual banks. When you spoke a little while ago, Senator, of $150,000,000 a month, you based that on $75,000,000 bank deposits in the city of Chicago. You realize,

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of course, that the city of Chicago has a very much larger amount of bank balances than that. I want to make that clear.

Senator HITCHCOCK. I estimated that it would be $150,000,000 a month for 1,000 banks, in proportion to the 200 banks for which you clear.

Mr. WOODRUFF. I understand. That will give you a very rough estimate, because those banks keep fairly small balances compared with the balances they would keep in Chicago.

Senator HITCHCOCK. You think that the $150,000,000 a month would not be a sufficiently high estimate?

Mr. WOODRUFF. I simply can not estimate it, because I just simply do not know, and I am getting at it in such a rough way that I want to impress upon you that it is not an accurate estimate. You can get estimates by communicating with the manager of the Chicago or New York Clearing House. I can only tell you that that is an estimate based on my actual experience in Joilet, and that might not refer to New York or Chicago.

Senator HITCHCOCK. You do feel, however, that 42 cents per $1,000 and 94 cents per $1,000 for the cost of collecting interest and exchange would be about right?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. Regardless of the size of the Chicago concerns?

Mr. WOODRUFF. I think so.

Senator NELSON. What is the total of the two together?

Senator HITCHCOCK. The total of 42 and 94? It is $1.36.

Senator REED. From which, of course, ought to be deducted any part which is now included as exchange, which would be unnecessary to pay under this bill, because this is supposed to de away with the exchange charge.

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. Let us see if it will do away with the exchange charge. Would it not be necessary occasionally——

Mr. WOODRUFF. Will you let me take that up in just a minute, Senator? I want to take up these matters in logical order, if I can.

You remember we were talking about the principles involved and we figured it would be a good scheme to facilitate exchange; that a man would go down to the bank and pay his bills with a draft instead of sending his personal check, and you, Senator, suggested that it might, perhaps, be more convenient to send a check the other way, and I called your attention to the fact that oftentimes they did find it more convenient.

In addition to that, there comes the question of right and wrong, and the easier way to do things. This same fellow, John Smith, can come down to my bank, for instance, and get a draft for nothing, and that settles the whole transaction. He has to have the money when he comes down, and we know therefore there is no check kiting. He gets the draft. The draft is sent to Kokoma, charged against our account in the nearby Federal reserve bank, and the transaction is finished. The only trouble John Smith had was that he had to walk down to my bank, maybe five blocks. Is it not better to allow John Smith to walk five blocks down to my bank and get a draft than to let him send a check down to Kokoma and then, figuratively, make those fellows walk all the way from Kokoma to Joilet? Actually

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they do it by mail, but figuratively, they walk from Kokomo to my bank to get exchange on that check.

Senator BRISTOW. That system has grown up through the consent and acquiescence and cooperation of the banks. And the business men—very creditable business men—will figure at times that if they owe a bill at a distant city they will take advantage of this accommodation, and the house with which they are dealing in the city understands it, and the bank with which that house has its account understands it. The system may be used by those that are fraudulently inclined at times, but don't you think that it has been useful and convenient and that you would be depriving a great many business men of a facility which their bank had been perfectly willing for them to exercise and of which it has never made any complaint?

Mr. WOODRUFF. Senator, any change in this plan will cost me considerable money, but nevertheless I tell you that I consider the system wrong. That system has been built up by the competition of the bankers and with the acquiescence of the bankers, but we do it because we are in competition.

Senator BRISTOW. Don't you think you ought to stand a little competition as well as the merchant who has to stand it?

Mr. WOODRUFF. Yes; but that is not the point involved. We have plenty of competition, as has been brought out by the fact that we are competing so strongly we allow people to do this. But I consider the principle wrong. Out of it grows the discontent with the clearing-house rules. The banks, for competitive reasons, were compelled to go into this, and then they were forced to make these clearing-house agreements in order to protect themselves from loss.

Senator BRISTOW. We are very proud, at least some of us are, of the banking system we have in this country. It is a great, democratic banking system. There are thousands of independent banks, and it is a competitive system. In most of the towns the banks are intense competitors for business, and that is one of the things that some of us believe ought to be maintained. That is why many of us look with suspicion at some of the provisions in this bill.

Mr. WOODRUFF. I can only answer your question by saying I feel this provision is wrong in principle, Senator, and my reasons I have already tried to explain.

Senator SHAFROTH. The principal virtue, I think, in a man giving a check to pay a bill is that when he gets it back he has the signature of the man on the back of it. That is always in his possession, but if he has to go and trace it through drafts it is not so convenient.

Mr. WOODRUFF. It is not so convenient, but he can always get it.

Senator SHAFROTH. Certainly, that is true.

Senator NELSON. His indorsement on the draft will be his receipt.

Senator SHAFROTH. But the draft is not in his possession.

Senator NELSON. It goes back to the bank; it can be got from the bank that issued the draft.

Senator HITCHCOCK. I should like to ask a question right there. What is to prevent a trust company not in this new system using this facility through a member bank and thus getting its exchange free of any charge?

Mr. WOODRUFF. There is nothing to prevent, sir.

Senator HITCHCOCK. A trust company, then, in Chicago could demand of a national bank there a check or a draft upon the reserve

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bank there, and when it got that check it could send it to San Francisco where it would be worth par and the Chicago trust company would therefore pay nothing for its exchange, although it did not belong to the system.

Mr. WOODRUFF. We would not object to that, because proper facility of exchange is a good thing. What we would object to is the trust company in Chicago making an arrangement with a member bank and then dumping all its items for collection into that member bank and that member bank dumping them into the Federal reserve bank and the reserve bank being compelled to handle them for nothing.

Senator HITCHCOCK. How can you stop that?

Mr. WOODRUFF. By barring checks bearing the indorsement of a nonmember. Now, if we leave the law as it is, let us see who gets hurt——

Senator HITCHCOCK (interposing). You mean, as it is in the bill?

Mr. WOODRUFF. Yes, sir. Suppose we leave it as it is and see who gets hurt. John Smith, down in Joliet, draws his check, and he pays this bill down in Kokomo, and the Kokomo fellow goes and presents it at his bank—deposits it. Now, under this bill he might deposit it at par, while to-day perhaps there would be some exchange charge. If competition is keen there may be no charge anyhow. At any rate, he might gain a little bit there although this law allows the bank in Kokomo to charge—because it says nothing shall be construed to prohibit the bank from charging. At any rate, it is put into that bank. The bank at Kokomo turns it over to its Federal reserve bank.

It would be a better example if I say that John Smith in Joliet draws his check in Joliet and sends it to Chicago, and the Chicago bank turns it into this Federal reserve bank. The Chicago bank may perhaps attempt to charge its customer exchange, because there is nothing in the law that will make it take that at par. It turns it into the Federal reserve bank and the reserve bank will have to take it for nothing. Consequently the Chicago bank gains, because the Chicago bank is relieved of the cost of handling the check. The Federal reserve bank immediately charges it against the country bank. That is, of course, a hardship upon me right away, because it is charged against me without my knowledge and is charged against me without allowing me any exchange. Therefore I am beat out of the exchange, and I have the item charged against me several days before I now have it charged against me. When it comes back down to Joliet, of course, I might add 10 cents to it, but the customer will not stand for that and consequently I am the man that loses.

Now, suppose we made a charge, a minimum charge of $1 as some Senators suggested here a little whole ago. Then John Smith draws his check; it goes to Chicago; the Chicago firm deposits it in the Chicago bank, and they deposit in the Federal reserve bank, and everything is just the same. Then the Federal reserve bank sends it to me, and I charge them $1. That dollar has got to be absorbed by the Federal reserve bank. I would be better off, I suppose, because I get my dollar, but the reserve bank would have to absorb that dollar.

Suppose the reserve bank should charge the dollar back against the depositing bank in Chicago.

The great trouble with that would be that the Chicago depositing bank would probably not deposit very many items in the Federal

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reserve bank under those conditions, because the banks that come into the reserve system are going to be the banks that now do not make a very large charge; they are going to be the larger banks, the national banks. Consequently, the Chicago bank would probably collect this for less than a dollar; once in a while they might get down to this one-third of 94 cents that I suggested. It could beat the price that the Federal reserve bank would be quoting. But the large charges are made by little banks in the country, oftentimes private banks, very seldom national banks, and almost sure not to be in this system at all. Consequently, if you charge the dollar back to the Chicago bank I do not believe this scheme would work at all.

That provides for both those contingencies, and when we get down to brass tacks, it seems to me the Federal reserve bank has got to do one of two things: They have to cut this question of individual checks entirely out—and remember, they never can handle all the individual checks; they can only handle those upon member banks. There are always going to be a lot of little private banks that are not members of this system; out in my State we have some 500 or 600 of them. Those checks that are hard to collect would never go to the Federal reserve bank, and we are never going to have a complete collecting bank or clearing house. The items will always have to be divided anyhow, and the Federal reserve bank, at best, could only take part.

Therefore, the best thing in our minds is for the Federal reserve bank not to handle personal checks at all, but to facilitate exchange so that a man can always go to a bank and get it. If a man wants, for convenience, to float his check, it seems to me best to leave the facilities as they are, and consequently there will always be a charge made against that to keep that business down.

Senator SHAFROTH. How would it do to have these drafts among banks collected free through the regional banks, as you suggested, and have the maximum charge apply to the other checks only?

Mr. WOODRUFF. What maximum charge?

Senator SHAFROTH. $1 a thousand.

Mr. WOODRUFF. By whom?

Senator SHAFROTH. By the collecting bank.

Mr. WOODRUFF. I have just tried to explain that that would not work; that no business would come through the Federal reserve bank if you allow the reserve bank to charge $1 a thousand.

Senator SHAFROTH. Now, as I understood, you wanted only the bank drafts to go through the regional bank?

Mr. WOODRUFF. Yes, sir.

Senator SHAFROTH. Now, why can not there be a law which provides that in all other transactions a charge of $1 may be made?

Mr. WOODRUFF. That is, to apply to all transactions outside of the Federal reserve bank entirely?

Senator SHAFROTH. Yes.

Mr. WOODRUFF. If that could be made to hold, there would be no objection to that.

Senator SHAFROTH. Take it as to the national banks.

Senator NELSON. There would be no necessity for that, for they could in every case go and buy a draft instead of sending a check.

Senator SHAFROTH. Yes; but it is a very great inconvenience. A man often sends a check out after banking hours, or up here in the

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Senate Chamber. I always add 25 cents to the amount of the check; if it is a $200 check, I make it for $200.25.

Mr. WOODRUFF. The average man does not take that trouble, Senator.

Senator NELSON. You really pay exchange on that.

Senator SHAFROTH. I do, in order to avoid a kick.

Mr. WOODRUFF. Now, gentlemen, if you will allow me to make just one or two more remarks, I think I am through. I suggested that perhaps the best thing to do, in our minds, would be for the Federal reserve bank not to touch individual checks at all. If the Federal reserve bank must go into the collection of individual checks—and the country bankers, of course, are opposed to the reserve banks going into the business at all; but if they must go in—then the best thing they can do is to go in on the same lines as the present reserve city banks handle the business. They should put in a separate department to handle out-of-town business and take all checks at par, and handle the business just as it is handled now by the big banks, charging exchange, handling all business, member or nonmember; having an analysis department so they will know how much it costs them, and charge it back to their customers. That could be handled on the lines of the Boston clearing-house out-of-town department. They clear as cheaply as they can, and when they get the returns back they credit the member banks.

If these banks must go into this business, the only way it could be worked successfully would be to do that.

Now, as to the bill itself, we have suggested in our resolution that the bill should be amended on page 33.

Then I want to call your attention to one thing we have left in; that is on page 24, and it seems to me this clears the situation. You will find on page 24, under the head of "rediscounts:"

SEC. 14. That any Federal reserve bank may receive from any member bank deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts upon solvent banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national bank notes, or checks and drafts upon solvent banks, payable upon presentation.

Now, suppose you leave that in, in case there should ever be any question. It would not do any harm to leave that in and after your Federal reserve bank is organized and after its officers and directors have taken this thing up, if they ever want to create a collection agency or clearing house they can always do it under this section. They may accept checks and drafts; they can take whatever they please when the time comes.

But over here on page 33, where it says it shall be the duty of every Federal reserve bank to take these checks, that, we think, is a great error.

Senator NELSON. If you strike out the word "checks" on page 33 and leave it in on page 24, it would still leave it with the regional banks to do this business and charge for it.

Mr. WOODRUFF. They could do what they found it necessary to do when the time came. It is very hard for us to sit here and be sure we are all right. Maybe we are wrong, maybe I am wrong, maybe the framers of the bill are wrong on that. It is easy for us to sit here and theorize on how we can handle this business, but, after all,

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the men that have to do that are the men who are running the banks after the banks are created. Leave it there, and when the banks are started if the officers feel it necessary to do that they can do it——

Senator NELSON (interposing). And strike out the word "check" on page 33.

Mr. WOODRUFF. On page 33, line 15, strike out the word "upon," the last word. And in line 16, strike out the first five words; also the balance of the section after line 19.

Senator NELSON. How would it read then?

Mr. WOODRUFF (reading):

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange and collection, checks and drafts drawn by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned.

Senator POMERENE. You used the words "checks" and "drafts" interchangeably there, do you?

Mr. WOODRUFF. No, sir. I tell you, I am not authorized by our resolution to cut out that word "checks."

Senator POMERENE. But you have clearly defined checks and drafts as we understand them, and now you leave the word "checks" in. As I understand your statement here, you object to the collection of checks?

Mr. WOODRUFF. Yes, sir.

Senator POMERENE. Why do you leave that word in?

Mr. WOODRUFF. The only reason that word "checks" is left in is the fact that we say "bank drafts." That is merely banking parlance. We do that for convenience among ourselves. It was thought that in some places in the country what we consider bank drafts might be referred to as bank checks. There is no difference if it is drawn by the bank.

Senator NELSON. You see, this is a check of one bank upon another, and it would be technically a draft, but this word is used here——

Mr. WOODRUFF (interposing). So that it would prevent any question.

Senator HITCHCOCK. But you do have what are known as cashier's checks, payable to an individual in a town?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. And such a check should be received at par.

Mr. WOODRUFF. Yes, sir; but a cashier's check does not come under this in any way. A cashier's check would not be drawn upon some other depositor. A cashier's check is used largely for little remittances within a town——

Senator HITCHCOCK (interposing). Should not a cashier's check be received at par?

Mr. WOODRUFF. Well, it would probably lead to some abuse.

Senator HITCHCOCK. No; suppose a man in your town is given a cashier's check for $100 on your bank, and he sends it to Chicago and deposits it, and the Chicago bank deposits it in the reserve bank. Should not the reserve bank have the right to charge it against you at par?

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Mr. WOODRUFF. You might put it in, but it would encourage me to issue nothing but cashier's checks instead of drafts against the Federal reserve banks, because as long as I keep the cashier's checks floating around I would have the use of the money.

Senator HITCHCOCK. I do not see that that would be kept floating around any longer than the draft would.

Mr. WOODRUFF. It might never be sent to the Federal reserve bank; probably it would not. There is no reason, Senator, why a bank should use both of these things, for they have the same effect. In other words, if a bank wants to pay a bill there is no reason why it should draw a cashier's check if it is going to have the same effect as a check upon the Federal reserve bank.

Senator HITCHCOCK. I may go into a bank and say, "Give me a cashier's check to the order of John Smith." That is often done.

Mr. WOODRUFF. I can see no objection to putting that in——

Senator HITCHCOCK (interposing). If you leave the word in, that would include a cashier's check.

Senator NELSON. They have left it in.

Senator HITCHCOCK. They have? I did not understand so.

Mr. WOODRUFF. One of the members of the committee suggests that I reiterate the fact that most of the banks that make large exchange charges are small State and country banks that would not come into the system. I have already made that point. His point is that this rule, even if it were a good rule, would not affect the worst troubles.

That is all I have to say. I appreciate your kindness.

Senator BRISTOW. Just a minute. There is one part, Mr. Woodruff, of your statement that I wanted to inquire a little further about. I understand you object to having checks drawn against your bank that may be deposited with your reserve bank in Chicago, for instance, charged to your account. You want it to come there and be collected. One of your objections is it depletes your reserve which your books show you have there and causes confusion. Now, does not that require your reserve banker in Chicago, where your account is, to carry you for that amount of money for the time that is required by that check after it is presented to be sent down for collection?

Mr. WOODRUFF. In case it is charged against us and overdraws our account it would.

Senator BRISTOW. Suppose it did not? Now, when a business man in Chicago receives a check in payment of a bill of a party in Joliet he takes that check on your bank and deposits it with his banker, who happens to be your reserve agent there, and that reserve-agent bank credits this customer of its with the amount, but it can not charge the amount to you until it sends it down to your bank, and you authorize it to make such a charge?

Mr. WOODRUFF. Yes.

Senator BRISTOW. Now that bank is out of the use of that money until it gets your authority to charge you with it?

Mr. WOODRUFF. That bank is always foxy enough to take care of itself on that.

Senator BRISTOW. We are not talking about being foxy; we are talking about the facts.

Mr. WOODRUFF. Yes.

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Senator BRISTOW. What difference is there between that and the man who follows exactly the same principle and sends his check to Chicago, the dealer there deposits it, and it is sent back to the local bank—we will say to Joliet—and there it is charged up to the merchant's account? Are you not objecting to doing for the merchant exactly what you are demanding that the reserve agent do for you?

Mr. WOODRUFF. In the first place, the Chicago Bank—I did not mean that word "foxy" disrespectfully, Senator—the Chicago bank, when it credits its customer with that check that it sends down for collection to us, usually, if it is an interest account, does not pay the customer any interest on that check while outstanding. They very properly deduct from the interest account at the end of the month the items in transit. Now, in the analysis department, where they analyze practically every large account, wherever there are any of those outstanding checks, the analyzing department at the end of the month will tell them just what they lost by items being outstanding in the mail, what they lost by checks going from Chicago down to Joliet, and if the balance that the man kept in the bank would not be enough to make up that loss that the bank suffered and give a profit, then they will certainly make some new arrangement. Usually items of that kind may be credited three days after their receipt, or something of that sort. That is how they protect themselves.

I do not quite understand the last part of your suggestion.

Senator BRISTOW. They protect themselves in that way, as you say? Now, if your account with your reserve agent was sufficient so that it cared to carry that account, and not credit your checks until it had authority from you, it would take your account just as it does now?

Mr. WOODRUFF. Yes.

Senator BRISTOW. And if your account there was not sufficient to justify them they would not take it any longer—they would refuse?

Mr. WOODRUFF. Yes.

Senator BRISTOW. That would be the same principle applying to you you say the bank would apply to the merchant?

Mr. WOODRUFF. Yes.

Senator BRISTOW. My suggestion was that while you object to the merchant taking advantage of this time of transit, you still demand that the bank give you the same advantage that you feel you ought not to give the merchant?

Mr. WOODRUFF. I understand. That is, you mean if a local depositor in our bank should have $1,000 in the bank and sent a check, and that check goes around the circle, we would get the use of the $1,000 while that check is going around the circle; but if it was charged immediately, we would not get the use of it. Your point is well taken; there is no doubt we make a little additional profit there. The use of bank drafts as we advocate would be fair to everybody for the Federal reserve bank would get the use of the money while items were in transit. Then let us call attention to the other side. Many times the money is not on deposit with our bank.

Senator BRISTOW. Is not that a question for the bank to settle with the depositors, and not to be settled by law?

Mr. WOODRUFF. It could hardly be done, just exactly as the Chicago bank does with the merchant.

Senator REED. Senator Bristow, are you not overlooking this situation? I can only get at it by an illustration. I am addressing

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myself to you and Mr. Woodruff. Assuming that the merchant in San Francisco owes a merchant in New York City $10,000. As I understand, Mr. Woodruff, under this plan the merchant could draw a check upon his bank in San Francisco and send it to the New York merchant. The New York merchant would thereupon deposit that check in his bank, and it would that day go into the regional bank, and out of this Government bank there would be paid to that merchant in New York $10,000. Then the check would be sent back to the regional bank in which San Francisco deposited, and there it would be charged against the account of the San Francisco bank. All that would take some 7 or 8 days; maybe 9 or 10 days. The Government banks (we will call them that) would advance that money for all that period of time. In the meantime the merchant either did or did not have the money in his bank in San Francisco. If he did have it there, that local bank would have had the use of that money, but this Government bank would have had to have advanced the money for the use of the merchant in New York City. If he did not have it there, then his local bank would not have had the use of the money, but the merchant in New York would have had the use of the money, and this Government bank would have been advancing the money for several days on the transaction. Now, it seems to me that that is a questionable scheme.

Senator BRISTOW. I agree with Senator Reed, that I do not think these Government banks ought to have anything to do with that kind of business. I think that is the business of the banks that are organized to handle the business of the country, and that they ought to do just as they do now.

Senator REED. On the other hand, Senator, if you will pardon me, if this merchant desires to use the $10,000 and had $10,000 in New York of his own money, in some bank, he could check against it properly, because once the check went there that banker can pay it. Or, if he had the $10,000 in his own bank in San Francisco, he could buy a draft and send it on. Now he, in that case, of course, would be out the interest on his money during the time he was transmitting it, but as he owed the bill in New York, and as it was his duty to pay it in New York, there is no hardship imposed upon him when he has to pay the bill where he has contracted to pay it.

Senator BRISTOW. But, Senator Reed, Mr. Woodruff's proposition is this, that the man could buy the draft just as you suggest and pay it just as you suggest, and not by check as I suggested. But if the merchant gave a check to his New York house in payment of this $10,000 account, and that New York house took the check and deposited it with the regional reserve bank, the regional reserve bank, under the bill, is authorized to charge the account of the San Francisco bank with the $10,000. But Mr. Woodruff is objecting to that, and says that must not be permitted until the San Francisco bank has authorized its account to be charged with that $10,000. Now, he is asking that his bank be permitted to have the use of that $10,000 while it is in transit through the mail back to San Francisco, but that the merchant be deprived of the privilege now given him.

Senator REED. The difference is that in the first instance the merchant bears the loss incident to the payment of the bill 3,000 miles from his home, but where he has contracted to pay it. In the other case the loss falls upon the regional bank. The regional bank, that

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has no interest in the transaction, is compelled to stand that loss, it seems to me. I may be wrong about it.

Senator BRISTOW. I can see the force of your suggestion so far as the regional bank is concerned, and the bank that deposits with the regional bank ought, then, to pay that bill.

Mr. WOODRUFF. I want to suggest, in connection with your last statement, that there would be one serious objection to charging those items against the reserve balance. The bill, as I understand, provides that we must keep not less than a certain per cent of our reserve in the regional bank, and then I believe the bill also provides if we disobey any of the provisions of the bill we may be fined or sent to the penitentiary. Now, entirely unbeknown to us, a lot of those items may be charged to our account in the Federal reserve bank. Our reserve in the bank may therefore fall, without any action on our part, to a point below the point provided in the bill, and we may go to prison.

Senator O'GORMAN. Do you not think, right there, that the reserve board will make necessary rules and regulations and, among other things, provide that the regional bank will advise member banks daily, by wire, of the checks that have been charged up to their accounts?

Mr. WOODRUFF. Senator, in that case we would be compelled to deposit by wire also in order to keep our account from being overdrawn. Another thing, the Federal reserve bank could not advise us until the close of business, because they would not know what checks might be presented, and then it would be too late for us to remit.

Senator WEEKS. You all agree that the methods of remitting are crude, cumbersome, and unscientific, do you not?

Mr. WOODRUFF. Yes.

Senator WEEKS. And we ought to take advantage of this legislation to improve it?

Mr. WOODRUFF. Yes.

Senator WEEKS. And that the consensus of opinion is that if the reserve bank collects bank drafts and drafts on other reserve banks and lets individual checks alone that would be a reasonable solution of the question as far as this bill is concerned?

Mr. WOODRUFF. We feel, Senator, that the business of the country would eventually be transacted as it should be and the payments made with drafts on the regional banks.

Senator WEEKS. That is, if charges were made on individual checks the custom would grow, and grow rapidly, to use cashiers' checks or some form of bank draft or check to pay bills?

Mr. WOODRUFF. Cashiers' checks would not be used very much, in my opinion, but I do believe drafts against regional reserve banks would come to be the standard exchange in this country, a thing I feel should take place.

Senator BRISTOW. Mr. Woodruff, before you close, I do not want to be understood to be advocating that your accounts should be charged with the checks without first being submitted to you; but I do maintain if that rule is good for you it is good for the merchant. That is what I objected to. You change the system by law and put a burden on the merchant that the banks voluntarily have relieved

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them from, and still, by law, you preserve to yourself an advantage which you think you ought to have, and an advantage I do not deny you ought to have.

Senator NELSON. There is where you are mistaken, Senator; they have never relieved the reserve banks of that duty.

Senator BRISTOW. I mean the merchants.

Senator NELSON. They have always insisted, most of the banks, that they should not charge them with those checks until they notified them.

Senator BRISTOW. I am not objecting to that; but I do object to devising a plan here by which a merchant has got to buy a draft instead of using a check.

Senator HITCHCOCK. Mr. Chairman (Senator Reed), I move that we take a recess to-day until 2 o'clock.

Senator REED. Mr. Woodruff, Senator Shafroth desires to ask you a question.

Senator SHAFROTH. I have been requested to ask you this question, Mr. Woodruff: If the reserve banks must handle individual checks, should not they be confined to checks originating in member banks, thereby eliminating all checks bearing the indorsement of nonmember banks?

Mr. WOODRUFF. In case you leave the law as it is that would unquestionably be a very great improvement.

Senator SHAFROTH. That would have a tendency to have the nonmember banks come into the system, would it not, and be an inducement for them, if their checks were included?

Mr. WOODRUFF. I think it would be a very small inducement for country banks, Senator. For city banks it would be an inducement.

Senator SHAFROTH. It would?

Mr. WOODRUFF. Yes.

Senator REED. It has been suggested that we have an executive session for a few minutes and then take a recess until 2 o'clock.

(Thereupon, at 12.50 o'clock p. m., the committee went into executive session, at the conclusion of which a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

Senator REED. We will now hear you, Mr. Tilton. I want to make the suggestion that you come directly to the criticism of the bill which you have in mind, or any statement you have to make with reference to any particular matter that needs improvement. I will ask you now to state your name, place of residence, and the bank with which you are connected.

STATEMENT OF M'LANE TILTON, JR., PRESIDENT OF THE FIRST NATIONAL BANK OF FELL CITY, ALA.

Mr. TILTON. I live in Pell City, Ala.; I am president of the First National Bank of Pell City; I am president of the First National Bank of Lincoln and director in another national bank and three State banks; I am also secretary of the Alabama Bankers' Association.

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Senator REED. What is the capital and surplus of the bank in which you are directly connected as president?

Mr. TILTON. Mr. Chairman, and gentlemen of the committee, I am here representing a typical country bank that has a capital, as have all these banks I have mentioned—six in number—of $25,000. The largest amount of surplus that any of them has is $7,000. The largest amount of deposits that any has is $160,000, and the smallest amount of deposits of any one of these banks is $30,000. I believe, Mr. Chairman, that I am representing a class of banks that has not yet been heard before this committee and yet which represent, in number, over 60 per cent of all the banks of the United States. And I further feel, Mr. Chairman, that we bear a portion of the burden of the national prosperity directly in ratio to our numbers rather than to our total resources.

You gentlemen have heard here from the country bankers on two subjects, and I am going to speak of the subject of the segregation of deposits, and go into a little more details than Mr. Woodruff did this morning on one feature of the exchange provision of this bill. Mr. Chairman, this is a matter of life and death with us. I heard Mr. McAdoo say yesterday that we should be generous; we should be patriotic. No one recognizes more than I do, and the country bankers as a whole, that legislation of this kind is peculiarly of a sort that calls for prudent compromise and unselfish concessions; but, Mr. Chairman, when we are called upon, as small country bankers to make concessions which send us out of business, I think the limit of unselfishness has been exceeded.

It was my good fortune to be the country banker who called the meeting of the country bankers in Boston.

Senator REED. I am going to interrupt you there: Was that call instigated in anyway, directly or indirectly, by anybody else?

Mr. TILTON. I will answer that question—no, sir. It was conceived in my mind, and I did not speak to a human being, so far as I am aware, before I sent out my call among the banks of America and the financial journals.

Senator REED. Pardon me for asking these questions, but I think it is necessary to do it, because of statements that have been made. Did you get letters, or were you advised in any way from any of the large bankers of New York or elsewhere, asking that opposition be stirred up to this bill?

Mr. TILTON. No, sir. On the contrary, those city bankers who spoke to me told me not to call this meeting, because it would be a fizzle and I would be ashamed of the result.

Senator REED. What city bankers did that?

Mr. TILTON. I used the term "city bankers." I mean by that my close friends at home, the larger bankers in the immediate territory with which I discussed this matter. I could not recall their names offhand.

Mr. Chairman, self-preservation is the first law of nature, and when you have in this bill two sections, one the segregation of deposits, and the other the matter of exchange, neither of which is germane to the measure, and when the result of the operation of those two sections is to put out of business, in my humble judgment, fully 60 per cent of the country national banks in America, I do not see how

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this committee, which voiced the sentiments it did yesterday, will think for one moment of doing that injustice.

Senator REED. Now, we are interested in your showing why the bill will do that.

Mr. TILTON. I will do so, sir. Permit me to say right here, however, that the resolution that we adopted in Boston has been misunderstood by a great many people. What we really did there was to try to decide upon as few things as possible which, if incorporated into this bill, would enable the small country banker to join the system and would enable the small national banker to retain his charter, and would induce the small State banker either to nationalize or to come in as a member by whatever provisions might be made.

For 50 years, Mr. Chairman, the financial legislation of this country has been drawn directly in the interests of the fiscal centers. I am not reflecting upon any bank in any large city of which I am aware. Those people are my friends. During those 50 years a great number of small country banks have developed all over the United States. Nowhere have they developed more rapidly than in the cotton field and in the Far West. I believe that any financial system in this country would not be a success unless it is drawn so that these small country banks, of whom mine is one, can come into this system and enjoy a fair profit; and I believe it will be a vital error—a vital error—to so draw this bill that we must stay out and forfeit our charters.

Senator REED. Now, Mr. Tilton, those are matters we can handle. We want you to tell us what is the matter with this bill; how it is going to injure, and how we can remedy the trouble. You see this is a hearing and your talk is exceedingly interesting and I am not trying to stop it, except I want to get down to the facts, because we have more people to hear now than we are going to be able to hear.

Mr. TILTON. I will come, then, right down to the facts. The two subjects assigned to me are the exchange feature and the segregation of deposits. I believe the exchange feature, unless amended in the manner suggested by these country-bank resolutions, will mean a loss of profits to the country banks which will average more than 25 per cent of their net earnings. Speaking for my own bank, it will be possibly a little larger, and I believe that our net earnings from exchange are very much smaller than they are for the average bank in the cotton field and in the Western States.

There was something said here this morning about how checks are collected. This bill requires us to pay over two counters. The object of this legislation is to enable the bank to pay over one, and always be able to pay. Our checks as now drawn are presented to us over our own counter, either by the individual owning them or by the collecting bank which is acting as an agent for the person who owns them. Under the system you propose here, whereby the Government bank will undertake to collect checks drawn by depositors of member banks, you are forcing us to keep a cash balance to our credit at the reserve bank to take care of those checks as they come in, in addition to keeping necessary cash in our vault to take care of them there if they are presented over our counter. In other words, Mr. Chairman, you are making us be prepared to pay in two places where we are now trying desperately hard always to be able to pay in one.

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Senator REED. I understand you mean that you would have to have a certain reserve in the regional bank, and would also have to have a certain reserve in your own bank, and then you have to have a working surplus over the reserve in your bank, the legal reserve, and you say now that if these checks could be presented at the regional bank you would have to have a working surplus over and above your reserve there, in order that your reserve might be maintained intact?

Mr. TILTON. Exactly. I mean this: My present correspondent in New York, the Hanover National Bank, has no authority to charge checks against me it may receive over its own counter. All it can do is to remit those checks to me, in Alabama. If the regional bank is located in New Orleans, for example, I have got to be prepared over the counter of the regional bank in New Orleans, should the checks be presented there for payment, as well as be prepared to pay them over my own counter, should they come there. I do not know where they are coming.

Second, this section as now drawn will require us, for the reason just stated, to keep a sufficient sum in the regional bank over and above our necessary reserve requirements to meet the accumulation of checks during at least three days, if I estimate correctly the average distance of the average territory for each of these twelve regional banks, and we could not do it.

Senator HITCHCOCK. It would be much harder on you than on the bank located nearer the regional bank?

Mr. TILTON. Very much so, sir. My bank, the best one I have, makes an earning of about $4,000 a year on $32,000 and surplus. We have averaged that during the last five years, only because we have had no losses of any nature or description. That represents about 16 per cent on our capital, a little less than 16 per cent on the capital and surplus, and our net earnings during this period I have described have run less than $1,500 out of a total of $4,000. Therefore, the first effect of this section, if these checks are to be collected as the bill calls for, is to take from my bank at Pell City and from every other little country bank of $25,000 capital and more, through the cotton belt, at least one-third of its net earnings. I can not see how this committee can consent to a provision not germane to the bill and which will have any such result upon 10,000 banks in the United States.

I want to correct a statement that was made this morning. It was stated here, or estimated, that Chicago possibly might handle $150,000,000 of country items in a single month. I have talked, just a moment ago, with the gentleman who is going to appear this evening from another committee, not ours. He comes from the city of Albany, in a large collection center. He tells me his collection of country-bank checks each month average over $4,000,000 a day, and there is another bank in that same city that does just as large a business. So when you come to estimate, Mr. Chairman, the amount of country checks Chicago handles, I have not the figures at my command to state that volume. Albany does much more, almost double, what it was estimated that Chicago might do under this measure. There is not a business building in the city of New York, there is not one in the city of Chicago, which would be big enough, Mr. Chairman, to house the employees that would be required to transact that enormous amount of business.

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Who is going to profit where we lose? Who is going to get the $1,500 I am making and all these other country banks are making? The business men of America would not get it. They do not pay it now. The only people who are going to get it are the banks in the collection centers. The banks in the collection centers criticize these little banks for making this charge. But I notice none of them turns down our account. Every bank in the city of Albany would be glad to have the account of any one of our banks, even though they say my rate of 15 cents a hundred, or $1.50 a thousand, is excessive. If it is excessive, and does not warrant them continuing to make collections for me and paying the exchange on checks of mine, I want to know why they do not quit doing business for me?

Senator REED. Why? You make a very interesting statement there, that the only banks that will profit by having exchanges at par are the city banks——

Mr. TILTON (interposing). They are mistaken about it, Mr. Chairman.

Senator REED (continuing). In collection centers. Now, tell us why and how that is.

Mr. TILTON. I was invited to see the books of a national bank in a city of Alabama, whose name I am not permitted to give unless insisted upon, which estimated they paid to the country banks of north Alabama the sum of $60,000 per year for the collection of those checks.

Senator REED. Did that bank lose the money?

Mr. TILTON. They made it up by the country bank balances that were kept there with them.

Senator REED. Didn't they charge the customer with anything?

Mr. TILTON. No, sir. They have no clearing-house rule in that city to which I refer.

Senator REED. You know we are dealing with awful hard facts here, or trying too, at least, and we want to get them just as they are.

Mr. TILTON. I can explain just in a moment. In a great many banks outside of the State of Alabama, a great many banks within the State of Alabama, keep balances on deposit with that Birmingham bank for the privilege of clearing their north Alabama items. They figure that the balances kept more than compensate them for the charge they have to pay for the country bank in the territory they clear for. In other words, they make a profit on the exchange by reason of the interest they are able to get out of the bank balances maintained with them.

Senator REED. Would you, if you had a regional bank, not escape the burden of keeping those balances with the Birmingham bank?

Mr. TILTON. Mr. Chairman, I do not want to escape that burden. The bankers of the large banks in my territory are my closest personal and business friends. We can not do business without leaning on some man who is a little bigger and a little better than we are; a little stronger financially, and a little wiser mentally. He is the man who is our friend, and if we get in a hole, all we have to do is to call on him and he will respond. And that condition applies to every collection center in every State of our Union, so far as I am aware. I would have to keep money in Birmingham because there are several days in the month where my cash withdrawals over the counter

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are more than twice our capital, and we would have a great time in getting that money from New Orleans, Atlanta, or Chattanooga.

Senator REED. And now you call on Birmingham, do you?

Mr. TILTON. I get my cash from Birmingham; yes. Every country bank, so far as I am aware, has a larger bank as close as possible to it where it can always look to get immediate shipments of cash.

Senator HITCHCOCK. It can telephone for it?

Mr. TILTON. Exactly.

Senator HITCHCOCK. And get it in how many hours?

Mr. TILTON. I can telephone and get it the next morning, or I can telephone and get it that afternoon. There are six trains daily.

Senator REED. How far are you from Birmingham?

Mr. TILTON. Thirty miles. Senator Owen, informally, yesterday, made the suggestion that we could charge our own customers this exchange, and therefore lose nothing. Now, what would happen, my friends? When a customer of mine has drawn checks from our bank, at the end of the month, we make a debit charge to cover the trouble we have gone to to cover the exchange. The banks of Birmingham would jump at such a charge as that and say, "If you do business with us we won't make that charge," and the consequence would be we would lose a great volume of our deposits, because in my home town, like in most country towns, the volume of business we enjoy from our own little cities is comparatively small with what we get within a 5 or 10 mile radius from the outside.

Senator NELSON. From the farmers?

Mr. TILTON. From the farmers; exactly so, sir. It would be impossible for us to make that charge. And I want to comment briefly upon a matter presented here this morning by Senator Bristow. I agree fully with what the Senator said, but I do not believe that 1 country bank in 10 will agree with the view expressed by the speaker, Mr. Woodruff, who at that time was not speaking upon a subject germane to our resolution. Ever since the banking business in this country has been established the cry has gone out to the people of our communities, "Do business with us and pay your bills by check." And if, as Mr. Woodruff suggested, every time a man within 5 miles of my town wanted to pay a bill in Birmingham or Cincinnati or Chicago he came to my bank to get a bank draft for it, I would have as many clerks doing the business of writing checks as I have customers now drawing them. I could not begin to handle the business if our little bank should be run on that basis. It would take at least five more men to transact it.

Senator REED. You did not mean you would have to have as many clerks as customers?

Mr. TILTON. I would qualify that. We would have to double our force; we would have to employ five more men at least to handle those checks, and it would be a great annoyance to us.

What is the remedy? It is stated in this country bank resolution, "Confine the operations of the Federal banks to only those checks drawn by its members, either, as was suggested by the Senator sitting on the left, drawn on itself, which would be in the nature of a cashier's check, or upon the regional bank in its own territory, or upon any other regional bank with which it might maintain a balance, or upon any other member bank drawing on it. The Government escapes the enormous burden and cost of handling this huge transit

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business, and the country bankers continue to enjoy 25 per cent of their net profits, and if they lose that many of them can not afford the loss or recoup it in any other way.

Senator REED. If the country banks in the small towns were forced out of business, what effect would it have upon the small town of that community?

Mr. TILTON. I believe the country banker has been the greatest business developer in this country. I do not know whether or not the bank has built the little towns that have grown up, but I do know that there is not a little town in the United States that could have grown as they have grown without the benefits and facilities that its little home bank afforded. I can certainly say that as to one town, because that town I happened to build myself.

Senator HITCHCOCK. And you may add that one of the great advantages the towns of America have over the country towns in Europe is the fact that they have banking facilities which the small town in Europe has not.

Mr. TILTON. Precisely.

Senator NELSON. And are the great gatherers of deposits from the farmer in the little rural communities that the big banks could not get hold of.

Mr. TILTON. When I went to building that city there was nothing there; it was a 600-acre abandoned farm. I went to present some letters of introduction to the bankers in Birmingham, who had passed that alleged town on the Southern Railway, and they looked at me in amazement at the idea that a bank there could be successful and yet, gentlemen, that bank there was successful and that town has grown until to-day we have 3,000 people in six years.

Senator NELSON. And what are your deposits?

Mr. TILTON. $169,000 at the last I heard of it. Not a bit of that money was in circulation before we came there. That money, so far as I am aware, except the new money that has come in there from the manufacturing industries that we have, was money that was hoarded away by the people.

Senator REED. You think you rustled that money out of the stockings and bedticks? I use that figuratively; I do not mean literally.

Mr. TILTON. To an enormous extent. These savings deposits are $80,000, and at least half was money in existence 10 years ago when the bank was organized, but had never seen the light of day until it passed over our counter, and I believe that can be said for every country bank in the United States.

Senator REED. Who are the stockholders? I do not mean the individuals; but you have stockholders in your bank?

Mr. TILTON. Yes.

Senator REED. Are they local people?

Mr. TILTON. Yes.

Senator REED. Any farmers?

Mr. TILTON. Yes, sir.

Senator REED. Any merchants?

Mr. TILTON. Yes, sir; manufacturers, miners, and lumbermen.

Senator NELSON. Interested in the business in your neighborhood?

Mr. TILTON. Yes, sir; property owners.

Senator REED. In other words, the local people, perhaps with somebody like yourself, who is acquainted with the bank-promoting en-

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terprise, the local people get together and take some of their earnings and savings and make a small bank; and then the people put their money into that bank and that stimulates business and puts money into circulation and sets it to work, and you think that is a good thing for a community and a number of those banks are a good thing for a State?

Mr. TILTON. Yes, sir; and I go further than that and say that when I went to Pell City to start this bank I spent 30 days trying to get some stockholders, and I could not get anybody who was willing to put his money into it, so I borrowed a little more than I had already borrowed and started a bank, and about a year or two after that the people were falling over themselves to buy that stock, and now they complain because they are not stockholders.

I want to say a word about the savings section. That is not germane to a financial system of the United States. I do not see savings bank depositors of either State banks or National banks coming to this honorable committee clamoring for protection. Have they been here? They regard their savings in country National and State banks as important, and if they do not like us they can go to the Government post office and make deposits, because there are dozens of them in each county in the State. Why, then, encumber this bill with a provision that does not need to be there, when by omitting it you will encourage a great many banks to come in that would otherwise not do so.

A member of the committee made a suggestion that the acceptance of savings deposits upon the part of the national banks was unlawful. It is a mooted point. The Comptroller of the Currency has ruled that it was. If it is unlawful, and it is certainly desirable, then I think it should be made lawful.

Senator NELSON. They simply pay interest on the deposits, and that is what the great reserve banks have been doing, paying 2 per cent interest on bank deposits, and why the little country bank should not have as much right to pay interest on its deposits as the reserve banks I never could see. That is all there is to this savings department.

Mr. TILTON. That is all there is, sir.

Senator NELSON. They are time deposits, and you pay your interest on them; otherwise you treat those funds just as the other funds of your bank, and require the same reserves as you do for the commercial deposits?

Mr. TILTON. Precisely. The growth of the savings departments of the country banks has been, to my notion, the one great force behind the development of America. Country banks have always encouraged savings deposits. They are doing it to-day, and they want to be able to continue to do it. Under the cumbersome system that this bill provides you hamper them.

Mr. Chairman, you have in this provision created two banks under one roof. They are just as much two banks as if one was on one side of the street and the other on the other side of the street. But they are more than that. Two banks across the street from each other could be mutually helpful if they desired to be so. Under the provisions of this section you have created two banks, and have forbidden one of them to do business with the other.

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Senator NELSON. Or help the other?

Mr. TILTON. Or help the other.

Senator REED. Let me ask you a question right there. Take this little bank of this little town you were speaking of, Pell City, a little town of 2,000 people. How many employees do you have in your bank?

Mr. TILTON. Four.

Senator REED. A cashier, and who else?

Mr. TILTON. There is the executive officer, the cashier, assistant cashier, and bookkeeper or stenographer.

Senator REED. Is that not rather more help than is ordinarily found in a bank of that size?

Mr. TILTON. No, sir.

Senator REED. Somebody here told us about what he called a one-man bank, in which he said the cashier was the bookkeeper, paying teller, receiving teller, telephone girl, and janitor.

Senator NELSON. That is the case with the little State bank; you know they can have State banks with $10,000 capital.

Mr. TILTON. I have one of them, sir, and I have no bank where I can employ less than two people. The volume of business is growing so much that it is absolutely essential to have one man ready to step into the shoes of another man in the event of sickness, or anything of that kind.

Senator REED. If this bill was enacted and you had to segregate the savings-bank department, could this same force you have employed now transact the business for both departments?

Mr. TILTON. No, sir.

Senator REED. How much do you figure it would cost you to run the other departments?

Mr. TILTON. We would have to employ at least one other clerk at not less than $50 a month.

Senator REED. That is, $600 a year?

Mr. TILTON. Yes, sir. I will come to that in a moment.

Senator REED. Very well.

Mr. TILTON. Banking in the country consists of taking money from people who have it——

Senator NELSON (interposing). Your deposits are not like city deposits; they are made up of money paid over the till to you?

Mr. TILTON. Precisely; and lending to those who are in temporary need of it. In every rural community, and I suppose in every other community, these two types of citizens exist. If under this bill as now drawn the Federal board is given power to withdraw those savings deposits from one community and invest them in another community, the first and worst thing that is done is the contraction of credit in that community. With us it would mean cutting it down one-third at least in the wintertime and one-half in the summertime.

Senator REED. Why?

Mr. TILTON. It would mean—because we would have to purchase the class of securities demanded by the Federal board. And if the Federal board does not intend to name a different class of securities from that provided for, what is the use of giving them that privilege?

Senator REED. You make the statement that it would take from one-half to one-third of your money, or it would result in that contraction—I have forgotten which way you made your statement. I

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want you to tell us how that works out—not but a conclusion, but show us how it works out.

Mr. TILTON. On the 1st day of July my little bank at Pell City had, approximately, $75,000 of savings and $75,000 of commercial deposits. All of that money was invested locally—loaned to local manufacturers, miners, business men, merchants, and farmers. If the Federal board in its wisdom, or lack of wisdom, had ordered a few days before that, that in the segregation of our savings deposits we should be permitted to invest only in the following items: United States bonds, State bonds, county or municipal bonds, or in the bonds of certain railroads that have paid dividends regularly for a certain number of years, it would have meant the transfer either then, or gradually, over a period of years, of that $75,000 that we had invested locally and in securities which are on the outside. And I want to say further that the average country-bank board of directors can not tell what is a good bond and what is not. We thought the Frisco bonds were good, but we were disappointed.

Senator REED. At the present time that $75,000 which you own on time deposits you loaned to A, B, and C right there in your own town and county?

Mr. TILTON. Yes, sir.

Senator NELSON. Just like your other deposits?

Mr. TILTON. Yes, sir.

Senator NELSON. Just like your check deposits?

Mr. TILTON. Yes, sir. The next point to which I wish to address myself is the loss of revenue that this would bring about. If there was an enormous demand created for a certain class of stocks or bonds whereby there came into a market for these bonds country banks which had never before been buyers, in my judgment the net earnings on bonds at the price at which they could be bought would be materially reduced by reason of that demand. I think it would be safe to say that whereas now we can get a bond that will yield us, in some cases, as much as 5 per cent, that by reason of this increased demand the net returns on bonds would decline by reason of their increase in price. The result would be that country banks would get about 4 per cent on their savings deposits.

Senator NELSON. And you could not pay your depositors over 2?

Mr. TILTON. Exactly, sir.

Senator NELSON. Instead of paying them 3 or 4?

Mr. TILTON. We are paying them 4 now and lending them money in our communities at 6 and 8 per cent. We would figure that to the average country banks in the South where rates are too high—and I am speaking now of the entire cotton belt—I think the transfer of these funds from local loans would mean an average loss of interest of 4 per cent. In my own case it would mean a loss of interest on, say, $70,000. And 4 per cent of $70,000 is $2,800.

I have told you that under the provisions of this bill I am going to lose $1,500 in exchange, so that would be a total of $4,300, which is $300 more than we have ever earned during the last five years. And yet we are asked to be patriotic——

Senator O'GORMAN (interposing). You do not consider this a perfect bill, then?

Mr. TILTON. No, sir; it is not the holy and sacred thing that I thought it was going to be when I reached here. I think it very

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nearly corresponds to what a celebrated German historian said about the Constitution of the United States, that it was forced down the throats of a reluctant people by the stern necessities of the times.

Senator REED. It was a pretty good thing when it got there, was it not?

Mr. TILTON. Yes, sir.

Senator NELSON. You do not think this bill in its present form would have that effect, do you?

Mr. TILTON. Well, no. These banks are forbidden to do business with each other; they are required to keep a separate cash reserve in their vaults. It says you can not mingle these moneys; that you are not permitted to take money from one department to pay an obligation in the other department. The result is, Mr. Chairman, that you might have $10,000 surplus cash in your savings department and a check of considerable size might be presented in your commercial department and you would have to dishonor it, and that means you are insolvent. If you were to use your savings-department cash to pay that, the bill says you are subject to a $5,000 fine or two years in the penitentiary.

Senator O'GORMAN. Take your choice?

Mr. TILTON. Yes, sir.

Senator REED. They do not give you your choice.

Mr. TILTON. The suggestion of the country bankers in this connection is this: That the exchange feature be granted, so that the Federal bank will be relieved of the burden of collecting any other checks except those drawn by members. The other suggestion as to the savings feature is that that entire section be stricken out. It is not germane to the measure. It has no business there, and it will force many national banks to give up their charters, and it will prevent hundreds of banks from coming into the system who would be glad to do so if they were given an opportunity.

Senator REED. Let me see if I am right in one thing that comes to my mind now. If you take your bank which now has about half of its deposits—that is, of the deposits which it uses—in time certificates and the other half in ordinary commercial checkable deposits, and you provide that the two funds must be segregated. Of course you would have to keep a sufficient balance on hand in the commercial half of your bank, so that you could be ready at all times to meet demands coming in over your counter, and that would have to be in excess of your legal reserve, would it not?

Mr. TILTON. Yes, sir.

Senator REED. Now, you would have to create the same kind of a fund in excess of any legal reserve over in the savings department?

Mr. TILTON. Yes, sir.

Senator REED. And you say you could not use the funds of one department in the other department even for a day?

Mr. TILTON. No, sir.

Senator REED. Now, the great trouble with the banking business is the liability that you are under of having too many people suddenly demand their money, is it not?

Mr. TILTON. Yes, sir.

Senator REED. Then is not the fact that you have a large part of your money invested in time securities, which you can justly refuse to pay, really an element of strength to a bank?

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Mr. TILTON. No, sir.

Senator REED. You do not think it is?

Mr. TILTON. No, sir.

Senator REED. I want to be sure you understand my question. If all your money was subject to demand at once—if half of your money was held on time deposits that you could justly refuse to pay when demand was made before maturity—then is not that fact an element of safety to you?

Mr. TILTON. Mr. Chairman, that is one of the banking propositions that reads very well, but no matter what the strain or stress was, and no matter what maturity there might be on a savings deposit, there is not one good bank in a hundred that can afford to decline payment on a savings account when it is demanded, even though it may not be lawfully due until six months thereafter.

Senator REED. I thought it was a thing that they ought to be encouraged to do—that the banks ought to be encouraged to do that sort of business, because it might be a very great element of safety in the hour of trouble; but you seem to take the other view.

Senator NELSON. I will tell you what the facts are. They issue time certificates, say, for six months, with a statement that if left six months they will pay that much interest. But, as this gentleman says, whenever a man comes to get his cash, they always give it to him, whether the time is out or not, and all that that man loses is the interest.

Mr. TILTON. Precisely.

Senator NELSON. That is the way it is run.

Mr. TILTON. And more than that, if a person came to your bank and wanted the money and you did not let him have it—suppose he offered the certificate of deposit on the savings bank as security for a loan for the unexpired period, you would not turn him down. If you refuse to do that, or will not let him have the money, you will start a countryman from your front door who is going to rouse the neighborhood.

Senator HITCHCOCK. You seem to hold rather emphatic views in regard to country banks.

Mr. TILTON. I ought to have emphatic views; I have been through the mill.

Senator HITCHCOCK. You did not get all your views in Boston, from the city banks, who are supposed to have intimidated you?

Mr. TILTON. I carried my views there and came back with them.

Senator HITCHCOCK. Did the other country bankers have equally as positive views as you have?

Mr. TILTON. Some of us considered these provisions much more important than any others.

Senator HITCHCOCK. Then the convention of the country bankers was the real thing, and the spontaneous expression of country-bank sentiment?

Mr. TILTON. Yes, sir.

Senator NELSON. It was not an infection you got from the big city bankers? [Laughter.]

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Mr. TILTON. I issued the call, and I wrote the resolutions, and I had no conversations with any persons whatever before I issued the call.

Senator REED. Who is supposed to represent the sinister influence we have been reading about?

Mr. TILTON. We do not know anything about that sinister influence.

I have tried to show, gentlemen, why the savings section should not be allowed to stand, and so we ask that it be stricken out. If that is allowed to stand, we will have to face a loss in the matter of exchange. Small country banks which represent over half of the total do not make excessive profits. Many of them eke out a bare existence. Every item of expense is pared to the last farthing, and official salaries, and I say it to my sorrow, are kept down below the amount to which we are entitled.

Senator NELSON. They do not give any $20,000 salaries like the big city banks?

Mr. TILTON. The highest salary is $4,500 a year, and the lowest is $1,200 in the bank with which I am connected. There is not much opportunity to get rich out of that kind of a system.

Senator REED. What does the cashier get as a yearly salary?

Mr. TILTON. From $900 to $1,200.

Senator REED. What does a clerk get?

Mr. TILTON. From $50 to $75.

Senator REED. A month?

Mr. TILTON. Yes, sir.

Senator REED. And does the president of the bank draw a salary unless he is active?

Mr. TILTON. No, sir.

Senator REED. And if he is active, what would he be doing, acting as cashier, or what?

Mr. TILTON. I do not know of any country bank president who gets more than $1,800.

Senator NELSON. Do you give them 30 days annual leave and 30 days sick leave? [Laughter.]

Mr. TILTON. That depends on how much stock he has. [Laughter.]

Senator REED. In a word, the salaries are low and the expenses are kept low, and an institution run in that way, if it does not make any bad loan, may make a little money?

Mr. TILTON. Yes, sir

Senator REED. And be of service to the community.

Mr. TILTON. I want to say right there that a lack of profits in banking is the most dangerous factor in bank solvency that is extant. You get a president or a cashier prodded by a board of directors, and they are in turn being pushed by dissatisfied stockholders who are complaining of the earnings of their institution, because they are not getting their 6 or 8 per cent dividends and 4 per cent surplus, and you put a bank official in that kind of a position, Mr. Chairman, and you have started that bank on the road to ruin.

Senator NELSON. He has to make risky loans, speculative loans, because of the higher interest?

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Mr. TILTON. Yes, sir. In conclusion, the country banker wants this bill to be a success. We are not looking upon it as a partisan measure. We believe it is something designed to benefit all the people. We believe it can be made a success with our cooperation, but we feel it is an injustice to attempt to pass any bill which the small country banker can not take part in. I do not care for the little $2,500 assessment in the stock of the Federal bank; I would not mind if it was $5,000. I would be gaining an additional friend on top of my nearby city connection. I could go to the Government bank, and as a matter of law demand that my commercial paper be changed into currency, whereas now I can only go to a nearby friend and ask it as a favor from him.

Senator HITCHCOCK. Suppose the reserve bank refuses to discount your paper?

Mr. TILTON. That is not what they are there for.

Senator HITCHCOCK. There is nothing in the bill to compel it.

Mr. TILTON. I would not care to discuss that question. We would go around and buy a box of cartridges, I guess, and a gun. [Laughter.]

Senator REED. We have been asking for practical suggestions. [Laughter.]

Mr. TILTON. Mr. Chairman, and gentlemen of the committee, the national country bankers do not want to surrender their charters. You have not any right to force us to do so. We are proud to do business under the laws of the United States, and if the time ever comes when we must surrender that charter, and attempt to go back to the State charter, it is going to mean a very marked reduction in our business. How can a countryman understand why this has been done? You can get up on the housetop and talk for months as to the reason why the Government has passed the law which you can not do business under. It will drive our customers away, and you have no right to disregard the 4,000 or 5,000 country national banks and say that we are going to fix up something for the big banks in the fiscal centers, and let you stay out and surrender your charters, and use your name, and continue to rely upon the same people you have been relying upon.

Senator REED. You seem to be under the impression that the country bankers had some kind of a right to be heard before they were legislated out of existence.

Mr. TILTON. Yes, sir; we feel that way, quite deeply.

Senator O'GORMAN. Have you had any opportunity before these hearings to present your views regarding this pending legislation?

Mr. TILTON. No, sir; this is our first opportunity.

Senator O'GORMAN. I am not speaking of you particularly, I am speaking of the country bankers.

Mr. TILTON. This is the first time we have been represented by a committee. There may have been individual country bankers who have had an opportunity to be heard. I do not believe there has been a country banker who is truly a rural banker, as myself, who has had an opportunity to be heard; I mean a banker representing a bank with $25,000 capital and less. We are over half of the total number of country banks.

Senator HITCHCOCK. It is very evident that the country bankers have not been heard or this bill would have been amended.

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Senator REED. Do you really think it is worth while for this committee to take two or three days of our time in order to hear the country bankers? Do you think that would be a good expenditure of time on the part of seven or eight men?

Mr. TILTON. Yes, sir.

Senator NELSON. Do you think we are justified in having these hearings and listening to you gentlemen?

Mr. TILTON. Yes, sir.

Senator NELSON. And taking into consideration the fact that it would seriously affect you?

Mr. TILTON. Yes, sir.

Senator NELSON. You think we are justified in that?

Mr. TILTON. Yes, sir.

Senator NELSON. I am glad to hear it.

Mr. TILTON. If we are unable to go into the system, the small country banker might give up his charter. That is certain. If we are able to retain our charters and go into the system, I believe that most of the State banks will also do the same thing.

For one I believe that the idea is rapidly growing that we should have but one banking system in the United States. And I feel that just as soon as the State banks see that they have an opportunity to come in under this bill and have a part in this new financial system they will be willing, without being forced to do it at once, to give up their State charters and do business as national banking institutions.

Now, Mr. Chairman and gentlemen, you have the choice before you. You have two sections in this bill, the only two we are concerned with. We expressed at Boston no opinion as to whether there should be 1 or 100 banks, whether there should be 3 or 30 men on the Federal board. We are not concerned with those things. I do not believe there is any chance for a Government bank to be located at Pell City, and I do not believe there is any chance for any of us ever getting on any of these boards. If we have a chance, we might be a little bit excited about that, too. The things which we have presented here now are the two things which will enable us to become a part of this system.

Senator REED. Do you think there is any chance for some of you country bankers, you little men with the banks of $25,000 capital—I mean the capital is little, not that the men are little—to be on the board of directors of a regional bank?

Mr. TILTON. I do not imagine so.

Senator REED. Why not? You have the same vote.

Mr. TILTON. I have not gone into that question.

Senator O'GORMAN. Perhaps if you organized them as you organized the Boston convention you might accomplish something.

Mr. TILTON. I would not undertake that. Here are two features of this bill that are not germane to it. The bill might be perfect as it stands; it might do something that was miraculously inspired, and you could remove the two sections from it and it would do the bill absolutely no harm. You have the choice of keeping those two features in and keeping out from 7,000 to 12,000 banks. And from what I have heard and seen in this committee room since I have been here I am going back home absolutely certain that no injustice is going to be done to the country banker.

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Senator REED. Suppose we make the changes that you gentlemen suggest, in substance; perhaps not the changes that you suggest, but give you substantially what you ask for, are you not coming into this system?

Mr. TILTON. Yes, sir; on the run.

Senator REED. That is what we want to know.

Well, who is the next witness? I believe Mr. Barry is the next witness.

STATEMENT OF DAVID BARRY, CASHIER OF THE FIRST NATIONAL BANK, JOHNSTOWN, PA.

Senator REED. What is your topic, Mr. Barry?

Mr. BARRY. Reserves.

Senator REED. Where do you live, what is your bank, and what is your position?

Mr. BARRY. My name is David Barry; I am cashier of the First National Bank, of Johnstown, Pa.

Senator REED. What is the capital of that bank?

Mr. BARRY. The bank was organized in 1863, and was the fifty-first national bank to be organized.

Senator REED. What is the capital?

Mr. BARRY. $400,000 capital.

Senator REED. And the surplus?

Mr. BARRY. $500,000 surplus; undivided profits, $70,000; deposits, $6,000,000; and our circulation is $209,000.

We have 190 stockholders, and all but about 50 shares of our stock is held in our community. I want to say at the start, Mr. Chairman, that in the panic of 1907, although we are located in a great manufacturing center, where we have heavy pay rolls to meet, in the panic of 1907 everything was paid on a cash basis.

Senator REED. Did you put any limit on your depositors?

Mr. BARRY. None whatever.

Senator REED. How many other national banks are there in your town?

Mr. BARRY. I have those figures here. We have 3 national banks, 4 trust companies, and 4 State banks.

Senator REED. What is the population?

Mr. BARRY. The municipality, I should say, has 60,000, but the immediate neighborhood would probably bring it up to 75,000.

Senator REED. You may proceed.

Mr. BARRY. I am asked to speak on the question of reserves, as it concerns the country banks, and I will read the resolution adopted at the Boston meeting in regard to reserves:

> That whatever percentage of reserves is agreed upon should carry with it the right to keep not less than one-third of such reserves with approved reserve agents in fiscal centers. The reduction of reserve from 15 to 12 per cent is no real advantage to the country bank. Very few country banks can do business without having a larger amount of funds either in vault or with near-by connections. These connections must be maintained after the passage of this law. The money so held by them should be counted as a part of the country-bank reserves.

If you will permit me, Mr. Chairman, to refer to the proposed law as compared to the present law, I will say that the proposed law

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provides, when it goes into final operation, that the reserve to be held by country banks must be as follows:

Five per cent of our deposits must be held by the regional reserve bank, 5 per cent must be held at home, and 2 per cent may be kept at home or with the regional reserve bank, as we may prefer.

Senator POMERENE. Yesterday in a question I misstated the provisions of the bill, confusing the provisions of the bill with a suggestion which was made here. It is 5 per cent in the vaults, 5 per cent in regional reserve banks, and the other 2 per cent may be either one place or the other.

Mr. BARRY. If you will turn to page 37——

Senator REED (interposing). Either in the reserve bank or in their own vaults; but there is no option permitting you to keep that 2 per cent with any other bank?

Mr. BARRY. Oh, no. It is optional between our vault and the regional reserve bank, so far as the 2 per cent is concerned. Five per cent must be kept at home and 5 per cent must be with the regional reserve bank, and 2 per cent we may have either in our own vault or with the regional reserve bank.

Senator REED. All right; there is, then, no dispute between us.

Mr. BARRY. The present law, which we are operating under now, requires that 15 per cent of our deposits be kept in reserve; not less than 6 at home and the other 9 entirely optional. It may be kept at home or with our approved reserve agents, as we see fit. Country banks, indeed, keep on hand for pay-roll purposes, as they do in our district, more than 5 per cent, sometimes 10 per cent, and sometimes 15 per cent of their deposits, and we think that should be permitted to count as a part of the 7 per cent reserves, provided it is kept in lawful money. Under the proposed law, cash on hand over 7 per cent would be counted as reserves, and yet if so counted we must take it out of our possession and send it away into the possession of the regional reserve bank, where we can not get it, and then it counts as reserves. Most of Pennsylvania, Ohio, New Jersey, New York, Indiana, Illinois, Maryland, Virginia, and West Virginia, except one section, are deeply concerned over this provision of the bill. When I came here this morning several gentlemen from the far West and the South asked me to make particular mention of this feature, which was an important thought in my mind at the time. So it is not peculiar to our district.

We feel that the banks in the country should be permitted, as I said a moment ago, to count as reserve any lawful money they may hold in their vaults over and above 7 per cent, even though it reduces their balance with the Federal reserve bank below 5 per cent. We believe that to modify the law as we suggest would strengthen the bill and not weaken it, and we feel, too, there is no likelihood that any country bank will abuse this privilege because there is no incentive.

Senator REED. How low would you allow them to have their reserves in the Federal reserve bank?

Mr. BARRY. Without fixing any fixed limit, I should think that reserve ought to be in every sense of the word a reserve for the country bank. You take, for instance, I am not referring particularly to ourselves, we are so large that the ordinary rules do not apply to us; but you take a bank with deposits of, say, $1,000,000.

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Under the law it must keep $120,000—$50,000 at home and $50,000 with Federal reserve bank, and, we will assume, the other $20,000 at home. That is $70,000. One of its depositors comes in and proceeds to build up a great deposit account in order to make a pay roll the next week. So large have the deposits of the country bank increased for this particular purpose, that night, that the country banker must, under the terms of the law ship 5 per cent of those increased deposits to the regional reserve bank.

Senator NELSON. The 2 per cent optional will take care of it.

Mr. BARRY. I assume that 2 per cent is at home, because a payroll bank will need the 2 per cent at home, and a good deal more. I assume it will keep that much at home, where they need it worse than in the regional reserve banks. Now, the depositor, having deposited daily for 10 days in order to meet a pay roll, in order to have a large balance to meet his pay roll, comes in, we will say, on Saturday, and asks to have given him approximately 7 per cent of the deposits, under these circumstances. That bank dare not temporarily use for even a day or two, as the case may be, any portion of its balance at a Federal reserve bank. If it is loaning close to its reserves, it must positively borrow money for one, two, or three days to meet this pay roll.

Senator NELSON. Suppose that money is in a bank in New York, and the bank uses it as they did in 1907; what will they do?

Mr. BARRY. We managed to get along.

Senator NELSON. You managed to get along, but you got along without that reserve money.

Mr. BARRY. Yes; but that is liable to happen to-day.

Senator NELSON. Was not that one of the causes of the panic, that the reserves had piled up in New York and they could not afford to pay 2 per cent interest on those deposits, was not that it?

Mr. BARRY. It may be——

Senator NELSON (interposing). And they invested it on call loans in the stock exchange, and when the panic came, those loans were the least liquid of all its assets.

Mr. BARRY. I am——

Senator NELSON (interposing). You would simply be perpetuating a vicious system.

Mr. BARRY. I am talking on quite a different subject. The point I raise is this: We have a large pay roll to make up.

Senator NELSON. Yes.

Mr. BARRY. And we dare not take it all out of our vault, because if we do, we will run below our reserve there, and therefore we must keep a balance with other banks in order that we may get it quickly, because we dare not take it out of the regional reserve bank, even temporarily.

Senator NELSON. You can not take your reserves. If you should take your reserves you indirectly violate the law.

Mr. BARRY. Under the old arrangement, Senator Nelson, we are required to keep 15 per cent, and we were permitted to keep 9 per cent of that wherever we saw fit. Now we are denied that right, and the provision of the law that positively fixes 5 per cent to be kept at home and 5 per cent to be kept in the regional reserve bank compels us to

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keep a much heavier reserve at home in order to meet these pay-roll demands.

Senator BRISTOW. Let me see if I understand you. Say that your deposits were $1,000,000. Then, under the present law, you would have to have $150,000 of reserves?

Mr. BARRY. Yes.

Senator BRISTOW. That $150,000 could be in other reserve banks or in your vaults?

Mr. BARRY. No; 6 per cent is the minimum that you must have.

Senator NELSON. But you can have 15 per cent, if you want it?

Mr. BARRY. Yes.

Senator BRISTOW. And you may have all of it there. Under this proposed law you have got to have so much in your vault and 5 per cent in the Federal reserve bank?

Mr. BARRY. Yes, sir.

Senator BRISTOW. Now, you can not use that 5 per cent in any way; that has to be there?

Mr. BARRY. It must be there.

Senator BRISTOW. So that you might have a large amount of cash at a certain time in the week at home, in fact, in excess of the 7 per cent, but nevertheless you could not count any part of that as a reserve, because you have got to have 5 per cent of your deposits anyway in this bank?

Mr. BARRY. Precisely. Let me illustrate that, Senator. We will assume the deposits are $1,000,000, and you have $49,000 with the regional reserve bank, and then $160,000 for pay-roll purposes.

Senator BRISTOW. You have to have $50,000 with the regional bank?

Mr. BARRY. I am first supposing that for the moment you happen to get below the amount fixed by law. If your deposits are $1,000,000, and you have only $49,000 in the regional bank and send the other $1,000 home for pay-roll purposes you are below the law.

Senator POMERENE. Let me ask you there, what actual reserves do you keep on the average?

Mr. BARRY. As I said a moment ago, I am not pleading for ourselves, because we carry such an excess of reserve that the law would not apply, but I am pleading for the country bankers in the great pay-roll centers. Our deposits of $6,300,000 we had protected, at our last statement, $605,000, and had from other banks $1,137,000. That is to say, we had $1,700,000——

Senator POMERENE (interposing). What per cent would that be?

Mr. BARRY. Ten per cent cash at home and 15 per cent with the reserve agent and 3 per cent scattered among our reciprocal friends.

Senator POMERENE. Twenty-eight per cent, in other words?

Mr. BARRY. Yes.

Senator POMERENE. There is not anything in this bill which would prevent any banker from keeping in excess of the 12 per cent if he sees fit.

Mr. BARRY. Precisely; but 5 per cent he must keep with the regional reserve bank, which seriously hampers the smaller bank.

Senator NELSON. But he can get a discount on that.

Mr. BARRY. That will be a very slow process. You can not get it done by telephone, as Mr. Rogers suggested a moment ago.

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Senator NELSON. When a bank gets so its life or death depends on that 5 per cent the bank is hardly worth preserving.

Mr. BARRY. Perfectly true, but the 5 per cent ought to be of some use to the bank, nevertheless.

Senator NELSON. It can use it by discounting paper for it.

Mr. BARRY. But the point is, there is no use the bank can make from day to day of those reserves as it can now.

Senator POMERENE. So your opinion is that the reserve system now is entirely satisfactory?

Mr. BARRY. Not at all.

Senator POMERENE. Don't you think the reserve provision in this bill is an improvement?

Mr. BARRY. Provided the 5 per cent is absolute——

Senator POMERENE (interposing). You have 15 per cent now and part of it you must keep in your own vaults.

Mr. BARRY. The rigidity of the present law is what we suggest be modified.

Senator NELSON. You can keep 1 per cent more under this law than you are required to keep under the existing law.

Mr. BARRY. One per cent less.

Senator NELSON. No; you can keep 7 per cent in your vaults instead of 6.

Mr. BARRY. But, as I say, in actual practice we do keep 10.

Senator POMERENE. Is not the rigidity less in the proposed law than under the present law?

Mr. BARRY. Pardon me. There is no rigidity in your resources with your reserve agents now.

Senator POMERENE. My question was as to the amount.

Mr. BARRY. The amount is smaller, I admit.

Senator NELSON. If you drew all your reserve out from your reserve agent you would be violating the law.

Mr. BARRY. Certainly, but nevertheless we would be using the reserve.

Senator REED. At the present time if a bank had deposits of $1,000,000 it would have to have some place, either in its own vaults or the vaults of other banks $150,000 reserve?

Mr. BARRY. Yes, sir.

Senator REED. Now, if it carried that reserve, 6 per cent in its own vaults and 9 per cent in other banks which it could do, it could get accommodation from those other banks if it needed money suddenly?

Mr. BARRY. Yes, sir.

Senator NELSON. Provided there was no panic.

Senator REED. I am speaking about ordinary conditions. If it wanted to run its reserves down in these other banks it could do so provided at the same time it ran its reserves up in its own vaults?

Mr. BARRY. Precisely.

Senator REED. If it wanted to run its reserve in its own vaults down clear to the 6 per cent it would do so, provided the aggregate in all the places was 15 per cent?

Mr. BARRY. Precisely.

Senator REED. Now, under this proposed law it has to keep 5 per cent in the regional bank, and that 5 per cent in the regional bank is fixed?

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Mr. BARRY. Absolutely.

Senator REED. And it has to keep 5 per cent in its own vaults, which is another fixed thing.

Mr. BARRY. Yes.

Senator REED. And when you approach the line of 5 per cent in their vaults you must stop, and the only leeway that is left is 2 per cent. You can keep 2 per cent in excess in the regional bank or you can keep 2 per cent in excess in your own vaults?

Mr. BARRY. Yes, sir.

Senator REED. So you have a leeway of 2 per cent, whereas under the old law you had an actual leeway of 9 per cent.

Mr. BARRY. That is it.

Senator REED. Now, you claim that as it works out it would be something like this: You have $1,000,000 deposits normally, and normally you would have to have $60,000 in your own vaults, under this bill, and $50,000 in the regional bank, and 2 per cent—or $10,000—you could keep in your own vaults or in the regional bank as you pleased. You have $10,000 there you can move back and forth, and that is an advantage.

Mr. BARRY. $20,000, if you please; it is the rigidity, it is the fixed investment, you may say——

Senator REED (interposing). I understand. Now, a man comes in along about the first of the week, and he puts in $20,000, and perhaps later in the week he puts in $30,000 more. Now he has $50,000 in your bank that he is going to use on Saturday night to pay his men off with. But the minute the $50,000 is put in your bank you must send 5 per cent of it, which is $2,500, to the regional bank. You have that much money you must send to the regional bank, and you can not possibly use it on Saturday night.

Mr. BARRY. And you can not possibly get it until several days after you have got this amount of cash.

Senator REED. That is the thing you object to?

Mr. BARRY. Yes, sir.

Senator REED. And, Senator Nelson, I do not think that goes to the question of the solvency of the bank.

Mr. BARRY. Not at all.

Senator NELSON. We must legislate, to my mind, for periods of stress. In ordinarily good prosperous times, when everything moves easily, almost any system will do, and our legislation must be shaped to meet emergencies. The panic of 1907, if it disclosed anything, disclosed the fact that our system of bank reserves was a danger.

Senator REED. Yes.

Senator NELSON. And this gentleman takes exactly the stand that Mr. Reynolds took; and, to my mind, it amounts to this: That these large city banks want to still continue to hold these reserves that they have been able to hold under the present system.

Senator REED. As I understand, his position is not exactly that. He would like to have the privilege of running the reserve in the reserve bank down below 5 per cent, provided at the same time he could run the reserve up in his own bank enough to compensate it. Do you claim the right to put that reserve over in a third bank?

Mr. BARRY. I believe the country bankers would agree with me that we would rather have the percentage of reserve increased back

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to 15 per cent, provided we were permitted to keep some with our present city banks, where we can get accommodation.

Senator NELSON. And this 2 per cent interest.

Senator REED. Suppose that were not done and this bill were amended so that there should be never less than 3 per cent in the regional banks, and a total in the regional bank and in its vaults of not less than 12 per cent. Would that do you any good?

Mr. BARRY. That would help some.

Senator REED. Of course, that is depleting the reserves in the regional bank and making it so there would not be much money there to run it with.

Mr. BARRY. Five per cent of $6,000,000,000 is a great deal of money; $300,000,000 added to the Government's deposits make an enormous fund.

If you will permit me to go a little further, I will develop the question why we want to keep our reserves to some extent with city reserve banks, and I will discuss another point or two along the way.

The question has been asked by a good many country bankers here whether the law will be construed in figuring these reserves that the reserves will be counted as the books of the regional reserve bank show or as the books of the country banks show. We believe that is a matter of sufficient importance to have it defined in the bill. That may not seem important until we study the question very closely. As Mr. Tilden stated here a while ago, and Mr. Woodruff before him, there is only one way that a bank of our size could be safe in obeying the law if 5 per cent is absolutely insisted upon and if the regional bank is permitted to charge against our balance of checks that come on us. There is only one way we can be safe, and that will be to keep nearly 10 per cent with the regional bank. If the reserves are figured according to our books, then we can keep pretty close to 5 per cent all the time and not much of an excess.

Senator REED. Why is that?

Mr. BARRY. For instance, when we start in in the morning we do not know what our morning mail will contain. Our mail often brings in $150,000 worth of checks on us. If they came through the regional bank, and our reserve there is $300,000, our reserve is gone. But if it is figured according to our books and we can make that good the same night, that is an entirely different proposition.

Senator NELSON. I have no doubt but that that rule would be adopted. I can not see how they could adopt any other rule.

Senator REED. It is manifestly quite important.

Senator NELSON. Besides, that brings us to another question here that one of the bankers suggested, and that is this question of net deposits. You will remember that one gentleman—I do not recall his name—said that in the gross deposits you should deduct matters in transit.

Senator BRISTOW. That was Mr. Vanderlip.

Senator NELSON. So that if you deducted those matters in transit and took the net deposits you would not have this difficulty.

Mr. BARRY. The next proposition is, coming back to the subject again, that I asked that our country banks be permitted to carry a portion of their reserves, provided, of course, the proper amount be carried in their vaults and a proper amount be carried in the Federal reserve bank. They ought also to be permitted to carry with city

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banks and count as reserve some of their balances. From its very nature, we doubt whether the regional reserve bank will ever become so intimate with the country bank as to give it the service the country bank gets now. There is an old story about a city bank cashier in New York who was very much concerned because he could not match a piece of dress goods that a cashier in the West sent him, and, more recently, we all know the trouble that has been caused New York bank cashiers by requests for tickets for the ball games. It may be improper, but it shows the intimate relationship and friendship in a business as well as a personal way between the city bank and the country bank.

Take our case, and the case of all these banks in the great pay-roll centers. It may be interesting, perhaps, Senators, to know that our bank alone makes up and pays out over its counters every month approximately $1,400,000 in actual cash, which is disbursed right there in our community, and that does not include the pay rolls of the Pennsylvania Railroad and the Baltimore & Ohio Railroad and several other very large pay rolls. I dare say the pay rolls in our community will run close to $1,750,000 a month.

Senator NELSON. Your town is where the great flood was some years ago?

Mr. BARRY. Yes.

Senator NELSON. I can locate it now.

Mr. BARRY. A long time ago we had an arrangement much less satisfactory than the present one. Our bank itself, for instance, constitutes itself a sort of reservoir for all our neighboring banks. When they get too much cash we have a gentlemen's agreement that we will take it off their hands, because we have these enormous pay rolls to make up. And that, perhaps, may answer the question that may be in the minds of some of you, why we keep at home 10 per cent. The reason for that is that we have to make up these enormous pay rolls, so we relieve our neighbors of this cash. Nevertheless, we find ourselves at times, when unexpected pay roll demands come, that our cash at home is not quite as much as it should be. A long-distance telephone message to Pittsburgh at 10 o'clock in the morning will bring out what we need in any amount. A long-distance telephone message to Philadelphia to-day will bring the money out tomorrow. We do not believe we could get that service from the regional reserve bank; we know we could not, and that is one of the reasons why we ask that we be permitted to carry a portion of our reserves with our present city correspondents.

Senator O'GORMAN. What proportion do you suggest you should be permitted to carry with your present city correspondents?

Mr. BARRY. I should say 3 per cent. Perhaps I should say, make it equal, half and half; I mean the same amount with the city correspondent as we carry with the Federal reserve bank.

Senator NELSON. That would be 5.

Mr. BARRY. Senator Reed suggested a moment ago 3; that we be permitted to reduce our depostis in the regional reserve bank to 3 per cent, and keep 3 per cent with our correspondents.

Senator NELSON. Suppose this fluctuating amount of 3 per cent—I call it fluctuating because it may be in either one of two places—sup-

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pose that were placed with your big city banks. Now, instead of being fluctuating——

Mr. BARRY (interposing). That would not help us much, Senator, because the amount we require at home is often in excess of the 7 per cent we are permitted to have.

Senator NELSON—. There would not be a great difference.

Mr. BARRY. As I said a moment ago, we would prefer the reserve to be continued at 15 per cent, kept in the way I suggest, and to have it 12 per cent and limited to two places.

Senator POMERENE. As I understand your testimony, you said this question of reserves would not affect your individual bank very materially.

Mr. BARRY. No.

Senator POMERENE. And you simply had some concern about the smaller banks?

Mr. BARRY. Some, because I have talked to them.

Senator POMERENE. On an average, what reserves do they carry?

Mr. BARRY. They keep as close to the 15 per cent as they can.

Senator POMERENE. I know that is the legal reserve, but are they somewhat in excess of the 15 per cent?

Mr. BARRY. Not to any great extent. As I say, they keep as close to it as they safely and comfortably can.

Senator NELSON. The country banks in my section, as a rule, keep a great deal more than the 6 per cent in their vaults.

Senator POMERENE. Most of the country banks we have heard from thus far.

Senator BRISTOW. In the large cities, I think, we will find it somewhat different.

Mr. BARRY. Here is a peculiar condition. A bank of our size, for instance, within 5 or 10 miles of Pittsburgh, will not keep the enormous reserve in the vault that we keep, because they can send a messenger down with a bag and he will bring it back on the street car in a few hours. We can not do that. The cost of shipment and all that sort of thing would more than make up the amount we have on deposit.

Senator REED. Mr. Barry, how are you going to build up a central reserve bank system and a regional bank system that is going to be strong enough to withstand the pressure in the hour of adversity and sustain the banking system, unless it has some money on hand to do it with?

Mr. BARRY. Well, Senator, that is a very big question, but the thought that is in the mind of the country banker is this—if you will pardon me until I make some figures here. The Government proposes to take 10 per cent of our capital stock at once, and the Government also proposes to take 5 per cent of our deposits of $6,000,000,000, which is $300,000,000. I do not know what the Government deposits will be, but I am told $150,000,000.

Senator NELSON. It will all depend on the revenues, you know.

Mr. BARRY. Yes. The bank will start out with resources of $550,000,000; and, since the statement of the Comptroller of the Currency made up on June 4, 1913, showed that the total amount of rediscounts and borrowings of all the national banks in the United States

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amounted to only $73,000,000, the country banker is asking, Where is the need of starting out with $550,000,000?

Senator POMERENE. Oh, well, you understand that under this proposed system rediscounts would not be as unpopular as they are now.

Mr. BARRY. Senator, I think you will find scattered throughout this country a very large number of banks, ours being one of them—I think, a majority of the banks—that look with considerable horror on the idea of placing themselves in the position of borrowers.

Senator POMERENE. That is because of an old system that has prevailed here for years.

Mr. BARRY. You will find a great many banks, too, that are so situated—they are fortunate, I admit—that they do not need to borrow, and no matter what provisions are made in the currency bill for rediscount they will never avail themselves of the rediscount.

Senator REED. Now, one trouble which we have to contend with, as I understand it, is this: That a bank takes its reserve, and, instead of keeping it in its own vaults where the law may require it to be kept, it deposits it in another bank. It may be deposited in a number of banks, pyramided, and then when the crash comes, by the failure of one bank the money may be tied up in a half a dozen banks. Now, you want to prohibit that system to some extent by forbidding depositing in other banks, do you not?

Mr. BARRY. I think, Senator, that if the bill is passed than danger will be at an end, because we still have the regional bank to come to and to rediscount for our city banks and move our reserves. The country bank views the situation in this way: The city bank renders us a service which the regional reserve bank, under this bill, can not possibly render. Now, permit me to state a few transactions that come across our counter daily.

We have some large manufacturing establishments in Johnstown, and the practice was several years ago when we had an item from them to the Pacific coast to send it to Pittsburgh, and Pittsburgh, in a leisurely manner, would sent it to Chicago, and Chicago in turn would send it to San Francisco, and San Francisco, perhaps, would forward it to Seattle, and Seattle would make returns back the whole way. Our arangement is now that we send that item out by special delivery, together with instructions to the bank at Seattle to collect and remit for our credit to the bank in San Francisco, the bank in San Francisco wiring us when they have the credit. Under ordinary circumstances that item is cleared up and placed to our credit with our reserve agent in San Francisco. Then, if our needs in the East require it, we will ask our San Francisco correspondent to make a transfer by wire to New York. These things I mention—such transactions as that—are absolutely necessary to the routine conduct of our business and the business of banks situated as we are.

Senator NELSON. Are you satisfied with the present banking system?

Mr. BARRY. No, sir.

Senator NELSON. What are the defects in it in your opinion?

Mr. BARRY. The defects are, as Senator Reed said, first, the pyramiding of reserves.

Senator NELSON. Is that all?

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Mr. BARRY. Another is the rigidity of the currency.

Senator NELSON. Are not the two great things that we are seeking to remedy and cover by legislation, first, to give us a more elastic currency; and, second, to gather together and conserve our reserves and utilize them, making a basis for credit and currency? Are not those the two leading purposes we ought to have in view?

Mr. BARRY. I think so.

Senator NELSON. Can we afford to take such a penny view of it and ignore those two central ideas?

Mr. BARRY. In creating this legislation I think it would be well to bear in mind that banks such as ours in giving up the $300,000 or more to the regional bank must almost to that extent reduce their loans.

Senator NELSON. We are legislating for the welfare of the whole country; we can not legislate for any particular bank.

Mr. BARRY. I am not asking that. I am speaking for the banks of this great section.

Senator NELSON. Here is one advantage. These reserve banks—1 or 12, whatever the number may be—can utilize these 5 per cent deposits, supposing they be discounting commercial paper.

Mr. BARRY. Yes.

Senator NELSON. Now, your bank could come to a reserve bank with commercial paper—and I take it you have such paper as this bill contemplate—and get that paper discounted and have bills issued for it. Now, in order to make your bills good, the bank must have a gold reserve of 33 per cent. That reserve, manifestly, must come from its capital and 5 per cent of its deposits. Now, the best part of this system is the fact you are not paying 5 per cent on your deposits. That is the great thing that is permitted, and you build up these reserves. Don't you know that?

Mr. BARRY. Two per cent may be part of the attraction, but there are banks in the cities to-day that we would rather keep a free balance with and have the service they render than for other banks to pay us 2 or 3 per cent.

Senator NELSON. You can keep everything you like outside of this 5 per cent.

Mr. BARRY. I understand; but it is going to reduce country banking loans by approximately that amount they put in the regional reserve bank.

Senator NELSON. They can not give you emergency currency.

Mr. BARRY. Pardon me, Senator, but I think they do give us in ordinary times——

Senator NELSON (interposing). Clearing-house certificates or chips——

Mr. BARRY (interposing). No; during ordinary times they can and would serve us better.

Senator REED. Mr. Barry, let us see if you are not overdrawing that—unintentionally, of course. The ordinary banker who is doing a conservative banking business does not think of running his bank down and keeping it down to the mere naked legal reserve, does he?

Mr. BARRY. No, sir.

Senator REED. He always has that legal reserve, a safety fund—I call it that for want of a better term—and he has to keep that safety

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fund there because of the fact that if there were to be a sudden demand he might not be able at once to get money. Now, if there is a place provided where with almost absolute certainty he can get money and get it within a few hours, he can then loan down nearer his legal reserve, can he not?

Mr. BARRY. Yes.

Senator REED. And therefore there would be some money realized in that way to compensate for the moneys that were carried away from the community and over to the regional bank. I want you to speak with great candor on this——

Mr. BARRY (interposing). That is true, Senator——

Senator REED. I want from you gentlemen your candid, absolute judgment.

Mr. BARRY. That is true, Senator; but, carrying out what Mr. Rogers said yesterday, there are thousands of banks like ours that would be very sorry to depart from the old practice of being very strong in cash and reserves.

Senator REED. You can still continue that, and you can still deposit with outside banks, carry as much as you want to in the way of balances, get as much interest as you want to, and have the advantage of that, and still have the advantage of this other system. All that is required is a 12 per cent reserve in the aggregate. Now, I have great sympathy with your argument that you ought to be able to count as your reserve the money in the regional bank, or the money in your own bank, without being required absolutely to keep a fixed amount in the reserve bank provided that system does not work to the depletion of the reserve banks' moneys. If some plan could be devised whereby if you ran below for a day or two in the regional bank, making it up promptly, I would not see so much objection to that.

Mr. BARRY. It is the rigidity of this fixed amount, this reserve in the regional bank——

Senator REED (interposing). I am only suggesting this as a mere thought; I am not committing myself to it. Would it do you any good if the bill provided that for a period of not to exceed two days, or three days, or four days, you might at any time impair the reserve in the regional bank, provided you had an equivalent amount in your own vaults?

Mr. BARRY. It would help quite a good deal. It is the rigidity of the reserve bank balance that the country banks object to.

Senator NELSON. Let me call your attention to this: Under the existing law banks in central reserve cities are absolutely required to keep 25 per cent in their vaults against the 5 per cent circulation. Now, that is a fixed item, is it not?

Mr. BARRY. Yes.

Senator NELSON. The central reserve banks in the three great central reserve cities of this country must keep 25 per cent, and that is deader than a doornail, compared with the new reserve banks under this bill. Now, the reserve banks under the provisions of this bill can discount and loan money on that reserve, but the central reserve banks, with a 25 per cent limit, have no right under the law to utilize that for any purpose. Now, the reserve banks can utilize the 5 per cent for discount purposes, can they not?

Mr. BARRY. Yes.

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Senator NELSON. So it is not as rigid as the 25 per cent in the central reserve banks.

Mr. BARRY. That may be, but that does not help the country bankers.

Senator O'GORMAN. Have you concluded?

Mr. BARRY. Except on one point. Senator Nelson has suggested how easy it will be to get discounts from the regional bank. That is not my own view, but I am not speaking for myself. The country banker, the little fellow in the town of 2,000 population, is asking how in the world can he ever get close enough and what sort of machinery the regional reserve bank will have. How can he possibly present his paper to the regional reserve bank and how will they have the machinery to decide whether or not it is good paper? Compared with the city banker, he feels himself at a fearful disadvantage in getting accommodations.

Senator O'GORMAN. Would you prevent the country banker that you speak of sending his collateral to the regional bank with the request for the accommodation he desires, and in due course securing that accommodation perhaps the following day?

Mr. BARRY. None of us imagine for a minute it would be rendered the following day. We think it would be a week rather than a day.

Senator O'GORMAN. You think so?

Mr. BARRY. Yes, sir.

Senator O'GORMAN. For what reason?

Mr. BARRY. In the first place, here we are in Johnstown. The regional bank may be located in Philadelphia. Under no circumstances can we expect an answer within two days; and if they take any time at all to investigate it it will be at least another day. Under the present arrangement, if you have your securities lying there, you telephone in, and, just as one of the other gentlemen said a while ago, a telephone message will temporarily consummate the transaction.

Senator NELSON. Assuming the banks have the currency there?

Mr. BARRY. Of course; that is 400 days out of 500, you might say.

Senator POMERENE. Can you not assume that a bank situated, for instance, as yours is, or any other good solvent bank, if they were in dire need for money the next day they could go to that regional bank with the prime commercial paper, with the indorsement of the member bank on the paper, and get that accommodation without any difficulty?

Mr. BARRY. I doubt whether it would come with the same speed as it comes now from our city banks.

Senator POMERENE. You must be a doubting Thomas.

Senator BRISTOW. I think he knows what he is talking about.

Mr. BARRY. I think, Senator, what we would prefer to do would be to send our paper to a bank in a city where the regional bank was located and ask them to attend to it for us. We think they would do it with lightning speed.

Senator WEEKS. Mr. Barry, before you leave the stand, you suggested a few moments ago you received various advantages from your relations with your reserve city banks. Can you enumerate those advantages?

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Mr. BARRY. Yes; I have some of them here. We have here and there in every town a number of men with a surplus of money. They want to buy stocks and securities from time to time and they ask us to attend to it for them. We must ask our city correspondent to attend to it for us. We dare not ask the regional reserve bank; it is in another line of business.

Then, again, we have all sorts of strange collections with bills of lading attached, which the regional bank will hardly undertake.

Senator NELSON. That is the very kind of drafts that we want the regional banks to collect.

Mr. BARRY. We have drafts sometimes that are not bills of exchange in any sense of the word. We ask our city bank to go out with a verbal club and get that money. They do the most remarkable things for us. They are close to us as the man outside the counter is.

Senator WEEKS. Can you name any others?

Mr. BARRY. If, for instance, we do not continue these balances with our city banks, and our customers ask us to buy and sell stocks for them and we are not able to do it, they will very soon transfer their balances to the city banks direct. That is about all.

Senator WEEKS. Do they O. K. the paper you buy?

Mr. BARRY. Our particular bank does not buy any, but they do for a great many banks.

STATEMENT OF F. M. LAW, OF THE FIRST NATIONAL BANK, BEAUMONT, TEX.

Senator O'GORMAN. Will you please state the capital and surplus of your bank?

Mr. LAW. The capital is $200,000, with a surplus of $300,000.

Senator O'GORMAN. And your deposits?

Mr. LAW. $1,800,000.

Mr. Chairman, I will make the concluding remarks on behalf of the committee representing the country bankers. Allow me to say at the outset that, as you perhaps know, the committee which is attending these hearings is composed of one representative from each State, appointed by the country bankers' conference held in Boston, and I was appointed on that committee from the State of Texas. I particularly wanted to emphasize to this committee the fact—representing the country bankers, particularly of Texas—that according to the comptroller's report of 1912 there are 515 national banks in the State of Texas and over 90 per cent of that number are country banks.

I wanted particularly to lay stress on the fact that the country banks, the country national bankers, of Texas are desirous, I think, almost unanimously, of entering this proposed system. We realize the need of it, and we believe that the Government is trying to formulate a bill that will provide the relief needed, provide for a more elastic currency, and provide for the mobilization and utilization of reserves.

But on behalf of the country banks of Texas allow me to say that we believe that the bill as it stands now will, perhaps, work some hardships upon us as country bankers that we can hardly afford to bear. They have been enumerated before you. In the first place, we believe that the loss that will be entailed to us on account of the

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depreciation in value of the Government bonds held against circulation and against deposits will be a hard loss for us to bear. The loss we will necessarily have to absorb on account of the proposed regulations in regard to exchange, will take away from us one of the principal sources of revenue of the country bank.

Then, if the proposed segregation of savings deposits were carried into effect it would remove from us another source of income—one of the principle sources.

Then, in addition allow me to say that Texas, being primarily an agricultural State, and the banking business there being based largely on agriculture, we have conditions there that are different, perhaps, from conditions in some other centers of this country. Nearly all of the loans that the country banks make in my State are farm loans, either directly or indirectly. I do not mean by that real-estate loans, but advances made to the farmers for the purpose of harvesting their crops. We either loan directly to the farmer or the farmer has his dealings with the merchant who carries him, and we in turn carry the merchant. In either case the loans can not be liquidated until harvest time.

That leads me up to the point of saying that under the provision of the bill as it now stands not longer than 90-day maturities are eligible to rediscount from the member banks with the Federal reserve bank. In order for the Federal reserve bank to measure up to the fullest standard of usefulness to the country banks in any agricultural section it will be necessary, in our opinion, to lengthen the maturity of paper that can be rediscounted by the member banks with the Federal reserve bank.

I believe, after conferring with a large number of country bankers throughout my State and some from outside of Texas, that if a provision can be written into this bill enabling the lengthening of these maturities, even a percentage of them, to six months it will give us the relief sought for. And it is my purpose primarily in appearing before the committee to emphasize the fact that the country bankers of Texas are in sympathy with the resolutions passed by the country bankers' conference at Boston and to say that we feel that this bill as it now stands will work some hardships that we can ill afford to stand, but that these amendments which have been suggested, if they can be written into the bill, the country bankers, not only of Texas, but throughout the United States, will not only come into the proposed association, but will gladly come.

Senator POMERENE. May I ask you a question, please, without interrupting you?

Mr. LAW. Yes.

Senator POMERENE. How do your monthly loans compare one month with another, in amount?

Mr. LAW. They fluctuate quite a good deal.

Senator POMERENE. In about what ratio?

Mr. LAW. Well, in the making of the crop our loans are, I would say, 50 per cent greater than they are for the harvest.

Senator POMERENE. That is during what months, now, would you say, they are the largest?

Mr. LAW. We begin to make advances to the farmer along in January and February. Those advances are continuous as he plants his

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crop, as he cultivates, to the harvest time. We make further advances until the crop is actually harvested and sold. We not only do this, but sometimes, and frequently, the banks are called upon to assist the farmer to hold his crop for more advantageous prices, even after it is harvested.

Senator POMERENE. The thought I wanted to develop, if it is true, is the fact that you have notes constantly maturing every month. Is not that a fact?

Mr. LAW. Yes, sir; a certain percentage of them.

Senator POMERENE. A very substantial amount?

Mr. LAW. A great percentage of our loans, Senator, mature in the harvest time, in the fall. We make those loans for instance, in February, and they run until October.

Senator POMERENE. And during what seasons of the year do you require additional accommodations; or do you require them?

Mr. LAW. Yes, sir. It is during the seasons when we are making the heaviest advances to the farmers, generally along in July and August, when our resources are at the lowest ebb and the demand is greatest.

Senator NELSON. If the proportion of the paper to be discounted—say if 25 per cent of it would be 4-months' paper, 25 per cent 6-months paper, and the balance 90-day paper, would not that help you out? I mean the maturity?

Mr. LAW. That we could rediscount with the reserve bank?

Senator NELSON. Yes.

Mr. LAW. Yes, sir.

Senator NELSON. Say 50 per cent of it was 90-day paper; 25 per cent 4-months paper, and 25 per cent 6-months paper?

Mr. LAW. That would help out a great deal.

Senator POMERENE. What portion of your loans are six-months paper?

Mr. LAW. I would say 50 per cent.

Senator POMERENE. And the balance less than that?

Mr. LAW. Perhaps 25 per cent is less than 25 per cent more.

Senator POMERENE. That would be nine months, would it, or a year?

Mr. LAW. Hardly any loan runs over six months, and we think the six months would measure up to the requirements, perhaps, because we would not rediscount any of this paper until part of the time had elapsed. Paper maturing in October we need not use for rediscount until April or May.

Senator POMERENE. At any period of the year would the six-months paper that you have on hand exceed one-half of your total loans?

Mr. LAW. I hardly think so, Senator. It would perhaps approximate one-half at certain seasons of the year.

Senator POMERENE. And the balance would be less than that—most of it?

Mr. LAW. Perhaps most of it would be less than that.

Senator REED. Without desiring to cut anyone off, there are some New York bankers and Kansas bankers who have been here for

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several days; and I can say, I think, for the committee, that if there are any of the gentlemen who are here who desire to file any briefs or suggestions with the committee, we would be very glad to consider them. But in justice to those who have been waiting here I believe we must be rather brief. Have you any further suggestion?

Mr. LAW. Nothing at all.

Senator WEEKS. You, of course were present at the Boston meeting?

Mr. LAW. Yes.

Senator WEEKS. Did you attend all of the conferences there?

Mr. LAW. Yes.

Senator WEEKS. And you were present at the meeting at which the resolutions which you come here to advocate were adopted?

Mr. LAW. Yes.

Senator WEEKS. I have in my hand here an extract from a Washington evening paper relating to those resolutions, and I want to ask you about your opinion of the correctness of the statement made, and I will read it:

> The hint is conveyed that the influence of the big bankers of New York is responsible for the apparent unanimity among bankers that really does not exist, judging from hundreds of letters the President has from bankers in different parts of the country giving the bill their approval. It is recognized by the administration, it was intimated in several quarters to-day, that the pressure of the ruling banks of New York is terrific among banks in other parts of the country dependent on these institutions, to a large extent, for favors and assistance. There is likely to be a quiet investigation, etc.

Now I know nothing about the correctness of this statement. There is not a solitary instance of a similar statement, and it is of considerable importance to this committee to know whether any terrific or other influence was used to persuade you country bankers, so called, to adopt the resolutions which you did adopt.

Mr. LAW. I would say, most emphatically not, Senator. My observation, and I was present at all the conferences and all of the meetings, and at a good many informal conferences that were not held at any of the sessions—I found absolutely no evidence of anything of that kind.

Senator WEEKS. Did you see any such evidence manifest at the Boston convention, or any influence to have such resolutions as you adopted considered?

Mr. LAW. The first mention I heard of it, Senator, was the dispatches from Washington that news had reached Washington those sinister influences were at work.

Senator WEEKS. And you did not see or hear anything of it?

Mr. LAW. No, sir.

Senator REED. Now, gentlemen, I believe the commitee has heard representatives of the Boston meeting as far as you have desired. If there are any further suggestions you have to make, we would be glad to have you send them to us in written form. We are not trying to cut you off, but I understand your wishes have been complied with.

Mr. Perkins, we will hear you now.

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STATEMENT OF JAMES H. PERKINS, PRESIDENT OF THE NATIONAL COMMERCIAL BANK, OF ALBANY, N. Y.

Senator O'GORMAN. Mr. Perkins, just state your full name and the bank with which you are connected.

Mr. PERKINS. James H. Perkins, Albany, N. Y. The National Commercial Bank.

Senator O'GORMAN. Capitalized at what?

Mr. PERKINS. A million dollars and a surplus of a million and a half.

Senator O'GORMAN. And deposits?

Mr. PERKINS. About $25,000,000.

Senator O'GORMAN. I suppose that is one of the largest banks in the State, outside of the city of New York?

Mr. PERKINS. Yes; the largest, except the Marine Bank at Buffalo, I think. Mr. Treman and myself come here to represent the currency committee of the New York State Bankers' Association, which committee has been at work on this bill for the last six weeks or two months, off and on, and to offer some suggestions that they wish offered on the bill, in the way of amendments.

In the first place, we recognize in the present banking system two great faults, one of which is the inelastic currency, and the other is the reserve system which has always broken down in time of stress. We believe the bill in its present form to a certain extent entirely obviates the one and to a certain extent obviates the other of those difficulties. An elastic currency, we believe, is provided for, and we are not going to make any suggestions upon that subject.

I will first take up the matter of reserves, which is the last matter the country banks have been talking about, and therefore, perhaps, it will work in better at this time than later. We are not inclined to agree with the proposition that has been put forward that the reserves should be allowed to remain with their present reserve agents. We believe that the only money that should be reserve, if this new system goes through, is money that is held in the vault of the bank or that is held with the regional reserve bank. And although we believe that that will cause a great deal of upset during the transition period, we think that that has been somewhat obviated by the lowering of the reserve required. We do ask, however, that the period of transition from the present system to the new system be made much more gradual than is contemplated in the bill. We represent, as you see, not only the larger banks of New York City but the country banks scattered throughout the State. There are about 800 banks in our association, 600 of whom are outside of the city of New York.

Senator POMERENE. You mean national banks?

Mr. PERKINS. No; all kinds of banks, Senator. We feel that if the banks of the country, national banks of the country, are required immediately upon the organization of these new banks to deposit with the reserve agents 3 per cent of their deposits, and the capital that is required by the bill, it is going to cause a readjustment of credit that will very seriously handicap the credit community of the country. For instance, you take at one bank in Albany, with which I am more familiar than I would be with any other: We have $9,000,000 deposits from national banks that are kept with us as reserve deposits. We do not know whether that is their whole

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reserve, or not. It probably is not. But let us suppose that is, we will say, 5 per cent. If three-fifths of that money is suddenly taken out of our bank and placed in the reserve bank, that is going to cause a contraction in our credits, which will be hard to meet and which will be very hard on the community to whom we are loaning money. We recommend that that transition be carried on much more slowly; that instead of 3 per cent—we have not established any exact figure, but for instance, instead of 3 per cent being taken out at once, that 1 per cent be put into the Federal bank to start with.

Senator O'GORMAN. That is, the deposits?

Mr. PERKINS. The deposits. And let that continue, we will say, for six months, or something of that kind, and then another 1 per cent be paid in, and that will continue for six months, and then another 1 per cent. I believe that one of the greatest menaces that the bill has is the contraction that will be made necessary by the change of the reserves. That is the point we are particularly anxious on, in that regard. We believe that the reserves should be in the reserve association; we do not ask that they be allowed to stay with us. That is my view, although it was a hard one to swallow.

Senator O'GORMAN. That is your view, although your bank has $25,000,000 of reserves on deposit now?

Mr. PERKINS. Yes.

Senator REED. Would it help them if, instead of the bank being required to carry cash down to the reserve bank and put it in, and then carry over its notes and rediscount them and bring the money back, you were permitted under this bill, in lieu of cash or in lieu of a portion of this cash, to deposit approved securities as part of your reserve?

Mr. PERKINS. Yes. That would help, of course.

Senator O'GORMAN. Is not that permitted indirectly by the provisions of the pending bill? Of course taking out of this considerable portion of your deposits would, if it was not compensated for in some other way, necessarily cause a serious contraction. But will that not be compensated for by your ability at once to secure the benefits of the rediscounts?

Mr. PERKINS. I think so, in a certain way, Senator. But you see, the question is so large that it is not the desire of any banker to rediscount such an enormous amount of money as we have to to carry this thing out. Take in our bank, for instance: If we lost three or four millions we do not want to go with a capital of a million and borrow two or three million dollars, bang, right off the gun. Our people are not educated to seeing their banks borrow that way quickly. I believe the banks are going to become borrowers under this system, and it will be considered all right in time, but I think if you do it right off, quickly, it is going to create an uneasiness and disturbance in the community.

Senator O'GORMAN. How much would you have to contribute?

Mr. PERKINS. $100,000.

Senator O'GORMAN. What is the amount of your deposits?

Mr. PERKINS. Of our deposits?

Senator O'GORMAN. Yes.

Mr. PERKINS. Our deposits are $25,000,000. Of that $25,000,000 $15,000,000 come to us because we are a reserve bank. $9,000,000 of that $15,000,000 are from national banks.

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Senator REED. Under the bill as it is, how much money would you have to take over to this regional bank?

Mr. PERKINS. It is a pretty hard thing to tell, Senator, because we do not know just what portion of this is bank reserves they have with us.

Senator REED. Suppose your deposits remained as they do now; you would have to carry over, for your capital stock, how much money?

Mr. PERKINS. $100,000.

Senator REED. How much are your deposits—$25,000,000?

Mr. PERKINS. Yes.

Senator REED. Then you would have two——

Mr. PERKINS (interposing). We would put in 3 per cent of that.

Senator REED. Three per cent now, but ultimately——

Mr. PERKINS. (interposing). Five per cent.

Senator REED. Which would be $1,000,000.

Mr. PERKINS. $1,250,000.

Senator REED. Of course, now, if these banks that now deposit with you are simply carrying reserves and there are $9,000,000 of reserves with you, when this bill goes into effect, those reserves will go out of your bank?

Mr. PERKINS. That is what we are afraid of. We are not afraid of what we have to contribute, or what we have to put in, but these reserves will be taken from us and put in the reserve bank. We think that should be by slow steps, in order to give us a chance to liquidate the business which we are carrying on and have been carrying on and building up for a great many years.

Senator NELSON. You are required to pay 60 per cent of it within 60 days?

Mr. PERKINS. Yes.

Senator REED. If you had to circumscribe your loans $9,000,000, it would have a very serious effect upon the business of the country?

Mr. PERKINS. Over the whole State, yes.

Senator REED. What is going to take the place of that? Assuming that that goes on all over the United States, not only in Albany, but in Buffalo and the whole country? Here is a fund that is now deposited and redeposited and is actually working in the commerce of the country. Now, it is to be withdrawn, and part of it, at least, put into the regional bank. What is going to take the place of that under this bill?

Mr. PERKINS. Of course, there is going to be a certain amount of money released, because smaller reserves are required under the bill. In the second place, there probably will be more money released because this bill provides a way for getting money, and the banks will loan a little closer than they have been loaning. The only other way it can come about is through the banks becoming borrowers. Now, there is one thing that has not been gone into, I think, and that is the banks of New York State, if formed into a regional reserve bank, would make a very large one, and the largest one, probably, in the Union. It will probably do less borrowing than the banks of the other parts of the country. We act as a reserve agent for a great many of the country banks in New York State. Albany is a collection-reserve center. I do not believe that the money we loan

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to our corespondents, that all the three national banks in Albany loan to their correspondents, runs over a half a million dollars at a time.

Senator NELSON. That is, that they borrow of you?

Mr. PERKINS. That they borrow of us. They are not borrowers. I do not see anything in this bill that should make them borrowers. They have not any new burden to carry.

Senator O'GORMAN. The fact that they have additional opportunity to secure money will not, necessarily, lead them to an expansion of their banking activity?

Mr. PERKINS. No. The difficulty is as you suggest, Senator, that this money is all going to be piled into this great regional reserve bank, and I think it is going to be a very serious trouble to get that money out into use again—at any rate for a time. I think it is going to be a very slow process.

Senator NELSON. Three per cent must be paid in 60 days, and then you do not ultimately get to the end of the 5 per cent until the end of 36 months.

Mr. PERKINS. No.

Senator NELSON. Suppose you take the 5 per cent; you do not object to that ultimate period?

Mr. PERKINS. No.

Senator NELSON. Suppose you take the 5 per cent and distribute it more equitably in the three years.

Mr. PERKINS. That was my idea, Senator, yes.

Senator NELSON. That is, so much within six months, so much within a year, so much within 18 months, so much within two years, so much within two years and a half, and finally 5 per cent by the end of the three years.

Mr. PERKINS. That is my idea, Senator.

Senator NELSON. That is, divide the 5 per cent equitably within that period?

Mr. PERKINS. Yes.

Senator BRISTOW. That is what he suggested, Senator.

Senator POMERENE. Into a half-dozen payments, instead of two or three?

Mr. PERKINS. I think it would be a very serious proposition. I think there would be a danger there.

Senator REED. If you were starting a bank to-day—take your bank: You would take $1,000,000 for capital stock and pay it in and then you have $25,000,000 of deposits in your vaults. You would not know what to do with it, and it would take a number of years to get into a position to utilize that $25,000,000 of deposits?

Mr. PERKINS. Yes; and this bank is going to be so much bigger than ours; there is no comparison, Senator. It is going to be one of the biggest things we ever saw.

Senator REED. And you think it ought to grow gradually; its resources ought to grow gradually in order that it can put them into use gradually and the system, instead of being created in a night, ought to be created over a reasonable period of time?

Mr. PERKINS. Yes; I think three years is a proper time, but I think if it could be distributed over the three years it would be much safer. You see, 3 per cent is the larger part of your 5 per cent. It is the bulk of it.

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Senator NELSON. And you would distribute it within that period; that is what you suggest?

Mr. PERKINS. Well, I think if the new bank gets its capital, as is provided by the bill, and gets 1 per cent of the deposits of its member banks——

Senator NELSON (interposing). In what time?

Mr. PERKINS. Immediately, and the Government deposits, as is provided by the bill, that that would keep it going from six to nine months, with all it could do to organize and get that thing into shape, and then you could put in another one per cent.

Senator NELSON. By the end of another six months?

Mr. PERKINS. By the end of another six months, and another 1 per cent at the end of that six months, and so on. I think it would be a very easy thing to arrange it.

Senator REED. How would it do to leave it to the central board to make calls, sooner or later, as the business of the bank required? In other words, vesting them with about the same discretion that an ordinary board of directors would have in the management of a bank?

Mr. PERKINS. The only objection to that, Senator, would be the uncertainty on the part of the member banks as to just when they would be called upon for the money.

Senator REED. Suppose they gave them 30 or 60 days' notice?

Mr. PERKINS. Yes; if they could only call it in limited amounts.

Senator NELSON. It would be much better to put it in the law.

Mr. PERKINS. I think so, too, sir. The minute the law passed, if it did, you would go right to work to carry out a definite program.

Senator REED. Is there anything else you have to suggest?

Mr. PERKINS. Yes. I have two or three other things. We suggest that the regional reserve banks do not pay any interest on the Government deposit; that the rate of interest paid to subscribing banks be increased to 6 per cent.

Senator NELSON. You mean the dividends?

Mr. PERKINS. Yes; the dividends. Excuse me. The dividends to the member banks being increased to 6 per cent, and that the earnings above the 6 per cent and the surplus that is accumulated, or to be accumulated, to be paid to the Government. Our idea in that is this, that it is the very essence of this scheme that these banks be not money makers. That is not what they are for, as we understand it, and if all the money above a certain percentage that is made by the banks goes to the Government, you do not give any incentive to the management of the bank to make it a money-making institution. You leave it to perform its functions of regulating the rates of interest and regulating the flow of gold to this country and from this country and carrying out the functions for which it was created. I think it is important also that the member banks be guaranteed their 6 per cent on their subscriptions, and I do not see why the Government should be paid interest on their deposits any more than anybody else should.

Senator O'GORMAN. You have given a good reason. If we concluded all beyond the surplus should go to the Government, then it would be an idle thing to give the Government an interest rate which would simply be taken out of that surplus.

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Mr. PERKINS. Taking it out of one pocket and putting it in the other.

Senator POMERENE. And your further theory is that the Government is not paid interest, or that if the dividends which the banks should get or the stockholders should get should be in excess of 6 per cent it might be a temptation to give more attention to the earning power of the regional bank than the individual bank?

Mr. PERKINS. I think so; yes.

Senator POMERENE. One of our good friends this morning said that there would not be anything above 5 or 6 per cent.

Mr. PERKINS. That depends on how the bill is framed.

Senator REED. Do you mean to say the Government ought to guarantee the 6 per cent?

Mr. PERKINS. No.

Senator REED. You did use that expression.

Mr. PERKINS. I think the chances would be it would be cumulative.

Senator NELSON. It would be sufficient if it were cumulative?

Mr. PERKINS. Yes.

Senator NELSON. So if it did not get it the one year it would get it the next?

Mr. PERKINS. Yes.

Senator O'GORMAN. What is the next objection?

Mr. PERKINS. The next objection is in regard to the collection of country checks and items, which has been gone into pretty thoroughly here to-day. I think, however, we all recognize—now, this is my business; I am one of those city collection banks that is supposed to make this great profit out of the collection business—and I think that everybody who is in touch with this business recognizes the fact that our present collection system is very unscientific. It is not adequate and it is not good. For instance, I can give you a few examples. I know of a banker in Buffalo if you undertook to deposit a check there on Tonawanda, which is 10 miles away, they will charge you exchange for the collection of that.

Senator O'GORMAN. At what rate?

Mr. PERKINS. I can not quote the rate on that. It will ship it to Albany. We will ship it back to Tonawanda, who will keep it five or six days, or sometimes longer. They will charge us exchange and ship it back to us, and we ship it back to Buffalo again. They are two points within 10 miles of one another. That goes on all over this country, and, in fact, I can not help but think that the country bankers weakened their position this morning when they said they make 25 per cent of their earnings out of their exchange charges.

I do not know whether you are entitled to make 25 per cent of your earnings. I think it is a thing you have got to be more careful about than any other provision in the bill, in a way, because if the Government goes into the collection of these items they charge for exchange at par so that there will not be any dividends whatever. I think the regional reserve banks should be allowed to act as clearing houses under rules and provisions prescribed by their directors or the Federal reserve board. I think it would be a scientific way to handle that thing, to clear the items in the regional reserve banks.

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Senator NELSON. It would be a tremendous expense.

Mr. PERKINS. It would be a tremendous expense, and it has got to be paid out. They can not do it at par without charging for exchange.

Our transit department costs us every year about $300,000 to operate it.

Senator O'GORMAN. The transit department?

Mr. PERKINS. The transit department. It costs us half a million dollars to operate the whole of the transit department, and that includes the interest on the bank deposits. Take that out, and the cost of operation will run in excess of $300,000, that is for clerical hire, and the official force, postage, and interest that we lose during the time when the money is outstanding, and the exchange charges.

Senator POMERENE. Can you tell us what your cost would be per thousand?

Mr. PERKINS. I have it at home, but I can not give it to you now.

Senator REED. I wish you would send it to us.

Mr. PERKINS. I will get the figures and send them to you, Senator.

My point is this: Do not make a compulsory thing in the act. Put it in the hands of the Federal reserve board or the regional boards to establish rules and regulations to regulate that collection business. The country banker deserves consideration. He can not remit at par without charging; he has to be taken care of in this thing, but it ought to be equitable.

Senator NELSON. What do you think of the suggestion made here that this clearing-house system be limited to checks and drafts of one bank upon another?

Mr. PERKINS. I think that is a good suggestion, coupled with the other suggestion which that same speaker made, that they may perform the functions of clearing houses. That clause is in the bill. That leaves it in the hands of the Federal reserve board.

Senator NELSON. You are familiar with the resolution that was adopted by the country bankers. What do you think of the provision that they adopted?

Mr. PERKINS. I think that is a pretty good provision, although I do not altogether sympathize with their point of view in adopting it.

Senator NELSON. If you omit that provision on page 33 which they have indicated and leave the provision on page 24, would not that solve it?

Mr. PERKINS. I think it would.

Senator NELSON. Under the provision on page 24 the banks could receive those checks and it would be left with the Federal board to determine the charges.

Mr. PERKINS. Yes; I think so. I think that would solve it. Personally I would rather see it remain as it is, because that is our business.

Senator NELSON. And to the public at large it would be a great blessing; there is no doubt about that, but we can not afford to crucify the country bankers.

Mr. PERKINS. No; I do not think to the public at large, either.

Now, we also believe that some further provisions should be made to take care of the Government 2 per cent bonds. We believe that it is the intention of Congress and everybody else in the country to provide for those 2 per cent bonds, and we recognize it is one of the most

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difficult things to do, which you have got to consider in connection with this bill. It would not be a safe or proper situation to have the banks of the country holding those bonds on their books at par when the bonds are selling on the market at 90. It would not be a right and proper banking proposition.

I think the best suggestion we have had from our committee—they have made two suggestions—one is that the Federal reserve bank should take over every year a proportion of these bonds at par, the bonds carrying with them the circulating privilege. That would take up the slack that will come from the banks that liquidate and reduce their net circulation, go into the State systems, and so forth.

The other suggestion is that the Government should pay off every year a certain number of these bonds at par, and I think that probably is better. It acts as a sinking fund.

Senator POMERENE. Looking at it from the standpoint of the success of the system, would it not somewhat embarrass the system if the regional banks were to take over these bonds?

Mr. PERKINS. Well, only that they would then be issuing two kinds of currency.

Senator NELSON. That would be the trouble, and we ought to get on one currency basis ultimately.

Mr. PERKINS. I think so, too, Senator. If you bought the bonds at par, and they carry the circulating privilege, they do not cost you anything; you take it out of their money to pay for the bonds.

Senator POMERENE. It might encourage some banks not to go into the system.

Mr. PERKINS. Our suggestion has been that only a certain proportion of these be taken up every year, say, 5 per cent. If 5 per cent are taken up every year it will only take up the slack in the bond market. In my opinion it will not enable any man to get out of the system, if he can only sell 5 per cent of his bonds. The system, we hope, at the end of five years will be working so that he will not want to get out of it.

Senator NELSON. Suppose we leave the dividend at 5 per cent, as it is, to the stockholders. Suppose we have interest paid on Government deposits, and then suppose all that the bank makes over the 5 per cent dividend is devoted to taking up these 2 per cent bonds. In that way the Government would not have to advance anything it would get out of the profits of the banks. Why would not that be a good plan? I simply offer that as a suggestion.

Mr. PERKINS. That might work out, Senator. I think, however, a surplus should be accumulated for this regional reserve bank.

Senator NELSON. Yes; I mean after the surplus. Suppose they pay a moderate interest on the Government deposits, and suppose we leave the banks with 5 per cent dividends and leave all the other revenues of the regional banks to become a sinking fund for the taking up of the 2 per cent bonds, do you not believe that in the course of 20 years that would take them up without any outlay of money. If that would work well, this new system would pay its own way, and relieve you holders of the 2 per cent bonds and keep your bonds at par.

Mr. PERKINS. Suppose, on the other hand, Senator, they do not earn any surplus above your requirements?

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Senator NELSON. Of course, that might be.

Senator O'GORMAN. In that contingency there could be subsequent legislation, providing for the 2 per cent bonds.

Mr. PERKINS. Then it would continue for some years, because you have to roll up your surplus first.

Senator NELSON. Would not legislation of this very nature help to brace up the 2 per cent bonds and stiffen them in the market?

Mr. PERKINS. I think it would.

Senator O'GORMAN. What is your view regarding the substitution of the 2 per cents, or the redemption of them, and the exchange of them for 3 per cents?

Mr. PERKINS. I do not think anybody who is going to stay in the system would want to exchange the 2 per cents with the circulating privilege for the threes without the circulating privilege. He would only do it in case he wanted to liquidate before the bonds became due. In a normal money market the 3 per cent bonds would not sell at par, in my opinion.

Senator NELSON. We know how the British 2½ per cent consols are.

Senator REED. What do you think, Mr. Perkins, of the suggestion that was made here that we retire a portion of these 2 per cent bonds, issuing in lieu thereof 3 per cent one-year bonds and deposit those with the reserve banks, holding them, in fact, as Government securities, with the privilege, on the part of the reserve banks, to sell them in order to maintain a gold reserve if it became necessary?

Mr. PERKINS. Taking the whole issue up that way, Senator?

Senator REED. Not necessarily the entire issue, but take a portion of it.

Mr. PERKINS. I tell you our whole thought on this proposition has been that in order to get this system under way, to get it started, you have got one means of getting the banks all in, and that is the 2 per cent bonds. If they do not have to go in to protect their 2 per cent bonds, most of the banks will wait to see how it works before they go in. If your system is going to be a success, it has got to start out with strength, it has got to have the bankers behind it. In other words, although every man abhors being forced into a thing, you have got to force the banks into this thing or they will not go in.

Senator O'GORMAN. You believe in the compulsory features of the bill, then?

Mr. PERKINS. Yes.

Senator REED. I do not believe you entirely have the idea. It was suggested here that one way in which we could take care of a portion of these bonds would be to take those of them that are now on deposit, for instance, take them into this regional reserve bank and retire them out of the assets of the bank, and then replace the assets with bonds running one year and drawing 3 per cent, those to be put aside and not used except for the purpose of maintaining a gold reserve when it became necessary to use them. Is there anything in that?

Mr. PERKINS. Yes; I think that would keep the bonds absolutely at par.

Senator REED. And yet the banks would want to come in, and we would not be forced to buy these bonds unless we wanted to. Do you think that will work out?

Mr. PERKINS. I should think so.

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Senator BRISTOW. Do you think legislation adverse to the interests of the banks should be resorted to in order to force them into a thing which they think is against their interests?

Mr. PERKINS. I do not think I expressed myself quite clearly on that point. I do not think that any legislation adverse to the banks should be resorted to. I think, however, that it is human nature for every man who has been going along under a certain system to wait to see how a new system goes before he goes into it. It may be the best system in the world, but I do not believe if it was the best system in the world that everybody would go into it when it was organized.

Senator BRISTOW. Suppose they are forced into it and it proves to be a bad system; what would be the effect on the country?

Mr. PERKINS. Very bad.

Senator BRISTOW. Why would it not be better to establish a system and invite capital to subscribe, without forcing anybody, and make it sufficiently attractive to induce men to take stock, and then let the banks take their time as to whether they come in or not and let them find out whether it is going to hurt or benefit them. Why would not that be better?

Mr. PERKINS. I tell you the great fault of our system, as I see it now, are two things, one is the inelastic currency and the other is the method of handling our reserves. The country bank relies on its reserve agent to take care of it in time of trouble, and the reserve agent has nobody to rely on in time of trouble. He has got to be there to take care of all his correspondence. There is no system by which a reserve agent, in time of trouble, can liquidate his assets, and yet he is asked to take care of his correspondents.

Senator BRISTOW. Suppose we had a Federal bank and made reserve provisions through this central bank controlled by a Government board, the same as this board which is proposed, or similar to it, and that it was voluntary as to whether a bank should come in or not, and if banks did not subscribe citizens could be invited to subscribe, and it was made attractive and by virtue of its desirability it drew the banks of the country into it; would not that be a very much better system than the one proposed?

Senator NELSON. This would be the trouble, Senator, if you will allow me. These private subscribers would have no reserves to put into a reserve bank. The French get along pretty well; they do not have bankers to subscribe to their stocks.

Mr. PERKINS. I think the banks—I was coming to that point a little later. I think the one thing which the bankers of New York State, all the bankers I have talked with, are most strong on is that controlling board about which you speak. I believe that if you are going to keep the banks out of this thing, if they stay out it will be because they are afraid of that controlling board, in which they have absolutely no voice.

Senator BRISTOW. Now, they would not have to come in if they were afraid of them.

Mr. PERKINS. Where will they keep their reserves, then; in the present way?

Senator BRISTOW. Yes.

Mr. PERKINS. Then you do not remove the defect, do you?

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Senator BRISTOW. If it was an actual defect you could create a bank of issue and a bank of discount, a Federal bank, and bankers need not subscribe unless they want to, and the Government deposits are there, and this bank would be ready to loan them to any banking institution that does deposit its reserves with them.

Mr. PERKINS. And that institution would have branches all over the country?

Senator BRISTOW. That institution would have branches all over the country. It is a Federal institution, not controlled by private stock at all.

Mr. PERKINS. It is only a question as to who would go in and who would not. I think they would be slow to go in.

Senator BRISTOW. Now, with the example of the Bank of France before us, do you think that would be the case?

Mr. PERKINS. No; but the people of this country have had two experiences, I think, with a Federal bank—a United States bank.

Senator BRISTOW. That was a private bank.

Mr. PERKINS. Yes; this is privately owned, of course.

Senator O'GORMAN. It is privately owned. It is to be controlled by the Government?

Senator BRISTOW. Oh, no.

Mr. PERKINS. I do not believe—it is simply my personal opinion—but I do not believe the banks would come into that system quickly. It might be that experience would show that it was a wise thing to do.

Senator BRISTOW. It would not disturb the present system so as to cause any apprehension as to any danger that might come.

Mr. PERKINS. No; but the trouble is that the present situation needs disturbing.

Senator BRISTOW. It does not need any disturbance if you create a means by which any bank can get relief when it needs it if it has the security?

Mr. PERKINS. No.

Senator BRISTOW. If it was a bank of issue, and the Government would discount the paper of any reputable banking institution when it needed the discount in order to get——

Mr. PERKINS (interposing). And carried its reserve there?

Senator BRISTOW. Yes.

Mr. PERKINS. Well, I do not know; that might work out. I think the banks of the country are above all desirous that when the system is put into effect that they have some voice, not a controlling voice—I do not think they want that—but that they have some voice in the management of the institution.

Senator BRISTOW. If they are compelled to subscribe their capital and put their money into it, I think there is no argument against the proposition. You can not justly force a man, or 100 men, to create an institution and then say to them that they shall put their money in it but have nothing whatever to do with its management. But if they are invited to go in, with the understanding that they do not have anything to do with it, and that they need not put their money in unless they want to, they could not have any complaint?

Mr. PERKINS. Not a bit.

Senator BRISTOW. We had a witness before us, and he was a banker, who thought that there would be a hundred million subscribed if 5

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per cent dividends were provided within a short time; that a hundred million would be subscribed by the people, who would be eager to get that stock.

Mr. PERKINS. His guess would be just as good as mine. It is not a situation that has ever been put up to the bankers. I have never heard it discussed at any meeting.

We suggest that in all places where reserves, either for note issue or reserves for deposit in Federal reserve banks, are mentioned, that it be gold, and not gold, and lawful money. That is a question which I will not argue, but about which Mr. Treman has something to say. We also suggest—and this is the thing I spoke of before—that we should be derelict in our duty to our association if we did not make it strong that if this proposition goes through, that the banks be given a representation on the board that controls this great system.

Senator O'GORMAN. As to that, do you not think the banks will have their influence felt when they have an advisory board, which is provided for in this bill?

Mr. PERKINS. We suggest, Senator, that the advisory board be dropped, and that the banks be given a representation on the board. Then they are actual working members of this organization and have a standing.

Senator O'GORMAN. Now, suppose the banks had no representation on the board, and I think it is safe for you to assume that they will not—do you not think they would be anxious to have the advantages of this advisory council?

Mr. PERKINS. Undoubtedly, I think.

Senator O'GORMAN. Is that all you have?

Mr. PERKINS. No; there is one more thing. We recommend very strongly that the number of reserve banks be substantially reduced from 12, as provided in the bill now, believing that the essence of this whole movement is to unite the reserves of the country in as strong institutions as it is possible to make, and not to have any one or two or three that are very much weaker than those. There are an endless number of arguments for that which you have undoubtedly heard, but perhaps the strongest, and one that is least harped on, too, is the fact that we believe under this system, if this system is put into effect, there will grow up around these centers what is called in Europe open discount markets, or places where bank acceptances, notes, or bank acceptances and indorsements will be bought and sold in the open market. The advantage of those open discount markets can hardly be overestimated, because it makes a place where you can invest money well, and where you can liquidate money easily. It will take away absolutely the necessity for one of the worst features of the present system, that is, loaning money on call in Wall Street.

For instance, in Albany, if I have a sudden deposit of $1,000,000 or $2,000,000 that is liable to remain in my bank a week or a month. I can not go out and invest that in four or five or six months' paper. The only thing in the world I can do with that money and earn anything is to put it in New York on call loans, and I believe that is one of the worst features of the present system, and one that will be obviated if you have a few strong central points around which will grow up open discount markets. That is all I have to say, gentlemen. Mr. Treman will now speak to you.

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Senator NELSON. I think you are just right on that subject. I am glad to hear you talk that way.

STATEMENT OF ROBERT TREMAN, OF ITHACA, N. Y., PRESIDENT OF THE TOMPKINS COUNTY NATIONAL BANK, ITHACA, N. Y., AND PRESIDENT OF THE NEW YORK STATE BANKERS' ASSOCIATION.

Senator O'GORMAN. Will you kindly give your name and address and banking connections?

Mr. TREMAN. Robert Treman; Ithaca, N. Y.; president of the Tompkins County National Bank, director of the Ithaca Trust Co., trustee of the Ithaca Savings Bank, and president of the New York State Bankers' Association; and, in a business way, I am president of the New York State Hardware Association, as I spend a part of my time in the hardware jobbing business.

I want to speak in reference to the gold reserve in these reserve banks only.

If there is any one thing that the bankers of the State of New York feel strongly about, so far as I have been able to get their expressions, they are united, I believe, in thinking that the reserve against deposits and the reserve against note issue in the Federal reserve banks should be in gold and gold only, and therefore the words "in lawful money" in two or three sections of this bill should be eliminated and the word "gold" should be the only one used. In other words, that should be the only kind of reserve for the Federal reserve bank.

The question naturally arises, first——

Senator POMERENE (interposing). You would limit that to the Federal reserve banks and not extend it to the reserves of the member banks?

Mr. TREMAN. No; just the Federal reserve banks. The reasons for that are two, in my judgment. You may ask why should it be done, and, second, how can the gold be provided with which to do it.

Now, so far as the reason for it is concerned, if there is anything that this bank is supposed to do it is to properly mobilize and protect the reserves. And those reserves should not be scattered in the 25,000 banks of the country, but should be mobilized in these field banks—I am speaking of the gold reserve—these few Federal reserve banks. We are entering upon a great foreign distribution of goods. Anyone who has traveled in countries aside from Continental Europe will be surprised to find, as the little traveling I have done has shown me, how we Americans are not occupying the foreign markets. When you go through Turkey, and especially Palestine, you find very frequent instances where the Germans and the Englishmen have gone in and their goods are sold out there. You would be surprised at the amount of German goods in the part of Palestine governed by Turkey.

I was in Venezuela and other South American countries this last winter and found upon inquiry that nearly all the goods there came from Germany or from Great Britain. You go into Cuba, and in all of these places you will find branch banks of English or German banks, or they have banking connections, so that they have ways of

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paying the funds back and forth between these countries and the country from which they buy.

One of the provisions of this new reserve-bank proposition, as I understand it, is to offer better facilities for our foreign commerce and for the transfer of money back and forth in our foreign commerce. There is only one money that is recognized by those people, and that is gold. And it seems to me if you want to establish a new banking proposition which is to have strength, especially in foreign countries, it must have the reserve in the gold standard which they have, which all the leading civilized countries have. If this Federal bank is to prove what is expected of it, it has to be practically an anchor against any disturbance in this country caused by foreign obligations. For instance, if we had a condition in the last six months in which the demands to finance the war between Italy and Turkey and the war between the Balkan States and Turkey, and the war in the Balkan States has for six months or more disturbed our markets here, we must be in a condition in this banking proposition to protect the country against the withdrawal of gold which we do not want to go out from this country.

Now, those gold reserves should be concentrated in one place where they can be controlled and where currency can be issued against them.

One of the troubles in 1907 was that our banking credits had been extended and had been growing so much for two or three years previous to that time, and the large overexpansion of banking credits. You had at the time in the United States Treasury the largest aggregation of gold bullion and coin that was ever collected in any country, but you could not use it because it belonged to the owners of the gold certificates which were scattered all over the country.

Now, what you want is to have those reserves in a position where they can be utilized, not only to protect the paper issues, but also to protect the bank credits and to supply the currency and the credits also that is necessary in certain emergencies. It can be well asked how you are going to do this. If you will pardon me a moment, I will give you some figures in regard to the gold of the country. We have in round numbers 3,600 million of all kinds of lawful money in this country. Of that money 364 million is segregated in the Treasury. These are the figures of a year ago.

Now, we will assume that is out of circulation. Of the 3,200 millions that are practically in circulation, 1,500 millions are in the banks, reported to be in the banks, and the 1,700 millions remaining are scattered in commerce and in private banks. Of the 1,500 millions in the banks, $882,000,000, practically a little less than $900,000,000 of gold, was in the banks, in their vaults, either gold or gold certificates, against which there was bullion in the Treasury. Of the $900,000,000 the national banks held $600,000,000 of gold at that time.

What is going to be required to furnish gold for these reserves? You have got to protect the Government deposits up to 33⅓ per cent of that. We will assume they will be $200,000,000. That is what the House committee gave out. You will practically get from the member banks $300,000,000, and you will have a total of deposits in the banks of substantially $500,000,000, against which you must have $167,000,000 of gold.

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The next thing you are to provide for is a gold reserve for any of these Federal reserve bank notes. How much that will be no one can tell, but it is assumed it will not make any undue drain on your gold, because you will protect them by an equal amount of other assets, by the capital of your bank before you touch your gold, and it would seem to me it would be a proper way to maintain your notes that you issue by having the reserve entirely in gold and not in any promise to pay or any other form of lawful money, so called. If you provide that reserve in gold, you will, it seems to me, gain the confidence of the banks of the country in regard to the stability of those Federal reserve banks and you will gain the confidence of the business community, because they will feel that there is actual money in the vaults of those banks, and you will strengthen your position with the foreign people immeasurably over what it will be if you have gold or lawful money. They do not understand that. It does not seem to me that it is nearly so essential that you should have in your member banks so much gold in reserve, because if you establish this system your Federal reserve banks will become the father to the child all the time, and the child will be going to the father. That is the way it is in England. They do not carry any gold reserve to any amount. If they want any, they go to the Bank of England. If the gold is being withdrawn from the Bank of England, it raises its discount rate.

In 1907, when this country wanted gold, they called upon England, and the Bank of England had to furnish the gold that was brought over to this country, and within the period of two months between October and December the Bank of England supplied over $100,000,000 of gold to this country. Their reserve at that time was only about $150,000,000 of gold. You would ask why did that not weaken them? Because the man at the head of the Bank of England was a man trained in banking, and he watches these matters, and the moment there is any danger anywhere in the world they begin to hoist the flag of distress by raising the discount rate, and during this period their discount rate at that time was raised from 4½ to 7 per cent, and the German banks, or rather the Reichsbank, raised their rate from 5½ to 7½ per cent. The Bank of France did not raise theirs quite as much. It went, I think, from 3½ to 4½ per cent within that time. Each one did that to draw gold from other countries to them by reason of the discount. What was the result? The Bank of England had some £30,000,000, or $150,000,000 of gold, in their reserve at the time of the panic in this country in October. Notwithstanding the fact that they supplied $100,000,000 of gold to this country, they landed on December 23 with £29,000,000, or about $140,000,000, still in their reserves that they had drawn from other places.

Now, the banks of New York State, whatever the rest of the country may feel, feel strongly that in that need we should have a banking system so strong that it will provide for any unusual emergency, for the extension of bank credits, and for the protection of the paper currency of the country, and if you do that you will make a strong institution, and the small member banks will take care of their reserves.

I am a country banker. I listened to the remarks of some of the gentlemen who are in the same class as I am in regard to the change

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in reserves and what effect it is going to have. I have heard a great deal of discussion about the unfairness of this new bill to the country bankers in compelling them to do so-and-so. Now, they refer to a bank of $1,000,000 deposits. Under the present national-bank act we are required to keep $150,000—15 per cent—reserve. Of that we must keep 6 per cent, or $90,000 in our vaults. Nine per cent can be in a bank in New York, Albany, or some other place, wherever we choose to put it so long as it is a reserve bank. We have been getting 2 per cent on that $90,000; that is, $1,800 a year, if I am not mistaken.

Now, under this new proposition you release 3 per cent, or $30,000. That become the property of the bank to be used for loaning or in any way they care to invest it, in bonds or otherwise. I submit that at the present time they can not earn 6 per cent on that money and make the $1,800, so that although the banker is compelled to put his money in the Federal reserve bank without interest, still, with the lowering of the reserve, he does not suffer a great deal, and it does not seem to me it works a great hardship to our bank.

Now, we recognize in New York that some conditions are very different, as Mr. Perkins has said. The rediscount system is not in vogue to a great extent with the New York State national banks, because they have been educated to believe they ought to take care of themselves and not discount their paper. Under this system I think there will be a change of sentiment, and we undoubtedly will go to our Federal reserve bank and feel that it is perfectly justifiable, it is honorable, and not a sign of weakness——

Senator POMERENE (interposing). And in every case it is regarded as perfectly legitimate and good banking.

Mr. TREMAN. The bank I have been connected with as president for 10 years never has rediscounted up to the present time, to my knowledge. We buy bonds when we are flush, and carry them along. If we are in trouble we may send them to the New York bank and say, "If we should overdraw any day you have those bonds as protection." But we try to avoid that, and those bonds have lain there a good many years. We also have the opportunity to sell our bonds in the open market at a slight loss, which is compensated for.

So I could not agree personally with the feeling that you are treating these small country banks wrong in compelling them to go into the Federal reserve bank. I feel strongly that what we need in this country is just such a central organization, composed of two, three, five, or seven units, or something like that. Personally I would make them as small as possible. I would have a few banks and then let them have different branches in the various places that are convenient.

Senator POMERENE. You mean to make the number of banks small?

Mr. TREMAN. Yes; 4, 5, or 6, instead of 12 as your bill provides. And it seems to me that by establishing the banks around you can make points of convenience for these men who have felt that the reserve bank was going to be so far off they would never get into touch with it. You have the power to provide for branch banks in those places, and make your connection in that way, and it certainly will result in your having greater control in times of emergency if you only have a few banks that will work together, and there is apt to be less friction than by having a large number.

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Senator NELSON. There is one point I should like to ask you about; you did not make it quite as clear as I should like. I agree with you it ought to be a gold reserve, but how is a gold reserve to be provided for these regional banks in the first instance?

Mr. TREMAN. If you left it to me I should have every member bank that subscribes pay for its stock in that bank in gold to start with. You give to your Federal reserve bank the right to purchase gold bullion in the market if they want to, but I want to point out that under your plan of reducing the reserves in cash in the central reserve city from 25 to 18, and in the reserve from 12½ to 9, and in the country bank from 6 to 5, you are going to realize from $230,000,000 to $250,000,000 cash. That all could be paid over, but you do not need it. If the deposits are not more than they are estimated—$550,000,000—you only need about $150,000,000 to $175,000,000 in gold. If you will make them pay their stock in gold you will start with about $100,000,000, and the rest can be accumulated in such a way as a bank may prefer to get the gold out of its own vaults into the other.

Senator NELSON. This has occurred to me as a defect in the bill. It did not provide in the first instance how this gold reserve should be acquired. There was no provision in the bill for that 33 per cent gold reserve, and it seemed to me—but I did not dare suggest it before, and I am glad you have suggested it—that the only way we could get it in the first instance would be to make these stock subscriptions at the outset in cash.

Mr. TREMAN. Take our case. We have $100,000 and $150,000 surplus. We pay 10 per cent for our stock——

Senator NELSON (interposing). The last bank statement we have here, if my recollection is good, discloses that the national banks have something over $750,000,000 in gold at this time.

Mr. TREMAN. I have not seen the last statement. The last I have is June, 1912, and there were $882,000,000 of gold in the banks, of which the national banks had about $600,000,000.

Senator NELSON. I think the last statement discloses a little over $700,000,000.

Senator O'GORMAN. Mr. Treman, you and Mr. Perkins were at the convention in Boston?

Mr. TREMAN. Yes, sir; I was there for only a day or a day and a half.

Senator O'GORMAN. Did you participate in the deliberations of the convention?

Mr. TREMAN. Yes, sir; to some extent. I found they were getting into what seemed to me a rather acrimonious debate, and it was after lunch time, and I arose, went to the platform, and suggested that they adjourn for lunch. They did so, and came back and apparently after the luncheon they felt better.

Senator O'GORMAN. Do you approve of the recommendations made by the convention regarding the changes that ought to be made in this bill?

Mr. TREMAN. The recommendation of the American Bankers' Association?

Senator O'GORMAN. Yes.

Mr. TREMAN. I could not personally agree with all of them, sir. I think, in the main, they are correct. They were contending for a

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principle, and I did not feel it was wise to take issue on one or two things that I might differ on. The important thing is to get a reserve bank of some kind, or a central bank organization started that will relieve these difficulties as soon as possible; because this country, in my judgment, is on the eve of a great advance. You have wiped out apparently the tariff agitation for a while——

Senator O'GORMAN (interposing). We hope for a long while.

Mr. TREMAN. And if you can settle this currency bill and get it out of the way it seems to me we have a great opportunity, and what I am anxious to see as an individual is a proper banking and currency bill just as soon as possible.

Senator O'GORMAN. Do you recall which of the recommendations made by the convention you disagreed with? It was stated yesterday, I think, Mr. Treman, that the only person who opposed them was Mr. Scudder. Is that correct?

Mr. TREMAN. He was the only man on the floor that I saw that voted against the bill. There were some who did not vote for it.

Senator O'GORMAN. What bank did he represent?

Mr. TREMAN. I think it is the Richmond Savings & Deposit Co., if I remember correctly.

Senator O'GORMAN. You know Mr. Scudder, do you?

Mr. TREMAN. I saw him; I do not know him personally.

Senator O'GORMAN. What is his position?

Mr. TREMAN. I think he is vice president.

Senator O'GORMAN. Who is president?

Mr. TREMAN. I think it is John Skelton Williams, if I am not mistaken.

Senator O'GORMAN. Coming back to the previous question, which of those recommendations do you find fault with?

Mr. TREMAN. Which would I change, for instance?

Senator O'GORMAN. Yes.

Mr. TREMAN. You have asked me quite a question, Senator. There are two questions; one is the recommendations of the American Bankers' Association.

Senator O'GORMAN. I am speaking of the recommendations made by this Boston convention which were presented here yesterday.

Mr. TREMAN. Oh, I did not understand your question.

Senator O'GORMAN. Have those recommendations made by the country bankers met your approval?

Mr. TREMAN. Not entirely so. I should agree with them on the question of leaving out of the bill the savings bank proposition. Now, of course, in New York State we have not the condition they have in the South. We have savings banks that are segregated under State laws, and it is an entirely different proposition, but it seems to me it has no place in this fundamental banking law of the country at the present time.

I should not agree entirely with their recommendation—I am speaking merely for myself.

Senator O'GORMAN. I so understand.

Mr. TREMAN. I should not agree entirely with their recommendation about the reserves, because it does not seem to me it is working any great hardship at the present time; for instance, with our bank, for which alone I am speaking. In this bill you reduce the reserves from 15 to 12 per cent. Now, we probably will do business with

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some bank in some other city besides the Federal reserve bank, but I think we can do it without any loss of profit more than we are having at the present time and still make our connection with the Federal bank.

Senator BRISTOW. The ability of one bank in that respect depends somewhat upon its locality and environment, would it not?

Mr. TREMAN. Entirely so, in this way: Take a small country bank in Gloversville in our State, where you have certain conditions. They might have every dollar of their deposits that they were legally allowed to loan out in local loans to manufacturers. It is a manufacturing center, and they probably would want to rediscount it. With us it is entirely different. We have not local demand enough, so that at times we buy bonds, or we buy commercial paper outside through note brokers.

Senator BRISTOW. I think that is all.

STATEMENT OF F. S. LARRABEE, FARMERS' NATIONAL BANK, STAFFORD, KANS.

Senator BRISTOW. Mr. Larrabee, what is the capital stock of your bank?

Mr. LARRABEE. $25,000.

Senator BRISTOW. What are its deposits?

Mr. LARRABEE. $500,000. I am also director in 6 State banks, and stockholder in 11, and director of the Larrabee Flour Mills Co.

Senator BRISTOW. So you appear as a banker and business man?

Mr. LARRABEE. More as a business man, I think, than as a banker.

I come before the committee with some diffidence. I have not any figures; I have not come from Boston. I came direct from Kansas at the request of some of the Senators. I will tell you in advance that the small country banker, such as I am, is not interested so much in the organization as in the operation of the bill. With us, and with me particularly, the only thing I need from an institution of this kind is rediscounting at certain times of the year, and I should have that without limit if it is to be of any benefit to me.

In our wheat-moving period we use enormous amounts of money, and our present source of supply is our corresponding banks in the reserve cities. They lend to us without limit. I have been a banker for 27 years and I have never had a discount refused by a corresponding bank. I have always leaned on them, and they have been good leaning. Of course, in that situation I naturally hesitate about changing my credits without knowing just what I am going to get in return.

Senator BRISTOW. You have a bank of $25,000 capital? What is its surplus?

Mr. LARRABEE. $25,000.

Senator BRISTOW. And its deposits $500,000?

Mr. LARRABEE. Yes, sir.

Senator BRISTOW. What is the population of Stafford?

Mr. LARRABEE. Two thousand.

Senator REED. Senator, can you pause long enough for me to call the attention of the committee to this statement in the Washington Evening Star:

The committee, it was learned this afternoon, will insist upon H. Parker Willis appearing before it to discuss the bill. Mr. Willis, who is news editor

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of the New York Journal of Commerce, was the expert who aided the House committee in framing the bill.

I make no complaint of that statement, but this follows:

Members of the Senate committee expect to learn from Mr. Willis just what parts of the bill President Wilson is responsible for, and also what part Secretary of State Bryan had in framing the House bill.

I have never heard such a suggestion made by a member of this committee. I do not believe anybody else ever heard that suggestion made by a member of the committee.

Senator BRISTOW. I do not either. I do not think it ever entered the mind of a member of the committee.

Senator REED. I do not believe the author of that article ever heard anybody make that suggestion except himself.

Senator BRISTOW. Mr. Larrabee has to leave, and I am rather anxious for the committee to hear him. We can discuss this later.

Senator REED. I just wanted to call the attention of the committee to it now, because my eye just caught it. Such impressions as that ought not to be sent out by anybody.

Senator BRISTOW. Now, Mr. Larrabee, as I understand, you are more interested in your ability to get rediscounts. Now, what amount do you rediscount?

Mr. LARRABEE. Various amounts. The largest amount I have ever rediscounted in any one wheat-moving period has been $100,000.

Senator BRISTOW. How do you get those rediscounts?

Mr. LARRABEE. I send my paper to New York, St. Louis, or Kansas City, wherever I think I can get the better rate, or wherever I have a line of credit available.

Senator NELSON. Do you sell your paper, or do you give your note and put up the paper as collateral?

Mr. LARRABEE. Understand, Senator, that under the existing banking laws a national bank is limited to the amount of its capital stock. I borrow to the amount of my capital stock, and then I give my personal note or the note of my directors for what more money I may need.

Senator NELSON. It is the note of the bank or yourself in any event?

Mr. LARRABEE. Yes.

Senator NELSON. And you put up this commercial paper as collateral?

Mr. LARRABEE. Not when I give my own note.

Senator NELSON. But when you give the bank's note?

Mr. LARRABEE. When I give the bank's note; I attach to it an account of my bills receivable. That happens with me only once a year, and I need that money only 30 or 60 days, because I soon get it back and in large amounts. At times of the year I am in the market for commercial paper myself.

Senator BRISTOW. Do you have an apprehension that you could not get these accommodations——

Mr. LARRABEE (interposing). I have the apprehension this far, Senator, that I feel like waiting. The bill puts the State banks into better shape than it does the national banks. If I were a State bank I could wait one, two, or three years, have my resources and lines of credit open, and at the end of that time if I saw it would be of

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advantage I could come in. But as a national bank I am compelled to go in or go out of business, or else take out a State charter. And I can not say that I will protect my bonds by staying in the Federal system. The statement was made here that the bonds would be protected, but I can not see it. The bonds may go to 80 cents, and if I were to stay in the system I can not see but what I would have to put up enough money to make them worth par to protect my circulation.

Senator BRISTOW. Suppose you asked for a rediscount from the Federal reserve bank and it was refused?

Mr. LARRABEE. If I had done my business with the reserve bank and had lost my lines of credit with my corresponding bank I would be in bad shape—absolutely bad shape. And the line of credit granted to a country bank is dependent upon the deposits that it keeps with its corresponding banks.

Senator BRISTOW. What reserve do you keep?

Mr. LARRABEE. Twenty-five to thirty per cent.

Senator BRISTOW. Of your $500,000?

Mr. LARRABEE. Yes, sir.

Senator BRISTOW. Where do you keep it?

Mr. LARRABEE. Well, at the end of some days the bulk is in Kansas City, and at the end of the next day the bulk may be in New York. I switch it around, depending on my exchange requirements.

Senator BRISTOW. That is, you leave 9 per cent of your reserve or more in the reserve cities?

Mr. LARRABEE. Oh, yes; my cash requirements are not heavy. I keep 6, 7, or 8 per cent in cash.

Senator BRISTOW. Now, in your business you may check out all of the money you have in Kansas City on one day?

Mr. LARRABEE. Practically all of it; it might happen that way.

Senator BRISTOW. But still your reserve in St. Louis or New York——

Mr. LARRABEE (interposing). I may get heavy exchanges or drafts deposited with me on St. Louis, which I send direct there, and I may draw pretty nearly all my balance in Kansas City. The next day it may be reversed.

Senator BRISTOW. And you draw your balance out in New York and have your reserve in Kansas City?

Mr. LARRABEE. Of course, those are extreme cases. It might not happen that way from day to day, but it might happen from one week to another.

Senator BRISTOW. So that while it is 9 per cent that you are permitted to keep with your reserve agents, it is——

Mr. LARRABEE (interposing). Flexible.

Senator BRISTOW. And it is useful?

Mr. LARRABEE. Yes; I do not have to keep it with any particular reserve agent.

Senator BRISTOW. Would you feel justified in coming into this system if the bill should pass?

Mr. LARRABEE. I do not think so. If I surrendered my national charter and took out a State charter, I might take advantage later on of the privilege of coming in if I thought it would prove useful and beneficial. Under the State charter, under the laws of my State,

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I have many advantages I do not have under a Federal charter. I can loan on real estate; my loan limit is larger, which is an advantage sometimes, and the State law offers us some advantages that we do not get under the national-bank charters.

Senator BRISTOW. In what way would your milling company be affected by legislation of this kind?

Mr. LARRABEE. You know, Senator, within the last 20 years there have grown up among us aggregations of business. Twenty years ago our milling company made 100 barrels of flour daily. To-day we are the second largest milling concern in the Southwest, making over 3,000 barrels of flour daily. At certain times of the year we use enormous amounts of money, and we go into the open market and borrow money. None of our banks could take care of us.

Senator NELSON. You get it through note brokers?

Mr. LARRABEE. Through note brokers. We are fearful that when the City National, for instance, have to turn over $50,000 of their deposits to the Federal reserve bank, and the banks in the reserve cities have to do that, they will restrict their operations in the open market, and we will be unable to secure funds to operate our milling company, because they will not buy our paper just for the privilege of rediscounting it with the Federal reserve bank. No bank is going to loan money to outside interests simply for the privilege of reselling their paper. If we were a customer they might do it to a limited extent to accommodate us.

Senator REED. Are you not mistaken about that Mr. Larrabee? If you do business with a bank right along, and you need some more money and would put up your notes, the bank would go down and get the currency for you.

Mr. LARRABEE. They would do that, Senator—the bank I was doing business with. But this summer, in the face of an unfriendly money market, we borrowed a half million dollars for our milling operations. None of our banks nor all of the banks combined would borrow that amount of money for us.

Senator REED. You are doing business now with how many banks?

Mr. LARRABEE. Two.

Senator REED. Now, suppose your two banks, knowing you were running a safe and sound business there, entitling you to credit—and you must be entitled to credit or you could not get the accommodation—and desiring to accommodate you, one of the members of this system, they could take your paper——

Mr. LARRABEE (interposing). But remember, Senator—pardon me for interrupting—but remember they are limited as to the amount they can loan us to 10 per cent of their capital and surplus.

Senator REED. They are not limited to it under this bill.

Mr. LARRABEE. They are not limited to the amount of my paper, like myself, but they are limited as to the amount of loans they can make to us to 10 per cent of their capital and surplus.

Senator REED. This bill is not written yet.

Mr. LARRABEE. I am taking the bill as it stands.

Senator REED. If that limitation were taken off as to the amount they could lend you, leaving it to the directors of the Federal reserve bank, so that they could accept paper in excess of 10 per cent, then do you not think those banks, in order to handle your business and see-

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ing some profit in the handling of it, would willingly take your paper to the Federal reserve bank and obtain money upon it, even if there had to be money issued? Now, Mr. Larrabee, what this committee is trying to get is the frank and honest opinion of witnesses with reference to the virtues as well as the defects of this bill; and when I ask this question I find all witnesses a little inclined to maintain their position, and, of course, they ought to, if it is correct. And, directing your thought to this particular matter now, do you not think it would be a great convenience and help to you?

Mr. LARRABEE. Well, Senator, let me explain a little further. We do business with one bank that has $100,000 capital. Do you think that bank would be justified in taking half of our requirements—a half million dollars? Do you think it would be safe to permit them to do it for the privilege of rediscounting our paper?

Senator REED. Possibly not——

Mr. LARRABEE (interposing). So we are glad to go into the open market for a certain part of our funds.

Senator REED. Let us see about the effect on the open market under this bill. Would there not be a better market for your paper if not only the bank you ordinarily do business with, but any bank purchasing that paper, knew it could at once turn it into money, if necessary, and at a reasonable rate, at the regional bank?

Mr. LARRABEE. Of course, it is difficult to tell in advance what will be the result of the operations of this bill. But I estimate it in this way——

Senator REED (interposing). Leaving you at the same time every resource you now have.

Mr. LARRABEE. You understand that banks, when they go into the market for commercial paper from brokers when they have surplus, do not go in and buy paper to resell; they won't do that. Now, if these large reserve banks have to deposit a large amount of paper and decrease their loans to get money to put into the regional reserve bank, our class of business is the first business they cut out.

Senator NELSON. It is the floating business.

Mr. LARRABEE. Yes; they cut that out.

Senator REED. Now, Mr. Larrabee, of course a bank would not perhaps buy your paper in the market with the purpose in mind at that time of taking it and certainly rediscounting it; but, as this bill offers to every member bank that becomes a member the facility to rediscount if it becomes at all necessary, do you not think that would loosen up the market for your paper just to the extent that this system adds to the present facilities of the market?

Mr. LARRABEE. That has not been my opinion, Senator.

Senator REED. I wish you would tell me why that would not be the inevitable result. To-day you have all the banks of the country to sell your paper to. Now, a new system is created which does two things—well, it would be better to state it as one proposition. It affords a new place in which that commercial paper that is prime and good can be at once rediscounted by any bank. Is not that an additional advantage to that which you now have?

Mr. LARRABEE. I do not think you get my point in that, that banks only go in the open market when they have a surplus of funds. And they will take care of their own customers, but in buying commercial paper—that is, when they have loose funds——

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Senator REED (interposing). They will have the loose funds after this system is created, won't they?

Mr. LARRABEE. I have taken the statements of the men who have been before you from the reserve centers that their funds will be decreased.

Senator REED. But they all say they will be decreased at first; that is, there will be a transitory period, but nearly all of them say there is danger under this bill that there will be an inflation afterwards.

Mr. LARRABEE. I would not agree with them.

Senator NELSON. As I understand Mr. Larrabee, his demands during certain seasons, his requirement for loans is so big that no one bank can make him a loan. No one regional bank could do it.

Mr. LARRABEE. I do not know what their limitations are. My idea was that no single bank where we kept an account would buy our paper to rediscount it.

Senator NELSON. And his further theory is he would have to go to a number of banks to get his accommodations, and that no bank would buy his paper for the sake of rediscounting it with the regional bank.

Mr. LARRABEE. That is the theory.

Senator REED. It seems to me that criticism is based on the idea that the regional bank absorbs the funds of the country, so there are no surplus funds left, whereas the regional bank is expected to be in a position to supply an almost unlimited amount of funds as long as there is a good piece of paper back of it.

Senator BRISTOW. Now, Senator, I do not think you get Mr. Larrabee's point. Mr. Larrabee is from a little town out in western Kansas of 2,000 people. He has a bank of $25,000 capital. He demands there in his milling business as much as a half million dollars. This year he borrowed a half million dollars.

Senator REED. I understand.

Senator BRISTOW. And there is no bank he can go to and borrow that money from that would be justified in loaning him that amount, that could go and get it rediscounted? As it is now, he has his connections, and he has no trouble, but here the rediscounting is only permitted by this regional bank. His present facilities would be curtailed, and he does not see how any bank could rediscount for him and then rediscount at the regional bank.

Senator REED. I do not understand that. He has his present relations and arrangements made now to take care of this. I do not understand, and I wish you would tell me, why this bill destroys those connections which he now has.

Mr. LARRABEE. Let me go a little further. Suppose you had a panic like that in 1907 going on and I had paper maturing. The only way my milling company can get money from the regional reserve banks is from some member bank. These member banks, with my paper coming out, they are not going to take any more time paper to accommodate me, unless I am a customer of theirs; and if I am not a customer of theirs, they are not going to handle that paper; and so, when that matures they are going to get out from under their undertakings just as soon as they can.

Senator REED. Why are they going to get out from under your undertakings when they could take your paper and everybody else's

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paper and go over to the regional bank and get all the cash they needed?

Mr. LARRABEE. I do not know. I have been a banker for 27 years, and I have never bought paper when I knew I would have to sell immediately. In time of a panic, if my paper matures, I have got to liquidate my business. I will take, as an illustration, the bank at Shreveport, La. That paper matures in November. In November a panic is on. I do not know the bank at Shreveport has my paper until it matures. When that paper matures they are going to ask me to pay, because they are not going to take a chance in a panic of my failing and leaving them to pay that paper to the Federal reserve bank. And so I have got to liquidate.

Senator REED. You have got to do that now, and now if there is a panic on that bank in Shereveport would not help you and no other bank would help you. All the banks are in trouble now. Now, do you think it puts you in a worse condition if there is a place where all of the member banks, say seven or eight thousand banks, in this country can go and turn over paper which they take in, intending to rediscount, and that they now will rediscount, if an emergency has arisen, and it is in funds and the whole situation of the country will be relieved—do you think that that puts you in worse condition?

Mr. LARRABEE. Senator, I am not complaining of the bill on that account, but I think that the section looking to open market operations should be changed.

Senator REED. In what respect?

Mr. LARRABEE. I think at times they should be allowed to go in the open market and buy paper—the regional bank; such times as that, for instance.

Senator REED. Do you think the section ought to be enlarged?

Mr. LARRABEE. I think so, yes. Of course, I admit it is a difficult thing to do. Here you have the monied banks who are in the market for that paper. At times you are in the market as their competitors.

Senator REED. If competition is the spice of trade, would it injure the business of this country if one of those banks occasionally bought some paper?

Mr. LARRABEE. No, sir; I think it would be a benefit to the business of the country. I think that should be enlarged so as to permit their open market operations to be more extended. I am not complaining of the bill on that account, but telling you how it would operate.

Senator REED. You think the bill is a good thing, if it had some changes?

Mr. LARRABEE. If it had some changes, although I would not say I would put my bank into it. Of course, a bank is naturally conservative, and I would like to see how it operates.

Senator REED. You would like somebody else to take all the chances?

Mr. LARRABEE. Yes; I would like somebody else to try it.

Senator REED. Will you tell us, now, how we can get up a system and start it when all of the banks are in the same frame of mind you are—want somebody else to take the first step?

Mr. LARRABEE. No.

Senator REED. Yet you realize the necessity of something being done?

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Mr. LARRABEE. Yes; I believe the ultimate result will be the Government doing the banking of the country, and we fellows will be out of business.

Senator REED. The Government running all the banks?

Mr. LARRABEE. Yes, sir; doing the banking business of the country.

Senator REED. I do not think that follows.

Senator BRISTOW. Have you had any trouble in the past in handling your credits?

Mr. LARRABEE. Never. In every panic I have been able to borrow money if I wanted it.

Senator BRISTOW. In 1907?

Mr. LARRABEE. In 1907. I did borrow money in New York.

Senator O'GORMAN. Did you ever have any trouble in getting money in New York?

Mr. LARRABEE. No, not in borrowing credits. I got credit there, but I could not get the currency. The fact was, I wanted credit. I was lacking New York exchange, and I had paper coming due in New York, and I rediscounted that just to get New York exchange. You will remember, in spite of what we are told, we depleted our balances in New York. Exchange was selling in the West from $6 to $8 a thousand on New York, which was evidence we had no money in New York.

Senator O'GORMAN. I am very glad to have you state that, and I think that what you now state was pretty generally known, although I was surprised during the day to hear my good friend, Senator Nelson, ask if all of the reserves were tied up in New York.

Mr. LARRABEE. If I had had New York exchange I would have been glad to have sold it at $6 to $8 a thousand.

Senator REED. I think if we do not do something here pretty soon, Senator O'Gorman is going to demonstrate that Kansas started this panic instead of New York.

Senator NELSON. Maybe you did not have much on deposit to draw from.

Mr. LARRABEE. I know, but if other banks in my section had had it they would have been glad to have sold it to me. New York exchange on Kansas City was selling at from $6 to $8 a thousand.

Senator WEEKS. It is your judgment, then, Mr. Larrabee, that the New York banks did all they could in the panic of 1907?

Mr. LARRABEE. I think so, and in the panic of 1893. I was in the banking business then. I borrowed money in New York. Of course I never overstrained my credit; I never asked for anything unreasonable. I have been in the banking business for 27 years, and I have never had a loan refused me.

Senator WEEKS. I want to congratulate you on your credit, for I could not borrow money in New York.

Senator BRISTOW. I am sorry we can not have more time with Mr. Larrabee, because I think he is a unique witness, living in a little town, which is one of the largest milling towns in the United States.

Mr. LARRABEE. In explanation of my theory that the Government would be in the banking business, I wish to say, to use a concrete illustration, for instance, John Smith has been giving checks all morning, we ought to let him borrow a little money now. He comes to my bank and wants to borrow $2,000 or $3,000. His credit is good. I take his note and he pays 6 to 8 per cent, whatever the rate is. I

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take his note down to St. Louis and sell it for 3. That note comes back, and he knows the note has been down there, and he knows what the Government rate is. He is going to figure, Why could not the Government loan me that money direct; why is it necessary to have a bank come between me and the Government? And if he does not think of it somebody else will, and they will tell him about it, and your political platforms will be drafted to loan to the people direct, and the first thing you know you will be in the banking business.

Senator WEEKS. You do not think that would be a good thing?

Mr. LARRABEE. I am not sure but what it would be a good thing.

Senator REED. Then you are not sure you object to this bill on that ground?

Mr. LARRABEE. Oh, no; I am not objecting to it.

Senator O'GORMAN. You think the bill has some good features?

Mr. LARRABEE. Yes; many good features. Of course the operation is the main thing. If I can go to a regional bank and discount $100,000 in time of need, at the time my crop is moving, it answers my needs entirely. But until I know I can do this I do not like to cast off anchors I have in other directions.

Senator REED. Would you have this system run by the banks or by the Government?

Mr. LARRABEE. As I told you, I have not considered that we little fellows would be concerned in the organization, because we would not have any voice in any way.

Senator REED. You have a vote.

Mr. LARRABEE. It would be so little.

Senator REED. Are you under the impression that somehow or other the little banks are not going to be directors in these regional banks?

Mr. LARRABEE. I did not understand that if there are any directors appointed here in Washington on the reserve board that we little fellows would be among them. They would be some bankers of prominence, of wide observation. I do not know that we would be competent to sit here and talk about gold reserves. This gentleman who talked about gold reserves—I did not understand him.

Senator REED. But you expect your Senator to understand it without hearing about it.

Senator BRISTOW. Mr. Larrabee, I am very much interested, although I have known you for a good many years, in some of your statements. You say that the farmer out there in Stafford County, if he wants $6,000 or $7,000, and you loan it to him, you charge him 6 or 7 per cent, and you rediscount that note, and we will say that the Government rate is three for these rediscounts; and he will say, "Now, why should I pay Mr. Larrabee 4 per cent? Why should the Government let Mr. Larrabee have that money, and let him charge me 7 per cent, while he is only paying 3," and he would not stand for that?

Mr. LARRABEE. No.

Senator BRISTOW. In your judgment?

Mr. LARRABEE. No.

Senator BRISTOW. If he could help it.

Mr. LARRABEE. No.

Senator BRISTOW. Do you think he would make a fuss about it?

Mr. LARRABEE. You bet he would.

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Senator REED. Why shouldn't he?

Mr. LARRABEE. I do not know why he should not.

Senator REED. Why should you charge him such an extortionate rate, if you could get the money for him for 3?

Mr. LARRABEE. Of course, those are current rates now. This new bill may make a cheaper rate and he may get it for 5. But he would kick on giving me 2 per cent profit.

Senator REED. But he could not get his paper discounted without your indorsement.

Mr. LARRABEE. No; but he does not think so. He will say, "Mr. Larrabee would not get it without my note."

Senator O'GORMAN. He might remember, Mr. Larrabee, or if he did not you could recall it to him, that your capital was deposited to help create this fund.

Mr. LARRABEE. Of course there is an argument, but there is going to be a row about it. [Laughter.]

Senator BRISTOW. Mr. Larrabee, you are selling to-day $1,000,000 worth of credits, your milling company is. Now, does it naturally come to your mind why this Government could not discount your paper direct?

Mr. LARRABEE. No; that is what I am kicking for here.

Senator BRISTOW. You do not want to have to go to a bank and pay 2 per cent more than the bank does?

Mr. LARRABEE. My business, I am not particular about that. What I want is to sell my paper at the going rate. If it is 6 per cent or 4 per cent I want it; what I want is to get funds in my time of need. I would just as soon pay the bank; I would not quarrel about that, if I could get funds through the bank.

Senator NELSON. What you want is currency.

Mr. LARRABEE. That is what I want—money.

Senator BRISTOW (interposing). What you are afraid of is the disturbance in that kind of a system?

Mr. LARRABEE. Yes; I am afraid of the restriction of credits, as long as this bank is permitted to engage in open market operations.

Senator BRISTOW. You went out there 25 years ago?

Mr. LARRABEE. Twenty-seven years ago I went to Kansas from New York State.

Senator BRISTOW. And did establish a bank?

Mr. LARRABEE. The first month I was there, and when there were no banking laws in Kansas. All that was required of a bank was to acquire a safe of sufficient size to put confidence in the public and to hang out a shingle. Many people did that and made good. Two or three went there and opened banks and bought their safes on credit and gave a chattel mortgage for them.

Senator REED. And then made money and made good bankers?

Mr. LARRABEE. Some of them have failed, of course.

Senator O'GORMAN. Is the banking business profitable in your State?

Mr. LARRABEE. It is exceedingly profitable now, Senator.

Senator O'GORMAN. What dividend is your bank paying?

Mr. LARRABEE. I will tell you what it earned. We have paid two 8 per cent dividends so far this year. Last year we earned 65 per cent.

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Senator O'GORMAN. What part of the State do you do business in?

Mr. LARRABEE. In the rich part, the wheat belt. But that needs explanation, Senator. I have been there 27 years. I could do business in that town without capital. My capital is only $25,000, and we have $1,000,000 of deposits. The people do not ask what the capital is. It is just Larrabee's bank. Nobody else could go there and duplicate that without 27 years' record behind them. I think I have the most profitable bank in the State of Kansas, and it has been hard work that has done it, and not the capital.

Senator BRISTOW. There is one other witness—Mr. Moses—that I would like to have heard this afternoon.

STATEMENT OF E. R. MOSES, PRESIDENT OF THE CITZENS' NATIONAL BANK, GREAT BEND, KANS.

Mr. MOSES. I am president of the Citizens' National Bank of Great Bend, Kans., and president of two State banks. I am also president of a mercantile company.

Senator BRISTOW. Mr. Moses, you are engaged in the banking business and the mercantile business?

Mr. MOSES. Yes.

Senator BRISTOW. Tell us what you think about this bill; how it will affect your business.

Mr. MOSES. Well, it is only apprehensive. We do not know whether we are going to have the regional bank and get loans as easy and with as much facility as we are doing now. For instance, I can send my note down with one or two of my directors on it, if I want money, for $40,000 or $50,000 and get it immediately, or telegraph for it. Now, if I have my reserve of 9 per cent in one bank and one of the cities I do business with is required to take 5 per cent out, say $20,000 out of $36,000 reserve, that leaves $16,000 to my credit with the bank. My financial standing with that bank is injured to that extent; my loaning capacity is cut down one-half or more. Now, you take the capital I would have to put in of $5,000 and the $20,000 reserve, and I am still injured that much more, because I can go to the banks I have my deposits with there in the West—in Kansas City or in Witchita or Pueblo—and get immediately, by mail or upon a telegram, upon notes sent in by myself and directors, any amount of money I want that is reasonable.

Again, if there is a segregation in the savings bank of my time deposits, I could not begin to accommodate the commercial business of my section of the country this year, because of a crop failure coming there, which has taken all of the money that would be available to accommodate the farmers in putting in their crops and buying cattle or cows, and a good many of them are going more into that business, in which we have to help them out, and it would not aid me in anywise whatever with the State banks there, because if I should make a statement that the capital of my national bank is down to $125,000, they would soon know, immediately. We have to look after business, because the business line is drawn very closely in the western country.

Senator BRISTOW. What per cent of your deposits are in these time certificates?

Mr. MOSES. They run from $360,000 to $410,000.

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Senator BRISTOW. Upon which you pay interest—your savings deposits?

Mr. MOSES. No; the savings deposits run about $125,000.

Senator BRISTOW. And you are apprehensive as to whether you could get the credit you can get now, when you need it, in crop-moving times?

Mr. MOSES. Yes, sir.

Senator BRISTOW. With the facilities from your present correspondent?

Mr. MOSES. Yes.

Senator BRISTOW. Would it be a great hardship upon you to go from the national banking system into the State banking system?

Mr. MOSES. It would not if they would make the bonds at par. We could very readily go into it, if they would not let us lose anything.

Senator BRISTOW. In your judgment, would it be to the best interests of your bank to remain as a national bank or go into the State banking system under the State law?

Mr. MOSES. I would prefer staying in the national-bank business, if they would give me time to see the operation of the business. I think a great many others—before I came here quite a number of bankers said if they would just let us stay in until we can see the operation of the law—apparently it will be so amended from time to time that it would be of benefit for us to come in—than what it is at the present time—and we would prefer that. If not, let us get out with our bonds at par. We have, understand, over 1,050 State banks in Kansas, and out of the 1,050 only 250 national banks. Out of 14 banks in my county there are only 3 national banks. So you can see how the State banks and national banks run. The national banks, while we think we have a little prestige over the State banks, yet the State banks are accumulating all the time, and I do not know but what it is good, because every little hamlet where there is a blacksmith shop or an elevator there is a bank coming in.

Senator BRISTOW. You think that is a good thing for a community?

Mr. MOSES. It is; yes.

Senator BRISTOW. That brings the money into activity more than if it was not there?

Mr. MOSES. Yes; it is really needed. The farmers in that country at certain seasons have need for that money at the crop-moving time, and especially when crops are not good. This year they need more money.

Senator BRISTOW. What change do you need in the banking laws of the country or in the currency?

Mr. MOSES. I do not think there is anything needed in the banking laws of the country, except that the larger banks of this country go and get currency when they need it. Country banks do not produce panics. They have plenty of money in the East. We had $140,000 in one place. If we could have gotten hold of one-half if it——

Senator NELSON (interposing). Where was that money?

Mr. MOSES. In the reserve banks.

Senator NELSON. Where?

Mr. MOSES. In Kansas City and New York.

Senator NELSON. You could not get it?

Mr. MOSES. We got all we needed in the main.

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You realize—this gentleman from Albany stated he had $9,000,000 of bank deposits, and the banks borrowed only $500,000 of it—you can realize from that how that money piles up, and they have got to do something.

Senator BRISTOW. What do you think about loans on real estate?

Mr. MOSES. That is one advantage that the State bank has over us now in the State of Kansas.

Senator BRISTOW. You use your bank money in your commercial business?

Mr. MOSES. Altogether. Now, in this bill—I like a great many features of this bill. I think the capital stock, however, should be reduced, and I think the reserve that has been mentioned here should be put to 3 per cent, allowing the other 2 per cent to go to the home bank or any other country banks. I think the savings section should be stricken out entirely.

Senator REED. That expression has been used to-day a number of times. Suppose, instead of striking it out, we withdraw the savings-bank proposition, giving you and the small national banks the right to establish a savings department, giving it to them upon terms so that they could run a savings bank. You would not object to that?

Mr. MOSES. No, sir.

Senator NELSON. Making it optional with them?

Senator REED. Yes.

Mr. MOSES. Upon the whole, I think if you make this so that the small banks would continue in the way they are I think they would be induced to come in. If you do not, I really think the small banks, even at a loss, would go out. It is always better to leave them in rather than to force them in. I never saw an institution of any kind that would prosper greatly where the people were forced into it.

Senator REED. Still there has been force applied many times to the banking system by the enactment of the law requiring them to do certain things that they should do, and requiring them to stop certain things they ought not to do. It has always, when it has been a wise law, been a good thing for the banks. Then we had to apply force to insurance companies, requiring them to keep certain deposits and conform to certain regulations. It has made life insurance an investment where it was once a speculation. Then you had to die quick to beat it.

Mr. MOSES. In this instance they have the option of remaining in or retiring. By allowing them to see the operation of the law I think they would all come in. I do not think it is necessary that the small banks should come in; the larger banks probably would join anyhow. When I say the small banks, I mean the banks of $50,000 capital or under, but I think a great many of them would come in. There is no question about it.

Senator REED. Generally speaking, you think this is a good system, and would be desirable, with certain modifications?

Mr. MOSES. Yes, sir. I am very much obliged to you, gentlemen, for giving me the opportunity to appear before you.

Senator REED. If that is all, we will adjourn now until 10.30 o'clock to-morrow morning.

(Thereupon, at 6.10 o'clock p. m., the committee adjourned until 10.30 o'clock a. m. to-morrow, Wednesday, October 15, 1913.)

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WEDNESDAY, OCTOBER 15, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

The CHAIRMAN. The committee will come to order, and we will hear this morning from Mr. Ingle, of Baltimore.

STATEMENT OF WILLIAM INGLE, VICE PRESIDENT OF THE MERCHANTS & MECHANICS' NATIONAL BANK, OF BALTIMORE, MD.

The CHAIRMAN. Give your name and banking affiliations and address to the reporter, so that we may have them in the record.

Mr. INGLE. William Ingle, vice president of the Merchants & Mechanics National Bank of Baltimore, Md.

The CHAIRMAN. State your banking experience, Mr. Ingle.

Mr. INGLE. I have been with my present connection 32 years; three years before that in another local bank in Baltimore; an officer of the bank since 1900.

The CHAIRMAN. We will be glad to have your views in regard to this bill, Mr. Ingle.

Mr. INGLE. Mr. Chairman and Senators, I think it possibly only fair to say that I am here in a spirit not at all of antagonism to a very large portion of the bill under investigation. In other words, I would like to feel that I could help rather than hinder it, as I recognize the work that has been given to it. I possibly am in the same frame of mind as was owned by a gentleman who has been before you, and one prominent in banking affairs of the country, who, in Boston last week was reported to have said that he thought the bill was about 80 per cent good. I rather imagine that the votes taken in Boston reflect antagonism, not so much to the bill as a whole, but possibly to that 20 or some other per cent which was deemed not as good as it might be, each individual man, possibly, in voting "aye" in support of the Chicago conference having in mind, it may be, some different points which he thought were more vital than others.

I am not a speaker, and I have taken the liberty of making some notes.

Senator NELSON. That is all the better; we do not want oratory, we want facts.

Senator HITCHCOCK. Did you attend the Boston convention?

Mr. INGLE. Yes, sir.

Senator HITCHCOCK. Did you see this meeting of the two thousand or more country bankers?

Mr. INGLE. Yes, sir; I was a country banker for the time being, in order to see what was going on.

Senator HITCHCOCK. Can you give the committee an idea as to whether that seemed to be a free expression of the real opinion of the country bankers?

Mr. INGLE. Senator, I think it was an untrammeled expression, and while it is not fair to impute—and I do not do it at all—it is nevertheless true, I believe, that the matters especially before them

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for discussion and investigation were those in which they were largely directly interested.

Senator HITCHCOCK. And which they understood very thoroughly?

Mr. INGLE. Well, I refer especially to section 17, which refers to the elimination, the possible elimination, of their exchange charge. I think without that that their enthusiasm would have been less marked. I also think that possibly a couple of other things that they threw into their meeting, while important, were possibly so obvious to everyone that they were present at their particular meeting more as sweetening than as being considered vital from the standpoint of objections of the gentlemen assembled.

Senator HITCHCOCK. Their witnesses who have come before us seemed to lay great stress also upon the depreciation of Government bonds.

Mr. INGLE. I think possibly that was a part of the sweetening.

Senator HITCHCOCK. They seemed to feel that was a vital matter.

Mr. INGLE. It is a vital matter, sir; but that is something which appeals, and with equal force, to all of us, and it does not at all attach with any exclusiveness to the country banker.

Senator HITCHCOCK. They also seemed to be very certain that the clause relating to the savings department of country banks would be very obnoxious and would result in keeping most of the banks out of the system.

Mr. INGLE. Senator, I imagine that one's views on that must be tempered by his feeling.

Senator NELSON. Has your bank got any trust company as an appendage, in which your officers are interested?

Mr. INGLE. No, sir; we are simply an individual commercial bank, with no entangling alliances of any sort. We have no savings department or trust-company adjunct, nor do we have real estate loans, directly or indirectly.

Senator NELSON. Do you issue time certificates of deposit?

Mr. INGLE. We do not; we have never issued one.

Senator NELSON. Do you pay interest to individual depositors?

Mr. INGLE. That is a very leading question, and I will be very glad to answer it, if you will pardon me. I can not answer it in a moment, yes or no. We do not, may I say, encourage the payment of interest on ordinary mercantile accounts, and in connection with such accounts we pay very little interest, indeed.

Senator NELSON. Do you issue certificates of deposit?

Mr. INGLE. We issue demand certificates of deposit bearing interest, and I imagine, sir, that we have outstanding at the maximum possibly $100,000 out of an aggregate liability on loans of about $20,000,000.

Senator NELSON. Is not that a species of savings?

Mr. INGLE. No, sir; not in our connection, I should say, because if anyone would come in there and ask us for a demand certificate of deposit, at any rate of interest, we generally refer them to a mutual savings bank. It is only in the case of a man who comes in with, say, $10,000 or $20,000, for which he has no particular use for 60 or 90 days or four months, or something of that kind, and feels that he ought not to let it lie in a bank earning nothing; we will then give

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him a demand deposit at, say, 2 or 2½ per cent. I have known us to pay as much as 3 per cent, but not habitually.

Senator BRISTOW. Will you tell us, please, if you have not, what the capital and deposits of your bank are?

Mr. INGLE. The capital of my bank is $2,000,000; the surplus is $2,000,000; the undivided profits about $200,000; and the deposits a week ago, when I left there to go to the Boston convention, were $20,500,000.

Senator HITCHCOCK. You are hardly a country bank, then?

Mr. INGLE. No, sir; we could hardly with fairness call ourselves a country bank.

Senator BRISTOW. How much of your deposits are bank deposits and how much individual deposits?

Mr. INGLE. Our bank deposits, as segregated on our ledger—that is, the out-of-town banking connections—aggregate just about $7,000,000.

Senator BRISTOW. Seven out of the twenty and a half million is money of other banks?

Mr. INGLE. Of course, you will understand that both amounts in figures as large as that, fluctuate within $1,000,000 more or less frequently.

Senator HITCHCOCK. You may proceed with your statement.

Mr. INGLE. I will say that if by any chance any Senator may have a question he may desire to ask as I go along, I will try to answer it.

Senator NELSON. You will not find us modest about asking questions.

Mr. INGLE. In discussing any measure as comprehensive in its scope and language as is the proposed currency law, the points to be especially considered might fairly be divided into two classes, namely, those referring to fundamental and economic principles, and, second, those not so related but in connection with which selfish considerations may or may not influence the judgment of those directly interested, although in connection with some of the matter of the act it is difficult to determine just where may be drawn the line between altruism and personal interest in discussing the provisions of such sections.

It may fairly be said in regard to two fundamental principles referred to in the bill, namely, Government guarantee of notes to be issued, and the option of having them redeemed in anything other than gold coin, that the opinion of bank people is essentially unanimous in agreeing that it is most unfortunate that it has been thought wise in the proposed legislation to depart from beaten and tried paths and to offend principles of world-wide acceptance. In both of these situations the bankers' selfish interest is only incidental and relatively trifling, and second to that of the public for whose use notes of any kind are to be issued. As other provisions of the law make absolutely certain the security of proposed note issues apart from Government guarantee, and as law can properly regulate their volume either in the direction of expansion or contraction by providing a sliding scale tax, it is almost a pity to commit the Treasury further to the conduct of active banking and more confuse the present misunderstanding of the word money. The banks do not object to the presence in the law of the strictest ordering and control of their own

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note issues, but with substantial unanimity protest that the credit of the Government should be conserved strictly for its own use.

It is equally or possibly more unfortunate that in providing for the redemption of the notes the words "or lawful money" should have been inserted in the act apparently as an afterthought. It is idle to here refer to the old question of double standard of measurement, but as the bill again forces it to the forefront, it is proper to direct special attention to the danger attendant upon the assertion of the discarded principle and this the bankers do with the same unanimity and again for unselfish reasons.

The banks have in mind only the desire to have a law useful and workable when they suggest that a relatively few, rather than many reserve banks shall be first organized. In heartily welcoming many of the provisions of the act it is comparatively immaterial whether there be one single board. The essential things are first, that the branches of a single bank or the several Federal banks controlled from Washington shall be so located as to be in touch with business conditions in the territory which they shall severally serve, and, second, and what is of prime importance if the law is to be helpful to the public through the banks, it is essential that the reserve or branch banks shall be managed from day to day as banks and not as a Government bureau with all the delay and attendant red tape which usually delays business with the average Government office.

Senator HITCHCOCK. Do you think that as the system is devised it is going to embarrass banks and involve a loss of time in getting the relief they desire?

Mr. INGLE. It would depend altogether, sir, upon the way in which the law is interpreted and handled.

Senator HITCHCOCK. The reserve banks are to be run just like any other bank?

Mr. INGLE. Exactly, sir, and if they are not interfered with—I mean if they are not so restricted by technical regulations by the Federal reserve board as to permit the directors or the executive officers of the Feredal reserve bank from acting with promptness, every objection will surely melt away.

Senator HITCHCOCK. As I recall it, there is nothing in the bill prevent the directors from running that bank for bankers just as efficiently as any bank is run; in fact, the very purpose of it would be to give immediate results.

Mr. INGLE. Exactly so; and I am only suggesting that because so many people, having in mind their daily dealings—and I say it with all respect—with the Treasury Department and other Government bureaus——

Senator NELSON (interposing). I do not wonder they get that idea.

Senator HITCHCOCK. I am a little surprised. I have heard the bankers themselves say that when dealing with the Treasury Department, that the Treasury Department was redeeming the national-bank notes more rapidly than the national banks met those notes.

Mr. INGLE. I can tell you just what the reason for that is, if you are at all interested in it.

Senator HITCHCOCK. Yes; I would like to know.

Mr. INGLE. I am speaking now not ex cathedra, but in a general way, as I have observed it. The Treasury Department, for instance, receives for redemption certain circulating notes issued by any

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interior bank. That interior bank, instead of making its 5 per cent deposit as promptly as the Government will require, looks over its ledger and finds, for instance, that it has to its credit in a city, in a reserve city frequently, a certain balance. They will write a letter to such city to get them to transfer for its account to Washington so much money for the credit of this 5 per cent redemption fund. That particular bank, in turn, has a balance, let us say, in Pittsburgh. It wants to use that balance, which may be dead for the time being, and instead of writing to Washington it will write to Pittsburgh, and Pittsburgh, in turn, may write to Baltimore or New York or Philadelphia, so that by the time that 5 per cent redemption deposit reaches Washington the transaction may be a week or 10 days old.

Senator HITCHCOCK. Does that not really prove what I say?

Mr. INGLE. It does, in respect to those banks which adopt that practice.

Senator HITCHCOCK. With the delay on the part of the bank and not on the part of the Government; the Government is always, as it were, holding the sack.

Mr. INGLE. In that particular situation, because it is to the benefit of the bank to use the Government capital as long as possible in that situation.

Senator HITCHCOCK. That was our testimony that the Government has been more prompt in dealing with the banks than the banks with the Government.

Mr. INGLE. Senator, may I make a comparison not in criticism? For instance, in connection with the last distribution of funds made by the Treasury Department the Government was obliged to have proper regulations to safeguard itself, but in caring for all that machinery I imagine as much time as two or three weeks elapsed, in many cases, before the money found its way into the communities where it was wanted. I do not offer that statement in any way of criticism at all. In Baltimore it was handled with exemplary promptness, as far as that goes.

Senator HITCHCOCK. That was not a case of emergency, in the first place, and in the next place, no machinery was provided by law.

Mr. INGLE. I know; they had to make a precedent.

Senator HITCHCOCK. I know they called upon me to name someone in Omaha, where I live, and I suppose the same thing was done with other Senators, and they had to depend upon what arrangements they could make. I thought it was handled, considering the lack of machinery, very well by the Treasury Department.

Mr. INGLE. Very well, and I am not criticizing the officials of the Treasury Department in any sense.

Senator BRISTOW. That brings up a point which has been referred to very often here. Senator Hitchcock refers to his being called up to name somebody to distribute the money in Nebraska——

Senator HITCHCOCK (interposing). It was not to distribute the money; it was to pass upon commercial credit or paper offered by the bank.

Senator BRISTOW. A Democratic politician in the State decided how that should be. Is that to be the practice?

Mr. INGLE. If you will tell me what your State is——

Senator BRISTOW (interposing). Kansas is my State.

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Mr. INGLE. Oh, I see. That general subject has absolutely no relation to this bill. That was an emergency; an extraordinary occasion for which extraordinary machinery was provided.

Senator BRISTOW. It has been stated by a good many bankers that this bill would be a political measure. If the distribution of the Government's funds to relieve the crop-moving period is to be managed by Democratic politicians who have no connection with the Government, it would give some stability to this criticism, would it not?

Mr. INGLE. I hardly follow you there, Senator. It depends altogether upon the view one chooses to take of this comprehensive measure. It would seem to me almost as fair to assume that this bill intended to provide in this Federal reserve board practically a substitute for the present management of the comptroller, subject to the control of the Secretary of the Treasury. We can assume anything. It is true that many of the provisions of this act give wide latitude; so does the present national banking act. Under the terms of the present act it would be competent for the two men—the comptroller and the Secretary of the Treasury—were they so minded, to run their offices as a political machine in connection with the banking of the country. It would give them the opportunity very easily to close a very large percentage of the banks of the country, because we all know that in the matter of the maintenance of reserves, in the matter of excess, or otherwise dangerous law, almost every bank in turn lays itself open to very severe criticism by the department. So I can not say that—unless we assume that the bill was prepared deliberately as a political measure—that it is any more open to abuse than the present law. I, for one, do not believe for a moment that the bill reflects any desire to control the banks or their credits for political purposes.

Senator BRISTOW. Of course, you do not believe that politics ought to have anything whatever to do with the administration of a power of this kind, do you?

Mr. INGLE. Politics as politics?

Senator BRISTOW. As partisan politics?

Mr. INGLE. No, sir; I do not.

Senator BRISTOW. I think we all agree on that. There is some apprehension on the part of a good many bankers, as you know, that it will be used as a political agency in times of intense political partisan contention.

Mr. INGLE. That may be a very natural fear, Senator.

Senator BRISTOW. And I was just suggesting, since the distribution of this money that was recently distributed was supervised, to an extent, by politicians, who had no connection with the Government, in some of the States, that that was a ground for some such apprehension, or might be.

Mr. INGLE. Senator, if I understand that part of the program, these gentlemen in the several States were named not at all to apportion this money; as a matter of fact, as far as I am aware, they were not named until after the apportionment had been made. They were simply named as the personal representatives of the Treasury Department to see that the collateral was properly lodged in the hands of some one other than the interested banks. In other words, they were the custodians, to all intents and purposes, of the collateral.

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They were also assumed to pass upon credits. I imagine that that portion of their labor was very light. In that case it is hardly possible to assume that any single individual, frequently not a bank man, would know anything in particular about the individual notes held among the assets of particular banks receiving a portion of the crop fund.

Senator BRISTOW. Do you not believe, Mr. Ingle, that whatever provision we make here should be made in such a way that any banker, regardless of his politics, or his religion, or any other incidental relationship, could, by right, obtain from the Government the help that he needs if he has the proper security or collateral to get it and not have to depend upon the will of some man?

Mr. INGLE. Again, Senator, an answer to that question must—I mean the answer you would probably like to make—would assume that we would be in danger of having these Federal reserve banks managed as a semipolitical organization and be subject to suggestion or control, apart from the need the member banks might have for money.

Senator BRISTOW. Would that not seem to be guarding against such a possibility? Do you not think that is advisable?

Mr. INGLE. As an abstract proposition, sir, I believe in the fullest liberty, but in real life, we will meet all throughout this country any number of banks, the limit of whose desires in obtaining money is only the stock in hand held by anyone from whom they can get it. If under no restraint whatever, many such banks would, if no brakes were put on them, borrow the entire stock of the Federal reserve bank, so that we must permit some latitude of veto power.

Senator BRISTOW. Should not that be fixed in the law as nearly as it can be?

Mr. INGLE. It is a pretty hard thing, sir, to write a law which will meet every situation. The tighter you make the law, the more unworkable it is. I would very much rather live under a law which was broad in its provisions and then trust to those administering it, trust to their sense of fairness.

Senator BRISTOW. According to that theory, then, we ought not to have laws; just elect men to govern the country.

Mr. INGLE. Oh, no. Law is often simply to give general directions, but not to say, for instance, what we shall have for lunch every day.

Senator BRISTOW. I had not thought of having a law of that kind in connection with this bill. [Laughter.]

Mr. INGLE. I mean we do not want to be too exact in any law we draw. We want some play. Until we all have wings——

Senator NELSON (interposing). You want elasticity in the administration of law as well as of currency.

Senator BRISTOW. I will not disturb you any further now.

Mr. INGLE. I am very glad to answer questions. I do not know that I have responded very clearly to your questions.

Senator WEEKS. You referred to the supervision which the Secretary of the Treasury would have over the reserve board as provided for in this bill.

Mr. INGLE. No, sir; I did not intend to say so, sir. I referred to the charge that in the present national banking act the Comptroller of the Currency, with the consent of the Secretary of the Treasury—

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the two men have practically absolute power over banks, unless they are so very good that their officers are ready for translation. Under the new law the Secretary of the Treasury, as such, will, I assume, have no special voice.

Senator NELSON. Only as a member of the board.

Mr. INGLE. As a member of the board, if the law as it is drawn still stands.

Selfish considerations must be present, considering section 19 of the bill, the section providing for the refunding of outstanding 2 per cent bonds, but surely the motive prompting the suggestion that fairer provision be made for the protection of national banks holding these bonds in faith in their Government can not be thought to be altogether unworthy. Under the terms of the act, State chartered institutions are expected to avail themselves of its provisions. If all other conditions were even, the State banks would, under the law, be better off in owning practically no United States bonds than the national banks, which have made it possible for the Government to fund its debts and to borrow money on terms the best in the world.

It might be well to mention here the existence of a condition the presence of which will have great weight with all national banks in determining whether or not they will continue in business subject to Federal control. Practically all such banks are in sharp competition with State chartered institutions organized under liberal and many times unsafe charters and operating under widely differing local laws. Under existing law national banks tied down to the wholesome provisions of the national-bank act have seen their business so crippled by banking not controlled by its provisions that only the ownership of United States bonds and the presence of faulty reserve laws which give them some profit at the risk of safety, has prevented them from surrendering their national charters. Only about one-third of the banks of the country are under Federal control. It is difficult to conceive that any national law can be of real value unless it entirely controls the subject with which it deals when such subject is of common interest to the entire country. Either some way should be found to nationalize banking or, if that be impossible, a new law should be so inviting as to compel common assent to its provisions, regardless of State lines. In other words, it would be only fair to see that national banks should have an even chance in competition wth State institutions and especially so as the former must enter the competition with the handicap attaching to the ownership of United States 2 per cent bonds.

Much has been said against Federal control and compulsory subscription to stock in the reserve banks as also the forced deposit of part of the reserve in these banks. If it were not for the presence of the United States twos, which could not be sold on an investment basis without a loss of $250,000,000, there would be little force in this point made against the law, as a bank could either accept or reject the plan. In other words, the idea itself is not inherently unsound and with conditions such as would permit the exercise of untrammeled judgment no one could reasonably oppose it. National banks have always been under control of a law which inflexibly interpreted and followed could be made safe, just as severe in its effects as could be the action of the Federal reserve board under the proposed act. Instead of having, as in the past, two men to determine just

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when a bank should be liquidated, the new law gives the power to seven. In connection with the controlling board it is unfortunate, as a matter of expediency and fairness, that the law insures the presence of only one practical bank man in its number. As under the new law more money will be released from reserves now held for loaning at current rates, that will be required to be kept with reserve banks, no harm or loss should follow the gradual transfer of the funds. In following much which has been said on this point, it might appear that the funds so transferred are to be destroyed or otherwise rendered useless, whereas just the contrary is the case.

Senator HITCHCOCK. Do you understand that those reserves which are to be kept in the reserve banks are to be subject to the same use that banks now make of their reserves in reserve centers?

Mr. INGLE. I will come to that a little later. It would seem to be wise, however, to avoid the rigidity in these reserve balances suggested by the law as drawn. It is assumed that these reserve balances are to be the active checking accounts of member banks. Against such balances will be charged not only checks drawn directly against them, but checks drawn on member banks and cleared through Federal reserve points. In consequence no balance can be a constant quantity. Would it not be possible to give some play here? For instance, a member bank might be permitted to encroach, say, 25 per cent upon its determined balance without penalty, provided its cash reserve at home was at the moment correspondingly increased. If depleted beyond the amount of such percentage, certain penalty could be provided to prevent the depletion for sake of profit or for any reason other than to meet some immediate exigency.

Senator HITCHCOCK. I infer, then, from your criticism or suggestion of a change, that you think that the provision in the bill which practically impounds the reserve where it can not be used——

Mr. INGLE (interposing). I think it is faulty, sir.

Senator HITCHCOCK (continuing). Is a defect in the bill.

Mr. INGLE. I think the money, or the credit, so carried and to be used only as a matter of bookkeeping from morning to morning in figuring the reserve might as well be impounded in Greenland as in the Federal reserve bank.

Senator HITCHCOCK. It can not be used in the bank which has the reserve at all?

Mr. INGLE. No, sir.

Senator HITCHCOCK. Two-thirds of it can be used as loanable funds in the reserve bank, and that is the only use that can be made of it?

Mr. INGLE. That is right.

Senator HITCHCOCK. But under the present system, if the bank has a part of its reserve in its vault and a part of its reserve in Chicago and a part in New York, it can so change these reserves by drafts and remittances that it practically makes active use of its reserves, does it not?

Mr. INGLE. It can withdraw the last dollar of its balances in any reserve city.

Senator HITCHCOCK. So that at present all of its reserves are capable of being mobilized and used, whereas under this proposed system 5 per cent of its——

Mr. INGLE (interposing). Deposits.

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Senator HITCHCOCK (continuing). Of its deposits are impounded in the reserve bank; another 5 per cent of its deposits are impounded in its own bank; and both these amounts are just as much out of its reach as if they were down in the bottom of a well.

Mr. INGLE. Excepting for this reason, Senator: I think to make this law of any value at all it should provide that the member banks should be required to keep an average balance of a certain per cent of its deposits; otherwise the law would not be effective, as permitting the reserve banks to be of any service to their members. The thing I urge is that the constant presence of the reserves should not be required. If, for instance, a bank having a forced deposit—if I may use the word—of $800,000 with the Federal reserve bank finds it necessary to very heavily draw exchange on a particular day—it may want to draw $100,000, or $200,000 more than its current dispatches to that bank on that particular day. In addition to that, the Federal reserve bank may, on the morning on which those drafts are presented for payment, find itself in possession of another $100,000 worth of checks on its member bank, drawn by customers. So that its reserve then, fixed by law, would be depleted.

Now, what would be the consequence? Would that Federal reserve bank decline to honor those drafts or any of them? Or should they not be permitted to allow the bank having occasion to draw excessively to replenish that fund in exchange which it could arrange for, either among its neighbors in the ordinary course of business, possibly, or, if no other remedy presented itself, by the shipment of Federal reserve notes or other currency?

Senator HITCHCOCK. But there is no provision in the bill which requires a Federal reserve bank to repudiate the drafts of a member bank as long as it has any balance at all?

Mr. INGLE. And yet if we are required to keep the reserves as stated in the bill, it would have that effect.

Senator HITCHCOCK. The provision is that the member bank must make it good within a limited time.

Senator NELSON. Yes; within a month.

Mr. INGLE. But the language can be modified. And in modifying it, unless it is desired to destroy the usefulness of these Federal reserve banks, there should be some penalty attached to the withdrawing of these deposits below a certain percentage.

Senator NELSON. There is no restraint on the reserve bank. They can loan out the whole 5 per cent. The restraint is on the member bank.

Mr. INGLE. Yes; the restraint is on the member bank.

Senator NELSON. But, so far as the reserve bank is concerned, the fund is not tied up?

Mr. INGLE. Not at all.

Senator NELSON. And you must not overlook the fact that that 5 per cent fund is, after all, the biggest part of the capital of the reserve bank.

Mr. INGLE. And for that reason the law should be compulsory; but it should so protect the Federal reserve banks——

Senator NELSON (interposing). Compulsory in what direction?

Mr. INGLE. In compelling the banks to recognize a certain percentage of their deposits as a normal deposit to be maintained with the Federal reserve bank; and the moment they impinge below a cer-

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tain permitted percentage, I think they should be penalized, so as to be compelled, practically, to replenish this depleted reserve.

Senator NELSON. But if you adopt that other provision of the bill, the clearing-house provision as to checks, as it is in the bill, how can a member bank always tell what its balance is?

Mr. INGLE. If it follows the bill in good faith it can.

Senator NELSON. It can tell what the regional bank may have cleared of its checks——

Mr. INGLE (interposing). It can tell within a margin of some 20 per cent or 25 per cent of its deposits——

Senator NELSON (continuing). But how can a member bank tell how many checks have been drawn on it?

Mr. INGLE. It can not tell at all.

Senator NELSON. And they will not know about those checks until they are turned in to the regional bank, and the regional bank charges them to the member bank?

Mr. INGLE. Exactly; that is correct.

Senator NELSON. So that it is impossible for these local banks, or member banks, to determine under that system proposed in the bill as to the clearances until they are advised by the regional banks?

Mr. INGLE. They can tell from their own books with an exactness which will permit them to replenish their reserves. They will know exactly the condition of their balance this morning——

Senator NELSON (interposing). But the banks do not tell them until those checks turn up what has been drawn against them?

Mr. INGLE. Exactly; but they know what they have drawn on that Federal reserve bank, and they know by experience——

Senator BRISTOW (interposing). But you do not understand what Senator Nelson is referring to.

Mr. INGLE. Yes, Senator Bristow; I do.

The CHAIRMAN. I think Senator Nelson did not understand him. What he was trying to explain is that by experience the member banks can tell approximately how much the checks that will come in against them will amount to.

Senator NELSON. Oh, they can can guess at it, of course. But let us suppose, for instance, that Mr. Ingle is a member bank.

The CHAIRMAN. Yes.

Senator NELSON. And we will say that all the members of this committee are depositors in his bank.

The CHAIRMAN. Yes.

Senator NELSON. And we, each of us, draw checks on our accounts there, and those checks are sent to the regional bank. Now, he does not know that we have drawn those checks or that they are out until the regional bank calls his attention to it under this proposed clearing-house system.

Senator POMERENE. Well, does that differ materially from the present practice?

Senator NELSON. Oh, yes; these country banks do not allow them to do that now.

Senator POMERENE. But these checks may be drawn and sent out to different customers of the bank and cashed.

Senator NELSON. But the bank they are drawn on does not allow them to send them out to other banks for collection.

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Mr. INGLE. Only in exceptional cases.

Senator NELSON. But the rule is the other way.

The CHAIRMAN. The bank, however, does not know what checks will come in drawn on it any day until the checks are presented. They do not know what checks are going to be drawn against them on a certain day.

Senator HITCHCOCK. There is this difference in the two cases: A country merchant will not present a check on a bank in his own town for $10,000 if he has only $2,000 on deposit. But he may send the check to a manufacturer in a city, and the manufacturer may deposit the check in the city bank, and the city bank may deposit it in the reserve bank, and the reserve bank may charge the amount of that check, $10,000, to the country bank, although the man who drew it had only $2,000 on deposit there.

Mr. INGLE. That will not make any difference if there are responsible indorsers on it.

Senator HITCHCOCK. It would make this difference, that that $10,000 check would be presented for payment and charged by the reserve bank against the country bank, although the man had only $2,000 deposited in the country bank.

Mr. INGLE. That is exactly what should be done. That would break up the terrible practice of "kiting."

Senator HITCHCOCK. Then we had a man before the committee yesterday who said that that would encourage "kiting"; that it would encourage the country merchant to send his check to the city, where he owed somebody some money; and then he would depend on subsequent collections to make it good by the time the check reached his home bank.

Mr. INGLE. Senator Hitchcock, neither the country people nor the city people need any encouragement as to that. That is a lesson they learned long since.

Senator NELSON. Now, here is the way it would work of necessity, about that 5 per cent reserve in the regional bank. The regional bank would cash a lot of checks drawn on your bank. And they would report to you, saying: "We have cashed so many checks drawn against you. That reduces your 5 per cent balance so much; you must replenish it." Now, what else can you do? What other system could be applied?

Mr. INGLE. I would not adopt any other system. But I only suggested——

Senator NELSON (interrupting). So that the regional bank which has cleared these checks must notify the member bank that it has a deficiency, and the member bank must have an opportunity to put in enough funds to make it good.

Mr. INGLE. Senator Nelson, if you will let me explain the routine in such cases I think I can make it clear. That Federal reserve bank, upon cashing checks drawn on the member banks will follow the usual banking practice.

Senator NELSON. Yes.

Mr. INGLE. They will simply take those checks from day to day, inclose them in a letter——

Senator BRISTOW (interposing). But that is not the law.

Mr. INGLE (continuing). And charge the bank with that. The next morning the member bank has notice of the amount of any

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deficiency for which it will have to provide in its current dispatches to this Federal reserve bank to bring its reserves back to the 5 per cent required.

And I only suggest that the law be so amended as not to make it appear that this 5 per cent was an absolute, fixed quantity—that you are obliged to keep that 5 per cent there.

The CHAIRMAN. It is no more fixed than the present reserve is.

Senator NELSON. It never can, in practice, be a fixed quantity.

The CHAIRMAN. No reserve is a fixed quantity.

Mr. INGLE. Well, if that is the thought, all right. I only brought that point out because it has been suggested that the impounding of this 5 per cent would make it rigid.

The CHAIRMAN. If the impounding of it in that way would make it rigid, it ought to be changed.

Senator NELSON. The language is rigid:

> That every Federal reserve bank shall at all times have on hand in its own vaults, in gold or lawful money, a sum equal to not less than 33⅓ per cent of its outstanding demand liabilities.

The CHAIRMAN. Yes.

Senator NELSON. And up above the bill says:

> And from and after the passage of this act such fund of 5 per cent shall in no case be counted by any national banking association as a part of its lawful reserve.

The CHAIRMAN. I think if you will look at the national banking act, you will find that the requirement is the same. It is a reserve, but it is a reserve which can only be used for certain purposes.

Senator HITCHCOCK. Under the law as it exists now, a bank may have part of its reserve in its own vaults, part of its reserve in a reserve city bank, and part in a central reserve city.

The CHAIRMAN. Yes; and it may use them in all three places.

Senator HITCHCOCK. But this bill requires the bank to have 5 per cent of its deposits in one place, and 5 per cent of its deposits in another place; and even though a deficiency in one place is made up by an excess of reserve in another place, the bank will still have a default in the first place.

The CHAIRMAN. You may have a deficiency in all three places and still make up the default.

Senator HITCHCOCK. But under the present law the deficiency in one place may be made up in another place.

The CHAIRMAN. I thought you meant that under this bill the reserves could not be invaded at all.

Senator HITCHCOCK. I meant that the reserve which is kept in the reserve bank could not be invaded at all.

The CHAIRMAN. I do not think that is the meaning of the provision in the bill.

Senator HITCHCOCK. What page is that?

Senator SHAFROTH. Page 39.

Senator HITCHCOCK. What I have in mind is this: The member bank is required to keep a reserve of 5 per cent in the Federal reserve bank. That is an absolute requirement.

The CHAIRMAN. But that reserve is for the purpose of use by the reserve bank——

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Senator HITCHCOCK (interposing). Then the bill says, "The Federal reserve board may notify"—no; that is not the provision I have in mind.

Senator SHAFROTH. I think that section 21 is what you have in mind, Senator Hitchcock, repealing the provision in the national banking act as to the 5 per cent redemption fund being counted as part of the reserve.

The CHAIRMAN. I think it is section 20 he has in mind.

Senator NELSON. Well, you can see the necessity for that. Under the present national-banking system the 5 per cent deposited in the Treasury for redemption of the circulating notes of the national bank is always deducted from the amount the bank is required to keep in reserve, whether it is a country bank or a bank in a reserve city or a bank in a central reserve city.

The CHAIRMAN. That is right.

Senator NELSON. It is necessary to do away with that in order to make it conform to other parts of this bill. That is, the law now allows the 5 per cent for the redemption of national bank notes to be deducted from the reserves required; and the meaning of this bill is that that 5 per cent which they have heretofore been allowed to deduct shall not be deducted from the reserves required under this bill.

The CHAIRMAN. Yes; it shall no longer count as reserves under this law. But that 5 per cent fund is constantly invaded by the banks. Sometimes they go below it and sometimes they go over it. And these reserves are capable of being invaded for legitimate purposes, and sometimes for illegitimate purposes; but if they go below the line they are expected to promptly make it up.

Senator NELSON. And this bill adopts the same principle in regard to the 33⅓ per cent reserves of the regional banks; the 5 per cent that they are required to deposit for the redemption of the notes in the Treasury is deducted from the 33⅓ per cent reserves required.

The CHAIRMAN. Yes.

Senator NELSON. We are adopting exactly the same principle for the regional bank as now exists.

Senator BRISTOW. Now, you referred with some earnestness to the system of "kiting" which has been discussed here to some extent. Do you disapprove of the checking system which has become so prevalent in the country, in the payment of bills by check, instead of by bank draft or——

Mr. INGLE (interposing). Not at all, when such checks are drawn to pay a bona fide bill. But, in practice, in quite a degree, a man in the country over here [indicating] has a friend in another country bank over here [indicating] some 10 or 20 miles, or 120 miles away. This man in the country at one point will ask one of his friends, or he himself will draw a draft for $1,000 on his friend over here 100 miles away; and the man drawing the draft will send that draft to, let us say, Chicago——

Senator NELSON (interposing). As far off as he can.

Mr. INGLE. As far off as he can. By the time this man over here gets it—and many times these drafts are not drawn on funds at all. They are fictitious from first to last. But this man at the point at which the draft is drawn will promptly take his collection charge of $2.50 off of that $1,000 at the expense of the bank in Chicago, and in

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the same breath present his Chicago bank a draft drawn on his friend at the initial point, and he, in turn, takes his $2.50 off the same $1,000. They keep that up in a more or less generous way. So that, once you hold out a check so drawn you break the combination, and sometimes break a bank, as happened two years ago in Kentucky, at the hands of some one very well known to me.

Senator BRISTOW. Well, I bring the point up because it was emphasized yesterday, and a serious objection was made to the system of the payment of bills by check. To illustrate: I live at Salina, Kans., and I might have a bill due in Chicago, and I pay that bill by writing a check on my local bank for $1,000 and mailing it to the party at Chicago to whom I was indebted——

Mr. INGLE (interposing). Senator Bristow, I catch your point, now. May I respond? I did not catch it before.

Senator BRISTOW. Yes.

Mr. INGLE. I think that is not a businesslike practice. You go to Chicago and you buy $100 worth of goods from some one. When you pay your bill you send him a check on Hickman, Ky., for $100, it is true. But that man in collecting that check only gets, possibly, $99.50. In other words, you are compounding with your creditor at 99½ cents on the dollar. I think you ought to go to your bank, as was the habit a generation ago, and purchase a draft on Chicago, or some reserve center, and pay the cost of it. If you do not keep an account that will justify that bank in giving you a draft at par you should pay the cost and send that draft at par to the man to whom you owe the $100.

Senator BRISTOW. But suppose my creditor at Chicago and my banker at Salina and his banker at Chicago are perfectly satisfied with this method of handling the business, what right has the Government to interfere with it?

Mr. INGLE. They make a virtue of necessity. I do not think they are at all satisfied; somebody pays the freight. The bank which actually makes the collection pays for it. It either pays the country bank an actual exchange charge in money or it renders a return service for that interior bank in the shape of clearing its checks on other teritory, which, boiled down into dollars and cents, generally means more than would result from a direct exchange charge.

Senator BRISTOW. Well, the country banks encourage that kind of remittance and desire it. They very much prefer that to the sale of drafts.

Mr. INGLE. Of course they do, because they know that they can not very well compel their own local customers to pay them 10 or 15 or 25 cents when they want to settle a draft out of town, as they can put some other disinterested bank under duress, practically, by compelling that bank——

Senator BRISTOW (interposing). Under duress in what way?

Mr. INGLE. Well, I do not know whether "duress" was the word I should have used there.

Senator NELSON. Moral duress.

Mr. INGLE. Well, they are obliged to do it.

Senator BRISTOW. Why are they obliged to do it?

Mr. INGLE. Because they have got to do business.

Senator BRISTOW. It is competition which makes them do it. If they do not do it, somebody else will.

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Mr. INGLE. Yes; but it is competition based upon the use of a false principle and one which suggests the payment of a 100-cent debt in a 99½-cent dollar.

The CHAIRMAN. Mr. Ingle, will you allow me to explain at this point? I want to ask the committee if it will be agreeable to hear Senator Thomas at 3 o'clock this afternoon? He desires to be heard at 3 o'clock.

Senator NELSON. What is our program for the day?

Senator HITCHCOCK. Let us make it 3.30.

The CHAIRMAN. Half past 3 will be agreeable to me. But I should like to give him notice of the time, so that he can accommodate himself to it.

Senator SHAFROTH. That is satisfactory to me.

Senator BRISTOW. It is satisfactory to me, if it is to the Nebraska delegation.

The CHAIRMAN. We will make it half-past 3 then.

Senator BRISTOW. Well, continuing on the subject we were discussing: I think it is quite an important matter; because it has developed here in these hearings recently that the city banks would like to change the custom of making these remittances, while the country banks are very much opposed to any change in the method of remittance. The country banks—some of the gentlemen appeared before us yesterday—insisted that that method of remittances by check is a good thing for the country, and greatly facilitates business, and is a very great convenience; and that any bank in the city that will not conform—or any city that will not conform—to that practice which has grown up, would find itself handicapped, because it naturally would drive trade away. And one gentleman talking to me yesterday cited the instance of New York, the New York banks—I think probably through the clearing-house association; it made certain charges upon the country banks that Philadelphia did not, and that the tendency was to help the business of Philadelphia.

Mr. INGLE. But only in a very moderate degree, Senator Bristow. It would have been in greater degree, were it not for the fact that there again was interposed the fictitious condition made by the present banking act, under which we are compelled, whether we want to or not, to keep a balance in New York. In consequence, the New York banks, of all the banks in the country (and in a relatively lesser degree the Chicago banks) can make rules with the knowledge that the banks of the country as a whole are obliged to follow them. Such conditions do not attach to banks in the reserve cities of the second class.

I think the issuance of local checks is a very convenient method of settling accounts. There could be no objection whatever to it, if it were so arranged, as it is proposed under this law, that such checks are to be redeemed at their face value, not at a discount for the benefit of the paying bank.

I go to a country bank, or any bank, with a check for $10,000, and I can get $10,000 if I am known and that check is good. If I, rather than go there myself, elect to send that check by mail, surely that paying bank is as much obligated to pay me 100 cents on the dollar on that check as if I were there in person.

Senator NELSON. But how do they get the money to you?

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Mr. INGLE. They can send me—they can elect, as a matter of courtesy, if you choose, to send me a piece of exchange which I can collect, or they can put a lot of currency in a bag and express it to me at my risk.

Now, if they want to charge me 5 cents or 10 cents or 15 cents for the time they are required to tie up that shipment of money in a bag or package rather than pass it to me over the counter, I assume that that would be a legitimate charge.

Senator HITCHCOCK. Now, as a banker, when you receive deposits you engaged to pay them over your own counter on demand, do you not?

Mr. INGLE. Yes; I engage to pay them over the counter on demand.

Senator HITCHCOCK. You do not engage to pay them by express or over the counter of another bank 500 miles away on demand, do you? You only engage to pay them at your own bank, do you not?

Mr. INGLE. I would suggest that this bank, when it registers the money by mail—I am not concerned whether it goes over the counter or through the side door. The bank is as obligated to pay that in one way as in the other.

Senator HITCHCOCK. I am talking about the proposition involved in this bill. If a man in your town draws a check on you for $1,000 and one of the citizens of the town present it, you pay it over your counter. Suppose that man instead of giving the check to a citizen of your town sends it to somebody in New York and that person deposits it in a bank, and that bank presents it at the reserve bank in New York and that is charged to your account in New York. Is not that practically compelling you to pay that $1,000 in New York, and will not that compel you to stand ready at all times to pay your depositors either at your own bank or at the reserve bank at the option of the depositor? Does not that compel you to be ready to pay it in two places at the same time?

Mr. INGLE. Hardly so, because that is a convenient method of paying that check at the counter of that bank on which it is drawn. If the reserve of that bank with the reserve bank is depleted, the inferior bank is obliged to pay that money over its counter to that reserve bank, in order to replenish its balance.

Senator HITCHCOCK. I say it is compelling you to be ready at all times to pay your depositors in two places, namely, at your own bank or at the reserve bank.

Mr. INGLE. As long as that is what is done now, I can not see that it makes any difference to express it so in law.

Senator HITCHCOCK. It is not done now.

Mr. INGLE. Yes; if I send a check for mail for $1,000 to a bank in an interior town, I do not get the money for it in return. I get a check on the very same bank in New York.

Senator HITCHCOCK. Let us take the same case as an instance. A citizen in your town having a credit in your bank sends $1,000 to a merchant in New York, and the merchant in New York deposits it in a bank in New York in which you have an account. Does that bank charge it up to your account?

Mr. INGLE. As a practical matter; yes, sir.

Senator HITCHCOCK. As a practical matter it sends it out to you, and you pay it when it gets to you, or it sends it to another bank

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in your town and is paid at your counter. All the testimony here has indicated that no reserve bank has any right to charge to the account of its country correspondent a check drawn against that country correspondent.

Mr. INGLE. Senator, that is a question of practice.

Senator HITCHCOCK. Can you tell me of any bank in New York which reserves the right to charge its country correspondent with checks which it may receive—individual checks?

Mr. INGLE. Yes; we have four reserve agents in New York which charge promptly against our balances in their hands not only checks on us, but any business they choose to send us in Baltimore.

Senator HITCHCOCK. That is an exceptional arrangement, is it not?

Mr. INGLE. I believe that is because we are a very good bank. [Laughter.]

Senator HITCHCOCK. That places you at the mercy of all of your depositors.

Mr. INGLE. We try to be prepared for that, sir.

Senator HITCHCOCK. Then, a man might overdraw his account and it would be charged to you in New York.

Mr. INGLE. That would make no difference, in practice.

Senator HITCHCOCK. I think that might open the door to fraud.

Mr. INGLE. I can not see that it would.

Senator HITCHCOCK. If a man might present a check in New York against you when he had no account at all and get money on that——

Mr. INGLE (interposing). That can be done anyhow; it is done every day.

Senator HITCHCOCK. But it would not be charged to you?

Mr. INGLE. I would just as leave have it charged to my account as to send it on for collection and the New York bank has parted with that money.

Senator HITCHCOCK. I want to know, seriously, whether a country bank doing business with a reserve center is compelled to have checks which individual depositors draw against it charged to the account of that country bank in New York or Chicago or anywhere else. You say that is the practice now?

Mr. INGLE. No, sir; I do not say it is the practice. I say, unfortunately, it is the growing habit of the interior banks to insist upon what we call double accounts in the transaction of their business.

Senator HITCHCOCK. What is the practice now? Tell me frankly what is the practice now.

Mr. INGLE. I can only state for ourselves. I assume that we now have about 800 out-of-town bank accounts on our ledger, and we charge against the credit balances all of our business in fully 600 of those accounts. On the other 200 accounts, they are double accounts, you understand, where they will not let us do that.

Senator HITCHCOCK. We are talking about different things. Are you talking about checks drawn by another bank upon you?

Mr. INGLE. I am talking about in Baltimore the checks drawn on Salisbury, Md., or any town, I do not care where, where the practice prevails with us.

Senator HITCHCOCK. Let me give the same illustration I have. I am asking you whether an individual citizen of Baltimore—Baltimore is your place, is it not?

Mr. INGLE. Yes.

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Senator HITCHCOCK. Whether an individual citizen of Baltimore draws a check on your bank which goes to New York and gets in the hands of your New York correspondent, does that New York correspondent charge that check to your account?

Mr. INGLE. If in connection with it or any one of the four New York correspondents we have, it does it that very minute.

Senator HITCHCOCK. What do you mean by any one of your New York correspondents?

Mr. INGLE. I have different arrangements, sir, with different banks.

Senator HITCHCOCK. You mean to say you have four New York correspondents——

Mr. INGLE (interposing). And they will charge that check on Baltimore, or any other check they choose to send up drawn on Baltimore, direct to our balance in their hands.

Senator HITCHCOCK. If John Smith, in Baltimore, draws a check on your bank, your correspondent charges that up to your account?

Mr. INGLE. Up to my account.

Senator HITCHCOCK. Without submitting it to you.

Mr. INGLE. I get it the next morning, and I am given a debit for it.

Senator HITCHCOCK. Let me ask, when is it charged to you?

Mr. INGLE. The very moment he gets it; the very moment he gets it he debits it.

Senator HITCHCOCK. I say is that the practice of country bank correspondence?

Mr. INGLE. I say I can only tell you from our experience. I say it is a growing and vicious practice, in my judgment.

Senator HITCHCOCK. Which is the vicious practice?

Mr. INGLE. This thing of permitting the maintenance of those double accounts.

Senator HITCHCOCK. What do you mean by maintaining double accounts?

Mr. INGLE. I am speaking of that situation which you pictured, where we have a balance in New York, and where New York will send us business from day to day for collection and remittance either upon receipt, or after three days, or next week, if you choose. Now, what does that practice result in? We are assumed to keep 25 per cent reserve. Can't you see, if any bank has a balance to its credit in New York of $500,000 it will also have $500,000 cash in its vaults. The two sums together may represent the 25 per cent on that bank's deposits. Now, if that New York bank sends its out-of-town bank business from day to day, for remittance twice a week, let us assume the paying bank may accumulate from the New York bank $250,000 worth of business to be remitted for twice a week. Now, in practice, what do many banks do? They continue to count as reserve the full debit balance of $500,000. And, as we all know, a reserve is only maintained at all with a view of protecting depositors of a bank in case of failure or liquidation—if we never failed we would not want any reserve. You see that means our reserve the moment the bank fails; it is not our total debit balance in New York; it is that total debit balance less the balance we may have on our books from New York for remittance at any particular time in the future. So that instead of having $500,000 reserve, we, as a fatter of fact, only have $250,000 reserve.

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Senator HITCHCOCK. You mean New York has sent you $250,000——

Mr. INGLE (interposing). For collection and remittance once a week, if you choose—an accumulating balance. The practice is, where it is done for accumulating balances it sends a very small balance the first three or four days and a very large one on the fifth or sixth day to save the New York bank.

Senator HITCHCOCK. To save the New York bank?

Mr. INGLE. The New York bank gets its return quickly. For instance, one bank in Baltimore will arrange to remit for a certain New York bank on Wednesdays and Saturdays each week. That New York bank will arrange with another Baltimore bank to remit it twice weekly, on Tuesdays and Fridays, and so on, possibly with a third bank on Wednesdays—on the other two days. Now, in sending their deposits they so arrange it that their money will be away from them the shortest possible time, which is a very excellent idea from their point of view.

Senator HITCHCOCK. You mean New York does that?

Mr. INGLE. New York does; yes. The idea that I insist upon in opposition to this double-account business is this: That a bank which keeps its reserve honestly, which tries to keep a reserve of 25 per cent—and if it does not it can not help itself, it is gone, in tight times or for some other reason—such a bank, in trying to keep its reserve, only figures as its reserve its actual balance in New York plus its cash on hand. Now, if those full debit balances are permitted to be counted, can't you see that the bank which does that and makes no deduction for offsetting balances has a very superior advantage over a bank which insists upon a single account, in which is always reflected the actual amount of money the owning bank can draw for in case it has to have it.

Senator HITCHCOCK. You say you have $7,000,000 of country-bank deposits?

Mr. INGLE. Yes.

Senator HITCHCOCK. Suppose you receive a batch of checks against one of those country banks in a country town in your State; do you charge those checks to the account of that country bank when you receive them?

Mr. INGLE. I think so, in our case in 75 per cent of our accounts.

Senator HITCHCOCK. Does that depend altogether on the arrangement between the banks?

Mr. INGLE. Altogether on the arrangement between the banks, and sometimes they are changed.

Senator HITCHCOCK. Suppose you send that country bank collection items; when do you charge them with those items?

Mr. INGLE. Only upon receipt from that bank of advice of their payment. We charge them, as a matter of fact, one or two days after they have the money.

Senator HITCHCOCK. Do you charge to their accounts such checks drawn by their individual customers as soon as you receive them?

Mr. INGLE. That is right.

Senator HITCHCOCK. That is at variance with the custom as stated to be by all the bankers who have testified before this committee. They have all testified that no correspondent was permitted to charge up items against its country correspondent until they had been collected.

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Mr. INGLE. I think they made awfully poor arrangements.

The CHAIRMAN. It is a very common practice for people traveling in Europe. They draw on their letter of credit against the country bank's correspondent in Europe, and it is charged against the home bank.

Senator NELSON. That is why the country bank makes a profit; they want something for making that collection.

Senator HITCHCOCK. You say with 75 per cent of your country bank customers you charge checks to them just the minute you receive them?

Mr. INGLE. I think I am approximately correct there, sir. I say it is substantially so in the case of 800 correspondents; I do not follow it personally, but I feel I know it.

Senator HITCHCOCK. Why do you discriminate in that way?

Mr. INGLE. Simply because one arrangement is satisfactory to one man, and another man won't do it the same way, but some other arrangement would suit him better. With our New York correspondents we make that arrangement; we insisted upon the arrangement.

Senator HITCHCOCK. Why?

Mr. INGLE. Because we felt it was not a fair thing for us, when our Government statement was called for, to swear our reserve was a certain average for a 30-day period when we knew during that 30-day period we might have had offsetting credits on our books from New York banks which would probably deplete our reserve 4 per cent.

Senator HITCHCOCK. For that reason you should always make an allowance for checks drawn against you and floating around in transit?

Mr. INGLE. Oh, no; I think it is a perfectly fair proposition there. We do not want to lean backward because—out of sight, out of mind. We have no knowledge whether the New York bank has $100,000 or $1,000 on that day.

The CHAIRMAN. And it is a matter of saving in bookkeeping?

Mr. INGLE. Altogether. It is a matter of protecting the bank.

The CHAIRMAN. What bookkeeping does it save you?

Mr. INGLE. It does save us bookkeeping.

The CHAIRMAN. I would like to have you explain to me what saving there is in it.

Mr. INGLE. Well, in the actual bookkeeping it simply saves the difference in time it requires to keep two accounts——

The CHAIRMAN. Instead of one.

Mr. INGLE (continuing). And one account. It all goes into a common account. Further than that, in maintaining these two separate accounts there are numerous times in which all kinds of irregular things happen, and we are eternally being mixed—an entry in one account is intended to go into another account.

The CHAIRMAN. And you have a whole lot of trouble in reconciling the accounts.

Mr. INGLE. Yes; in reconciling the accounts. I think the practice is wrong, Mr. Chairman, because the balance due in any situation should reflect the net balances due.

The CHAIRMAN. It avoids double-heading—what they call double-heading—does it not?

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Mr. INGLE. Double-headers. It has led up to this: Our figures in all of our statements do not reflect the real thing at all, when we take all of this pyramiding of reserves where one item of $5,000 may be reflected for a period of a week in the statements of five other banks all over this country before that item is liquidated. And, in connection with these double accounts, I think it is fair to say that probably 25 per cent of the amount of our statement footings represents wind. It does not mean anything at all. It is gratifying to report $50,000,000 of deposits rather than $40,000,000 or $35,000,000, the real deposits you can loan.

Senator POMERENE. Let me see if I understand your statement in reference to the bookkeeping. Under the present arrangement that you have with your New York correspondent your account is charged with a check which they have paid and sent to you. If that was not done, they would have to have the same account with you and also a collection account with you, would they not? Do I make myself clear?

Mr. INGLE. I think I follow you, Senator.

Senator POMERENE. That is, for instance, I draw a check upon your bank—I have an account there—and it was sent to New York. Now, of course, I am not a depositor in your New York bank, and when they received my check there, if they adopt the other system, they would have to send that on to you as an item for collection, and that would necessitate the double bookkeeping you are speaking of.

Mr. INGLE. Double bookkeeping. There is one thing I ought to explain in that connection, sir. You appreciate this arrangement with any number of New York banks—I think we deal with about 9 or 10 New York banks—they will differ. The purpose we had in mind was the avoidance of an appearance on our books of an item due to reserve agents. You will frequently see in statements, if you will look at the publications, "Due from reserve agents, $750,000," "Due to reserve agents, $430,000," as a deposit. Now that is only a bookkeeping entry for convenience, if you choose, or for profit, if you choose, but it serves to artificially swell the deposit line and it always exposes the bank so carrying its account to count the full debit balance as a reserve rather than $200,000 as the actual reserve in case he fails, because that is all he has.

Senator REED. Mr. Ingle, you have gotten into a line of discussion here that several times I have tried to get some light on. I think you are inclined to deal with this subject frankly. I would like to talk with you a minute about it. To begin with, and rather aside from what I have in mind, I want to ask you this: If a citizen of Baltimore, having an account in your bank, draws a check payable to a merchant in New York City, let us say, for $10,000, and the check is deposited in his bank and credited to him, what protection does your bank have provided that check should happen to be a bad check? How does that bank know he has a balance of $10,000 in your bank?

Mr. INGLE. That bank is not concerned to know, sir. That bank, in accepting a check for $10,000 does so from one of its customers, and it is assumed he would be a reputable merchant. Obviously that bank would not accept from a merchant in whom he had no confidence, any one's check for $10,000.

Senator REED. In other words, it knows its depositors, and if a depositor puts in a bad check the depositor makes it good.

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Mr. INGLE. There it has recourse upon him, and if it is returned the depositor makes it good.

Senator REED. The protection rests upon the fact that the depositor is known to it, and if he is not a reliable man, and a solvent man you simply send it for——

Mr. INGLE (interposing). For collection.

Senator REED (continuing). For collection, which obviates that difficulty.

Mr. INGLE. Exactly.

Senator REED. Now, I want to come to this question of pyramiding reserves for a minute. Assuming a bank must keep 12½ per cent of its deposits in its own vault and 12½ per cent of its deposits in some other reserve bank or banks, is it not a fact that those funds thus deposited with other banks are frequently so deposited with other banks so that as a matter of fact that 12½ per cent ceases for all practical purposes to be a reserve at all?

Mr. INGLE. I entirely agree with you, sir. As a matter of fact, the actual cash, gold—let us call it gold, if you choose, for the sake of letting you understand what I mean—the actual gold reserve or the actual legal reserve in money, in lawful money, against a deposit line of $100,000 in a country bank is just about $7,500 in money by the time that the reserve in the secondary reserve city is further split up by being transferred, a respectful portion of it, to the reserve city. You understand what I mean, sir?

Senator REED. Yes.

Mr. INGLE. If a country bank deals with a reserve city of the second class, which city in turn deals with a central reserve city, the original deposit of the country bank is represented by just 7½ per cent in real money.

Senator REED. Yes.

Mr. INGLE. Now, mark you, here is another question there, sir. Very unfortunately, in the case with a very generous share of these reserves they are made up not of cash, not of demand paper payable in a reserve city, but of miscellaneous checks and drafts listed on slips a yard long many times, scattered all over the known world, I might almost say.

Senator REED. You mean to say, instead of carrying cash they carry something in lieu of cash and count it as cash?

Mr. INGLE. No, sir. I mean this, that a bank in the interior and also many banks in the reserve cities of the second class, will have its correspondent in either a reserve city of the second class or a central reserve city. That interior bank will send to Philadelphia, if you choose, a long letter made up of items, 10 per cent of them on Philadelphia and 90 per cent of them on other points within the territorial limits of the United States, very often. The moment the interior bank charges Philadelphia with the footing on that letter, it looks like money to that interior bank, and it proceeds to draw against it as money. You should say competition should prevent all of that. That is very true, but the practice is horribly abused.

Senator REED. The fact is, then, if I understand you (and I am going to put it in my own words to be sure I do), we will say that a bank in Indiana has an account with a bank in New York and uses it as its reserve agent. It gathers up a lot of collections scattered broadly over the United States and sends them down to the bank in

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New York, in the aggregate amounting to $500,000, and the bank in New York at once credits to the bank in Indiana $500,000. The bank in New York, however, does not have $500,000 in cash, but has $500,000 in collection items.

Mr. INGLE. A certain percentage of it, anyhow.

Senator REED. Yes. And therefore the bank in Indiana credits itself in its reserves with $500,000 in cash in the reserve in Philadelphia and treats it as though it were cash when in fact it is a liability.

Mr. INGLE. Unliquidated business.

Senator REED. That is practiced extensively?

Mr. INGLE. Most extensively. And anything in the world, as, for instance, this bill, which will compel or induce the prompt presentation of those checks at a minimum cost would be a step in the right direction and get things down to a dollars and cents basis.

Senator REED. Now, you stated a moment ago that as it worked out with an ordinary country bank having deposited a portion of its funds in a reserve bank, and then that money can be redeposited, etc., there was an actual reserve of about 7½ per cent. Now, do you deduct from that 7½ per cent a further sum on account of the system you have just explained of sending in checks and drafts, etc., to be collected and credited?

Mr. INGLE. No, sir; I am afraid if we did that, in many cases we would have a minus quantity.

Senator REED. That is what I want to get at. You mean that the 7½ per cent exists because as a part of that 7½ per cent is counted the credits which the banks obtain when they have not deposited their cash but have deposited items for collection.

Mr. INGLE. I think that statement is true, sir.

Senator REED. And that the items for collection are so great in the aggregate as to wipe out the entire reserve of 7½ per cent?

Mr. INGLE. Yes. But it differs with different banks, if you please, Senator.

Senator REED. I am asking about the general custom.

Mr. INGLE. I am speaking about the abuses which have grown up by reason of the practices that have grown up under the present law.

Senator REED. I understand some bankers do not do it but that this is a general custom.

Mr. INGLE. I think it is quite general.

Senator REED. Then, as a matter of fact, our reserve system, with the exception of the money actually held in vaults in the banks, is a good deal of a——

Mr. INGLE (interposing). Of a delusion and a snare.

Senator REED. Yes. Now, if that is true (I am coming to another question) and this bill changes the aggregate of the reserves by reducing them in various amounts, depending upon the class of banks, and yet compels the actual keeping of the money, the effect will be to really increase the reserves—the actual reserves.

Mr. INGLE. That would be my judgment, Senator.

Senator REED. So that in the change which we are putting in operation, applying it not to the law as it now exists, but to the custom which has grown up under the law, there would be actually more money tied up in reserves under the new system than under the old,

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although we have reduced the amount in percentages in this bill? Putting it in another way——

Mr. INGLE. I think I catch you, sir, but you must remember this, Senator, that a part of the 18 per cent reserve which we will be required to keep under this law will not be money at all; it will be a credit on the books of the Federal reserve banks, of which only one-third is held in cash.

Senator REED. Yes.

Mr. INGLE. So that we will then have, under the new law, roughly speaking—I have not a blackboard here, sir—about the same amount of actual money reserve as we now have.

Senator REED. But, of course, you have introduced into your last answer a further provision; that is to say, that the bank, as soon as it deposits its reserve with the regional bank, will then borrow it back?

Mr. INGLE. It will be borrowed back. It is not material to us whether we earmark it or not. It will be borrowed back by some one, and that bank will only hold, as a matter of fact, 33 per cent of its liability to us in cash.

Senator REED. But, omitting that last transaction, which may or may not take place, and putting this thing, if I am able to do it, in a sentence, the 15 per cent reserve required of a country bank and maintained, as you say it is maintained under the present system, actually demands less cash as it is worked now under the present system than would be required under the new bill in actual cash, although the reserves are reduced to 12 per cent? That is, now, up to the time that the regional bank rediscounts.

Mr. INGLE. Senator, I am just running it through my head as you are asking it. My impression is it will require a very slight increase in the actual cash held in the reserves in the country bank, either one place or another. But here against this in this law is the wonderful compensating advantage——

Senator REED (interposing). I am not speaking of the advantage now; we are coming to that in a moment. I am not contending against the bill. The present system is so run that that part of the reserve which is deposited in other banks is practically wiped out as a cash reserve. Under the new system the cash is actually put in the vaults of the bank, or would be in the vaults of the reserve bank, as far as the reserve part of this system goes. Then, of course, the reserve bank is permitted to loan all of the reserves that have been put up with it except a 33 per cent reserve, which it must hold. That is the situation as it works out.

Mr. INGLE. Yes.

Senator REED. And I take it from that the central reserve bank has actually loaned out the money that has been put up with it, and there is more money in cash in the banks under the new system, although the reserve is less, in figures—that is, in percentage—than there is in cash locked up now in reserves with a larger percentage.

Mr. INGLE. Senator, I have not attempted to work that out, and I must confess I have looked at this subject more from the viewpoint of a banker in a secondary reserve city, of course, more or less in its related aspect.

Senator REED. We can figure from your previous statements, but of course you can supplement this by any statement you want to make,

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in writing or otherwise. Now, let me ask you about another matter that is not, perhaps, exactly germane to this question: To what extent is this practice followed by banks, namely, a bank likes to have a showing of a large amount of deposits; it looks good. To what extent do they practice this system of bank No. 1 depositing $100,000 with bank No. 2, bank No. 2 depositing $100,000 with bank No. 3, bank No. 3 depositing $100,000 with bank No. 4, and bank No. 4 depositing $100,000 with bank No. 1—to what extent is that sort of scheme worked?

Mr. INGLE. Senator, I have never had much personal experience in those directions. I have heard of that and I probably have known of two or three concrete situations of just that sort, where a bank, for instance, will at a given moment want to replenish its reserves, if you choose. A bank in Baltimore may draw on, shall I say, Cincinnati for $100,000. At that time it will not have a penny to its credit in the city of Cincinnati. It will send that draft so drawn out to Chicago. It is a central reserve point. By the time that draft on Cincinnati will have reached its destination the drawing bank, the initial bank, will send to Cincinnati, maybe, a draft on Pittsburgh, and so on, and in that way deliberately proceed not only to build up its deposit line but at the same time to build up its reserves.

Senator REED. That is kiting?

Mr. INGLE. Exactly so; pure and simple. There is quite a little of that done. In a city, for instance, with a dozen banks I will assume that probably no more than two or three banks will do that. The other banks will not do it, but they recognize they are handicapped in not being moved to do it. They swell their deposits otherwise artificially in many ways. For instance, there was offered me for discount only last week a certificate of deposit drawn by a bank for itself for some thousands of dollars. That bank will loan its customer, will accept a customer's note for $5,000. It has not the money; it has exhausted its credit in the shape of bills payable or rediscounts, if you choose, direct, but it will give that customer its time certificate of deposit payable three, four, or five months after date. That customer will take that time certificate of deposit and, through some other channel, discount it. In the meantime such time certificates will appear as deposits in the statement of the issuing bank. There are all kinds of devices, sir, which we can not recall on the spur of the moment, but it gives us pause as we meet with them from day to day.

Senator REED. There is a good deal of that done, you say?

Mr. INGLE. Quite a little of that done.

Senator REED. I had in mind a different transaction from that and a transaction which could not be said to be dishonest, but simply a bank's desire to have it appear they have a large amount of deposits. And of course in the illustration I used, bank No. 1 could have actually deposited with bank No. 2 $100,000; bank No. 2 could actually deposit the $100,000 with bank No. 3—not the same, but another hundred thousand—and that could be carried on until it made the circle and got back to bank No. 1. And if there were 10 banks there would be an aggregate of a million dollars of deposits and yet each bank would owe as much as its deposits, and there would be an apparent increase of a million dollars in the aggregate in those banks, and yet not an actual increase of a penny.

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Mr. INGLE. That is exactly what I suggested about the 25 per cent of the total statement footings of the country representing air.

Senator REED. So that you think the aggregate deposits of our banks to-day, if they were gotten down to what they actually are, would shrink very largely?

Mr. INGLE. If boiled down to a condition which would be brought about under the terms of this bill by the clearance of the checks as promptly as possible and not as great a delay as possible, I am inclined to think the statement footings under the present system would probably shrink to a loss of 20 to 25 per cent. It would not mean the loss of a penny except pride.

Senator REED. I did not hear all of your testimony, and I may repeat a question that has been asked, but for my own information I want to ask this: If your bank has a part of its reserve in its own vaults, as required by law, a part of its reserve in the regional bank, as required by law, but the aggregate of the two accounts being sufficient to comply absolutely with the law, and one of your customers draws a check and passes it through the regional bank, and it is instantly charged, will that not compel you to keep an amount with the regional bank considerably in excess of your legal reserve, lest the transaction I have referred to would bring you below the legal reserve?

Mr. INGLE. Senator, I referred to that before you came into the room, and I took the liberty of suggesting that this bill be amended so as to allow some little play in a situation which otherwise would inflict a penalty. That reserve account should, without penalty, be permitted to be 20 per cent below the fixed amount, and below that there could be a penalty fixed so as to prevent exploiting that account for profit.

Senator HITCHCOCK. Will you state in a few words your objection to having this provision of the section changed——

Mr. INGLE (interposing). Pardon me, Senator, what section is it?

Senator HITCHCOCK. It is on page 33. Most of the country bankers have urged that that section be changed so as not to require a regional bank to accept checks upon member banks at par. Now, why do you think it would be better to continue to have the regional bank accept those checks at par?

Mr. INGLE. It is probably fair to divide that answer. First, for the reasons I have sought to give, I think it should be almost obligatory to compel the retirement of these checks at the earliest possible moment, in order to avoid this undue and unreasonable expansion of credit, this duplication of credits in the hands of four or five successive banks, by reflecting the credit of a single item in process of liquidation.

Now, the meat of their objection, as I take it, is in regard to the par facilities. Now, of course there comes a consideration which is selfish at both ends of the argument. I have already brought out why I feel that the bank, the paying bank, should honor its customer's checks when they are presented. Here is a thought I omitted. I can not talk very well, and I have to speak rapidly and without any preparation, as you ask questions.

You must remember that if the customer of an interior bank will go into his bank and ask for a draft on Chicago with which to pay

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a bill in Chicago, his country bank will probably charge him something for the draft and the Chicago man gets his payment at par. Now, if, instead of doing that, the interior man sends his local check to Syracuse, N. Y., we will say, in payment of a bill, there has elapsed one day; Syracuse will send that to its reserve point, and another day has elapsed; the reserve point will send it to the bank upon which it is drawn, and that makes three days. Speaking in a broad way, checks, handled ever so promptly, will require two or three days to reach their destination, so that the bank upon which they are drawn gets the benefit of the additional time in which to keep its money loaned during the exact number of days in which those checks are required to reach it. They now get the advantage not only of the additional time which now amounts to a week or 10 days many times. but they also get from $1 to $2.50 a thousand in remitting for those checks.

But, gentlemen, the devices used by many banks are very ingenious, indeed, when arranging for the best possible results to their profit-and-loss accounts. I do not blame them at all.

Senator HITCHCOCK. I want to refer you to some testimony which has been given before this committee. A very intelligent banker from Peoria testified yesterday or the day before, before the committee, that if the bill as drawn is favorably reported and permits a customer of a country bank to draw his check with the assurance that it will be received at par by the reserve banks, that remittance will be made that way, and the result will be that the reserve bank will have a great mass of checks of that sort to handle. He says, however, if a discrimination is made between bank drafts and individual checks it will require a country merchant who desires to remit to go to his bank and get a draft upon the reserve bank. That draft will pass at par not only in that reserve district, but in all other reserve districts, and as it passes at par, and because of the competition between banks, the country bank will not make any charge for that draft upon the reserve bank, which he says will put a stop to kiting. He says that if this remains as it is the country merchant, knowing that his check sent, say, to Chicago, or, as you say, to Syracuse, will not be charged to his account in his home town until it has made the rounds, and will continue to maintain the practice of paying in checks, the man depending upon his collections to make his money good later on.

Mr. INGLE. On the contrary, sir, I think under the new law he has got to pay the bill earlier than under present conditions. He knows that check is coming immediately back to his home bank.

Senator HITCHCOCK. Suppose this law discriminates between an individual check and a bank draft upon the reserve bank?

Mr. INGLE. I do not see the occasion for it or the merit in it. There, again, comes selfishness, which is altogether a proper emotion in such a case, I imagine. I think our friend from New Orleans is figuring that half a loaf is better than no bread. If he has got to be stripped of part of this, he might as well save half of it out of the wreck. I can not see the difference between a check drawn on any bank by a banking correspondent and one drawn on it by an individual customer. Some individual customers have their checks frequently in the form of an ordinary bank draft, as looking more substantial, if you choose.

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Senator REED. The distinction which he made was this: When a man went to his bank and drew his check upon that bank, say, for $1,000, and obtained a draft, that then that bank knew that that money was drawn out and reduced its account by that much, whereas if he simply drew a check and said nothing to his bank about it and sent it on to New York, and it went to the regional bank in New York, incidentally his reserve in that bank was reduced. He would not know about that, and his reserve might be wiped out without his knowledge, whereas if the bank-draft transaction took place it took place at his counter, and he immediately made his entries. That was one reason he gave.

Mr. INGLE. If you will excuse me, that is a very strong argument, because there is no greater reason to suppose that a merchant in a country town will, under these changed conditions, go to his local bank and get a draft on a Federal reserve bank than he would now go to that bank and get a check on New York to pay a bill. That merchant, speaking generally, wants that check to stay out as long as it can, and the bank upon which it is drawn wants it to stay out, and the member bank is not at all concerned when that check is charged to its account on the books of the Federal reserve bank, assuming that this law can be amended to permit some little play between the 5 per cent definitely and the 4½ to 5½ per cent as the exigencies or delay might possibly demand.

Senator REED. He urged this as a reason: He said if you adopt the system that the bank draft will be credited at once in the reserve bank, that works no harm, because the member bank knows the draft is out and has deducted it from its account. Therefore it must increase its reserve in its own bank, or it must increase its reserve, if necessary, in the regional reserve bank, and that that sort of banking, if that draft would be regularly cashed at par and at once, creditors would demand it and get it. If, at the same time, you provide that a bank check would not be so credited but would simply be accepted for collection and sent on to the bank upon which it was drawn, and that that discrimination in the law between the two kinds if paper would build up the bank-draft system and would circumscribe the check system. Is there anything sound in that?

Mr. INGLE. I can not say it is unsound, but I think it is probably Utopian. I think the competition in the cities to which such checks are sent will also require that they be accepted as cash on the same basis as the check on a Federal reserve bank, and the bank accepting them as cash simply takes its own chances.

Senator REED. It would not be Utopian if the law provided that that check should bear a charge for collection and a draft not?

Mr. INGLE. I will not venture that suggestion. I doubt whether the law could say that.

Senator REED. Oh, yes; the law could easily enough provide that if we wanted to have it do so. It could provide that the regional bank would cash the draft, and the regional bank would send the check on for collection, and that there should be a collection charge.

Mr. INGLE. The trouble would be that the check would not go to the regional bank; it would go direct to its destination, as is done now, or there would be some other rearrangement.

Senator REED. Through some other bank?

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Mr. INGLE. Yes, sir; I take it so. It would be like New York——

Senator REED (interposing). That would put it at some disadvantage?

Mr. INGLE. The customer would not care a rap about it if he gets a credit upon the books of the bank. He does not care what happens.

Senator REED. He would just go to his own bank, and his own bank would give him credit and put it through?

Mr. INGLE. The customer would not care how. You know in drawing cotton drafts, as is done on the New England States, where three days' grace is always not only allowed but taken on drafts drawn at sight, the owners of those cotton drafts at the initial point puts them in their banks as cash. Then the initial bank, unless we have prearranged it, immediately begins to quarrel with its corresponding bank, because it declines to accept as a cash credit an item which will not be paid until the lapse of four or five days thereafter, but if that fellow has a good account, well, we swear in private and properly credit it up to him and say nothing about it. If he has a bad account, we will simply forward it for collection and give him credit upon its actual payment.

Senator REED. How would it strike you if all checks used in interstate commerce—private checks—had to have a stamp upon them, the proceeds to go to the supporting of this banking system?

Mr. INGLE. Well, I would rather——

Senator REED (interposing). I am not committing myself upon that proposition; I am just asking you about it.

Mr. INGLE. I suggested here that it is a pity that some way under the interstate clause of the Constitution could not be found to nationalize the whole business, and then you would relieve all of us of a great deal of worry and trouble, and we could all take the same dose of medicine or tonic, as you please.

Senator BRISTOW. I started to question you on this check business sometime ago, and I want to proceed with it.

Senator REED. I beg your pardon for interrupting you, Senator.

Senator BRISTOW. That is all right. There is one important matter that has not been brought out, which I would like to have brought out. You seem to be opposed to the present system of remittances by checks. I want to ask you——

Mr. INGLE (interposing). No, Senator, I would not like to be so set down. I am opposed to the present handling of the checks which are remitted. I think checks, local checks or checks of any kind, are proper methods of remitting, if you choose, under our development, as we view it. I think there should be some way provided to quickly get those checks back to their paying banks; get them back as promptly as possible.

Senator BRISTOW. That is a question for the banks to consider as to how they will handle the checks. But you criticized the remittance which I suggested I had made to Chicago by check to pay an account there, because you said that was paying a $1,000 account with $999.50.

Mr. INGLE. That was the effect upon the party of the second part who gets your check.

Senator BRISTOW. I understood from your general attitude you thought this system of remittances by checks was a bad one, and then I suggested that the country bank had encouraged it; that they had solicited and asked, or recommended that their depositors use checks.

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When you go to a bank and deposit, say, $1,000, they present you with a check book and prefer that you check that out rather than that you draw it out and disburse it that way.

Mr. INGLE. For purely selfish reasons, of course.

Senator BRISTOW. That leaves the money in your bank?

Mr. INGLE. Exactly.

Senator BRISTOW. If you have a pay roll, small or large, say with only 15 or 20 employees, your bank prefers that you pay your employees by check rather than going to the bank on Saturday afternoon, if you pay on Saturday, and drawing out the money and paying them cash, because it keeps the money in the bank, and the checks go around to the various merchants and finally come in. That is a practice which country bankers have encouraged and developed, have they not, for a series of years?

Mr. INGLE. Unfortunately, they have.

Senator BRISTOW. Why do you say unfortunately? What does that do? As a matter of fact, does it not bring the money that otherwise would be in the safes, or in the desks, or in the bureau drawers, in the community, or out on the farms, into the bank? Does it not increase the reservoir of money there for the use of that community and has it not resulted in the establishing of banks in communities where 30 years ago would have been regarded as ridiculous to undertake to establish one? Has it not resulted in drawing out of the hiding places millions of dollars for the use of American people in their commercial transactions?

Mr. INGLE. Senator, I guess I will have to say yes to that. I do not know whether that is altogether a proper answer, whether it has been so much the use of the checks as it has been the solicitation of deposits which otherwise had been concealed within the stockings and cupboards, I do not know. The money has come from the solicitation; the checks follow afterwards, and operate to keep the money more or less in the banks.

Senator BRISTOW. Now, say there is a farmer out here in Maryland, and he may be growing his crops and he is paying his hired men. His banker would prefer that he keep his money which he has in the bank and take a check book. It is safer. It is not lost. If the check is lost and it does not turn up, that is better than to lose the money and have it destroyed. The result has been that the farmer has written checks. We will say he wants to pay a bill in Baltimore instead of at Marlboro, we will say, and so he sends a check to Baltimore. The merchant takes that check and deposits it in his bank. If you take from him this convenience of paying these bills with checks, and make it so he can not do it, you will destroy a system and a custom which has been built up, and which, it seems to me, has added very greatly to our commercial activity.

Mr. INGLE. We will never do that. We have no desire to do that. On the contrary, once that check is issued, I do not believe it should circulate as currency for 10 days before it is redeemed. Before it gets back to its paying bank it may have traveled 2,000 miles if you choose, all around the country, before it reaches its destination.

Senator BRISTOW. There may be an occasional abuse in this, the same as in almost everything else.

Mr. INGLE. I think a usual abuse, if you will excuse me, sir.

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Senator BRISTOW. What is the objection? I will give a check for $10 to some one, we will say, who may be employed by me. I may be a farmer. I may buy something and I give the man from whom I buy a check, and if he thinks it is all right (my reputation may be good in the community) he takes that check, and there is somebody whom he owes something to and he has not the money, and he says to the man to whom he owes something, "I have not the money to pay this, but I will assign to you a check of Bristow's which he gave me for a pig," and he takes it, and in the course of a few days it comes back to the bank. What harm has been done? Is not that a convenience?

Mr. INGLE. That is a convenience. But you will not let a bank do that. You will not let a bank issue its notes by indorsement and pass them around as money.

Senator BRISTOW. We do not let a bank——

Mr. INGLE (interposing). We can not issue our promise to pay and circulate it as money. We do it in times of panic, issue a certificate of deposit or some makeshift-currency device, but everyone looks askance at it.

Senator BRISTOW. If this customer or the employee, or whoever it may be, is perfectly willing to accept that check, because he knows it is good, and can get the money at any time he wants it, and if it is convenient for him to transfer that to somebody else for some other consideration, it gets back to the bank and is then retired. What harm does that do? That is what I would like to know?

Mr. INGLE. No special harm, except that it is a privilege you grant him of circulating his checks as money which you will not grant to the bank. You will probably believe that a note of my bank for $10 issued outside of the currency act would be a good asset in your pocket. But I am not permitted to issue that note except under a penalty of 10 per cent interest. You expressly say that I shall not do that, and yet you have a provision for the redemption of these circulating checks, and so are in effect making of them a circulating medium.

Senator BRISTOW. You will give a certificate of deposit; you will give a bank draft; that is your check?

Mr. INGLE. Yes.

Senator BRISTOW. If I go to you, if I am a customer of yours in Baltimore, and I ask you for a bank draft instead of sending a check, and get a draft, what is that but your check?

Mr. INGLE. That is, to all intents and purposes, over night if you choose, that is money. That is the transfer of funds, and I want that check to be presented as quickly as possible. It is in the promptness of the redemption of this media——

Senator BRISTOW (interposing). What is the difference between that draft which you give me, which is a check on your bank, issued by your bank, or upon a New York bank, probably issued by you, and a check which I may give to somebody on your bank?

Mr. INGLE. Absolutely no difference whatever. I am not trying to discriminate between the two classes of paper. I am only suggesting that they ought to be redeemed as promptly as may be.

Senator BRISTOW. You give me a draft for $1,000, and I owe a man $1,000, and I say I have not the cash, I have not the money

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on deposit, but I have a draft in this bank for $1,000, and I tell him I will turn that over to him. He says that is all right. That is against the law?

Mr. INGLE. No, sir. I entirely approve of the provisions of the negotiable-instrument act under which title can pass by indorsement, but I do not believe in making a circulating medium of checks, or doing anything which will take the holders of checks and keep them away from the paying bank any longer than is possible.

Senator BRISTOW. The law treats your check no differently from the way in which it treats my check, so far as the check goes. When you come to the bank notes that are to circulate as money, that is a different proposition, and there are reasons, wise or unwise, which it is not necessary for us to discuss just now, because we might not be so very far apart upon the advisability of bank notes being used that way, if issued in the right way. That is all. I wanted to bring out this important point which has been overlooked by the bankers in the great cities who are concerned with the crediting of these checks. They overlook the tremendous advantage that they have been to the country, and to the banking business of the country by the development of that system.

Mr. INGLE. By all means continue their use in any volume whatever, but provide by proper legislation to invite rather than discourage their prompt redemption, and I think such an invitation is extended under that particular clause of the bill which permits us to have those checks redeemed at par by the Federal reserve banks.

Senator NELSON. You have only given us a little part of your statement. Suppose you finish your general statement.

Mr. INGLE. I will do that.

It must be assumed that section 4 in permitting removal of directors in class B intends only to give the Federal board a weapon of defense for use only upon occasion, and does not mean to suggest that removals are to be the rule. If Congress in section 7 could say 6 per cent rather than 5 per cent as dividend rate the bill would be much more acceptable to many banks, and especially the interior institutions which earn more on their money than the rate suggested in the act.

Senator NELSON. What do you think of increasing it to 6, and then having the excess go directly to the Government?

Mr. INGLE. There again, Senator, it would depend upon how this Federal bank was to be managed.

Senator NELSON. The theory of some people is that it should be used for the purpose of aiding our system rather than as a money-making institution.

Mr. INGLE. If that is followed out, if that is to be done, if an underlying thought is in evidence, or may be in evidence, that it is a money-making proposition to the Treasury Department, it would obviously compel us to view it differently. For instance, one provision——

Senator NELSON (interposing). The argument is made that to give the member banks an interest in the surplus revenue would tend to arrange it for the purpose of merely making money. If you take away the surplus of the interest and leave it so that they will simply get their dividends, it would be more apt to be run for the good of the cause, rather than as a purely money-making institution?

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Mr. INGLE. Senator, you must remember that if you could by Federal act compel everybody to assent to these principles they would assent whether they wanted it or not. That will be one situation. Here we want to pass an act which shall invite people to come into it. I said that a 5 per cent revenue will not appeal to a bank which is accustomed to get 6, 8, or 10 per cent revenue from its local loans, and I believe that with 6 per cent instead of 5 per cent, and with the present distribution of the surplus profits, I believe that you would find a very much more ready assent, and you would hear very much less of the confiscatory features of the bill.

Senator NELSON. You are looking at it simply from the standpoint of mammon and not from the standpoint of public spirit.

Mr. INGLE. Purely from a standpoint of mammon, as a practical proposition and in dealing with a new situation.

Section 14 too narrowly defines the classes of paper available for rediscount. While city banks could possibly meet requirements the country banks certainly would not be able to do so. In this connectionit may be proper to say with respect that the Secretary of the Treasury did not draw proper deductions from the information derived from the last reports made to the comptroller in response tto that officer's request for a statement of maturities of paper held by the banks.

At almost all interior points the actual maturity of a note bears little relation to the date at which its payment is expected, and to attempt to collect such paper in accordance wih its terms would be futile. In the cities paper drawn by the best people is frequently made with the idea of renewing it at the mutual convenience of those directly concerned. It probably is fair to say of maturities in any given month, excepting possibly October and November, when the percentage is greater, that not more than 20 per cent of maturing obligations are paid on their due dates, while in connection with so-called demand loans payment is made at the pleasure of the borrowers, excepting the "street" loans made in New York. If this section of the law could be better worked out in detail, its beneficial provisions would atone for much in the act to which such ready assent can not be given.

Senator NELSON. You would extend the maturity limit of the paper?

Mr. INGLE. Not so much that. I would have it more nearly conform to the present practice. The city bankers and the banks in the larger communities have paper acceptable under the terms of this law, either commercial paper or paper which could be by interpretation made commercial paper. But, I take it, that this law, in saying 90 or 120 days, has in mind paper which it is expected will be paid.

Now, the average interior bank, particularly in agricultural sections, has one pay day a year; it may lose that for two or three months, and after that the paper may not be made during the remaining nine months. That bank, in borrowing, if it makes a note for three or four months, does it with the palpable intention of having it renewed for another period of three or four months, so that it will be paid finally after the expiration of eight or nine months.

I do not see why it would not be altogether competent for an interior or any other bank to follow the present practice, and in addition to rediscounting straight paper with indorsements to make

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its own obligations and pledge with that its customers' bills receivable in such volume as was done during the recent panic. In doing that you would not only be following a usual practice but one which would permit very much better protection to the Federal reserve bank, because in the absence of very close investigation it goes without saying that no Federal reserve bank, for instance, in Columbus, Ohio, could possibly know anything about the small bills receivable, collected, and eligible under the letter of this act by some bank in some small interior Ohio town. They are tenant notes, country notes, perfectly good to the holding bank, but altogether unknown outside of its own district. So I think it would be wise to make more explicit the provisions of your law and not leave so much open to the interpretation of the Federal reserve board, and say that the banks can borrow from the Federal reserve bank on their own notes, secured by the pledge of their customers' paper issued for all these purposes as prescribed in the act.

Senator O'GORMAN. Would that afford ample security to the Government?

Mr. INGLE. I think it would afford better security than the Federal reserve board could receive under a strict interpretation of this law. The affairs of a country bank will entirely be known under this new order of things to the Federal reserve bank with which it is connected. That Federal reserve bank can not know anything of the individual notes held among the assets of those banks, except in a general way, in connection with the larger obligations, if you choose.

Now, when such an interior bank pledges its miscellaneous bills receivable or rediscounts simply upon its indorsement, the Federal reserve bank will stand or fall by that obligation itself, with, of course, the protection given it by the law, as to the liens, and so forth. But if that interior bank could give its reserve bank its direct obligation for $10,000, and with that note pledged $12,000 or $13,000 or $14,000 worth of its customers' miscellaneous paper, the Federal reserve bank would have 140 per cent to protect the 100 per cent of the bank's assets, and that is the way in which business is usually done, and it would seem to me we want to make things easy for the country banks and not hard, not too much disturbing their accustomed methods of doing business.

Senator NELSON. You mean the practices when a bank wants to borrow from another bank, the borrowing bank gives its own notes, and does it with the notes of its customers as collateral?

Mr. INGLE. Exactly, with a proper margin.

Senator NELSON. Is that practice more general than the other practice of getting money simply on discounting notes?

Mr. INGLE. Oh, my dear Senator, I think my bank, if you will excuse the reference, to illustrate the point; we have loaned $5,000,000 to interior Southern banks, for instance. I do not believe we have under rediscount $300,000 worth of paper. I think the rest of the direct obligations of the banks, all with the pledge of collateral. We then have better protection, and when we want to make a loan we can say we will not lend a man $10,000 with only a 10 per cent margin of collateral; that he has got to give us 50 per cent margin, and so we will lend him $10,000 if he gives us $15,000 of paper. That permits some sliding scale and to reflect our judgment of his solvency.

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Senator NELSON. Under this system in the bill, you must remember that the member bank who seeks to discount must indorse the paper and be responsible?

Mr. INGLE. Exactly so.

Senator NELSON. So that in the one case you would have him held as an indorser, and in the other case you would have him held as the maker, with the notes as collateral.

Mr. INGLE. We take all these things upon the assumption that a bank may do a great many things.

Senator O'GORMAN. I move that the committee take a recess until half past 2 o'clock.

(Thereupon, at 1 o'clock and 5 minutes p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Ingle, will you proceed with your statement?

Mr. INGLE. I suggest that the law should contain some provision under which it would be impossible for any bank to assume liability of any nature, whether for deposits, notes, acceptances, or bills payable, beyond the amount of some agreed multiple of its own capital responsibility.

It is altogether gratuitous; but it has just occurred to me that it would be a wise provision, as every bank, in loaning its money to any customer always requires that that customer shall furnish it with, certainly, 10 per cent margin to protect it against possible loss. The margin may or may not be good. The security may or may not be good. But the bank always feels that it has that margin, either in the value of securities or in the value of a man's stock in trade, whatever it may be, to protect it; and it seems to me that anyone dealing with a bank has a right to demand that that bank shall furnish him with the same measure of protection, or some percentage of it, at least, as the bank itself requires at the hands of customers.

Senator NELSON. Suppose you limited it to capital and surplus?

Mr. INGLE. Well, I would just amend the percentage. I would say 10 per cent, 15 per cent, or 20 per cent of capital, or 8 per cent, 10 per cent, or 12 per cent of capital and surplus—whatever was thought desirable.

Again, section 17 provides machinery for what must become a most useful agency and one which in its workings must relieve business of an onerous tax now laid upon it.

That is the section which we discussed here a little ahead of its order. But I will repeat it for the purpose of making a consistent statement.

Obviously any objection to this section must be selfish in its nature. Banking is the solicitation of deposits to be protected by shareholders' capital, all to be loaned in proper directions at current rates of interest, and checks drawn against such deposits should be paid without discount. A bank makes more profit in interest for the time in which its customers' checks are outstanding in process of collection than the cost to such bank of furnishing exchange if indeed it is required upon occasion in making such exchange to ship currency. When a bank claims that the loss of its exchange charge,

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oftentimes $2.50 per thousand and even more, deprives it of its living it is furnishing the best argument that no bank is needed in its community.

Senator HITCHCOCK. Let me interrupt you there. I have seen something of small European towns where they have no banking facilities; and I think it is one of the very satisfactory conditions in the United States that almost every town, however small, has banking facilities; and I am disposed to ask you to demonstrate that a community, a small community of 2,000 or 3,000 people, would be better off without any banking facilities at all, provided a bank could not live wholly by the small loans it could make there?

Mr. INGLE. Well, I do not think any situation is justified, sir, when, in order to keep such a situation alive, a special tax is laid upon a community not attached to that situation. You know, in talking this way, Senator Hitchcock, I would not have you think that I desire to place myself in a position of antagonism to interior banks. Far from it. I have tried, in three or four directions here, to point out defects in the bill, in my judgment, in which the country banks are not fully served.

Senator HITCHCOCK. Let me take an illustration, so that we will have a concrete case. A town of 2,000 population with a small bank that has, say, a capital of $15,000—I do not know what would be the proportion.

Senator NELSON. It would not be less than $25,000.

Senator HITCHCOCK. Well, let us say $15,000. That bank furnishes a place where people can deposit funds; it furnishes a place where people can get exchange; it furnishes a place where those in need of money can borrow; and, as far as these loans are concerned, the bank is not able to loan enough money to operate profitably; and in order to eke out what it is not able to do through loans it makes a certain amount upon exchange in this way, by charging a discount upon checks.

Now, the result is that that community has a little bank, and if deprived of that opportunity to make that little profit upon checks, that community would be without that bank, and the money that would be saved there would be put in stockings, mattresses, and under carpets, and the people would have no facilities for doing business. Do you think that community would be better off under those conditions?

Mr. INGLE. Well, I do not know that that situation would justify taking up a contribution throughout the country to support a bank in that community.

Senator HITCHCOCK. Let me put this case to you: Suppose there were no bank there and there were collections against people in that town. They would have to be sent to a lawyer, and he would make a charge for them. Why not have a bank to make the collection?

Mr. INGLE. Very true. But you must remember that this law does not undertake to interfere with the daily operation of all of our banks in and out of town, in so far as it refers to the collection or handling of any business other than negotiable checks. We would still have our commerce of the country, as represented by bills of lading and shipment of cotton and grain, etc. That would still be handled through ordinary banking channels. This machinery pro-

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vided in this act has reference only at the moment to checks and not at all to drafts or notes or other evidences of indebtedness; so that a bank would not be handicapped at all in that way.

Senator HITCHCOCK. Perhaps I misunderstood you. I understood you to say that if a bank could not live in a community without making those charges upon checks that was complete evidence that no bank was needed in that community.

Mr. INGLE. I think that is a fair statement, sir.

Senator HITCHCOCK. Well, I will not interrupt you any further.

Mr. INGLE. Well, I would not like that statement to go out without a word of explanation, because it would leave me in a rather equivocal situation, possibly. Before the multiplication—or the extraordinary multiplication—of banks that this country has seen during the past 10 or 15 years it was altogether possible to very comfortably serve a community within a radius of 10 miles, let us say, of Raleigh, N. C., by one, two, or three banks in Raleigh. Everyone mailed their checks, as they are invited to do now, to the city banks for deposit. They took care of current business transactions in that way.

Suppose a merchant had a bill against a man outside of Raleigh. He would send him the bill to his post office. The man would send the merchant from his local post office, 5 miles away from Raleigh, his check on Raleigh; or, if he happened to be going into Raleigh on court day, he would get in a piece of exchange on some northern point, if you choose. His business was fairly well served.

Now, we have in all of these relatively very small places not one bank, very often, but two or more banks in small communities of anywhere from 500 to 1,500 people.

Now, one bank will start in such a community. It will make a success, in one way or another, by altogether legitimate business; do not misunderstand me. Suppose it has made such a great success, if you choose, that competition turns up. There will be another bank. In a little while you will find a third bank.

Then competition becomes very severe, and what is the next step? Those banks get together and they agree upon a tariff schedule for exchange charges.

Now, if they would make a tariff which would reflect the expense that those banks were put to in making that exchange, plus a fair fee for their clerical work, their postage, and such matters, no one would have any objection to urge, I imagine. But it unfortunately is the case that in very many and an increasing number of cases those two or three banks in those small communities will make some such agreement as this:

> We will unite and say that we will all make a charge of one-eighth or one-fourth of 1 per cent on all business reaching us.

And no matter to which bank is sent business on that community that bank in collecting those items would pay its neighbor the agreed rate of exchange. So that each bank gets its own exchange on its own customers' checks.

And there you have as arbitrary a trade-union as can be well conceived of. There is no escape from that. It is the abuse of that thing that is onerous.

Senator BRISTOW. Well, now, that is done by the merchants.

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Mr. INGLE. Pardon me, I do not understand.

Senator BRISTOW. The same plan is carried out by the merchants in that community frequently. There is not any other line of business in which the same processes are not in operation.

Mr. INGLE. Well, that does not justify it. Two wrongs are not supposed to make a right.

Senator BRISTOW. But why should we legislate to prevent the banks from charging this exchange, or against there being more than one bank in a town, any more than against there being more than one store?

Mr. INGLE. Because you are legislating on the subject of banks now. One of these days, possibly, you will legislate against dry-goods stores.

Senator BRISTOW. Would you limit the number of dry-goods stores in a small town?

Mr. INGLE. I do not know. You may get to that point. I am only suggesting that that is the reason—that you are now dealing with banking.

Senator BRISTOW. I am very much interested in this. Do you think we ought to prevent a bank from starting unless there is enough business there, according to your notion, to justify it?

Mr. INGLE. Not at all. I think a bank should start wherever it is practicable. I am a great believer in the virtue of individual initiative. But I believe if a man makes a mistake and starts a bank that can not succeed without having the rest of the country contributing to its support it is a very undesirable condition.

Senator BRISTOW. Please tell me how the rest of the country is contributing to its support?

Mr. INGLE. Well, on every exchange charge that is levied, sir, the man away from that community pays it.

Senator BRISTOW. Well, he may or he may not. Now, we will say that a merchant in that community has an account for a bill of goods in Baltimore, and this merchant sends a check to the wholesale house in Baltimore to pay his account.

Now, the wholesale house sells this man goods. He makes his own charge. The charge which he makes is sufficient so as to justify him in accepting a check in payment. He does not refuse it. He says, "That is all right. That is entirely satisfactory to me." The wholesaler deposits this check with his bank. The bank there in Baltimore says, 'This wholesaler's account is sufficient so that we are perfectly justified in handling this business for him without charging him anything for it. We are making money out of his account." If it did not make money out of it, it would turn him down; it ought to. It is optional with the bank whether it accepts the wholesaler's account or not. It is optional with the wholesaler whether he accepts the merchant's check or not. The wholesaler is glad to do it, and the bank is glad to do it.

Mr. INGLE. But the bank's enthusiasm is more or less modest and moderate.

Senator BRISTOW. But it does it of its own free will. There is no law compelling it to do so.

Mr. INGLE. Oh, no, sir.

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Senator BRISTOW. Then that check comes back. Now, the merchant pays enough for his goods in this transaction to take up these incidental expenses, or the price of the goods would go up so that he would pay enough. The community bears the burden. The country does not bear it.

Mr. INGLE. What is the difference between the community and the country?

Senator BRISTOW. Well, the difference between the community and the country is that the community is a part of the country, as I use the term.

Mr. INGLE. Oh, I beg your pardon.

Senator BRISTOW. Nobody else bears the burden of this except that community itself where the bank is located, and the bank is a part of the community.

Mr. INGLE. That particular community bears the burden of these transactions in that case. In another case another community would bear it. And, as I said, the country as a whole is levied upon in order that a bank in a community which would not otherwise support a bank may make its living.

Senator BRISTOW. Now, it seems to me that your argument is that instead of a little bank here with deposits of $50,000, as many of them have, and a capital of $10,000—that serves a very useful purpose, in my opinion, in the community, and is very beneficial not only to that community but to every other community that it touches, if it is run honestly—and we presume that they are——

Mr. INGLE (interposing). May I interrupt and ask you a question there?

Senator BRISTOW. Certainly.

Mr. INGLE. Where would you draw the line of capital responsibility in arguing for the multiplication of these small banks?

Senator BRISTOW. Just as many banks as the man wanted to put the money in to start.

Mr. INGLE. Well, let us take a bank of $10,000 capital. Would you say that that would be wise?

Senator BRISTOW. Certainly.

Mr. INGLE. Take a bank with $5,000 capital. Would that be wise?

Senator BRISTOW. Surely.

Mr. INGLE. Well, if there is no limit, then a bank with $1,000?

Senator BRISTOW. $1,000 is getting a little low.

Mr. INGLE. There must be some limit; there must be some margin which you would want there to protect business that would seek that bank. Now, there was a provision in the national banking act limiting the capital to not less than $25,000. In your view would that be proper?

Senator BRISTOW. Well, we will say $25,000. We will say that is a proper limit in a national bank. In the State banks they run down to $5,000. But say $25,000 for a national bank. Now, I believe that wherever there are men willing to put up the $25,000 and willing to go into the banking business they ought to have the opportunity to go in.

Mr. INGLE. Certainly. And wherever you will find enough men to start with a capital of $25,000, you will find enough men to deposit in that bank to make it self-supporting without "Passing the hat around."

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Senator BRISTOW. Nobody wants to "Pass the hat around." If there is no bank there, you send the business to a justice of the peace or some other officer.

Mr. INGLE. Excuse me, sir, I will have no account on that particular place. Checks are drawn only on places where there are banks.

Senator BRISTOW. But some other communities would have an account out there.

Mr. INGLE. I may have an account against a dry goods man or a country merchant at a crossroads store where there is no bank.

Senator BRISTOW. Yes.

Mr. INGLE. And if that is a good account, my statement to such a man will quite as effectively bring a remittance from him in the shape of some sort of a check as if he lived in a town where there were a dozen banks. If, on the contrary, he was not ready or willing to pay that account, I will have no more difficulty with him, practically speaking, because he lives in a country town, if I am obliged to send it to a lawyer. A lawyer would simply get in his automobile and go out there and serve a notice and hale him into court to defend his suit. That would make no difference.

Senator BRISTOW. If you send it to him by bill, if he has not an account at home, he has an account away from home?

Mr. INGLE. Five or ten miles away.

Senator BRISTOW. Five or ten miles away; and you would insist on him going there and letting that man collect the fee?

Mr. INGLE. Not at all "insist," Senator Bristow. I would only suggest that that would be a fairer proposition than levying a toll upon the country as a whole, as would be necessary otherwise to support that bank.

Senator BRISTOW. I can not understand how you would levy a contribution upon the country as a whole where the community that supports the bank pays the toll.

Mr. INGLE. I am speaking of this community one day and the next community the next day, and so on.

Senator BRISTOW. But it is another transaction then.

Mr. INGLE. And the country as a whole supports this proposition. I must be extremely poor on using language if I have not made myself clear.

Senator BRISTOW. I think I understand. To sum up, you are opposed to so many of these country banks being established?

Mr. INGLE. No, sir.

Senator HITCHCOCK. I got the impression that you think there are too many of these country banks and that they ought not to exist unless they are able to exist without making charges on their checks.

Mr. INGLE. If you will disassociate those two thoughts. As to country banks, I think the more there are the merrier. I am in hearty accord with the multiplication of country banks.

Senator HITCHCOCK. Let me quote you again. You said, in substance, that if a country bank could not exist without making charges on its checks and collections that was the best evidence that that community was not entitled to a bank.

Mr. INGLE. That is right; I think I can affirm that.

Senator HITCHCOCK. Well, I think we understand your position, then. Perhaps you had better go on with your statement.

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Mr. INGLE. As deposits of public funds are now placed there is little profit to the banks holding them. I am speaking of the normal deposits as they are usually distributed and not any special deposits for particular purposes.

The bill in requiring that such deposits be transferred to reserve banks will work no real injury beyond some momentary inconvenience. Here, again, the board, in naming an extravagant rate of interest to be paid on such deposits by Federal banks, could do member banks an injustice; but it must be assumed that no such intention is held.

In other words, the proposed law says that the Federal reserve board shall name the rate of interest to be paid by the Federal reserve banks on public deposits. That rate of interest paid is now 2 per cent. If, for instance, the Federal reserve board should say that the idea of profit to the Government, or for any other reason, for these Federal reserve banks shall pay to the Treasury Department 6 per cent on those deposits—and there is nothing in the law to prevent it—you can see that the Treasury would reap the benefit of a 6 per cent investment on its funds in the Federal reserve banks for distribution as dividends or otherwise. That is possibly a little far-fetched, but I just suggest it because there is no limitation.

Senator BRISTOW. Why should the Government receive money on its deposits any more than the banks receive money on their deposits?

Mr. INGLE. Because the Government—I do not say that it should. I am dealing with a condition not a theory. I am trying to justify the presence in the law of that special provision.

Senator HITCHCOCK. I want to remind the committee that it is 3 o'clock now, and that Senator Thomas has an appointment with the committee for half past 3. Are you likely to be through at half past 3, Mr. Ingle?

Mr. INGLE. I will be through at any time that the committee will be generous enough to dismiss me. The Government will contribute to the working capital of these Federal reserve banks some sum of money between $150,000,000 and $200,000,000.

Senator BRISTOW. That is not capital; that is deposits.

Mr. INGLE. I did not say it was capital. That money will be loaned by these Federal reserve banks at whatever rate is determined upon—4 per cent, 5 per cent, or 6 per cent. It seems fair to give the Treasury 2 per cent, or some fair rate of interest on that contribution—very generous contribution of capital—and a permanent contribution you might assume, as the member banks will, either in the dividends or in their share of the 40 per cent excess earnings to be divided in lieu of interest on deposits, receive a certain part of the money earned by the Treasury deposits.

Senator BRISTOW. Suppose the surplus earnings all go to the Government and the banks do not get any of it, then what?

Mr. INGLE. I would not like to express my opinion on that in this company. I think that would be very arbitrary and unfair.

Senator BRISTOW. That has been advocated by nearly every witness we have had here who represented a large bank.

Mr. INGLE. I am sorry; I am out of touch with that.

Senator BRISTOW. That the bank should not be a money-making institution, and that any profit over the 5 per cent or 6 per cent, which ever is allowed, ought to go to the Government as an evidence

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that the banks are not to make any money out of this regional reserve bank.

Mr. INGLE. Then, again, sir, it depends upon the shape that the law finally takes. I say if you have a 5 per cent dividend only, that is a very moderate contribution, with the interest the banks are all making. If you say 6 per cent dividend, it would be more attractive.

Senator NELSON. Suppose all the rest of the revenue went to form a sinking fund to take up the 2 per cent bonds?

Mr. INGLE. Well, Senator, I do not know that the banks would have much care as to what happened to the rest of that money, although it would be nice to feel that some definite provision was made for the redemption of these 2 per cent bonds at some time. I do not think the banks want the reserve banks to be a money-making institution. On the contrary, I do not think they should be, because they would be tempted to always charge more than was fair for rediscounts. But they ought to give such a return for the contribution made by the member banks as to make those member banks want to go in and not make them hesitate and go in simply because they feel they are obliged to.

Senator REED. Mr. Ingle, how much interest do you think, or upon what basis do you think the reserve bank should fix interest charges to member banks, either for funds or for money issued; I mean funds on hand or money issued?

Mr. INGLE. I am glad you asked me that question. I think that the Federal reserve bank should, in fixing its discount rate, have respect for the local interest rate permitted by law in the particular State or territory from which the application for funds shall come. In other words, I think that it would not be fair for the Federal reserve board to charge a bank in a State where 6 per cent was the legal limit of interest, to charge that bank 5 per cent, if you choose, for money; and on the same day charge only 5 per cent to a bank located in a State in which the legal rate of interest was 8 per cent.

I think that the rate fixed at any given day should be so adjusted, on a sliding scale, as, having 6 per cent for a normal rate, because it is the common rate, and 5 per cent as the rate quoted—that where you are dealing with, let us say, 8 per cent territory, you should charge banks for funds in that 8 per cent territory 5 per cent, plus one-third of 5 per cent. So that the money shall be gotten out on these terms from these Federal reserve banks; as otherwise you can see that there will always—if money is plentiful and the reserve board chooses to charge, say, 4 per cent discount rate, that rate probably would not tempt a bank in territory in which a 4½ per cent rate was then prevailing to borrow money, but it would very easily tempt a bank where loans were being made currently at 8 per cent; and it might be continuously borrowing and borrowing beyond the limit of safety.

Senator HITCHCOCK. If that was put into force, would not the effect be to lower the rate of interest from 8 per cent?

Mr. INGLE. Absolutely; and that is why I advocate it. You would find, before a great while, that instead of finding here 6 per cent territory and there 8 per cent territory, and 10 per cent contract rate, you would soon have a 5 and 6 per cent current rate all over the country.

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Senator HITCHCOCK. If the banks were able to borrow at 4½ per cent, they would not charge their customers 8 per cent, 9 per cent, or 10 per cent, would they?

Mr. INGLE. Were you ever a customer in such territory, Senator Hitchcock?

Senator HITCHCOCK. I have been for the last 30 years. I suppose there has not been a period in the last 30 years in which I have not been a customer in such territory.

Mr. INGLE. Well, I can only say——

Senator HITCHCOCK (interposing). My experience has been that, as the banks got easier in money interest rates fell in the community; and I feel that if the banks in the West were able to rediscount their paper on the same terms as in the East we in the West would be able to borrow money on as good terms as in the East.

Mr. INGLE. You would in Kansas City, St. Louis, Wichita, and cities with 100,000 or 200,000 people or more; yes. But where you get into the interior, into the country where they have smaller banks; where they are wanting more capital all the time, and will always need all they can get and take all they can get, you will find that those banks will look upon the difference between the rate they pay and the rate they can get, and the rate they do get, as profit. It is perfectly legitimate profit.

But we are constantly being quarreled with now, when we in tight times have charged an interior bank 6 per cent; we are reproached with the suggestion that in charging them 6 per cent we do not permit the borrowing bank to make any profit that is material—a mere 1 or 2 per cent on the transaction. So I suggest that as furnishing a means by which the interest rates throughout the country will be brought to a parity.

Senator HITCHCOCK. Well, has the Government any right, in establishing a great facility like this, where it is laying a burden upon all the banks substantially equal, in proportion to their size; has it any right to discriminate against the customers of one bank and in favor of the customers of another bank?

Mr. INGLE. Yes; because that is one of the strongest arguments used in advocating 12 regional banks rather than 1 big bank, because those 12 banks are assumed to be 12 banks in order that they may safely respond to the needs and wishes of their own community; they know what their community wants and when they want it; and it is not proposed in this law, if I understand it correctly, to always have a uniform rate of discount.

Senator HITCHCOCK. That is one of the big questions before this committee.

Mr. INGLE. And I thought that this law was so drawn, because it was suggested that this central board had power, in fixing rates, to discriminate, if you choose to use that word, among different sections of the country.

Senator HITCHCOCK. Well, there is going to be a very strong opposition to that doctrine. We think out West that it would be just as reasonable to compel us to pay more for our postage stamps than the people of the East as it would be to compel us to pay a higher rate of interest on the money we use than the people in the East.

Mr. INGLE. There is this broad difference, I suggest: In the new and undeveloped parts of the country there is no limit to the demand

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for capital—essentially so. Everybody in some of the new sections of the country is living as if they had only 30 days to live and after that the deluge. They want to do everything in the next three or four months. If they can get hold of that money in any way, they will get it, and they will at once spend it.

Senator HITCHCOCK. That is a very popular idea among people that have not been out West; but I assure you that we have banks which are just as conservative in their dealings and business men who are just as conservative in the West as there are in the East, and we feel that we are entitled to the same protection from the Government that the people in the East receive.

Mr. INGLE. What makes the difference in the interest rate between Idaho and New York is the demand. That does not mean, because of the difference in interest rate, that the banks in Idaho are not in the hands of people as thoroughly competent as those in New York.

Senator HITCHCOCK. I do not know what the difference in the interest rates between Idaho and New York is; but I know that we often have interest rates lower in Omaha than they are in New York.

Mr. INGLE. But Omaha is very close to the center, not of civilization, but of population—well, I want to withdraw that first suggestion. [Laughter.]

Senator NELSON. Call it the center of gravity.

Senator HITCHCOCK. Well, I will not interrupt you too much.

Senator SHAFROTH. Have you finished your prepared statement?

Mr. INGLE. Yes, sir; and I appreciate very much your consideration.

Senator WEEKS. I want to ask you two or three questions. If we pass a bill similar to the House bill, can you think of any good reason why a bank in Omaha, or Idaho—as you have used that illustration—having paper that conformed to the provisions in the bill, should not be able to get its accommodation on exactly the same terms as the bank in New York, or Boston, or Baltimore?

Mr. INGLE. The only reason I can think of—and that is the controlling reason—is this: That that bank in Idaho—I am speaking impersonally now, you understand, of course—that that bank in Idaho is using the facilities of a bank serving other portions of the country, is supposed to make out of those facilities more profit than the bank in the more thickly settled and more thoroughly financed sections of the country, if you choose to put it that way.

Senator WEEKS. Now, let me suggest this to you: Of course, Idaho is developing more rapidly than New York or New England.

Mr. INGLE. Exactly.

Senator WEEKS. And there is more opportunity for development there, and more money is needed for that development. But we are establishing a national system now; and a national system should be national in every respect, it seems to me; and I believe that if the rate for rediscounts were made the same for banks in every section of the country, it would take money from the older sections into the parts of the country which need to be developed, and would bring about that development very much quicker than if the present high rates of money are going to continue; that it would bring down the rate to every borrower in those sections.

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And it does seem to me that there is no economical or sound reason why, if we are establishing a national-banking system, the same rate of interest should not obtain in every section of the country.

Of course, that does not mean that private joint stock banks may not loan at a higher rate to their customers in Idaho than a similar bank does in New York. But the rate to the Idaho borrower is going to come down as a result of that policy; and the rate to the New York borrower probably will not increase.

Mr. INGLE. If that should prove to be true, sir, the result would be in line with the wishes of all of us, I am confident.

Senator WEEKS. Undoubtedly.

Mr. INGLE. We want to attain the situation in which the rate will be uniform the country over. After that has been done, then all banks alike will reap approximately the same profit from their membership in the Federal reserve banks.

Senator WEEKS. Well, I have not any doubt that that will be the result.

Now, let me ask you, were you in Boston at the convention the other day?

Mr. INGLE. Yes, sir.

Senator WEEKS. You testified this morning that you had bank deposits aggregating, perhaps, $7,000,000. Are they generally from the South?

Mr. INGLE. It is pretty hard for me to give you exact figures; but if you will permit me to approximate, I will do so. Bank deposits in any reserve city other than the central reserve cities are certainly of two, and possibly of more, kinds.

We first have reserve deposits proper. Speaking in a general way and as of Baltimore or any other secondary reserve city, those reserve deposits proper come from the territory immediately tributary to such city, from interior Maryland, northern Virginia, and lower Pennsylvania, if you choose, in the case of Baltimore. So it is with every city. Our bank will clear the miscellaneous business for that territory in connection with the reserve account, which is more or less generous in relation to the volume of country checks handled for such interior accounts. Now, another class of bank balances is made up of deposits from cities like Chicago, New York, Philadelphia, Cincinnati, or Pittsburgh, if you choose. Those are balances and they are very material balances. In fact, the balances, in the matter of figures, are very much larger than the reserve balances proper. But those balances simply represent a method of payment for services rendered in the collection of interior checks for account of all those banks in these larger cities. So I say that out of a $7,000,000 bank deposit line probably half of it is made up of reserve balances proper and the other half of balances from the reserve cities or central reserve cities of the country for which a direct service is performed.

Senator WEEKS. That answers my question. How many banks deposit with you?

Mr. INGLE. We have 800 out-of-town accounts.

Senator WEEKS. You are in fairly close touch with those banks?

Mr. INGLE. They are largely through the South.

Senator WEEKS. Have you talked with them about this legislation?

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Mr. INGLE. Only incidentally, sir. I have not had the opportunity, sir; only as they came in and out on their way down.

Senator WEEKS. Have you tried to influence them either in support of or opposition to this bill in any way?

Mr. INGLE. Absolutely no. I have written one letter, and that was in response to an invitation.

Senator WEEKS. Did you vote for the resolutions that were adopted by the Boston convention?

Mr. INGLE. The resolutions commending the proceedings in the Chicago conference?

Senator WEEKS. Yes.

Mr. INGLE. I did. I will tell you why, if you want me to pursue it further.

Senator WEEKS. I would be glad to have a brief explanation.

Mr. INGLE. I am one of those who think the bill is very largely good. I think, however, it has in it two or three features that are bad from my point of view. When you jumble them up and ask a vote for an entire proposition, in which is to be found imbedded two or three points which economically might appear to you to be radically wrong, you feel you are justified, shall I say, in protesting against the passage of that bill with those elements in it. There was no way provided by which we could separate the questions under discussion. We had to vote aye or nay on a particular offer—Do you or do you not approve the proceedings of the Chicago conference?—which covered, I think, 10 or 12 recommendations on matters of differing degrees of importance. So I think that was responsible for quite a fair number of votes aye.

Senator WEEKS. Do you know Mr. Scudder, of Richmond?

Mr. INGLE. Yes; I saw Mr. Scudder, and I saw him put up his right hand, the one lone man on the premises.

Senator WEEKS. Is he one of your correspondents?

Mr. INGLE. No. I say "No" hurriedly. Is his bank the Richmond Bank & Trust Co.?

Senator WEEKS. Yes.

Mr. INGLE. I think not, sir.

Senator WEEKS. Then you were not in sympathy with his position?

Mr. INGLE. As an abstract proposition, I think yes, because he took his position as a sort of protest, if you choose, against combining in a single vote the approval or disapproval of 10 or 20 different principles.

Senator WEEKS. Do you see anything in the financial situation which looks now like an emergency?

Mr. INGLE. No, sir; I do not.

Senator WEEKS. Do you approve of the course which is being followed to thoroughly thrash out all of the questions relating to this subject?

Mr. INGLE. Most heartily, sir. And I think the better you thrash it out, the more workable a bill you will get, and that is all the banks want.

Senator WEEKS. I think you have assisted us in doing that.

Mr. INGLE. You are very generous, sir.

Senator REED. Now, in a word, your position is this: You think the bill, in the main, has the elements of a good bill?

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Mr. INGLE. I do.

Senator REED. And you think it needs some changes in order to make it a better bill?

Mr. INGLE. I do.

Senator REED. And some of those changes you think are very vital and some you think are not so important?

Mr. INGLE. If you will permit me to repeat—the two vital things to which I object, as found in the bill, are, to me, the unnecessary going out of the way to make the Government guarantee the credit instrument, and, second, the placing in the bill of the words "lawful money," when referring to the redemption of the same credit instruments.

Senator NELSON. You believe they should be redeemed in gold?

Mr. INGLE. Well, I think it means no more to say gold under existing statutes. I think it a pity to have first said "gold," and then to put the "lawful money" afterwards.

Senator SHAFROTH. Don't you think that putting in the "lawful money" has a tendency to preserve the gold reserve and to preserve, consequently, the gold standard?

Mr. INGLE. I can follow the reasoning adopted by the chairman of this committee. I can understand that to make it a little difficult to get anything is to conserve your store of that particular thing.

Senator SHAFROTH. When it creates 12 distinct centers that will be bidding for gold against the Government, will it not require a great deal more gold to make those redemptions if you have a deposit of 33 per cent in each one of those reserve districts, instead of having the same thing in the General Treasury?

Mr. INGLE. Mr. Senator, I think I ought to say here I am getting on awful thin ice. I am an economist, sir, and I am principally a practical banking man, and I do not know anything about that end of it.

Senator SHAFROTH. Don't you know when money like this is redeemable in lawful money you can save a great deal in the quantity of the reserve? For instance, suppose I have a $1,000 bank note, United States note, redeemable in lawful money, and I go to a United States bank and say I want gold. The bank says, "No; I won't give you gold; we have not got the gold in the treasury; we will give you lawful money." I say, "All right." Then the bank says, "If there is going to be a run on the gold, I will just take that and lock it up." Then (suppose I am in Baltimore) I take that lawful money and I come to Washington, and I go to the Federal Treasury and present that and say, "I want $1,000 in gold." The Government says, "Certainly," and gives me the $1,000 in gold. Then the Government says, "If we are going to have a run on gold, we will lock that up." In that way for $1,000 in gold the Government has locked up $2,000 of money payable in gold, and that would have a tendency for the Government not to keep so large a gold reserve, would it not?

Mr. INGLE. As I see it, no. But, as I say, I may be very wrong in anything I suggest along this line. I say this: If we could feel away back in the heads of some of us that there was no idea to enlarge the interpretation of "lawful money" there could be no objection to employing that term. Our present lawful money, while it is safe and good, there is a limit to its value. That very injection of the words "lawful money" in a thing which first said "gold," which for

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one instant would indicate the want of gold dollars, would indicate to a man a kind of apprehensive measure, which would draw the attention of the country to it if there should be proposed some little law adding very largely to the volume of "lawful money." It would be a very troublesome thing to have in the law. Then there would be no gold at all; gold would hide quickly.

Senator SHAFROTH. Don't you think it has been a great advantage for national-bank notes to be redeemable in lawful money? If they had had to keep gold for the redemption of the national-bank notes, it would have required an enormous amount of gold. As it is, $150,000,000 in gold provides for the redemption of $346,000,000 of greenbacks, and $700,000,000 of national-bank notes. That is all the gold that is required. But if you make everything redeemable in gold, you have got to have $500,000,000 or $600,000,000 locked up in the Treasury or in these regional reserve banks.

Mr. INGLE. We do not care where it is, as long as it is there.

Senator SHAFROTH. You do not want to make it hard for the Government to maintain the gold reserve?

Mr. INGLE. No. I do not think the Government ought to guarantee the notes; I think the responsibility should rest with the banks.

Senator SHAFROTH. The people do not think the banks ought to have control of the gold reserve as much as the Government ought to.

Senator REED. Let me ask there: Is it not true the safer a currency system is, the easier it is to get gold; and the more unsafe it is, the more likely it is for the gold to run away and hide? Is not that the universal rule?

Mr. INGLE. Here again, Senator, you have got me, I am afraid. I am getting in very deep water on this economic question. I can not see it so. The point I wanted to draw out was that there was no necessity for getting the Government to occupy this situation as a guarantor. We are teaching our people, it seems to me, that there is something peculiar attached to the Government's credit that does not attach to the credit of any individual. That is not true, except in degree. A credit of the Government of the United States is not any better than your credit individually, I take it.

Senator REED. I wish I could convince the people that way.

Mr. INGLE. You can only tax to raise money; you can tax to a certain limit, and beyond that limit the people begin to get restless. Why, then, assume directly a responsibility for 1,000 millions of currency when that currency can be just as good and just as readily regulated in volume and character without that guaranty as with it? That is the only point I make against that, sir.

Senator REED. You do not understand my question I am sure. If you have a large currency resting upon a very small gold basis, is it not very much more likely there will be a discarding of that currency and a raid on the gold than there would be if there was a very large gold basis?

Mr. INGLE. Oh, yes; of course; and we have provided in this act for a 33 per cent basis. I think that is more than enough.

Senator SHAFROTH. But they also provided in the act of 1890 and of March 14, 1900, that there shall be a gold reserve, and the Government is obliged to maintain the parity of all forms of money.

Mr. INGLE. I believe that was put in there in absolutely good faith, and I only say it is a pity to inject that thing, whereas the Govern-

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ment could have a reserve by simply leaving the words "lawful money" out of the bill.

Senator SHAFROTH. But it would make an enormous burden on the Government to maintain the reserve in gold.

Mr. INGLE. I would not have the Government have anything to do with it. That is the point I make. The banks should have to maintain that gold.

Senator SHAFROTH. The bill is predicated on a different basis.

Mr. INGLE. Exactly.

Senator NELSON. Ought not the banks to supply the currency to maintain the gold?

Mr. INGLE. It should be their business to maintain it at any price, profit or loss.

Senator SHAFROTH. Do you think the law says those notes are redeemable by gold?

Mr. INGLE. The bank notes are.

Senator SHAFROTH. No; they are redeemable in gold or lawful money.

Mr. INGLE. The lawful money will bring the gold.

Senator SHAFROTH. And the same way under this bill, if you have the gold and lawful money, the lawful money would bring the gold and prevent a raid.

Mr. INGLE. Oh, yes. But if it stays where it is to-day it could do no possible harm.

Senator SHAFROTH. But if it stays where it is it would necessitate the Government maintaining a reserve of four or five times what it does now, would it not?

Mr. INGLE. Yes; but if the Congress shall enlarge the "lawful money" by including everything else we are really in bad shape.

Senator SHAFROTH. You can imagine difficulties; but there is the pledge of the Government against it enacted in this very bill.

Mr. INGLE. I have no selfish considerations to urge here, Senator; you can see they are not.

Senator WEEKS. Mr. Ingle, when a person is entitled to something and understands there is an attempt in some form to prevent his getting it, do you not think it is inclined to make him more anxious?

Mr. INGLE. Altogether anxious.

Senator SHAFROTH. Has there been any anxiety about cashing the national-bank notes?

Mr. INGLE. My recollection is, in the panic in the early nineties, when the people wanted to hoard currency, they went into a bank and, if it was possible for them to do so, they took gold; and in 1907, when they wanted to hoard currency, they went into a bank and took what was given to them, without any difficulty.

Senator SHAFROTH. The reason for that was there was a deficiency in the Treasury and money had to be borrowed under the excuse of maintaining the gold reserve, when, as a matter of fact, it was to maintain the expenses of the Government.

Senator NELSON. Here is another point I want to call attention to——

Senator HITCHCOCK (interposing). Gentlemen, the hour of 3.30 has arrived, at which time Senator Thomas was to appear before the committee. He has stated, however, he will give way to Mr. Bucholz, of the Omaha National Bank, who is compelled to leave,

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and Mr. Bucholz expects only to detain the committee about 15 minutes, unless the committee detains him longer. So, if that is agreeable to the committee, we will call Mr. Bucholz.

STATEMENT OF W. H. BUCHOLZ, VICE PRESIDENT OF THE OMAHA NATIONAL BANK, OF OMAHA, NEBR.

Senator HITCHCOCK. Mr. Bucholz, please state for the benefit of the committee your name and your banking connections.

Mr. BUCHOLZ. W. H. Bucholz, vice president of the Omaha National Bank, of Omaha.

Senator HITCHCOCK. How large is the Omaha National Bank?

Mr. BUCHOLZ. It has a million of dollars capital and surplus and profits of $800,000, and deposits of about 12½ millions of dollars.

Senator HITCHCOCK. What size is Omaho?

Mr. BUCHOLZ. Omaha proper has probably 125,000 people.

Senator HITCHCOCK. Do you prefer to make your statement in your own way, or shall I ask you some questions?

Mr. BUCHOLZ. I would be glad to have you ask me some questions, if I can answer them.

Senator HITCHCOCK. To what extent have you deposits of country banks?

Mr. BUCHOLZ. About between $5,000,000 and $6,000,000. It fluctuates between $5,000,000 and $6,000,000.

Senator HITCHCOCK. Can you give an estimate of the total country bank deposits in Omaha?

Mr. BUCHOLZ. Yes. Approximately $33,000,000.

Senator HITCHCOCK. $33,000,000 of country bank deposits in Omaha?

Mr. BUCHOLZ. Yes; Omaha and South Omaha.

Senator HITCHCOCK. And what do the total bank deposits of Omaha and South Omaha amount to?

Mr. BUCHOLZ. $55,000,000.

Senator POMERENE. You have more country bank deposits than you have local?

Mr. BUCHOLZ. Yes.

Senator HITCHCOCK. I think you had better proceed with your own views about this bill.

Mr. BUCHOLZ. My statement, gentlemen, will be very short. In justice to myself I should explain I had no opportunity to prepare a regular review of this bill. The request to come here and appear before you came to me at Boston, and that session was very busy there and I had little time to get down and analyze seriously this proposed currency bill as I should in order to appear before so important a body as that before whom I now stand.

It seems to us in the West that we owe so much to the independent banking system, which we have had there, for our development and progress that we can see no good in what seems to us an attempt to destroy the national banking system and substituting some other with the provisions for which we are not in entire accord. In Nebraska the sentiment is very strong against this new currency bill. I might say that in my own contact, through correspondence and personal interview with national banks of that State, I know of many

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of them who are preparing now to go out of the national banking system, if this bill becomes a law, and to join the State banking system, and that even in view of the fact that we have a guaranty law there to which we are upon principle opposed as national bankers. But we would rather take that medicine than engage in this system, which we think will do much to retard our development and our growth in Omaha proper. I might mention the Omaha National Bank as an example, because I have made figures on that. Our computation convinces us that we shall lose in our reserve balances something over $2,000,000—perhaps two million and a half.

Senator HITCHCOCK. Those are the balances with country banks?

Mr. BUCHOLZ. Yes, sir; with us.

Senator HITCHCOCK. What do you mean? That they will lose those balances?

Mr. BUCHOLZ. They will have to withdraw them when they come into the system to place them with the Federal reserve banks; and, of course, if we have to put up money for it, to get that money we will have to contract our loans.

Senator REED. Now, let me ask you a question: Suppose this system goes into effect and suppose the country banks withdraw their deposits from your banks. You, of course, would not like that. How are you going to help yourself on that by organizing a State bank? You will still be out those same deposits.

Mr. BUCHOLZ. We won't have to put up any reserve with the Federal reserve bank nor place 5 per cent of our deposits with the Federal reserve bank.

Senator REED. Don't they keep any reserve under the State law?

Mr. BUCHOLZ. Yes.

Senator REED. How much?

Mr. BUCHOLZ. The same as the national law.

Senator REED. Would you be, then, any better off?

Mr. BUCHOLZ. We would have control.

Senator REED. You do not have control of the reserves; you are obliged under the law to set aside, to segregate that amount and hold it as a reserve.

Mr. BUCHOLZ. Yes; I know. That reserve has been altogether too scattered, and we have only learned in recent years it is there for a purpose, and that purpose is to use in an emergency. We have been taught that by a bitter lesson.

Senator HITCHCOCK. How much capital would your bank have to contribute to the proposed system?

Mr. BUCHOLZ. $200,000.

Senator NELSON. And how much in the 5 per cent of deposits?

Mr. BUCHOLZ. Approximately between $600,000 and $700,000.

Senator NELSON. So you would have to contribute from $800,000 to $900,000?

Mr. BUCHOLZ. Yes; in addition to the loss of our deposits. Of course, we have our present reserves, and as to our own contribution to the reserve, it would not make any difference. We would have to draw that from Chicago, St. Louis, New York, and reserve centers.

Senator POMERENE. What are the actual reserves which you carry on an average?

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Mr. BUCHOLZ. With our own institution the real reserve will run 30 per cent, and the apparent reserve, made up of float and all that sort of thing, will very often go to 40 or 50 per cent.

Senator POMERENE. You mean real reserve, that which you carry in your own vaults?

Mr. BUCHOLZ. No; what I mean is actual money we carry in our own vaults and real money with our correspondents. It does not mean collection accounts, or anything of that kind.

Senator HITCHCOCK. Mr. Bucholz, the witness who preceded you stated it was his custom to permit his New York correspondent to charge to his account checks which came into his possession drawn by depositors of the Baltimore bank. Do you allow your New York correspondent to charge to your account a check which one of your customers draws on your bank which may fall into the hands of your New York correspondent?

Mr. BUCHOLZ. We do not.

Senator HITCHCOCK. Do you know what the custom generally is with banks?

Mr. BUCHOLZ. I heard the testimony of the gentleman who preceded me, and it is the first time I knew that was permitted.

Senator HITCHCOCK. You never knew of it being done before?

Mr. BUCHOLZ. No, sir. I would like to explain a little further as to that, that the gentleman referred to the fact that some banks carry two accounts, and they remitted weekly or semiweekly or twice a week, as the case might be. We do not do that way. These checks that come to us from our correspondent banks we send them a draft for them on the very day we receive them. We do not place them to anyone's credit, or carry them as a float to bolster up our figures, or anything of that kind, and I believe that is the practice—I know it is throughout the Mississippi country.

Senator HITCHCOCK. Do you see any danger in permitting a correspondent bank, or the proposed reserve bank, to charge against a member bank a check which had been drawn by an individual depositor on a member bank?

Mr. BUCHOLZ. I do. If the New York correspondent paid a check drawn on the Omaha National Bank they would pay that check with our own funds, with the funds of the Omaha National Bank, and send it to us. After having once paid the check we, of course, have no recourse so far as we are concerned whether the check is good or not, or whether it affords indorsement, or anything of that kind. The check is paid and the man has his money.

Senator POMERENE. In that event would your New York correspondent stamp it paid?

Mr. BUCHOLZ. I do not know as to that. But, in any event, if they paid it with our money, the check is paid, and all defense against it, if protested, would be shut off. That is one of the main reasons why that should not be permitted. Aside from that, we could not tell how much money we had with our New York correspondents.

Senator REED. Let me see if you are accurate about that. The Government establishes a Federal reserve bank. That bank is composed of a number of elements, some 600 or 700 national banks constituting its stockholders. It is a separate entity; it is a thing itself; it can sue and be sued. You are a stockholder only. You deposit with it $100,000, and a man, upon a false check, drawn upon the

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bank at Omaha, presented at that counter, receives $100,000. You say it has been paid out of your own money, and therefore you would have no recourse. I do not agree with you. That bank up there is just as separate from your bank as one corporation is from another, and if it paid a check that was a bad check it would be out, not you; I think you are mistaken about that.

Mr. BUCHOLZ. On that question were discussing the relations between the Omaha bank, for instance, and its New York correspondent. We were not discussing the proposed law.

Senator REED. If your Omaha correspondent puts money in there and it paid your money out, you would have recourse.

Mr. BUCHOLZ. The question is, would you if it had actually paid the money on checks?

Senator REED. Unquestionably.

Senator POMERENE. Every time a man would present a check to your New York bank, that is of itself a representation that it is a bona fide check.

Mr. BUCHOLZ. But that check is not payable in New York.

Senator POMERENE. If it should be, in the instance you speak of, and it would develop afterwards it was a forged check, you would have recourse on that bank.

Mr. BUCHOLZ. Perhaps so—in case of forgery.

Senator REED. And in the case of overdraft.

Mr. BUCHOLZ. Suppose a man in New York who held that check an innocent holder, and when it came back to us we found the bank had paid an absolutely bad check and charged it to the Omaha National Bank; I think they would have a good stand and it would have to stand paid if it was paid out of our funds.

Senator POMERENE. Even if there were no funds in your bank at the time the check was drawn?

Mr. BUCHOLZ. Yes.

Senator POMERENE. Oh, no.

Senator REED. The rule will not be different now, where one of your correspondents pays a check that ought not to have been paid; nor is the rule now different with reference to that correspondence than it is with reference to any other bank with which you have no funds. That bank pays it at its peril. The danger in this system lies in the Federal reserve bank cashing bad checks and itself losing the money.

Mr. BUCHOLZ. Well, according to my information and belief, and according to my recollection of court decisions, a bank check—a check drawn on a bank—is a vastly different thing than a bank draft drawn by one bank upon another. A check is payable at one place. It is an order from one man to another to go to that place to get the money.

Senator REED. That is true.

Mr. BUCHOLZ. And he has no business in going to any other place.

Senator REED. Therefore if a bank takes a chance of cashing it, it does so at its own peril.

Mr. BUCHOLZ. Exactly. But if you arrange, your correspondent may cash those checks and charge them to your account; that is a vastly different thing.

Senator REED. That is a different thing; you have a new element, a contract in which you authorize your correspondent to use your funds to cash that check.

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Mr. BUCHOLZ. Exactly.

Senator REED. In that case if it uses ordinary diligence, the same as the law imposes upon anybody except a bailee without hire, it would, of course, go acquitted.

Mr. BUCHOLZ. That was the question under discussion, if a New York correspondent paid your checks and charged them to your account.

Senator NELSON. If the practice which this banker from Baltimore stated did actually exist, the bank paying it would simply be the agent of the other bank, and it would bind its principal.

Mr. BUCHOLZ. That is exactly the point I was trying to make.

Senator REED. It was because they had authorized them.

Senator NELSON. Of course, a different rule would apply if it had no right to do that.

Senator BRISTOW. Senator Reed, that is the position the gentleman has taken from the beginning—that it would be unsafe to authorize the correspondent to charge to his account the checks when they were presented.

Senator NELSON. But that is the principle that is sought to be applied in this bill—to charge it.

Senator HITCHCOCK. For the present, Mr. Bucholz, the practice is that banks do not allow their reserve correspondents to charge to their accounts checks upon them which come in the regular course of business.

Mr. BUCHOLZ. Yes, sir; that is true with our correspondents, and true with those banks that deposit with us.

Senator HITCHCOCK. You started to say when you were interrupted something about the method you would take to raise the necessary money, to raise the contribution you are required to make to the capital stock of the reserve bank, and also to secure the money that will be necessary for you to have in order to transfer the country deposits that you now hold.

Mr. BUCHOLZ. I see no way except to get that money by calling in some of the loans and getting it that way.

Senator HITCHCOCK. Have you made any estimate at all as to the amount of loans that would be called, for instance, in the aggregate in Omaha?

Mr. BUCHOLZ. Yes, sir. Several of us were discussing that matter a short time ago—not with any plan to that effect, but it just came up—and we began to figure there, and it is between $8,000,000 and $10,000,000 out of Omaha.

Senator HITCHCOCK. You think the loans will have to be reduced?

Mr. BUCHOLZ. Yes; it will take that out of Omaha. Of course there is some excess reserve in Omaha now. Things are fairly easy there, and there are no signs of a shortage of money, and part of that would be made up from the excess money we now carry. It would not all have to be called, but I think it is safe to say that perhaps $5,000,000 at least, in that city, would be liquidated in the way of calling in bills receivable.

Senator HITCHCOCK. Do you think that same process would be necessary in St. Paul, Minneapolis, Kansas City, and other reserve cities?

Mr. BUCHOLZ. Most assuredly. I can figure it no other way.

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Senator REED. If that was done, what would be the effect on business?

Mr. BUCHOLZ. It would be bad.

Senator REED. What is your suggestion as to the remedy?

Mr. BUCHOLZ. My suggestion is that the Federal reserve banks do not have any capital stock. I can see no reason why the banks should contribute to the Federal stock. What is proposed to do with this stock of the Federal reserve bank? Why should you have one? That is one thing.

Senator REED. Of course the richer those banks are the more money they have in a time of stress to advance. That is one thing.

Mr. BUCHOLZ. True enough; but if you have impoverished the other banking institutions in the meanwhile, you bring on the necessity for calling on the Federal reserve bank very much sooner; that is all.

Senator POMERENE. You have already in your vaults, I take it, a good many securities that do not pay you more than 5 per cent a year?

Mr. BUCHOLZ. Not a great many. We have some. We have some bonds.

Senator POMERENE. You, I believe, have $1,000,000 capital stock?

Mr. BUCHOLZ. Yes.

Senator POMERENE. And this would require $200,000. Of course, you do not take that out of your capital stock?

Mr. BUCHOLZ. You pay for that out of your deposits.

Senator POMERENE. And you, as a rule, have a very substantial sum, at least, invested in securities in the shape of bonds, etc., that do not pay more than 5 per cent?

Mr. BUCHOLZ. True; but we carry those because they are convertible if needed.

Senator POMERENE. Now you can go to a bank and rediscount?

Mr. BUCHOLZ. Yes.

Senator POMERENE. And you can do it under the present system; that is true?

Mr. BUCHOLZ. Under the new system, it strikes me, we shall become sort of note brokers and commission merchants, and take money at one rate.

Senator HITCHCOCK. Does your bank frequently rediscount paper now?

Mr. BUCHOLZ. For ourself?

Senator HITCHCOCK. Yes.

Mr. BUCHOLZ. Not at all.

Senator HITCHCOCK. You do not rediscount?

Mr. BUCHOLZ. No, sir.

Senator HITCHCOCK. You do not borrow of other banks?

Mr. BUCHOLZ. No, sir; we have not done so for years.

Senator HITCHCOCK. Is that generally true of any other banks of Omaha?

Mr. BUCHOLZ. I think so. Four or five of the larger banks there have not borrowed any money for quite a number of years—not since 1907, at least.

Senator REED. You really think most of the banks in Nebraska would go out of the banking system?

Mr. BUCHOLZ. If the bill passed in the present form, I am certain of it.

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Senator REED. What have we got to do to keep you from going away and leaving us?

Mr. BUCHOLZ. By making it attractive to come in.

Senator REED. How? What is your suggestion?

Mr. BUCHOLZ. In the first place, making it so attractive it won't be considered as compulsory. A man does not like to be forced to do a thing.

Senator REED. You say, "make it so attractive." Of course, a man might say to an ill-favored youth to make himself so attractive that the ladies would all like him. But that would not help out much unless you could give him a recipe. I wish you would tell us how to make it attractive. In all seriousness, what is necessary to make it so that the banks will want to come in?

Mr. BUCHOLZ. It all depends upon what you have in mind as to the purpose of the bill.

Senator REED. What must be done to the bill so as to make you feel you will be justified in coming in, having in consideration, of course, that the bill will have to be just to all other interests in the country?

Mr. BUCHOLZ. Well, it must be workable in all its features. I think there are some——

Senator HITCHCOCK (interposing). Specify. You indicated one objection, that you thought you ought not to be required to subscribe to the capital stock.

Mr. BUCHOLZ. Yes.

Senator HITCHCOCK. Is there anything else?

Mr. BUCHOLZ. I think if the Government receives interest on its Government deposit with that Federal reserve bank the bank should receive interest on its bonds with the Federal reserve bank. That is another point.

And then the main point is that some provision should be made to take up the 2 per cent bonds.

Senator REED. We are talking about what is necessary to do to get you in.

Mr. BUCHOLZ. That is one of the things.

Senator REED. Of course if the Government is going to repudiate its 2 per cent bonds, they can do it just as well with you out as with you in. That, it seems to me, is a sort of side proposition. Not that I am intimating that I am in favor of any such proposition, and I think I can speak for this committee and say that this committee does not propose to try to do anything like that here.

What have you got in the way of Government bonds?

Mr. BUCHOLZ. $1,000,000.

Senator REED. And you have your circulation on that?

Mr. BUCHOLZ. Yes, sir.

Senator REED. You buy these bonds and have the circulation privilege?

Mr. BUCHOLZ. Yes, sir.

Senator REED. If you are allowed to continue a circulation privilege, you do not want to keep your bonds?

Mr. BUCHOLZ. No, sir. If we are going to have a new system, I would like to start new.

Senator REED. Suppose we do have a new system which provides that there can be other money issued, and yet suppose, as a part of

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that system, we were to maintain substantially the present system and build upon it, allowing the national-bank notes to still continue to exist, issuing to them as we do now. Do you think that we ought, under those circumstances, compel you all to surrender your bonds?

Mr. BUCHOLZ. That would be an entirely different matter.

Senator REED. That is what I am speaking about.

Mr. BUCHOLZ. If you build upon the present system and extend its usefulness and ability to serve the public, certainly I should be glad to continue under it and retain the bonds.

Senator REED. All that it is proposed to do, with the exception of the provision for the retirement of one-twentieth of the national-bank notes each year, is to provide a system by which the bank can get additional currency, which is supposed to be obtained only for a short time, on paper that liquidates itself. That, of course, would not impair the value of your national-bank circulation?

Mr. BUCHOLZ. No; except that the redemption is not in cash, but that is in 3 per cent bonds.

Senator REED. I am talking about leaving out the 3 per cent bonds. You mean the 5 per cent from year to year?

Mr. BUCHOLZ. Yes.

Senator REED. And let you go along as you are now, you would be satisfied, as far as your bonds were concerned. We have about $700,000,000 of bonds at about $700,000,000 of circulation.

Now, if we provide that these bonds, when they are redeemed, 5 per cent of them each year, that the Government should take them at par——

Mr. BUCHOLZ (interposing). And pay cash?

Senator REED. And pay cash. That would——

Mr. BUCHOLZ (interposing). That would overcome my objection; yes, sir.

Senator REED. That would overcome your objection?

Mr. BUCHOLZ. Yes, sir.

Senator REED. There is nothing insurmountable in all that?

Mr. BUCHOLZ. Not that I see.

Senator HITCHCOCK. Have you any 2 per cent bonds to secure deposits?

Mr. BUCHOLZ. No, sir. We have threes to secure deposits, if I am not mistaken. I think the United States deposits are covered by 3 per cent bonds.

There is just one more point I wish to discuss, and then I am through. That refers especially to the country banks in Nebraska. That relationship has been built up from early times. For instance, 31 years ago I was a country banker and so remained for 20 years, and I lived in a small town, grew along with it, brought together the local capital that could be obtained, and borrowed from the outside all we could, so that that meant building up a town and a community. It is an agricultural community. It has been very prosperous. If the people have surplus money, the banks will reflect that condition. The paper that is made there, to a large extent, consists, for instance, of paper given by cattle feeders—steers to be put in a feeding lot and fed—which will take perhaps four or five or six months to mature. That is a very important part of Nebraska's industry, and such paper as that would not be eligible under this proposed law.

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Senator POMERENE. Take the average country banker, such as you have out in your agricultural communities. What portion of their loans would you say were made each month?

Mr. BUCHOLZ. New loans?

Senator POMERENE. Yes; new loans.

Mr. BUCHOLZ. Well, a very small per cent at certain seasons, and a very large per cent at other seasons.

Senator POMERENE. Can you give us any estimates?

Mr. BUCHOLZ. Probably 80 per cent of the loans in the country bank, normally, are made in the fall of the year.

Senator POMERENE. During what months of the year?

Mr. BUCHOLZ. From September to January.

Senator POMERENE. That is four months.

Mr. BUCHOLZ. Yes; and they run over until the spring months.

Senator POMERENE. Yes; I understand. You say 80 per cent of the loans are made in four months. What portion of that 80 per cent is made in each of those four months?

Mr. BUCHOLZ. I am not able to say.

Senator POMERENE. Of course, it would be distributed along during all of that time?

Mr. BUCHOLZ. Yes.

Senator POMERENE. That would be gradually maturing?

Mr. BUCHOLZ. It would, depending a good deal on conditions. Some years a farmer will hold his wheat and will not sell it in August; he will sell it perhaps in December, and he may hold it until March, and borrow the money to hold the wheat.

Senator POMERENE. All of which would seem to indicate to me, at least, that the notes held by the bank were constantly maturing.

Mr. BUCHOLZ. Certainly, but they are renewed. They renew them; they are not paid.

Senator POMERENE. Very well. There would not be any time during the year, would there, when the bank would not have a considerable amount of paper that was maturing in from 90 to 120 days?

Mr. BUCHOLZ. Yes; it would mature right along, but the country banker knows to a certainty he can get that money at that time.

Senator POMERENE. That paper then could be used for discount purposes, or rediscount purposes under the provisions of this bill?

Senator HITCHCOCK. I think not, Senator Pomerene. The definition of commercial paper is paper which grows out of the commercial transaction. It liquidates automatically. This paper which Mr. Bucholz refers to does not liquidate.

Senator POMERENE. I had in mind that there might be some possible change in the definition of commercial paper here. I was addressing my questions rather to the fact that your paper was maturing from month to month.

Mr. BUCHOLZ. In my own bank, for instance, our paper is paid off at the rate of $1,000,000 a month. That has been the record for three years; that amount actually paid, and we would take care of ourselves very nicely under this provision.

Senator POMERENE. I would like to ask you another question. Have you figured out the advantages and disadvantages of the proposed measure, as compared with the present system, so far as they relate to your own bank?

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Mr. BUCHOLZ. Yes.

Senator POMERENE. Have you those figures with you?

Mr. BUCHOLZ. No; I left them at home.

Senator POMERENE. I would be very much pleased to have you furnish them, and have them incorporated in your testimony.

Mr. BUCHOLZ I would be very pleased to do that. Unless you have some other questions, gentlemen, that is all I have to say.

Senator BRISTOW. I would like to inquire what defects do you think we have in our present system that ought to be remedied?

Mr. BUCHOLZ. Well, on the whole, I think we have a very good system. We have a system where the circulation of the banks that passes as money. No one questions it, and has never questioned it, to my knowledge. The only possible criticism I can think of would be that at certain periods, either by unusual business expansion or overspeculation we find a rigidity in the volume of money we have to use, and of course my own idea would be to follow out the natural consequences of an expansion of the national banking system to the extent of having a central credit reservoir where temporary additional money might be obtained.

Senator BRISTOW. What you would like, as I understand it, would be to have some provision made whereby you could get additional currency when it is needed?

Mr. BUCHOLZ. Yes.

Senator BRISTOW. On the assets of your bank?

Mr. BUCHOLZ. Yes.

Senator BRISTOW. And then when it was not needed that would normally retire?

Mr. BUCHOLZ. I would fix it so that the retirement——

Senator BRISTOW (interposing). And you think it would be much better for the business of your part of the country if a provision of that kind could be made without breaking up the present banking provisions that have grown up in the past half century?

Mr. BUCHOLZ. You have explained my idea exactly, I think.

Senator BRISTOW. Suppose that a provision was made so that your bank could go to the subtreasury, that a subtreasury should be located at Omaha—I believe you have no subtreasury there now—suppose a subtreasury was established there and during these periods of stress you could take the assets of your bank there and upon your own credit, hypothecating your assets, get the credit you needed by paying a certain tax on it while it was used, and when it was through this would come back into your bank and be retired and your assets would be returned to you. Would that relieve you of the embarrassment you have now?

Mr. BUCHOLZ. Yes; I think so; and if you extended the present central reserve cities to five instead of three and confine the privilege to just the central reserve cities under certain restrictions it would accomplish the purpose, in my judgment.

Senator BRISTOW. Suppose we had just one regional bank and we had a Federal bank which received the Government deposits and which would be a bank of issue and discount and that bank would have branches located in the various commercial centers of the country and you could go to your branch of that bank and get currency upon your assets?

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Mr. BUCHOLZ. I do not like that idea so well. Perhaps that is due to some prejudice I have had for years against the Government engaging in the banking business. My belief is that the Government should pass the laws, provide what kind of banking business should be done, and let individuals do the banking business under proper regulations.

Senator BRISTOW. But the Government then would be running only 1 bank instead of 12. The Government now is establishing 12 banks and is going to run 12 banks.

Mr. BUCHOLZ. I think the fewer it runs the better it will be for the country.

Senator BRISTOW. If this board created here or this board in Washington has 12 banks scattered all over the United States at long distances—suppose we had one bank here in Washington which they managed and which performed all the functions that these 12 would perform, and that was done without requiring the banks to put up any capital stock, and any bank that kept its reserve there could get relief whenever it wanted it, as I have stated, do you not think that would simplify this very much?

Mr. BUCHOLZ. I do. That is in line with the expansion of our present system, with some additional safeguards.

Senator BRISTOW. And you think that strengthening the present system takes care of this apparent defect?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. We have had quite a discussion here in the last few days in regard to these country checks. The gentlemen who preceded you, and one or two gentlemen who were here yesterday, are anxious to have the check system discredited, to a certain extent, in order to reduce the number of the checks. You say you have been a country banker and now you are a reserve banker?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. Let us have your opinion about the method of banking by country checks, of refusing to give the customers of country banks the use of country checks. What do you think the general effect is on the business of the country in a case of that kind?

Mr. BUCHOLZ. I think the general effect is very good.

Senator NELSON. You mean the general effect of having a lot of checks afloat?

Mr. BUCHOLZ. Of using checks——

Senator NELSON (interposing). Instead of drafts?

Mr. BUCHOLZ. Yes. That practically amounts to the same thing, checks or drafts, because it is not always convenient to get a draft.

Senator REED. I want to ask this witness one more question. Take the banks in your town; is the amount of their capital stock any real index to the size of the bank?

Senator NELSON. You mean the volume of business they do?

Senator REED. Yes; the volume of business they do, and the profits they make.

Senator NELSON. Any real or certain index?

Mr. BUCHOLZ. Yes; I believe the capital and surplus would be.

Senator REED. The capital and surplus?

Mr. BUCHOLZ. Yes, sir.

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Senator REED. You frequently find a bank, do you not, with a small capital and a large surplus, which is really a bigger bank and makes more money and handles more business than another bank with a larger capital and without a surplus.

Mr. BUCHOLZ. That is quite true.

Senator REED. Now, if the capital stock of this central bank is to be contributed by the banks, should it not be based upon capital and surplus, instead of upon capital alone?

Mr. BUCHOLZ. I think it would be very unjust to base a contribution of capital merely on the capital of the bank contributing.

Senator BRISTOW. I think this matter of country checks is a very important matter, and you seem peculiarly fitted to discuss it. Now, if you will, tell us in what way it has been a good thing for the country and for the banking business as a whole?

Mr. BUCHOLZ. When I was a country banker, I would tell the farmers, when they came in to buy some goods, that they ought to leave their money at the bank, deposit it in the bank, take a check book and pay their bills in that way.

Senator BRISTOW. With checks?

Mr. BUCHOLZ. With checks. That is about the only thing that appealed to the farmer. He did not have to carry the money in his pocket and take a certificate and come to the bank every time he wanted a little money. That has been generally done throughout the agricultural West. That is a part of the development of that country.

Senator NELSON. But you overlook the point we are after. This inquiry does not cover that kind of check. That is the other class of checks. For instance, the merchant in Nebraska, in an interior town, goes to Chicago and buys a bill of goods there, and instead of remitting to the wholesale merchant in Chicago by draft he sends his check on his local bank, and that is the kind of check we refer to.

Mr. BUCHOLZ. Of course, the ideal condition is for a merchant to go to his bank and buy a bill of exchange payable at the place where he owes the money. But we do not come to that. We do not approach the ideal condition. For instance, in Omaha some of our large accounts are 10 blocks away from us. They do not want to come to the bank and buy a draft. They make out a check and send it away.

Senator NELSON. When that check comes back what do you do with it? Do you charge for remitting that money?

Mr. BUCHOLZ. Yes; we make a charge of one-tenth.

Senator NELSON. A merchant in Chicago has a check from one of your Omaha merchants upon your bank, the Chicago bank sends it to you, and you charge for that?

Mr. BUCHOLZ. Yes; we do.

Senator NELSON. And does that charge come out of—it comes out of the bank that sends it to you, primarily?

Mr. BUCHOLZ. Primarily, and sometimes ultimately; sometimes they absorb that exchange.

Senator BRISTOW. That is their business; that is not the Government's business.

Mr. BUCHOLZ. Not a bit.

Senator BRISTOW. Not any more than to fix a law which would fix a limit as to the time for giving a cash discount, if payment is made in 10 days?

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Mr. BUCHOLZ. It has not a thing to do with a Government regulation.

Senator BRISTOW. The Government has not a thing to do with it.

Mr. BUCHOLZ. This exchange charge ultimately comes out of the man who owes the money. It comes out of him ultimately, anyway, and it ought to.

Senator BRISTOW. My office is across the hall in this building. I may owe somebody in New York. He may have on his letterhead "Country checks not received," but I do not want to go down town and buy a draft, and so I write a check and let him turn it down—it is not convenient for me to go down town—and if he does not want to do that he may send it back.

Mr. BUCHOLZ. Certainly; that is a matter between you.

Senator BRISTOW. If we should undertake to make it impossible for me to write that check we would interfere with a development which has accommodated itself to the convenience of the entire business public of the United States?

Mr. BUCHOLZ. So much so that 92 per cent of it is done that way.

Senator NELSON. Go a step farther in that direction. This bill proposed in its original form to have the regional banks clear those checks as a clearing house; that is, those checks would be taken there and deposited, coming from a member bank. They are to be deposited in the regional bank and credited as cash and immediately charged up to the member bank. What have you to say about that?

Mr. BUCHOLZ. The effect of that is to penalize the members of the Federal reserve bank and put them in competition with other banks.

Senator NELSON. The effect of it is to deprive you of your exchange fee?

Mr. BUCHOLZ. Exactly; and it also puts a penalty on our belonging to the Federal reserve bank.

Senator BRISTOW. That is, if you did not find it convenient to permit your customers to pay these accounts by check on your bank the tendency would be for them to do business with a bank that would permit them to do business in that way?

Mr. BUCHOLZ. Exactly.

Senator NELSON. Suppose a merchant at Fairbury, in your State, wants to buy a bill of goods in Omaha; he issues a check on his local bank at Fairbury and sends it to the merchant in Omaha. The merchant deposits it with you. How do you collect that?

Mr. BUCHOLZ. Our practice is to collect direct.

Senator NELSON. Do you charge it to the bank in the first instance?

Mr. BUCHOLZ. No, sir; we do not.

Senator NELSON. You collect it direct?

Mr. BUCHOLZ. Yes, sir.

Senator NELSON. In what way?

Mr. BUCHOLZ. We have a transit account that runs from $800,000 to $1,200,000. We charge it to the transit account, and we send it to the bank direct, and the banks remits in Omaha exchange, and we credit it to the transit account, and thus the transaction is closed.

Senator NELSON. That is, less the exchange?

Mr. BUCHOLZ. Yes, sir; and we charge back the exchange to the man who deposits the check. We do not absorb the exchange.

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Senator NELSON. And the local banker at Fairbury gets that exchange fee?

Mr. BUCHOLZ. Yes, sir.

Senator NELSON. And it comes out of the merchant who has deposited it with you?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. You do not absorb that charge?

Mr. BUCHOLZ. No.

Senator BRISTOW. Many banks do?

Mr. BUCHOLZ. Yes; but we do not.

Senator NELSON. Do you charge even where your customer has a good account with you?

Mr. BUCHOLZ. Absolutely.

Senator NELSON. You charge in every case?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. In my little town in Kansas they never charge, none of the banks.

Senator NELSON. What profits do you get out of that kind of business?

Mr. BUCHOLZ. It is a loss to us, as a reserve bank for other bankers.

Senator NELSON. In what way is it a loss, if you charge up the fee to the merchant?

Mr. BUCHOLZ. We are obliged—we give him credit for that, and he has a balance to check against up to a certain day, and we are out the use of the money.

Senator NELSON. Do you give that merchant the credit on the check before you collect it?

Mr. BUCHOLZ. Yes, sir.

Senator NELSON. Immediately?

Mr. BUCHOLZ. Immediately, when he brings it in.

Senator NELSON. And you are out the use of it until you get the money?

Mr. BUCHOLZ. Yes, sir; the postage and the work and labor in sending it out.

Senator NELSON. The only man who makes a profit out of that is the little banker on which the check is issued?

Mr. BUCHOLZ. He is the man who gets the profit.

Senator NELSON. He gets the profit?

Mr. BUCHOLZ. Yes, sir.

Senator HITCHCOCK. If that is all, Mr. Bucholz, we will excuse you, and we are obliged to you for appearing before us.

We will hear Senator Thomas now.

STATEMENT OF HON. CHARLES S. THOMAS, A UNITED STATES SENATOR FROM THE STATE OF COLORADO.

Senator THOMAS. Gentlemen, I want to call the attention of the committee as briefly as I can to a phase of the currency problem that I do not believe has received much consideration so far, but which seems to me to be one of sufficient importance to justify me inflicting myself upon your consideration for a few minutes.

I have reference to the matter of the United States bonds drawing interest, not only those which form the basis of bank circulation, but

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all interest-bearing bonds and the manner in which they should be disposed of in connection with the general scheme of currency legislation.

I think I may safely assume at the outset that the payment of the interest-bearing national debt is very remote, and that is true not only of our own but of all the nations of the world. We are not making any provision for it to speak of, and we are living up to our income. And the consequence, the bonded debt of the Government is, for all purposes of currency legislation, at least a permanent condition.

Now, one of the most serious objections or criticisms that I have heard relating to the Glass bill is based upon the effect of that bill on the values of Government bonds held by the bankers and used by them to secure circulation, and the loss which they must sustain in the event that provision is destroyed and a different system of currency is adopted without reference to the bonds themselves.

It is true that in 1900, by the act of March 14 of that year, the Government paid the banks the difference between their face value and their premiums, up to a certain amount—I forget just now what—when that bill was amended, and certain changes made in the national banking act. And it is equally true that now the Government does not want and will not inflict any loss upon the banking fraternity. At the same time there is, in my judgment, a very deep objection, a popular one, to the substitution of a 2 per cent for a 3 per cent bond. Whatever may be said concerning it, the fact remains that it does increase the rate of interest upon a majority of the bonds of the country. And while there may be compensating advantages, the average man knows that if he exchanges a 2 per cent note for a 3 per cent note he is paying more interest than he was before. I confess that is an argument which appeals to me with a great deal of force, and is aimed at a condition which, if it can be avoided, ought to be avoided. A good deal of criticism against this bill, too, has been aimed at the possible effect it will have, the probable effect, as a great many believe, and the way of contracting the currency, and necessitating the resort to a reduction of loans, of discounts, for the purpose of securing sufficient money to meet the requirements of this measure, and particularly with reference to the matter of reserves. Now, if those objections can be met by introducing in this bill an amendment which will take care of the bonds, which will not affect, principally at least, the reduction of the currency, and which at the same time will keep the bonds at par and reduce the interest upon them, that is certainly something that ought to adjust itself at least to the serious consideration of this committee.

Senator NELSON. You do not mean reduce the interest on the 2 per cent bonds?

Senator THOMAS. Yes; I mean precisely that.

Senator NELSON. Reduce the interest on the 2 per cent bonds?

Senator THOMAS. Yes; even to reduce the interest on 2 per cent bonds.

These preliminary remarks lead up to the proposition of providing for an interconvertible bond, which in the hands of any one bank or citizen or business corporation may be exchanged and reexchanged at any time at the pleasure of the holder for bond certificates or

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Treasury notes, and which at the same time would enable the bonds themselves to be used for the reserves required to be kept by the banks.

Now, I am not going to advocate——

Senator HITCHCOCK (interposing). You mean the bonds to be kept as reserves?

Senator THOMAS. Giving the bonds the——

Senator HITCHCOCK (interposing). The power of gold?

Senator THOMAS. The power of gold, so far as the reserves of the national banks are concerned. I think that irrespective of any particular opinion concerning the wisdom or unwisdom——

Senator POMERENE (interposing). Do you mean the new bonds we are to issue instead of the twos?

Senator THOMAS. Yes; and any new bonds that are proposed to be issued in place, not only of the twos, but of all other outstanding bonds. I am coming to that later on.

Senator HITCHCOCK. You would have them payable on demand?

Senator THOMAS. Yes. I have to say before unfolding the scheme, that while I have always been a believer, as long as you are going to have a bond currency, in extending the right to issue currency upon bonds to all individuals or corporations owning such bonds, and while I believe, and I think popular opinion justifies it, that the most popular currency we ever had in this country are the greenbacks issued by the Government without the interposition of any other agency whatever, and it has manifested itself by the impossibility of this retirement, although nearly 50 years have elapsed since the close of the war.

There is something in a currency which issues directly from the Government. That brings me to another objection that I have heard, and about which a good many of my constituents have written me, and which you have at least heard by way of criticism of the proposed currency system in this bill, and that is it is confined to the banks and is not general in its character. In other words, the bill proposes to and does lend the credit of the people to the people's creditors, instead of lending their credit impartially, both to those who are in and those who are out of the banking system.

This plan of this proposed change, which, as I say, has already appealed to me, was called to my attention very early in the session of this Congress by a pamphlet upon the subject, written by Mr. William A. Amberg, of the city of Chicago, which includes a proposition of Hugh Hanna, who, a great many of you gentlemen will remember, was the chairman of the National Monetary Conference at Indianapolis in 1900. As a result of my reading this proposed amendment of Mr. Amberg's and by rereading of it and digesting of it, I wrote him and asked him to prepare an amendment to the pending bill embodying his views in proper legislative form, and also giving the various things which, in his judgment, would accomplish, together with the method of its accomplishment. He has done this so well and so completely, in my judgment, that I think I am justified in taking my time and yours in referring to that rather than by attempting to explain it all.

Senator NELSON. Is it very long?

Senator THOMAS. It is not very long.

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Senator NELSON. I do not think there would be any objection to reading it.

Senator THOMAS. I am going to read it. It is not as long as it appears, because it contains the proposed amendment which I shall not at present read. Mr. Amberg says that he proposed the original pamphlet in response to a general invitation for communications to be prepared and presented concerning the general subject of monetary legislation, and in response to this invitation he published last May a pamphlet entitled "Outline of a Plan for Funding the National Debt and for Maintaining an Elastic Reserve Currency," which attracted some attention because of its novel treatment of the subject and for the advantages insured by its adoption, which he states to be the following:

The saving of millions of dollars in interest.
The means of determining at regular intervals a proper interest rate on bonds.
An equivalent to the Government of the profit on the circulation privilege in the form of a low interest on its bonds.
Taking the Government out of the banking business.
Independent of syndicates in the citation of its funds.
An automatic sinking fund.
The maintenance of the gold standard.

I may say that that does not appeal to me at all. It is a matter of total indifference to me whether the gold standard is maintained or not. Other advantages which he states are:

The simplicity of the system; the freedom of competition in regard to Government bond issues; the ultimate increase within certain limits of available money; its adaptability to expansion in the event of war; the means of accelerating or retarding the process of funding to the best advantage; and introduction of a short-term gold bond, bearing a low competitive rate of interest, which is made available for money reserves for banks because exchangeable in that emergency for correlated legal-tender bond certificates at any subtreasury on demand.

I think it will be conceded, gentlemen, that if this proposition accomplishes one part of that which is claimed for it by its sponsors it is very desirable that it should be incorporated in this measure, whether as a substitute for section 19 or as suppletory to it is a matter for further consideration.

Of course this idea of a convertible bond is old. I think a number of propositions have been made during the past 25 or 30 years for the convertibility of all interest-bearing bonds into currency and reconvertibility at the pleasure of the holder.

Senator SHAFROTH. There was a bond carrying interest with it which circulated as money during the war.

Senator NELSON. They were what we called the "seven-thirty notes"; they were not bonds.

Senator THOMAS. They were not bonds, strictly speaking, but in their legal sense I presume they were.

Senator NELSON. They circulated as money, but they went out of circulation and immediately retired?

Senator THOMAS. Now come to a consideration to a proposed amendment itself, which I will not read.

Senator NELSON. You might give us the outline of the plan.

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Senator THOMAS. That is given in what I will call attention to.

Authorize the funding of the public debt and the issue of short-term, 10-year renewable term bonds in an amount to fully cover the principal of the entire debt and the premium on outstanding bonds. There should be, say, 20 issues of equal amount maturing six months apart.

Let us assume that the total authorized is $1,500,000,000; this would make each issue $75,000,000.

Senator HITCHCOCK. How do they figure such a large amount as that?

Senator THOMAS. That is simply to present the plan. It is somewhat larger than the total amount of the interest bearing and the noninterest-bearing debt, and at the same time it is contemplated that a possible emergency may arise which will require more.

The interest rate on the bonds, which may vary with each issue will be discussed later; for the present, it will suffice to state that the interest rate is to be determined for each issue when made.

With the complete funding of the debts will mature $75,000,000 of bonds every six months, and the interest rate should be fixed on each renewal issue. The purpose of that is to regulate an arranged legal rate and to enable the bonds to bear interest at less than 2 per cent, as I think will be the case.

Senator NELSON. Who would take the bonds?

Senator THOMAS. Well, anybody would take them; everybody would take them, and be glad to get them, and the national bank particularly. [Reading:]

It would not necessarily take 10 years to refund the debt. Refunding can proceed as rapidly as desired, or as may be found economical. The first issue would necessarily be for 10 years; other issues after the lapse of every six months would also be for 10 years, but accelerating issues can be made for shorter periods, each timed to mature six months earlier than the earliest maturity of bonds previously issued, as 9½ years, 9 years, 8½ years, etc., from the date of the first issue.

The renewal of the serial issues begins with the earliest maturity and renewals will come regularly every six months thereafter, provided all the 20 serial issues are out. If the debt be not entirely funded by the time the earliest maturity arrives, there will be other "open" maturity dates besides the two provided for emergencies. If the time required for funding could be predetermined the earliest maturity date could be fixed for the first serial issue, all subsequent issues expiring six months later than the preceding one. The object of all this will appear later, when we come to apply an interest rate.

On the back of each bond should be printed a table showing the accrued interest (according to the interest rate it bears) for each given day in the year between coupon maturity dates.

We then have a bond representing a specific amount and showing the amount of accrued interest on any given day.

We now come to the bond certificates; that is, the name given to the notes that are to be exchanged. [Reading:]

The bond certificates, as stated in the bill, are practically the same as our present United States notes, and need only an added clause to the effect that they are exchangeable for the new interest-bearing bonds at par, upon payment of the accrued interest on the day the exchange is made. These certificates alone are exchangeable for the bonds. This is an absolute requirement, and suggests the desirability of exchanging all the various kinds of certificates now issued, in kind only, as gold for gold certificates and silver for silver certificates only.

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Senator NELSON. Let us see if I understand you, Senator Thomas. These certificates are, in substance, to be the paper money that is issued upon those short-time bonds?

Senator THOMAS. Precisely.

Senator NELSON. It is to be the paper currency of the country?

Senator THOMAS. Exactly.

Senator HITCHCOCK. Let me ask you a question.

Senator THOMAS. Certainly.

Senator HITCHCOCK. Is it proposed that the Government shall issue $75,000,000——

Senator NELSON (interposing). Ten-year bonds.

Senator HITCHCOCK. Ten-year bonds?

Senator THOMAS. Yes.

Senator HITCHCOCK. And offer them to those who now hold Government bonds?

Senator THOMAS. Yes.

Senator HITCHCOCK. Then they are exchanged on an even basis for the present bonds?

Senator THOMAS. Yes.

Senator HITCHCOCK. Those who receive these new bonds will draw what rate of interest, if they hold them?

Senator THOMAS. Two per cent.

Senator HITCHCOCK. Two per cent. And if at any time they desire currency for them they can turn them over to the Treasury and secure currency to the amount of the face of the bonds, plus the interest accrued?

Senator THOMAS. Yes. [Reading:]

Each issue of bonds, when ready, is to be delivered to an official of the Treasury Department whom I will designate the "custodian," whose duties are practically the same as those of the officer who now exchanges gold for gold certificates and vice versa, the only difference being that he is provided with an interest fund.

He has to give out the bonds for bond certificates only, collecting the accrued interest shown on the back of the bonds, and when the operation is reversed and bonds are presented for certificates, he pays the accrued interest.

Senator HITCHCOCK. Well, they deal out bonds as long as anyone presents them, to the entire issue of bonds, if they are presented?

Senator THOMAS. Yes; in the first instance.

Senator HITCHCOCK. In the first instance; and that goes on for how many years?

Senator THOMAS. Assuming that there is $1,500,000 of the whole thing——

Senator HITCHCOCK (interposing). Twenty years?

Senator THOMAS. The bonds could be reissued every 10 years, upon interest dates. I think you will find, Senator Hitchcock, that you are anticipating what Mr. Amberg has outlined in his scheme.

Senator POMERENE. You would expect to retire these national-bank notes under that scheme, would you?

Senator THOMAS. Yes; that would come as a matter of course; and the consideration of that would be the reserve quality of the bonds. [Reading:]

He is not to part with bonds for any other form of money.

Senator NELSON. What is that?

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Senator THOMAS. [Reading:]

He is not to part with bonds for any other form of money.

I am not now talking about the redemption of the bonds, but the exchange of the bonds, when an exchange is desirerd. [Reading:]

There will always be the same amount of certificates in his possession as there are bonds outstanding.

I assume that the legal tender character now attaching to greenbacks will apply to bond certificates which replace them.

As a currency, it is better, because secured by interest-bearing United States bonds.

They are never to be paid out by the Treasury before the new bonds are in the hands of the custodian, nor in excess of the amount of bonds so placed.

No additional certificates are required for renewals of bond issues; they are paid out only for the principal of the debt and premium on certain bonds now outstanding, and for other items recognized as a part of the national debt, which includes greenbacks.

Now, I come to the new bonds as bank reserves. [Reading:]

The bonds, being instantly convertible into legal tender bond certificates, are especially adapted for bank reserves, not only for national banks, but all other banks, trust companies, and all classes of investors who have idle money awaiting investment. The sum of all these combined is so large that the demand for bonds can be met only in part, which will enable the Treasury to secure a very low interest rate on bonds, virtually a Government "call-loan" rate. Banks could keep a large part of their money reserve in these bonds, because they could be converted any day into bond certificates at any subtreasury, and conservative bankers could therefore increase their present reserves without loss.

There is no way of determining what the money reserve of all the banks and trust companies aggregates. It can only be conjectured.

And then he makes the conjecture upon some figures which he gives, that the amount in reserves is probably, all over the country, $2,500,000,000; and assuming that to be the amount, the total issue of the new bonds could be held by the banks alone as a part of their reserves, because instantly convertible into currency.

Now, these bonds have that quality. They certainly will not fall in value, and there can be no loss in that way.

Senator HITCHCOCK. Does that mean they would get 2 per cent interest on the reserves?

Senator THOMAS. It would virtually mean that, as long as the bonds require a reserve. The bonds and the money into which they are convertible are both available as reserves; and the effect of that, of course, is to release, to the amount of the bonds in reserves, all this currency and all other currency for circulation.

Senator HITCHCOCK. Of course, as far as the national banks are concerned, the $700,000,000 would be retired in currency.

Senator THOMAS. The $700,000,000 would be retired in currency, or the same amount would be issued for the bonds. It would be an exchange. There would certainly be no contribution by the banks of currency.

Senator BRISTOW. Now, Senator Thomas, I should like to see if I have the correct idea. You proposed to issue these bonds, and they may be exchanged at any time for what you call a bond certificate?

Senator THOMAS. Yes; you may call it anything.

Senator BRISTOW. It is a currency which is equivalent to the greenback, or the national-bank notes?

Senator THOMAS. Yes.

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Senator BRISTOW. And whenever anyone wants currency they take the bond to the Government and get it?

Senator THOMAS. Yes.

Senator BRISTOW. And if they prefer the bond to the currency, they take the currency and get the bond?

Senator THOMAS. Yes; they are interchangeable, with the added element that the bond is available for reserves.

Senator SHAFROTH. It makes it a somewhat automatic regulation of the currency.

Senator POMERENE. Well, if I had one of these bond certificates and took it to the Treasury or a regional reserve bank and got the currency——

Senator THOMAS (interposing). You mean the bond, not the certificate. The certificate is currency.

Senator POMERENE. Well, get the certificate—would that end the matter, so far as the bond is concerned?

Senator THOMAS. No.

Senator POMERENE. Or could it be reissued?

Senator THOMAS. No; it must be reissued if anybody comes and asks an exchange of the bond for other certificates or greenbacks.

Senator BRISTOW. While the Government has the bond it does not cost the Government anything?

Senator THOMAS. It does not cost the Government anything.

Senator SHAFROTH. When there is a redundancy of currency, these bonds could be drawn out.

Senator WEEKS. I understand the plan prohibits the redemption of the bonds or certificates in gold?

Senator THOMAS. No, not the bonds; the bonds are to be paid out only for the certificates and the certificates redeemed in bonds; but the bonds are gold bonds.

Senator WEEKS. If I had the certificate and wanted gold, I could go to the Treasury and get the bond and immediately convert that into gold?

Senator THOMAS. Oh, yes.

Senator SHAFROTH. Well, is the bond payable on demand?

Senator THOMAS. The bonds are payable every 10 years. I suppose the bonds would be the equivalent of gold now. But you could get gold by as easy a process as you can get gold now under the national-bank act.

Senator WEEKS. That is simply two processes, exchanging it into legal tender and exchanging the legal tender for gold?

Senator THOMAS. Yes; because you can do that you do not want to. [Reading:]

The recent circular of a firm making a specialty of Government bonds gives a table showing high and low prices during certain years of bonds available as security for national-bank notes. This shows a mean average interest yield on 2 per cent bonds ranging from 1.68 in 1901 to 1.96 per cent in 1912.

This low rate arises from the competition of national banks alone. How much lower the interest rate might be if they were sought in universal competition, coupled with facilities for instant conversion into currency, may be imagined.

Regarding the rate of interest which the Government may secure on the new bonds, it is my firm belief that as low as 1.2 or 1.4 per cent may suffice under this plan. These conclusions rest on the fact that as national banks investing capital in the present bonds to secure circulation (which capital might be fully loaned at 5 per cent) have a net income derived from circulation

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(over and above 5 per cent) after paying taxes on circulation, etc., of only 1.25 to 1.4 per cent, whereas under this plan they could invest a part of the idle money they are required to keep on hand as a reserve in convertible interest-earning bonds.

That is to say, bonds on deposit as part of the reserves would pay something more than they are making upon their bonded investment now. [Reading:]

When the funding is practicaly completed, and we reach the renewal stage, our experience will have been such that there will be but slight changes in the interest rate. Just now we can not estimate positively how low an interest rate will still command a slight premium for the bonds.

To be absolutely on the safe side, let us assume that the first issue of $75,000,000 10-year bonds bears interest at the rate of 2 per cent. If that proves too high, considering their desirability, it will manifest itself by the bonds commanding a premium in the open market, which will be a gold market when our present United States notes are exchanged, and will remain so unless subsequent legislation should change the character of our currency, which is not likely.

With open-market quotations at hand, it is easy to determine what lower rate of interest will suffice to keep them at a little above parity with gold.

He suggests that interest rates be always fixed at a multiple of one-fifth of 1 per cent, as 1.6, 1.8, 2, 2.2, 2.4, etc., per cent, because, even if bonds should be issued in denominations as small as $50, there will be no fractional cents in the semiannual coupons. Of course that is for convenience. [Reading:]

So far as the Treasury is concerned, it recognizes no premium or discount in making exchanges of bonds and certificates, regardless of whatever the "open market" may be. But in order that parity with gold may be maintained, and also that the certificates may be a real reserve currency ordinarily withheld from circulation, the interest rate on each series of bonds when issued or renewed should be such as to command a very slight premium for the bonds.

Bond certificates immediately exchangeable for bonds bearing even a very low rate of interest will be withheld from general circulation by banks, and gold and silver and their certificates will be paid out instead. The above ideas being followed, it is evident that these bonds will never be at a discount.

And there is where it seems to me that the holders of these vast bond issues should be fundamentally interested in this plan. Temporary aberrations in the money market will correct themselves, and the system will have a steadying influence on the "value of gold," just as an idler pulley has a steadying effect on a leather belt transmitting power. [Reading:]

The question as to what the denominations of the bonds should be can be determined by experience gained from the first issue.

However, to insure perfect equality and no special privilege to any class, it seems desirable that some bonds as small as $50 shall be issued. [Reading:]

The custodian's duties are substantially these:

He must give out bonds for bond certificates only, and bond certificates for bonds only. The interest, either way, is to be paid in gold or its equivalent; hence, if he be given a certain amount of the new bonds, he will, whatever the exchanges may be, have always the same total amount in bonds and bond certificates. Custodianships may be established in other than subtreasury cities to give the benefit of quick exchange to smaller geographical divisions.

Of course that was written before the Glass bill was passed. [Reading:]

An economical feature of the plan is that it saves interest on the bonds while the certificates are outstanding, and even while the Treasury has possession of them. If the Treasury receives bond certificates as currency in the regular

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course of business it will naturally retain them as banks would, and thus save interest.

A permanent holding of bond certificates by the Government is automatically, the equivalent of a sinking fund to the extent to which they are so held. They are simply an "offset" to the bonds which are held by the custodian.

As the Government maintains parity with gold on the new bonds by fixing the interest rate on one serial issue every six months, it does not concern itself with premium on bonds, as it never sells them—unless necessary to replenish the gold reserve fund as stated in the bill, which would be an unlikely occurrence. It holds them merely for the purpose of exchange for the only thing which will command them, and that is bond certificates. The reason for exchanging bonds for bond certificates only is to prevent contraction in the currency and to make the certificates more valuable than any other circulating medium.

And I may say right here, gentlemen, that one of the criticisms that I have seen made of this bill is that the manner in which redemptions of the new currency are to be had may operate as another endless chain—the drawing of gold out of the Treasury. That danger is absolutely eliminated in this system of currency expansion. [Reading:]

It is possible to delay the determination of the interest rate on each of the serial issues to within 30 days of their several dates. While the bonds are printed by hand from steel plates, which is a slow process, the date, interest rate, and interest table can be quickly printed from type on ordinary printing presses.

This gentleman suggests a smaller bond in size. He says [reading]:

While the bonds would have to be printed for each particular issue, the certificates, which may be of any denomination desired, are general and command any bond issue, or any particular issue designated by the Secretary of the Treasury, as deemed advisable. They will last indefinitely, not being subject to the wear and tear of ordinary currency.

The daily summarized reports of the custodians showing the relative amounts of bonds and bond certificates on hand would be a better barometer of local and general currency conditions than are now the clearing-house reports of business conditions.

He says that bond certificates can be issued of any denomination, even $1, $2, and $5 bills being practicable. My own idea is that they can be larger than that, and that the smaller currency should be entirely confined to silver certificates. This gentleman, in the preparation of his bill, prohibits the legal-tender character of these bond certificates from applying to interest on the public debt and the payment of customs dues. My own idea would be to make them universal legal tender, although he gives a good reason for it.

Senator BRISTOW. Senator Thomas, let me make this suggestion, and see what effect it would have. Suppose I have $1,000 that I do not want to use. I take it down here to a bank and I probably put it in a trust company, where it will bear 2 per cent on a monthly balance or a weekly balance, perhaps 3 per cent, depending on where I place it. And it stays there and it is loaned out to somebody else. There are a large number of people who do the same. And that makes the bank's balance.

Now, suppose instead of that I go and get a Government bond and put it away and get 2 per cent. That is as good as anything could be. I would know that I could get cash for it when I wanted it.

Would not that fact have a tendency to take away all these bank deposits? And now somebody else goes and borrows this $1,000 of mine, who needs it. and he pays 4 per cent or 5 per cent on it, as the

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case may be, and the bank keeps it there for that purpose and deals in this surplus currency that is in the country—collects it and loans it out.

Now, that is a good thing. Somebody can get the money that otherwise could not. If I go and get one of these bonds and put it away, that currency would be gone and nobody could get it. I would get 2 per cent on it, but the other man would not have the opportunity of borrowing it.

Senator THOMAS. You can do the same thing with gold. You can do the same thing with any other sort of currency. The fact that you could do that is, to my mind, one of the best arguments in favor of the genuineness of the scheme.

Senator BRISTOW. Well, it is a very important thing to the business of our country as it is now that we should have banks.

Senator THOMAS. Certainly.

Senator BRISTOW. So that men who need money, who have not got it, who are carrying on business with large capital—and the vast majority of our men are doing that—can borrow it.

Senator THOMAS. When that demand comes there will be rapid exchange of these bonds for currency. It will work automatically.

Senator SHAFROTH. When money is worth more than 2 per cent money comes out and the bond goes to the Treasury.

Senator THOMAS. Yes. That, if I may be allowed the expression, is the beauty of the proposition.

Senator BRISTOW. The banks would have to pay more than 2 per cent, then, to get this currency, instead of its being put into bonds.

Senator THOMAS. As a matter of fact, it would reduce the actual income on the bonds, because the bonds would go to a premium in proportion to the demand for that bond currency.

Senator WEEKS. Senator Thomas, what makes you think those bonds would go to a premium?

Senator THOMAS. They are at a premium now, are they not? Because they have the quality of basis for currency issue.

Senator BRISTOW. They were before this bill was introduced.

Senator NELSON. They are about 94½ now.

Senator SHAFROTH. Mr. Vanderlip said they were worth 3.18 interest, and therefore they were more valuable than the 3 per cent bond; and for that reason the national-bank circulation would retire.

Senator THOMAS. Well, assuming that they are now below par, it is because of the probable effect of this bill upon them. But with that quality and requirement they are worth a premium, are they not?

Senator BRISTOW. Well, they have been; yes.

Senator THOMAS. I mean with this qualification, and with the added qualification of being receivable for reserves for bank deposits.

Senator HITCHCOCK. It is proposed to have the Government issue $75,000,000 of these bonds a year, is it?

Senator THOMAS. Every six months.

Senator HITCHCOCK. Every six months?

Senator THOMAS. Or so that each $75,000,000 will fall due at intervals of six months.

Senator HITCHCOCK. Well, that would be $150,000,000 a year.

Senator THOMAS. That would fall due every year?

Senator HITCHCOCK. In five years, then, we would retire all the present national-bank currency?

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Senator THOMAS. Upon the assumption that they were issued every six months, as well as falling due every six months.

Senator HITCHCOCK. Well, after you had accomplished that, would they be in the form of bonds, in your opinion, or would they be in the form of outstanding currency?

Senator THOMAS. Well, my own opinion is that these bonds would be used for the most part for reserves.

Senator HITCHCOCK. They would be in the form of bonds in the vaults of the banks?

Senator THOMAS. They would be in the form of bonds in the vaults of the banks, and in the vaults of the reserve banks.

Senator HITCHCOCK. The banks would be using those in the place of gold?

Senator THOMAS. In the place of all sorts of reserves.

Senator HITCHCOCK. In the place of all kinds of reserves. What would become of the gold and other forms of money which the banks now hold as reserves?

Senator THOMAS. It would give them circulation in the banks.

Senator HITCHCOCK. Well, they would not be in the banks if they were displaced by those hands.

Senator THOMAS. Not as reserves; but they would be in the banks just the same.

Senator HITCHCOCK. Well, banks do not hold ordinarily more than their reserves.

Senator THOMAS. When I say "in the banks," I mean in the business of the country.

Senator HITCHCOCK. Well, then it is proposed to issue another $75,000,000——

Senator NELSON (interposing). Every six months for 10 years.

Senator HITCHCOCK. So that we would have outstanding, approximately, $1,500,000. Would that be in the form of bonds, or would it be in the form of currency?

Senator THOMAS. Both, and interchangeable.

Senator HITCHCOCK. Well, if it was in the form of currency it might lead to an inflation.

Senator THOMAS. How?

Senator HITCHCOCK. Because it would provide much more currency than we have at the present time.

Senator THOMAS. Well, would that be inflation? Do you not think that we need more currency?

Senator HITCHCOCK. The testimony here indicates that at certain seasons of the year it is too little, and at other seasons of the year it is redundant.

Senator THOMAS. Yes; and I can understand that the present system prevents expansion.

Senator NELSON. Our bonded debt now is between $900,000,000 and $1,000,000,000.

Senator SHAFROTH. That does not take in the Panama bonds.

Senator NELSON. I think it includes all the outstanding bonds now that are charged against the Government.

Senator THOMAS. I have a statement here that I could read on that subject.

Senator HITCHCOCK. Let me put this case to you, Senator Thomas.

Senator THOMAS. Certainly.

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Senator HITCHCOCK. If the result of this change were to be the issue of the same amount of currency that we have now——

Senator THOMAS (interposing). Plus the amount of the debt of the United States not represented by any currency at the present time.

Senator HITCHCOCK. Yes. That would result in giving us an expansion, if not an inflation of currency, would it not?

Senator THOMAS. We want an expansion of the currency; and that is just one of the merits of this proposition.

Senator HITCHCOCK. Well, it is estimated that we want it at certain seasons of the year, and at other seasons we want it retired. My point is this: Are you sure it would result in a reduction of the interest on bonds?

Senator THOMAS. I do not think there is any doubt about it; and that is the reason the six months' intervals are provided for, so that the interest could be regulated.

Senator HITCHCOCK. It seems to me that you only accomplish a reduction of the interest by contracting the currency.

Senator THOMAS. I do not see how, if I understand your argument.

Senator HITCHCOCK. Well, by expanding your currency——

Senator THOMAS (interposing). Well, I understand that one purpose of this bill, and one of the demands for it, is that we need more currency.

Senator HITCHCOCK. Not more currency; we need an elastic currency.

Senator THOMAS. That means we need more at intervals. This is a loan for securing that currency and at the same time arranging it automatically.

Senator WEEKS. Yes; but you might need very much less than we have now at intervals.

Senator THOMAS. That does not worry me much. I do not think this country has been in such a position for 25 years—that we have more currency than we need.

Senator NELSON. The difference would be between bonds outstanding now and the national-bank circulation now——

Senator WEEKS (interposing). Let me finish my statement, please. I think it is a fair assumption that we have had too much. If there were not too much, the interior banks would not be dumping their circulation into New York a great deal of the time, which circulation is coming back here to the Treasury for redemption frequently. There are bales of that circulation coming back to the Treasury for redemption that have never been opened.

Senator SHAFROTH. Because it can not act as a bank reserve. Not a dollar of it would come back if it could act as bank reserve.

Senator WEEKS. I am not discussing what can be done with it. But is it not a fact?

Senator THOMAS. But a great deal of this goes to New York to be put into call loans.

Senator WEEKS. Not at all. That money is coming to New York like a stream of water over a dam, and coming here to the Treasury; and there are over $44,000,000 of it here now.

Senator THOMAS. Then I should think you would have a currency that had elasticity now, so that you do not need any additional legislation.

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Senator WEEKS. Well, that is not a question of elasticity. The circulation is put out again.

Senator SHAFROTH. The reason of that is that we have got too little money that will act as reserves.

Senator NELSON. You see the value of the system is that if you have $100,000 of these bonds you could go to the Treasury and get the money and turn the bonds in; and then when you got through with using the money you could turn the money in and get back the bonds.

Senator WEEKS. You can do the same under the present system.

Senator THOMAS. Yes; but everybody can not do it.

Senator NELSON. This is for everybody; not only the banks, but for you and me.

Senator WEEKS. Well, I suppose as a practical proposition everybody would do what the country bank does not. If the country bank wants to take out more circulation, it sends to its reserve agent and its reserve agent does it for the country bank.

Senator THOMAS. It may be that it is generally done through the agency of the banks. But this system meets the fundamental objection that the present system is designed for the banks, and not for the whole people.

Senator NELSON. The beauty of this system is that whenever your money is idle you convert it into a 2 per cent bond; and the moment you want money you convert the bond into currency.

Senator WEEKS. I am not discussing or raising any point about the fundamental objection of making additional circulation a Government note, in the first place, and making it a legal tender, in the second place. That is a matter that, of course, would be involved in this proposition.

Senator HITCHCOCK. Senator Thomas, there would be no time when the banks would keep this currency in reserve, because they would be drawing no interest on the currency. They would keep it in the form of bonds in order to get the interest. It would count as reserves just as much in bonds as it would in cash.

Senator THOMAS. Yes.

Senator HITCHCOCK. And during that time the Government would be paying interest on those bonds.

Senator THOMAS. Yes.

Senator HITCHCOCK. Now, the reserves held at the present time by national banks are something over $1,000,000,000.

Senator THOMAS. Yes.

Senator HITCHCOCK. Then, how can you accomplish a saving of interest, when it would be to the profit of banks to keep these reserves in the form of bonds, because they would count as cash and draw interest at the same time?

Senator THOMAS. I do not assume that these bonds would be constantly in reserves to the extent which you suppose.

Senator HITCHCOCK. I am putting this case to you: That at the present time there is a minimum of reserves which the national banks hold amounting to 1,000 millions of dollars in round numbers. Now, that is bedrock. The banks do not go beyond that. They do not use that. They keep that as a standing reserve. They naturally want interest on it. So they keep it in the form of bonds instead of in the

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form of currency. And if they do so, would not the United States Government be paying interest on it during all that time?

Senator THOMAS. Not those bonds deposited with the Government—with these regional banks. Of course, if it were sent by one of the banks from Omaha to New York it would draw interest.

Senator HITCHCOCK. It would keep the bonds in its own vault.

Senator THOMAS. It would keep the bonds in its own vault.

Senator HITCHCOCK. And they would count as cash there.

Senator THOMAS. But the Government now pays interest on the bond just the same, and pays a good deal more than 2 per cent. And right there there would be the difference in interest between the 4½ per cent bond and 4 per cent bond and the 2 per cent bond.

Senator WEEKS. Let us take this as an illustration: Suppose you went into a bank for $1,000, and you would get that $1,000 in such denominations as you wanted it in. You take that circulation and use it in your business. Later somebody pays you $1,000 of that circulation. What would you do with it? Hold the debt or hold the bond?

Senator THOMAS. If I should answer you truthfully, I would say I would give it to my creditors, no matter what kind it was.

Senator WEEKS. Would not everybody do it?

Senator THOMAS. They would if they were in my position, because they could not do anything else.

Senator WEEKS. Would any individual receiving such circulation voluntarily exchange that into a bond paying 1½, or even 2, per cent?

Senator THOMAS. Yes; I think so.

Senator WEEKS. Why would not a man take a Massachusetts State bond paying 3½ or 3¾ per cent instead?

Senator SHAFROTH. A Massachusetts bond can not act as a reserve.

Senator THOMAS. The convertibility of the bond and the fact that it can be used for reserve would make it an attractive bond, I think, even to the individual.

Senator WEEKS. I would not invest in a 1¾ per cent bond when I could get a 3¾ per cent bond.

Senator NELSON. You see, the beauty of this system is that it makes every individual who carries those bonds a sort of movable bank.

Senator BRISTOW. Senator Weeks, you say you would invest in Massachusetts bonds. In the first place, they are in denominations you can not get very well; and then you can not sell them readily. You may say to me—I have $1,000 here in the Washington Loan & Trust Co., which draws 2 per cent—"Why do you keep that $1,000 there when you could get a Massachusetts bond that draws 3½ per cent?" I do it because I can get it when I want it.

Senator THOMAS. Gentlemen, if you will allow me, I think some of these things are discussed in the paper further on.

Senator NELSON. As I understand you, you say that by and by they can issue these bonds at rates lower than 2 per cent?

Senator THOMAS. Yes; that is the reason six months' intervals of maturity have been provided for.

Senator HITCHCOCK. It is the habit of this committee to jump right into the middle of a thing before it has been discussed in order.

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Senator THOMAS. I am not objecting, but I do not want to detain the committee. [Reading:]

The clause in the bill relating to customs dues is the same as that which now appears on the backs of United States notes. It will never be necessary to make it operative except in the event of a prolonged and costly war.

Gold certificates have a 100 per cent gold reserve. Bond certificates will have a 100 per cent serial gold bond reserve, which bonds have a $75,000,000 gold reserve to meet an entire serial issue as it falls due. That is what the amendment provides. And there is ample provision for replenishing the gold reserve if drawn upon to meet the next serial issue at its maturity six months later.

Silver certificates have a 100 per cent reserve in silver dollars. By congressional act the Government must maintain parity. The bill directs the Secretary of the Treasury to issue $1, $2, and $5 silver certificates in lieu of those of the denominations of $10 or more, which amount to about $22,000,000. That is in order to make silver bear the burden of the small currency of the country. When the funding is completed over $320,000,000 of gold certificates of the denominations of $5 must be provided to meet the requirements of trade for this denomination.

Bond certificates will not ordinarily serve the purpose, as they will be withdrawn from circulation to command bonds and create a scarcity of small bills, which are absolutely required. He reaches the conclusion that as these smaller silver certificates are needed they will never be presented for redemption in gold to any extent; so that a gold reserve of $25,000,000 is ample, making $100,000,000 in all, thus releasing $50,000,000 of the present reserve.

He says he realizes that some persons will question the necessity of maintaining any gold reserve, but he looks upon it as a possible necessity; it gives assurance to the world of the character of our money.

From the standpoint of economy alone it is a good investment. The loss of interest on $100,000,000 will be more than offset by the lower rate of interest our bonds will command, because of the maintenance of the fund. A borrower at a bank soon realizes the fact that the average balance he maintains with it has a very decided influence on the interest rate demanded.

Senator HITCHCOCK. What is that reserve for? These bonds are payable in certificates and the certificates exchangeable for the bonds.

Senator THOMAS. The reserves are for the bonds.

Senator HITCHCOCK. You mean as against their maturity?

Senator THOMAS. Yes.

Senator HITCHCOCK. Then it should be a sinking fund, not a reserve.

Senator THOMAS. Well, it is only the amount of one of the issues. It is not probable that, with these attributes, the redemption of the bonds will be desired or demanded; but provision should be made, of course, for raising the money in the event that it should.

Senator WEEKS. If an issue of bonds were presented for payment you would have reserve enough to pay that, and you would proceed to replenish your reserve, would you not?

Senator THOMAS. Yes; at once. That is provided for. The plan as outlined limits the bond certificates to the amount of the national debt, in round numbers about $1,350,000,000, while the full cycle of 20 $75,000,000 issues of bonds maturing six months apart would amount to $1,500,000,000. This leaves two issues, and consequently two maturity dates, free for emergencies, which is a very necessary precaution not only for preliminary war preparations, but also for many other purposes. It may be necessary to provide for Panama bonds, not yet issued, to reimburse the general fund. It might be profitable to have an open maturity date for a shorter time bond when the interest rate manifests an upward tendency.

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He then gives the interest rate of the available paper currency, as follows:

From bonds not now available as a basis for circulation	$213,000,000
Premium on 4 per cent bonds at about 10 per cent, say	12,000,000
National-bank redemption fund, treated as a liability by the Treasury, say	25,000,000
Which is an increase of	250,000,000

Another form of presenting the increase is that on March 1, 1913:

Interest-bearing debt	$965,706,610
Debt bearing no interest	1,677,650
United States notes of all kinds	376,460,242
Total	1,343,844,502

There is a considerable amount of the national debt included in the above which will never be presented, having been lost or destroyed; for example, fractional currency, $6,854,865. Therefore the final limit of bond-certificate issues, after adding premium on bonds now outstanding, can not exceed the sum of $1,350,000,000.

The currency in circulation which would be retired on March 1, 1913, was as follows:

Treasury notes of 1890	$2,742,000
United States notes	346,681,016
National-bank notes	751,117,794
Total	1,100,540,810

Which leaves about $250,000,000 as the increase.

Senator NELSON. This presupposes the retirement of the greenbacks, too?

Senator THOMAS. Oh, certainly. [Reading:]

So that the available increase in the circulating medium will be about $250,000,000 independent of the release of fifty millions of the gold reserve, and if the Government deposits its money in the national banks on security other than these convertible bonds, another one hundred millions can be fairly relied upon, thus making a total of $400,000,000.

THE STEADYING EFFECT OF AN ADJUSTABLE INTEREST RATE.

When the premium on bonds goes up in the open market the interest rate will go down, and when the bonds command no premium the interest rate will go up. This idea, which is economically sound, is applied every six months to $75,000,000 of bonds. It will have a steadying effect on the value of bonds as a whole, and the temporary "aberrations" of the money market will affect them but little. This is another argument for limiting the term of the bonds to 10 years.

BANK-RESERVE REQUIREMENTS.

The money-reserve requirements of all bonds, trust, and other companies (though no data is available) I estimate at nearly double the amount of serial bonds. Would not a big bank having ten or twenty millions of gold certificates locked up in its vaults which must be kept there idle and earn absolutely nothing gladly substitute all the bonds they could get that would earn even as low a rate as their investment of bonds for circulation has yielded them, say, 1.2 or 1.4 per cent, especially when they could exchange them for legal-tender currency (on a gold basis) on an hour's notice?

Think of the enormous expense of all the engraved plates, the printing, the signing of bills, the red tape, and the delay, to say nothing of the capital they have to put into bonds and the trouble of getting circulation money, under the present system.

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Under this system their capital is not touched. Their money reserve is a fixed per cent of their depositor's money which they are obliged by law to keep for their protection in times of emergency. What better emergency money can you provide than bond certificates?

Consider also the enormous expense the Government will save by dispensing with the present system and adopting one so absolutely simple.

WAR BONDS.

In case of war the serial issues could be increased, and so long as the bonds do not approach the full requirements for bank reserves the rate of interest will be low. It is well to recognize the fact that the nearer the amount of bonds approaches the total bank-reserve requirements the interest rates will rise on account of decreasing competition for them in the open market.

ADDITIONAL CURRENCY REQUIREMENTS.

I disclaim any purpose to limit the paper money of the country to gold, silver, and bond certificates. These appeal to me because they will all be operated on the same principle—that of immediate interchange, the last to the mutual benefit of the banks and the people.

The bond certificate idea is exceedingly simple once we divest ourselves of our "habit of thought" regarding paper money.

Fortunately we have had a long experience with national-bank issues and can estimate very closely what a currency issuing privilege is worth to the people. We are perfectly willing to give them an equivalent in different form because we impose on them the arbitrary requirement of a money reserve for our deposits. In doing this as herein outlined, the people will get a low interest rate on the debt and the banks and others who want a like interest on money necessarily idle can invest it in convertible bonds.

STATEMENT OF N. F. BANFIELD, VICE PRESIDENT FIRST NATIONAL BANK, AUSTIN, MINN.

Senator HITCHCOCK. Will you state, please, your banking connections?

Mr. BANFIELD. I am vice president of the First National Bank of Austin, Minn.

Senator NELSON. What is the capital and surplus?

Mr. BANFIELD. Capital, $100,000; surplus, $150,000; undivided profits, $20,000; average deposits $1,100,000; circulation secured by bonds $100,000.

The bank has been established for 44 years. I have been connected with it for 34 years and an officer for 31 years. I wanted to say just a word about the farm-loan proposition. We are interested in that. We are in an agricultural and dairying section. At the present time the farm loans are mostly carried by the insurance companies and the eastern savings banks, and are negotiated mainly through the local country banks with those companies, involving considerable time in the way of preparation of applications, submitting them for approval by the trustees of the companies and of the saving banks, causing delay and uncertainty, and the loss of considerable time before a loan can be closed.

Now, there is in this bill a provision for farm loans to the extent of 25 per cent of the capital and surplus of the banks, limited to one year. Now, that limitation of time is somewhat like the oyster stew that was brought to the man who found only one oyster in it. He complained to the waiter that there were not enough oysters in it to give it a flavor, and the waiter replied, "That is not put in there to give it a flavor; that is only put in there to christen it." That is

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about like that one-year period as to the required time for farm loans. To make that practical and of service to the Northwest section of the country for which I am speaking particularly, that should be at least a 5-year period. It makes it practically unavailable to have it for only 1 year.

Senator NELSON. What proportion of your deposits are time deposits?

Mr. BANFIELD. Our deposits consist of $600,000 in time deposits, upon which we pay interest, and $500,000 in individual deposits.

Senator WEEKS. Is not the basis we should use in determining the amount of money which may be loaned on lands the percentage of time deposits, rather than the capital of the bank?

Mr. BANFIELD. I was just going to come to that in a moment. I was going to suggest that this provision is all right as far as it goes for certain banks—25 per cent of the capital and surplus of the banks. Then follow that with the words:

Provided, That in the cases of banks having time certificates or savings deposits, or both, in excess of their capital and surplus they shall be allowed to loan 25 per cent of the amount of their outstanding time certificates and savings deposits.

On account of that being somewhat fluctuating, I would have that determined by the amount of those time and savings deposits as shown in the last published statement to the Comptroller of the Currency as a guide to fix that at a definite amount. I think that would be practicable.

Now, in our case the present phraseology of this bill would permit us to loan $62,500 out of our $600,000, or about one-tenth. Now, that is not enough; we should be allowed to loan one-fourth of the aggregate amount of our time and savings deposits, which would be $150,000.

Senator POMERENE. Do you think that would be wise, to extend that privilege to all commercial banks?

Mr. BANFIELD. This bill limits it to the banks outside of reserve centers.

Senator NELSON. That means country banks.

Mr. BANFIELD. Country banks.

Senator NELSON. Now, here is another thing, if the committee will excuse me. Don't you find that these farm loans that you take—farm mortgages—are easily discounted and sold—that there is a market for them?

Mr. BANFIELD. I should like very much to answer that question. I remember distinctly going through the panic of 1893; that is 20 years ago this past summer. I remember it with a great deal of vividness. We had some farm-mortgage loans that we had as collateral that were owned by myself and our president as partners in a firm that we have to carry on that business, and out of all the paper that we had we found our mortgages the best and the only thing upon which we could realize or get any money during that period.

Senator WEEKS. You mean locally?

Mr. BANFIELD. Locally; well, we could not get any outside.

Senator NELSON. You must remember these country banks do not carry these bonds.

Senator HITCHCOCK. To whom did you sell those mortgages?

Mr. BANFIELD. We sold those mortgages to clients that we had scattered throughout the country; some East and some in the West

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were glad to get them. They were somewhat timid about banks, and were very glad to be able to get those mortgages in which to put their money, and if we had only had a larger stock of them our condition would have been more comfortable.

Senator HITCHCOCK. They took the money out of banks that they were a little afraid of and put it into these mortgages?

Mr. BANFIELD. They got the money somewhere. I do not think it all came from banks; I think it came from hidden places where they had it.

Senator HITCHCOCK. You sold them at some discount, I presume?

Mr. BANFIELD. No, sir; we did not have to do that.

Senator NELSON. What interest were those mortgages paying?

Mr. BANFIELD. I have forgotten now.

Senator NELSON. Probably 6 or 7 per cent at that time?

Mr. BANFIELD. In 1893, I should say, certainly 6 per cent and possibly 7 per cent; I think very likely 7 per cent at that time. So this argument we hear at times that farm mortgages tie up your money in a fixed long-time security does not, to my mind, follow, for this reason, that we found them the most liquid form of asset we had.

Now, another thing: The present national banking law permits us to take bonds of almost any description, provided it is named a bond. Nearly all of those public-utility bonds and many other forms of bonds that are carried by banks as investments are now secured by an underlying mortgage, but just because they are called a bond they go with the department and we can carry any number we want to.

Senator NELSON. They are nearly all secured by underlying mortgages or a trustee?

Mr. BANFIELD. Yes. I claim we should have the same right to carry our first-class farm mortgages as this bill provides, not to exceed 50 per cent of the actual value of improved farm lands.

Senator NELSON. Not on city property?

Mr. BANFIELD. Not on city property; I am not asking that. I do not recommend that, but I do recommend loans on improved farm lands not to exceed 50 per cent of their actual value.

Senator NELSON. And 25 per cent of both time and savings deposits?

Mr. BANFIELD. Yes, sir.

Senator BRISTOW. Such a privilege as that would have a tendency to make farm mortgages sought after more than they are now.

Mr. BANFIELD. It certainly would. It would bring the country banks throughout the Northwest—now, I am speaking from actual knowledge of the desire of the country banks of Wisconsin, Minnesota, North and South Dakota, and Iowa, and I know they all think highly of this privilege in this bill, and it would rub off that rough spot of antagonism to the bill if you will just make those amendments I have suggested.

Senator SHAFROTH. What limit would you fix as to the maturity of the notes secured by deed of trust?

Mr. BANFIELD. Five years; that is our usual time.

Senator BRISTOW. This one-year proposition is a hypocritical pretense.

Mr. BANFIELD. It is just put in there to christen it.

Now, another matter: While I am talking as a banker, I believe bankers as a class are patriotic, and when I say I am saying this in

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behalf of the farmer, I am telling you the truth, because he can come in there and sit down next to me and tell me what he needs and I can fix him up just as quickly as we can make out the papers without any delay, without any red tape, and you by amending this bill as I have indicated will please and accommodate and help a large class of northwestern farmers who want just that very thing. At the same time you will provide the banks with an absolutely safe—and we call it choice—kind of paper, the best kind of paper we can get.

Senator SHAFROTH. Will you write out your amendment, interline it in the bill and forward it to the chairman of this committee, and label it as suggestions with regard to real estate loans made by you?

Mr. BANFIELD. I shall be glad to do so.

While I am here, if I am not trespassing on your time, I want to speak with regard to this commercial paper that this bill proposes to take from banks for rediscount. In our section of the country we are born and bred with an antipathy to rediscounts. It is the last thing that banks up our way want to do, and we have not done it nor attempted to do it since 1893, not once. We regard it as a sign of weakness, as a flag of distress, and would not resort to it except as a last necessity. But, of course, under this proposed measure, if it becomes the fashion and is the custom adopted here, I imagine that the banks will fall into it, although it is something that the conservative bank will hesitate a long time about doing—borrowing money and indorsing everybody's note to hire money on to lend to somebody else.

Senator BRISTOW. Don't you think it will delocalize your business to a certain extent?

Mr. BANFIELD. I do. I think there will be a temptation on the part of the banks to do a class of business they ought not to do. I think that if the Government bank makes a low rate, so that there is a chance for 1 or 2 per cent profit, some of the banks would be led into doing too much of that, and it is going to be too easy for borrowers to get money. That is one of the evils of the present time.

Senator NELSON. Don't you think any bank legislation we enact ought to provide for assistance to the farmers, giving them credit as well as the merchants and manufacturers?

Mr. BANFIELD. I most certainly do, and that is why I am here saying this about those farm loans. They are the backbone of our country.

Senator NELSON. And any system that does not take care of farm loans is an insufficient and incomplete system?

Mr. BANFIELD. It is, I believe. I think that is an essential part of this proposed bill, and I hope, gentlemen, you will see to it that there is an amendment made along the lines I have indicated.

I thank you.

Senator HITCHCOCK. We will take an adjournment until to-morrow at 11 o'clock. That will enable us to hear Mr. Milliken from 11 to 12, and in the afternoon the representatives of the Chamber of Commerce of the United States.

(Thereupon at 5.45 o'clock p. m. the committee stood adjourned to meet Thursday, October 16, 1913, at 11 o'clock a. m.)

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THURSDAY, OCTOBER 16, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 11 o'clock a. m.

Present: Senators Owen (chairman), O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

STATEMENT OF R. C. MILLIKEN, MONETARY STATIST, BOND BUILDING, WASHINGTON, D. C.

The CHAIRMAN. Mr. Milliken, we would like you to address yourself to this bill, and tell us what you think its defects are and what its advantages are.

Mr. MILLIKEN. Before attempting to discuss any change in our present banking and currency system I beg your indulgence while I make a few observations. First, let us see what the principal object of banking is; second, how a bank accomplishes that object; and third, what constitutes safe banking.

The principal object of banking is to economize capital and that object is attained by furnishing a mechanism for the exchange of credits. A bank raises its borrowed capital in three ways, namely, by issuing notes, by receiving deposits, and by accepting bills. If a person will lend me $100 for nothing and I lend that $100 to another person at 6 per cent interest, then in the course of a year I shall gain $6 by the transaction. Again, if a person will take my promise to pay and bring it back to me at the end of the year and pay me 6 per cent interest for it, just as though I had lent him $100, then I shall gain $6 by that transaction. That is a fair representation of the operation of banking and of the way in which a banking capital is created by deposits and notes.

Now, it is obvious that those two methods of banking are adapted to produce precisely the same effects. In each case a banking capital is created, and each capital is employed in precisely the same way, namely, in the discounting of bills or making loans. To the parties who have their bills discounted, it matters not from what source the capital is raised, the advantage is the same to them, the mode in which they employ the money is the same, and the effect upon trade and commerce will be the same. In the case of the bank issuing notes it increases the amount of money in the country. But the bank receiving deposits will not have increased the amount of money one iota, but it will have given increased motion to money, and the effect upon trade and commerce will be the same. The enormous increase in deposit banking in this country has virtually supplanted the necessity for bank notes.

At the present time our bank deposits aggregate $20,000,000,000. or more than $200 per capita. When a man speaks of his cash he always includes his bank deposit, because under ordinary occasions it is equivalent to cash. In 1860 the total bank deposits of New York were only 15 million, whereas at present they exceed $5,000,000,000. Let me further illustrate this by directing attention to the national banking system for 42 years, from 1867 to 1909. I have drawn a

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savings-bank deposits must be sent for investment. Those Frenchmen eliminated the speculator from the control of their Caisse and passed a law prohibiting any person, during a single year, from depositing more than 1,500 francs ($300) in any one or number of savings banks. French statesmanship encourages the use of savings banks by wage earners until they have accumulated a corporate unit, which in France is 1,000 francs ($200), and then it encourages those toiling masses to become investors and be a part and parcel of French prosperity, whereas we encourage them to use savings banks as investment institutions.

The next question is, What monetary law should be observed in order to conduct the business of exchanging credits on safe lines? What is the line of demarcation between expansion and inflation? There are two schools of thought on this subject—or some contend one is a school of thought and the other of guesswork—to be observed in doing this business safely. Just as there are two schools of medical thought in prescribing treatment for debauchery, one prescribes temperance, while the other school fattens off of their unfortunate patients by prescribing as many different remedies as there are quacks engaged in the business. One of those monetary schools teaches that no possible harm will result to humanity if the person or institution doing a banking business will cover its demand-payable borrowed capital with liquid assets, while the other teaches that only a certain portion of such borrowed capital should be covered with money. No two of the doctors of the latter school are agreed on the size of the dose to be prescribed. Dr. Monetary Commission prescribed a 50 per cent dose. Dr. Chicago Bankers' Conference prescribed a 40 per cent dose. Drs. Owen-Glass prescribe a 33⅓ per cent dose. Dr. Sprague prescribed a 55 per cent dose. Dr. Berry prescribed a 20 per cent dose. Dr. National Banking Act prescribed a 25 per cent dose to patients living in some localities and 15 per cent for those living in other localities. Not one of those doctors has ever attempted to give a reason for the size of the dose he prescribed, because his action is not based on reason but guesswork. Some of those doctors insist that the medicine they prescribe should be pure and contain nothing but standard gold, while others contend it makes no difference about the purity of the medicine so long as it bears the "pure-food" label.

The next question for consideration is: What are "liquid assets"? This is a phrase of quite recent origin, as anyone will observe by referring to Murray's English Dictionary. It was first used by the London Daily News on May 26, 1879. Its next use was by the Pall-Mall Gazette on May 5, 1884, when advocating the organization of a joint-stock company to take over the "liquid assets" of the Bank of Glasgow. "Liquid assets," as now used by monetary experts, are assets which are self-convertible into gold. They include gold, demand transfers by solvent concerns on solvent concerns for gold, and solvent commercial paper payable at short and fixed periods. Mr. Geo. M. Reynolds negatively gave a correct definition of this phrase, which may be found on page 226 of these hearings. This is what he said:

The man who borrows money on stock-exchange collaterals in New York, and who wants to realize on them quickly, must depend on the ability of the borrower to reborrow that money immediately elsewhere or upon the sale of

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the same. Now, if the condition is so bad that the banks of the city of New York are unable to extend accommodations, the result is that there is a very violent break in the values of securities, and we are in the midst of a panic.

Civilized man's existence depends upon being fed, clothed, and sheltered, and commercial paper is the credit instrument through which those articles are financed and brought to his door. Man is timid about making permanent investments during panicky times, but he must have raw materials to keep his factory wheels going, and he does make and will continue to make provision for such materials. And so it is in every line of business. Provision is made to meet commercial paper when other things will be passed by; especially will men defer making permanent investments when times are hard. Just here I wish to puncture the misstatement made by several of the witnesses who have appeared before this committee to the effect that you can always raise gold with our Government bonds. I recall very distinctly that Mr. Berry made use of that statement. Nothing could be further from the truth than that statement. You can't draw a dollar of gold from the Bank of England with a permanent investment, but you can draw the last dollar of gold out of that institution with solvent commercial paper payable at short and fixed periods. The same thing is true with respect to the other European central banks, because all those institutions, with the single exception of the Reichsbank of Germany, are controlled by merchants.

To illustrate to you what safe banking is let me quote from the testimony of Mr. A. Barton Hepburn, chairman of the board of directors of the Chase National Bank of New York, before the Glass investigating committee last January. It may be found on page 6 of those hearings. This is what he said:

Some years ago I called upon the Credit Lyonnais, in Paris, one of the great banks of the world. The gentleman with whom I was in conversation passed over to me their last bank statement. I glanced it over and remarked:

"Well, you owe a great deal of money."

"What is that you say?"

"You owe a great deal of money."

"What do you mean?"

"Your deposits are about $350,000,000."

"Oh, yes, we owe depositors; but we could pay them easily if we had to."

"Could you? How long would it take you to pay them in case of necessity?"

"The element of time would not enter into the matter at all, except in so far as it required time to perform the physical labor."

"But how; tell me just how you would do it?"

Almost thinking I was questioning the condition of his bank, he took the balance sheet and proceeded:

"Well, we have so much cash; let us deduct that."

"Yes."

"Then we have so much due from banks. We could value against that and deduct the same."

"Yes."

"We have so much exchange, acceptances, etc., which have an immediate market. We could realize upon and deduct that."

"Yes."

"Now, we have reduced our obligations in this manner to something less than $200,000,000, and we have very, very much more than that in commercial paper."

"Yes; but how are you going to pay debts with commercial paper?"

"Take it to the Bank of France and get currency for it."

And he might have said gold, which is the same thing—

"Could you do that?"

"Certainly."

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"Is there any law which would compel the Bank of France to discount your commercial paper without limit?"

"Law—yes; the law of its being; that is what the bank was created for."

Before commenting on the statement of the Credit Lyonnais let me direct your attention to the following language on page 24 of House Report No. 69, filed in the House of Representatives September 9, 1913, by Mr. Glass, chairman of the House Banking and Currency Committee. It is this:

There has been a tendency to overestimate the importance of the note-issue function and to treat it as if it were the chief object to be attained in banking legislation. The idea may be attributable to the belief that "emergency currency" is what is needed in order to relieve panics and stringencies, whereas what is actually needed is fluid resources of some kind, whether notes or not.

In an address last winter in this city, before the Chamber of Commerce of America, Mr. Glass, in summarizing our monetary ills, used this language; I quote the first two paragraphs of his address. He said:

I believe that nearly all students of this subject will agree with me in thinking that the main points to be dealt with in any banking legislation that may be attempted are:

1. Provision for rediscounts or sale of commercial paper in a way and to an extent that will enable banks to get fluid resources whenever they or their customers may require.

These are the only two instances in which I have observed the phrase "fluid resources" used. He doubtless used "fluid" as synonymous with "liquid." The two words are synonymous when applied to free-flowing substances, such as water, but never in a monetary sense when applied to assets or resources. It is proper to say you have assets or resources which you can convert or liquidate into cash, but it would be improper to say you could water them into cash. [Laughter.]

I make these quotations not only to show that the author of the House bill does not understand the most important phase of his report, but that he is laboring under a misconception as to the purpose of the institutions his bill proposes to create; that is, he labors under the delusion that if the banks of deposit can have a place where they may secure "fluid resources" for themselves and their customers, everything will be all right and we will be free from panics. Nothing could be further from the truth. All banks, whether banks of issue or deposit, must cover their demand-payable obligations with liquid assets in order to be solvent and prevent inflation. Is there any wonder, then, that Mr. Glass should not have made any provision to prevent inflation on the part of the banks of deposit? The Credit Lyonnais is solvent, per se, and not because the Bank of France will supply it with "fluid resources."

Having shown that in order to do a safe banking business a bank must cover its demand-payable obligations with liquid assets, and that the principal item of liquid assets is solvent commercial paper payable at short and fixed periods, the next question is, What portion of such demand obligations should be covered with gold and what portion with such commercial paper? That depends on several things; first, upon the maturity of the commercial paper; second, upon the expansion of the bank's credits; third, upon the manner in which capital and labor are rewarded, etc. In 1810 the British Par-

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liament appointed a committee of 15 monetary experts to investigate and report the conditions under which the Bank of England could issue notes or circulation currency, and their report has become famous as the "Bullion committee law." That law is as follows:

> There can be no possible excess in the issue of Bank of England paper * * * so long as the discount of mercantile bills is confined to paper of undoubted solidity, arising out of real commercial transactions and payable at short and fixed periods.

This same sound principle was announced six years before (1804) by a committee of experts appointed by Parliament to ascertain the state of the bullion of the Bank of Ireland, and report the conditions under which it could safely issue notes. Each committee was composed of 15 experts, only two of whom served on both committees. But the Bank of England committee, known as the bullion committee, has been generally credited with announcing that sound philosophy. This committee also reported that the directors of the Bank of England did not know the other committee had announced such truth. It must be borne in mind that the Bank of England then and until the bank act of 1844 enjoyed a monopoly, those in control being actuated by a banker's profit. It is no easy thing to induce business men to adopt a philosophy which may mean loss of profit to themselves. When those in control of the greatest bank in the world refuse to adopt a philosophic truth and do business in accordance therewith, is there any wonder that the nonmonetary experts of Parliament should go to the other extreme and require the bank to cover their notes, dollar for dollar, with gold?—the very thing done by the bank act. The British public had lost all patience with the Bank of England after the disastrous panics of 1825 and 1837. For one-quarter of a century, 1797 to 1825, the notes of the Bank of England were below par most of the time.

The first instance in which an American Congress has announced that the world is round, monetarily speaking, was the passage of the Glass bill recently by the House. But the bill did not repudiate the "flat system of geography," for it adheres to the fixed gold reserve principle embodied in our present national banking system, the most dangerous feature of that system. To illustrate my meaning, I wish to read you the last four annual statements of the domestic bills carried by the Reichsbank of Germany. I would like to have them put in the record.

(The statement referred to is as follows:)

Domestic bills held by the Bank of Germany Dec. 31, 1909, 1910, 1911, and 1912.

Year.	Less than 15 days to run.	Percentage of total.	From 16 to 30 days to run.	Percentage of total.	From 31 to 60 days to run.	Percentage of total.	From 61 to 90 days to run.	Percentage of total.
	Pounds.		*Pounds.*		*Pounds.*		*Pounds.*	
1909	26,285,420	46.9	9,286,340	16.6	13,485,115	24.1	6,942,990	12.4
1910	26,956,920	46.2	9,747,415	16.7	14,173,070	24.3	7,507,675	12.8
1911	33,408,350	40.3	13,214,610	16.0	20,732,500	25.0	15,494,735	18.7
1912	37,254,415	37.3	18,284,650	18.3	25,186,110	25.2	19,115,640	19.2

It will be observed that on December 31, 1909, the Reichsbank had 46.9 per cent of its bills maturing within 15 days, 16.6 per cent ma-

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turing within 16 to 30 days, 24.1 per cent within 31 to 60 days, and only 12.4 per cent within 61 to 90 days. Whereas four years later those ratios ran as follows: Thirty-seven and three-tenths per cent, 18.3 per cent, 25.2 per cent, and 19.2 per cent, respectively. There was a decrease of more than 25 per cent in 15-day bills and an increase of more than 50 per cent in 60 to 90 day bills. It would be ridiculous to have required that bank to carry the same amount of gold in 1909 that it had in 1912, and yet that is precisely what this bill proposes. Our present reserve law is unsound and unsafe, and we should discard it. If we should discard that and adopt a true test of bank solvency, we would soon educate the public on the truth.

I wish to thank the committee for permitting me to propound some questions to Mr. George M. Reynolds touching the subject of bank reserves. My questions and his replies will be found on pages 288, 289 of the hearings. I was particularly anxious to be able to propound those questions to him because he is not only a most intelligent man, but a philosopher of credit as well and is to-day practicing in his banking establishment what I am preaching—that is, he is covering his borrowed capital with liquid assets. Let me quote a few lines of that colloquy:

Mr. MILLIKEN. Bank A has in gold 10 per cent of its deposits and 45 per cent of commercial paper maturing within 15 days, 25 per cent within 16 to 30 days, 15 per cent within 31 to 60 days, and 5 per cent within 61 to 90 days, and no commercial paper maturing after 90 days.

Bank B has 20 per cent of its deposits in gold, 15 per cent in commercial paper maturing within 15 days, 15 per cent in 16 to 30 days, 15 per cent within 31 to 60 days, and 35 per cent in 61 to 90 days, and no commercial paper maturing after 90 days.

Now, is it not a fact that Bank A is in a better position to meet its obligations than Bank B even though the latter at the particular time this statement is made has 100 per cent more gold in its vaults than Bank A?

Mr. REYNOLDS. I would say yes. If I understand you correctly, your whole theory or question is as to whether or not a very large percentage of your liabilities covered by short-time maturing commercial paper, with a small cash or gold reserve, is not better than a somewhat larger gold reserve with a very much smaller percentage of short-time commercial paper?

Mr. MILLIKEN. Yes.

Mr. REYNOLDS. I certainly agree with you.

If Congress would repeal our present national-bank reserve requirement and adopt this scientific test of solvency, it would teach the public the truth, whereas the present law teaches them a fallacy. It would not be revolutionary in any sense of the word, for it would merely require those banks to state the important factors constituting their solvency without prescribing a fixed amount of any one of those factors. Let the public read those published bank statements and they will begin to inquire the reason thereof. In time each bank will be vieing with each other for the best statement. We must educate the public on what is sound banking, and this is the very best way to accomplish it.

I am an advocate of a sound credit system as distinguished from a banking system. I maintain that there is too much capital and too many persons engaged in the business of exchanging bank credit for profit. Let me call your attention to the fact that the 46 banks of England and Wales have a paid capital and surplus of less than $400,000,000, or less than twice the paid capital and surplus of the Texas banks, yet the credit machinery of England alone will finance

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something like 50 times as much commerce as does the credit machinery of Texas. At least four billions of our foreign commerce is financed through the English credit machinery. Something like three-fourths of the foreign commerce of South America and South Africa, nearly all the foreign commerce of India, a large portion of the foreign commerce of Asia, and much of the foreign commerce of Europe is financed through the credit machinery of England. The commercial credit of England is free and independent of bank credit, because commerce finances itself in that country.

I shall illustrate this by supposing that we were operating under the English credit system. Suppose John Wanamaker, of Philadelphia, should sell a $10,000 bill of merchandise to Woodward, Wight & Co., of New Orleans. If that was done in England, Wanamaker would draw a bill of exchange on Woodward, Wight & Co. on, say, 90 or 120 time, and the latter would acept it and return it to Wanamaker. Suppose the day Wanamaker received that bill he should need $10,000 of granulated sugar, and call up the American Sugar Refining Co. and place the order, and at the same time say, "Don't draw on me, I will send you Woodward, Wight & Co.'s acceptance," giving the date and amount of the same. Of course if the American Sugar Refinery would trust Wanamaker it would trust him plus Woodward, Wight & Co. Suppose the day the sugar refinery received that bill it should order $10,000 of raw sugar from Woodward, Wight & Co., and it should write, "Don't draw on me, I will send you your own acceptance to John Wanamaker." So here would be three instances in which commerce would finance itself and save three banker's profits. It may be said this is theoretical, but I wish to say that similar transactions are done in England every year for hundreds and hundreds of millions of dollars. The bill of exchange is the principal circulating medium in the commerce of England. They have few bank notes, because the Bank of England can not issue a note without covering it with gold, dollar for dollar, except for a small amount to cover an old Government debt. What is best of all is the fact that the English credit machinery does that enormous business on the safest basis as well as in the most economic manner. They have very little gold compared to us. How do they accomplish it?

Let me explain the English credit machinery. In the first place the Bank of England is a real bank of commerce, because it is controlled exclusively by merchants, not for profit but as an aid and adjunct to commerce. And the reason that those bills of exchange circulate as cash in England is the fact that the Bank of England stands ever ready to pay the cash on them at all times. If they have not the gold in their vaults with which to liquidate them when presented they proceed to find the cash for that purpose. "It is the law of its being" to find gold for the liquidation of sound commercial paper, as said to Mr. Hepburn by the officer of the Credit Lyonnais, when speaking of the Bank of France. That is another bank of commerce which is controlled exclusively by merchants as an aid and adjunct to commerce. The fact being thoroughly established in those countries that those two banks stand ever ready to pay the cash on those commercial bills causes them to circulate independent of banks. If the proposed bankers' controlled regional banks are

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created, will we have an independent credit system in this country? I say no, for two reasons: First, because they will be controlled by bankers who will be selling credit for profit, and most of them will not care whether the prospective borrowers desire credit for speculative or commercial purposes.

Senator O'GORMAN. You are speaking now of the officers of the regional bank?

Mr. MILLIKEN. Yes, sir.

Senator O'GORMAN. Will not the fact that they are allowed a return of 6 per cent on the capital invested be a protection against that abuse?

Mr. MILLIKEN. No, sir; because those men may use those banks as "feeders" to build up their private banking institutions.

Senator O'GORMAN. Of course, you do not say they will; you mean that possibly they may?

Mr. MILLIKEN. Yes, sir.

Second, because the holders of those bills can not go direct to those regional banks, as is the case in Europe, but must pay two bankers profits. It is simply rediculous to talk of having an independent credit system when the head of the system is controlled by bankers.

In proof of my contention that the Bank of England is a merchants' controlled institution I offer the statements of Walter Bagehot and Hartley Withers published in their monetary books entitled, respectively, "Lombard Street and the meaning of money," which were read into this record by Senator Shafroth. I also offer the statement of the governor and directors of the Bank of England procured by the Monetary Commission, which was also read into this record by Senator Shafroth. I ask the privilege of rereading them into this record at this place:

Senator SHAFROTH. But I want to read to you a little paragraph from Walter Bagehot's book, Lombard Street, which probably clears the matter up more thoroughly than we did.

He says:

"In London no banker has a chance of being a Bank of England director or would ever think of attempting to be one. I am here speaking of bankers in an English sense—those who accept deposits subject to check. Not only no private banker is a director of the Bank of England, but no director of any joint-stock bank would be allowed to become such. The two situations would be taken to be incompatible. The mass of the Bank of England directors are merchants of experience and drawing a considerable capital in trade, in which they have been brought up and with which they are well acquainted. The direction of the Bank of England has for many generations been composed of such men."

Mr. WEXLER. Yes, sir.

Seantor SHAFROTH. Mr. Wade, a few moments ago you made the statement that members of banking houses were in reality members of the governing board of the Bank of England. I had occasion to look at a book entitled "The Meaning of Money," by Mr. Hartley Withers. There he says:

"When we come to consider the bank's organization, its most striking features are the constitution of its court of drectors and its system of government by rotation, and these are points on which the bank's critics have fastened with the keenest energy and determination.

"The bank court is a committee recruited chiefly from the ranks of the accepting houses and merchant firms, and its members are nominated by itself, subject to the purely formal confirmation of the shareholders; and it is an unwritten law that no banker in the ordinary sense of the word—that is, no one connected with what we call the check-paying banks—can be a member of it.

"At first sight this is one of those anomalous absurdities so common in England and so puzzling to the intelligent foreigner, who can not understand

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why we suffer them. A court of directors ruling the Bank of England, and so performing most important banking functions, and yet disqualifying for membership anyone with an expert knowledge of banking, is a tempting subject for an epigrammatically minded satirist. But, in fact, this anomaly, like many of our others, not only works excellently well in practice, but is, when calmly considered, clearly based on sound common sense. For in the first place it would obviously be undesirable that a member of one of the outer ring of banks should have the insight into the position of his rivals which membership of the Bank of England court could give him unless all the others were similarly privileged. But if all the other banks were represented on the bank court it would become a committee of unwieldly dimensions, perhaps reproducing or reflecting in the bank parlor the rivalries and jealousies that stimulate the outer banks to work against one another but are not conducive to their working together.

"And the question of proportionate representation would be difficult to settle. As it is, the bank court, being free from connection with the outer banks, except by keeping their balances, is able to watch their proceeding with a wholly impartial eye and, on occasion, to make suggestions with salutary effect."

Senator SHAFROTH. I hold in my hand the answer of the governor of the Bank of England and the interrogations of the monetary commission. Let me show you what he says here:

"Q. Is it customary to reelect directors at the expiration of their terms?—A. It is customary for directors to be reelected.

"Q. Is there any custom restricting the class from which the directors may be selected?—A. There is no legal restriction as to the class from which directors may be selected, except 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."

As tending to disprove the statements of those noted Englishmen, I refer you to the testimony of Mr. Festus J. Wade. The members of this committee who listened to him doubtless recall the intolerance with which he answered those disagreeing with him. When Senator Shafroth read from Bagehot's "Lombard Street" the witness poohpoohed that author and demanded that the Senator produce the statement of the governor of the Bank of England, repeating that his information was based on the statement of that official to the Monetary Commission. The witness kept bantering Senator Shafroth to produce that testimony, telling him it was in the Monetary Commission's reports and a part of the Congressional Record. Now, those of you who were present will recall that Senator Shafroth left the committee chamber and came back with that evidence, the very evidence the witness demanded and it completely refuted his contention. I never saw a witness whose testimony on a point was so completely destroyed as was the testimony of that witness on that point.

Let me say that 6 of the 24 directors of the Bank of England are members of mercantile houses which do an acceptance business. That is to say, they are members of houses which have a large foreign trade, and that means that they have foreign credit, so much so that foreign dealers with other English concerns require that their names be procured before they will extend credit. They only charge 25 cents per $100 for selling their names and guaranteeing the prompt payment of those bills, or less than many of our country banks will charge for collecting checks on which they assume no financial responsibility. To illustrate this further, let me say that as we have thrown down our tariff barriers it will be necessary for our merchant princes to go out into the marts of the world and find customers for

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our products. Suppose Marshall Field & Co., of Chicago, go to South America and Rice Stix & Co., of St. Louis, go to the Orient. No one firm can cover the whole world, not all at once at any rate.

Suppose that Rice, Stix & Co. should need a cargo of hides in their oriental trade and they should order the same from an Argentine hide dealer. The Argentine dealer would doubtless require them to induce Marshall Field & Co. to become the acceptors of that bill, because he would know the financial standing of the latter, as they would have an extensive trade and credit in South America, but might know nothing about Rice, Stix & Co. Both of these great American mercantile houses to-day have extensive credit establishments to ascertain the financial standing of those to whom they sell. So that they could do that acceptance business without incurring any additional expense whatever. Now, to charge them with being bankers because they did that credit business would be as reasonable as if you were to charge a merchant with being a drayman because he built his warehouses along a railroad sidetrack and thereby eliminate the drayman's expense. Those English merchants charge just the same for accepting a 30-day bill as they do for a 120-day bill. So they are not interest gatherers, as is the case with bankers; on the contrary they are interest payers. Mr. Sol Wexler, of New Orleans, a most intelligent banker who testified before you, did not call those great merchants who control the Bank of England bankers. He does an extensive business with them and knows that some of those in control of that institution do an acceptance business. Mr. Wexler said that we had no such class in this country, and he might have also said that we never would have such a class if the proposed bill passes, because such acceptances would have to pay two bankers' profits before they could be liquidated by the proposed central banks or regional reserve banks.

It is preposterous to suppose that bankers would exert themselves in establishing open money or credit markets and thus lessen the banking business. "It's the law of their being" to increase their business of selling or exchanging credits.

(Thereupon at 11.58 o'clock a. m., the committee took a recess until 1 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Mr. Milliken, the committee will be pleased to have you continue your remarks.

Mr. MILLIKEN. The fact that the Bank of England is controlled by the great merchants, the very highest grade of interest payers in the world, causes those bills to circulate free and independently of the banks of that country, because the public understand that it is "The law of their being" (the merchants in control of the Bank of England) to find cash for the liquidation of commercial bills, just as our gold certificates circulate until they wear out without ever being presented for payment, simply because the holders have confidence in the good faith and ability of the Government to redeem them in gold coin on demand. But let the Government refuse to redeem one of them and that fact be widely known, and the public would demand the gold.

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Napoleon, after listening to the forceful appeal of Mollien, his famous minister of finance, for the freedom of the Bank of France from the Government shackles with which it was then bound, sat silent and then observed:

The world is old; we should profit by its experience. It teaches us that ancient practice is often worth more than new theories.

That is sound advice—something which should be heeded at all times and on all subjects by all lawmakers; but that advice has a peculiar application at this time when the American Congress has assumed the responsible task of attempting to remedy the present evils of our faulty credit system.

It is necessary, therefore, that we take a retrospect of the "ancient practice" of credits, in order that those of this day and generation may know how far from the line of safety the present "practice" deviates from "ancient practice." It is needless to say that the people of the United States learned the practice of banking from the people of western Europe, principally from the mother country, while the people of western Europe learned it from the merchants of Venice, who enjoyed the most extensive trade and commerce during the whole of the Middle Ages.

It is singular, indeed, that the astute and wealthy commercial nations of western Europe should have delayed until the latter half of the nineteenth century the adoption of the philosophy of credit taught them by the Venetian merchants at least six centuries before. This is but another of the many evidences of the oft-repeated adage that history in time will surely repeat itself.

There are three necessary prerequisites to the establishment of a sound and extensive credit system, viz, the possession of ample wealth, the enjoyment of extensive trade relations, and the maintenance of commercial honor. In each of these the Venetians easily excelled the balance of the world during the whole of the medieval period. During that period they had a virtual monopoly of the carrying trade of the world. Even as early as 523 A. D. their river or domestic commerce was extensive and valuable, while in the eighth century their carrying trade and commercial relations with many distant regions were established on a tolerably sound footing.

It is said that—

The Chronicle of the Monastery of Cava relates how in 987 some large Venetian ships stayed at Salerno on their way to Syria, and how not unfrequently the merchantmen of the Republic foundered in that neighborhood with rich cargoes.

From the eleventh to the fifteenth century Venetian wealth was the wonder of the world, and her commerce stood on an unapproachable eminence which extended throughout civilization. Her argosies formed the sole channel of communication between the courts of Germany and Constantinople, and her well equipped and expensively guarded caravans furnished the only connecting link between the Occident and the Orient until the British discovered the Cape of Good Hope route in 1484.

Hazlitt, in The Venetian Republic, Volume II, page 554, in writing of Venetian credit and charitable institutions for the sixteenth century, says:

Throughout the Lombard part of the Empire or dominion the same solicitude, however, was shown by the establishment of hospitals and refuges, and by the

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loan of money on easy terms, to alleviate distress, provide for old age, and assist traders and agriculturists. The *Monte di Pieta* was a universal institution. * * * That at Brescia advanced to any poor person on adequate security without interest up to *scudi di oro*, and if the money was not returned within a year the pledge was sold and any surplus returned to the borrower, deducting only a *soldo* for the expenses. The *Monte* at Verona was under the management of a committee, which lent on security at 6 per cent to commercial houses or individuals, * * * but to the poor it lent sums not exceeding four lire gratuitously.

It must be borne in mind that the period of Venetian history about which the author writes antedates the organization of the Bank of Amsterdam, the oldest incorporated bank of western Europe (1609).

The same historian, Volume II, page 621, in writing about the poor coinage laws of the Venetians, says:

Of foreign money, in addition to what we have enumerated, there were three other varieties, which Venice, from a lack of sufficient supply of her own manufacture, acknowledged and accepted during the earlier centuries. There were the Arabic dirhem of silver, which conveniently adapted itself to current requirements, being equal to two Lombard or Frankish *denari*; *perpero*; and the besant or bysant.

Continuing, the historian says:

All these devices for obviating the inconvenience arising from a scanty currency might, however, have failed to provide any adequate remedy for the evil, if trade had not been largely conducted on a basis of exchange, and payments in kind had not long remained in universal vogue. We must acquit the Venetians of an ignorance of bills and other substitutes for cash, when such facilities were elsewhere enjoyed in the twelfth or thirteenth century; and while the first explicit reference to such matters is as late as 1405, the passage where it occurs speaks of it rather as a familiar principle than as a novelty in practice, and so much so that we have an actual document of 1326 immediately belonging to Milan, but the counterpart and sample beyond doubt of thousands and hundreds of thousands which once existed up and down commercial Europe. It is in the subjoined terms, and points to a practice of giving six months' credit, or, as it is now expressed, of drawing at six months:

"Pagate per questa prima letera a di lx Ottobre a Luca de Poro, Lib. XLV. Sono per la valuta qui da Masca Reno al tempo si pagate e ponete a mio conto, e che Christo vl guarde. Bonromo de Bonromei de Milano, lx. de' Marzo, 1325."

The same author tells us, Volume II, page 643, that:

On the 4th of June, 1160, the Government borrowed of half a dozen merchants the sum of 150,000 silver marks.

This was the first instance in history of a government funding its debt, and antedates by more than five centuries the organization of the Bank of England and funding of the first British Government debt. The bill of exchange was, no doubt, the most popular credit instrument employed by the great merchants of Venice, because it was peculiarly adapted to the character of their commercial transactions—the world-wide effort in bringing producer and consumer together.

Add to the international reputation which those pioneers in commerce had acquired for capacity and honor, their vast riches, and we have fundamental conditions underlying a sound and extensive credit system. That those great merchants employed that and similar credit instruments for centuries solely as an aid to their commercial enterprises, and not for profit, there is little dispute, and so long as they confined them to real commercial transactions history makes no mention of financial crises.

As the use of such credit instruments by those merchants as an aid to business antedates the art of printing, it is difficult to designate the

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exact period when independent credit or banking institutions were organized to sell credit for profit.

The date of the first Venetian usury law was 1254. It is reasonable to assume, therefore, that special credit or banking institutions did not long exist before the enactment of this law. It was a century after the enactment of this usury law before history gives any account of serious difficulties arising from the failure of private banking firms. Hazlitt, Volume II, page 646, says:

> In 1355, October 15, it was resolved by the Pregadi that Ser Marino Baffor of Santa Maddalena, and Ser Marco Trevisano, bankers, having absconded with 20,000 ducats, be cried, and that whoever shall lead to their conviction, and deliver them into custody, shall have 550 lire. In 1390 the private bank of Ser Antonio Contarini failed, and was thus wound up by order of the Council of Pregadi.
>
> It was among the domestic troubles and embarrassments of the Doge Foscari that the bank of Andrea Priuli, his father-in-law, suspended about 1440. In 1502, the general inconvenience produced by insolvencies led to the institution of the *Proveditori sopra Banchi.*

From the thirteenth century, the time when it is most probable the Venetian merchants ceased to do a credit business strictly as an aid to commerce, until the first half of the last century, is the dark age of credit.

During those six centuries, no one seemed to know the exact nature of credit, though every class of credit instrument was in general use. During that period every civilized country suffered from the effects of bad legislation and worse banking practices. France was financially ruined on numerous occasions as a result of such practices and legislation.

But the nineteenth century brought forth a vast army of philosophers of credit, and, strange to say, all that philosophy corroborated the "ancient practice" of the Venetian merchants. The first was the "Bullion committee law," which was announced in 1804, and reannounced in 1810.

The next most philosophic truth respecting credit institutions was that the merchant is the permanent regulator of the interest rate (the rate of profit). This truth was announced in 1827 by James W. Gilbart, F. R. S., who was probably the greatest philosopher of credit the world ever produced. He spent 50 years in actual banking practice, and mastered every detail of the business. His opinion on banking and bank credits was more highly respected than that of any person of his age. He did more to destroy the monopoly of the Bank of England and make it a merchants' controlled institution than any other person in the United Kingdom. He did not accomplish that great work by making monetary experts of members of Parliament, though he appeared before more parliamentary monetary commissions during the first half of the last century than any person in the United Kingdom. On the contrary, he accomplished it by organizing the first of the London great joint-stock banks. At that time the Bank of England enjoyed a monopoly of the banking business within a radius of 65 miles of London. Therefore, Gilbart had to fight in all the courts of England to establish his philosophic truths. He lost in the courts, but he so educated the British public that the monopoly of the Bank of England was destroyed by Parliament.

I wish you would bear with me while I read the most important truth announced by Gilbart, namely, that the merchant is the perma-

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nent regulator of the interest rate, the rate of profit on money. This is what he wrote:

Sir Josiah Child, in his excellent Essay on Trade. accuses the "new-fashioned bankers" of "being the main cause of keeping the interest on money at least 2 per cent higher than otherwise it would be; for by allowing their creditors 6 per cent they make moneyed men sit down lazily with so high an interest and not push into commerce with their money, as they certainly would do were it at 4 or 3 per cent, as in Holland. This interest also keeps the price of land at so low as 15 years' purchase. It also makes money scarce in the country, seeing that the trade of bankers being only in London it very much drains the ready money from all other parts of the Kingdom."

That we may be able to judge of these accusations—

Says Gilbart—

it will be necessary to make some observations upon those circumstances which influences the rate of interest.

It has been the opinion of most of our political economists that the rate of interest is regulated by the rate of profit. This sentiment has, however, been attacked. It has been contended that the rate of interest is not influenced by the average rate of profit but by the moneyed capital in the market, compared with the wants of borrowers—in other words, that the price of money is influenced by the proportion between the demand and the supply.

This sentiment is undoubtedly right, but it does not overthrow the proposition against which it is advanced. The price of money or of the loan of money is, no doubt, like the price of any other commodity, regulated at any particular time by the proportion between the supply and the demand. But does not the rate of profit regulate the supply and the demand? Will any commercial man borrow money when he must give a higher interest for it than he can profit by its use? Or will any man lend money at a very low interest when by engaging in business he can make a very high profit? It is true that on particular occasions and under particular circumstances some individuals may do this, but not permanently and universally. It is obvious, then, that a high rate of interest in proportion to profits increases the supply of money and diminishes the demand, and a low rate of interest in proportion to profits increases the demand for the loan of money and diminishes the supply. The rate of interest, therefore, is ultimately regulated by the rate of profit.

When we say the price of cotton is regulated by the cost of production, we do not mean to deny that the market price of cotton is fixed by the proportion between the demand and the supply. On the contrary, this is admitted; but, then, it is contended that the supply itself is regulated by the cost of production. If the market price of cotton were so low as not to furnish the grower a fair average of profit on the capital employed, then would capital be removed after a while from the cultivation of cotton to some other employment? And if the price of cotton were so high as to furnish more than a fair average of profit, then after a while more capital will find its way into that employment, the supply would be increased, and the price would fall; but it is only by influencing the supply that the cost of production may be the same for a number of years; the price may be perpetually varying. The price may from a variety of causes be in a state of constant vibration, but it can not permanently deviate on one side or the other much beyond the line marked out by the cost of production.

It is the same with money. It is subject to perpetual fluctuations from the proportion between the demand and the supply, but it does not deviate far from the line marked out by the rate of profit, for the rate of profit not only influences the supply (as with cotton) but also influences the demand.

The above reasoning is founded on the supposition that those who borrow money borrow it for the purpose of investing it in trade or of making a profit by its use. But this is not always the case; and is never the case with the Government of a country, who always borrows for the purpose of spending. Now, we can form a judgment as to what portion of his profits a merchant is willing to give for the loan of a sum of money, but we can form no judgment as to the conduct of a profligate rake who wants money to spend on his follies. A king or a government is in the same state.

They will borrow money as cheaply as they can; but at all events money they will have. We can not therefore infer that, because Charles II gave at

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times to the new-fashioned bankers 30 per cent for money, the average rate of profit exceeded 30 per cent. May not, then, those advances to the king have had the effect of raising the interest of money and thus justify the accusations of Sir Josiah Child?

When a number of commercial men borrow money of one another, the permanent regulator of the rate of interest is the rate of profit; and the immediate regulator is the proportion between the demand and the supply. But when a new party comes in to the market, who has no common interest with them who does not borrow money to trade with but to spend, the permanent regulator (the rate of profit) loses its influence, and the sole regulator is then the proportion between the demand and the supply. The loans to the king created a much greater demand for money and the rate of interest consequently rose. These demands were so great in amount and were so frequently repeated that the rate of interest became permanently high. Many individuals would no doubt (as Sir Josiah Child states they did) withdraw their capital from trade and live upon the interest of their money. And others who were in business would employ their superfluous capital in lending it at interest rather than in extending their business. Those commercial men who now wanted to borrow money must give a higher interest for it than they did before. To enable themselves to do this they must charge a higher profit on their goods. Thus, then, in the artificial state of the money market, it appears reasonable to suppose that the rate of interest may have regulated the rate of profit instead of the rate of profit regulating the rate of interest, which is the natural state.

Not a single European Parliament has ever adopted that sound philosophy of Gilbart, namely, that the merchant is the permanent regulator of the interest rate, yet the majority of those central banks have become controlled exclusively by great merchants. I maintain that the great merchants should control the head of the credit system or ultimate reserve agent for the following reasons:

1. Because that is the best safeguard against the monopolization of credit.

2. Because that is the only way to have a credit system as distinguished from a banking system.

3. Because that is the only way to establish a credit system of the greatest efficiency and economy; but, if the banker were to control that institution, as well as a private banking establishment, then banking would cease to perform its real mission of economizing capital and become a millstone around the neck of commerce.

4. Because no credit system is sound unless its note issues are based on sound commercial paper, and as the merchant is the maker of that paper it naturally follows he is the best judge of its quality.

5. Because the merchant is the permanent regulator of the interest rate (the rate of profit); the price he can pay for the loan of money being regulated by the profit he makes on his goods. But this rule does not apply to those who borrow for the purpose of spending, such as a profligate rake or a government; neither does it apply to the banker, as he is the most potent factor in the supply and demand (the immediate regulator of the interest rate), and if the banker were to control the head of the credit system, then the rate of interest would regulate the rate of profit instead of the rate of profit regulating the rate of interest, which is the natural state.

6. Because the merchant is better fitted temperamentally than the banker to control the head of the credit system, for the reason that the banker is the greatest demand debtor known to the business world, while few of the merchant's obligations are payable on demand. Therefore, when the banker needs money he must have it immediately—to-day, not to-morrow—and when such demand on the banker becomes urgent it wholly unfits him to take the proper per-

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spective as to the effect which the granting of such request would have on future interest rates.

7. Because notwithstanding the fact that the merchants furnish the security for most of the paper entered at the counter of the central bank for discount, yet a vast majority of its discounts are made through and by bankers, done voluntarily and in the ordinary course of trade. The very merchants who control those European central banks do not go directly to them for discounts as a rule. Instead they patronize the banks selling credit for profit, because the rate of discount of the central banks is frequently 100 per cent in excess of the market rate. In proof of this I refer to the following statement showing the market and Bank of England rate for money on the last Thursday of each month during 1910:

Date.	Open market rate.	Bank rate.	Date.	Open market rate.	Bank rate.
	Per cent.	*Per cent.*		*Per cent.*	*Per cent.*
Jan. 24	2½	3½	July 23	1½	3
Feb. 23	1½	3	Aug. 22	1¾, 2	3
Mar. 22	3, 3½	4	Sept. 22	1½	3
Apr. 21	3¼, 4	4	Oct. 24	4½	5
May 23	4, 4½	4	Nov. 21	5½	5
June 21	2¼, 3	3	Dec. 20	3	4½

But if the central bank were controlled by bankers, it would be used as a "feeder" to the private banks owned by them, and thus accentuate the greatest curse known to American corporate management, viz, the control of one corporation by another doing the same business. We have but to view the many railroads which have been wrecked by this pernicious practice, also the many scandals which have occurred in the control of our life insurance campanies as a direct result of this practice.

8. Because if the banker be permitted to control the head of the credit system there would exist a strong incentive for him to deny credit to a troublesome though worthy competitor, because if failure resulted he would profit by the lessening of competition, or if by getting him in a tight place and buying him out at his own price, he would profit in that way. No such unworthy motive would actuate the merchant, as he would be prohibited from engaging in the banking business for profit.

9. Because credit has exactly the same influence, if affecting values, as gold—influencing them downward when used for production and upward when used for speculation and overconsumption—and as 99 times more business is done with credit than with gold, and the merchant being selfishly interested in production as well as in a low rate of interest, it naturally follows he should control one important credit institution.

10. Because by placing the best merchants in control of the ultimate reserve agent, we would not only be following the "ancient practice" of the Venetian merchants who introduced the use of credit instruments into western Europe, but we would be following the present practice of every country in Europe enjoying a credit system which is the envy of the balance of the world.

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I have here an amendment to this bill—a supplemental amendment. I will read it now:

[Amendment to S. 2639 by adding sec. 30.]

SEC. 30. This act also authorizes the establishment of a bank of commerce to be controlled in a decentralized manner by the merchant citizens of the United States, a portion of the profits of such bank shall be paid into the Treasury of the United States and held in trust for the capitalization of a rural credit system. Such bank of commerce shall operate and be governed solely according to the terms of its charter, which shall read as follows:

CHARTER FOR THE BANK OF COMMERCE.

ARTICLE I.

SECTION 1. (Name of corporation.) The name of the corporation shall be the "Bank of America," and referred to herein as the bank.

ARTICLE II.

SECTION 1. (Object of the bank.) The object of the bank shall be to provide credit for the distribution of commerce, and as a means to that end it shall have power and authority to do a general banking business, and do and perform any and every act incident and pertaining to such business, except the issuance of circulating currency, and act as the depositary and fiscal agent of any State government or any subsidiary thereof, when lawfully chosen as such by any such State or its subsidiary government, or of the Government of the United States when not otherwise expressly provided by law.

Paragraph 1. (Bank to maintain gold standard.) The bank shall pay its obligations in gold of the present standard of weight and fineness, and should Congress make the bank the sole depository and fiscal agent of the Government of the United States, then it shall be the further duty of the bank to maintain an ample supply of gold for the protection of public and private credit.

ARTICLE III.

SECTION 1. (Bank's executive office.) The bank's temporary executive office shall be located by the board of directors at their first meeting, where it shall remain for three years, and at the expiration of that time the board shall establish a permanent executive office; but branches, agencies, and board meetings may be established and held in such places as the by-laws may prescribe.

ARTICLE IV.

SECTION 1. (Capital stock.) The amount of the authorized capital of the bank shall be $100,000,000, divided into one million shares of $100 each, and the certificates therefor shall be numbered from one to one million, inclusive. The capital with which the bank may begin business shall be $1,000,000, but the paid-in capital at the close of its first year's business shall be not less than $5,000,000, and the remainder of said capital shall be paid in in cash from time to time, as the bank's business may require and in such amounts as the by-laws or the Secretary of the Treasury may prescribe: *Provided*, That the Secretary of the Treasury shall not require the paying in of more than $3,000,000 of such capital during any one year. All stock must be of the same class and dividend-earning ability.

Paragraph 1. (Disposition of profits.) The stockholders shall be paid from the profits a dividend of 6 per centum per annum, payable annually, semi-annually, or quarterly, as the by-laws may prescribed, which shall be cumulative. The remainder of the profits shall be placed to surplus until it equals 20 per centum of the paid capital, and thereafter the bank shall accumulate an old-age pension fund equal to a dividend of one-half of 1 per centum per annum, to be paid, as the by-laws may prescribe, to such employees who have been paid salaries for ten consecutive years of less than $3,000 per annum, and the balance shall be paid as follows, namely: One half to the stockholders and the

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other half into the Treasury of the United States, to be held in trust and employed in capitalizing a rural-credit system.

Subpar. 1. (Congress may change ratio of profits.) Congress shall have authority, decimally after the twentieth year, to change the apportionment of profits provided in this section.

Par. 2. (Public to own stock.) No corporation shall become a subscriber to or be one of the original stockholders of the capital stock, and no individual shall be a subscriber to more than twenty-five shares thereof, except those merchant citizens who will qualify as electors, directors, and officers by disposing of their other banking investments, and no elector or director shall become such subscriber to an amount in excess of 5 per centum of his mercantile investments.

ARTICLE V.

SECTION 1. (Duration of bank.) The duration of the bank shall be fifty years from the time it begins business, but Congress shall have authority, decimally after the twentieth year, to amend this charter.

ARTICLE VI.

SECTION 1. (Corporate powers of bank.) The corporate powers of the bank shall be exercised as follows, viz: The legislative power shall be exercised by a board of directors or bank parliament and the bank court, provided that the bank court shall exercise only such authority as may be delegated to them by the parliament except in the matter of fixing the discount rates; the executive or administrative power shall be exercised by a governor and deputy governor and such officers, managers, and agents as the governor may appoint, provided he shall make no appointment not authorized by by-law and if the appointee is to be paid exceeding $2,000 per annum the appointment must be approved by the bank court; and the inspection power shall be exercised by the censors and inspectors.

SEC. 2. (Number of directors and votes of each.) Each State and the District of Columbia shall be entitled to one director, provided it has six qualified electors who have resided therein for a term of two years, and each director shall be entitled to one vote on the board or bank parliament.

Paragraph 1. (Classification of directors.) The classification of directors, districts, and territory comprising each shall be as follows:

FIRST CLASS.

Number.	Territory.
First	Alabama.
Second	Arizona.
Third	Arkansas.
Fourth	California.
Fifth	Colorado.
Sixth	Connecticut.
Seventh	Delaware.
Eighth	District of Columbia.
Ninth	Florida.
Tenth	Georgia.

SECOND CLASS.

Eleventh	Idaho.
Twelfth	Illinois.
Thirteenth	Indiana.
Fourteenth	Iowa.
Fifteenth	Kansas.
Sixteenth	Kentucky.
Seventeenth	Louisiana.
Eighteenth	Maine.
Nineteenth	Maryland.
Twentieth	Massachusetts.

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THIRD CLASS.

Number.	Territory.
Twenty-first	Michigan.
Twenty-second	Minnesota.
Twenty-third	Mississippi.
Twenty-fourth	Missouri.
Twenty-fifth	Montana.
Twenty-sixth	Nebraska.
Twenty-seventh	Nevada.
Twenty-eighth	New Hampshire.
Twenty-ninth	New Jersey.
Thirtieth	New Mexico.

FOURTH CLASS.

Thirty-first	New York.
Thirty-second	North Carolina.
Thirty-third	North Dakota.
Thirty-fourth	Ohio.
Thirty-fifth	Oklahoma.
Thirty-sixth	Oregon.
Thirty-seventh	Pennsylvania.
Thirty-eighth	Rhode Island.
Thirty-ninth	South Carolina.
Fortieth	South Dakota.

FIFTH CLASS.

Forty-first	Tennessee.
Forty-second	Texas.
Forty-third	Utah.
Forty-fourth	Vermont.
Forty-fifth	Virginia.
Forty-sixth	Washington.
Forty-seventh	West Virginia.
Forty-eighth	Wisconsin.
Forty-ninth	Wyoming.

Subpar. 1. (Classification of new States.) If new States be created out of any of the territory mentioned in this paragraph and designated as the forty-nine directors' districts, the first shall become the fiftieth district and be a member of the fifth class, the next shall become the fifty-first district and be a member of the first class, and so on, consecutively.

Par. 2. (Terms of office of directors.) The first board of directors shall be divided into five classes in the order provided in paragraph 1 of this section. The term of the first class shall expire on the second Tuesday in April next following their election; that of the second class one year from that time; that of the third class two years from that time; that of the fourth class three years from that time; and that of the fifth class four years from that time, and so on, consecutively, in each and every year thereafter, so that all the directors of one class shall be elected annually thereafter, provided there be the requisite number of electors in a district to elect a director. All vacancies occurring on the board of directors shall be filled at a special election to be called by the governor within ninety and not sooner than sixty days after such vacancy occurs to fill such unexpired term.

Par. 3. (Qualification of directors.) Each director must be a bona fide resident of his director's district and a qualified bank elector and remain both during his term of office.

Par. 4. (Manner of electing directors.) The directors shall be elected by the ballots of the qualified electors residing in their respective directors' districts. Such ballots after being cast must be forwarded to the executive office of the bank by United States post, inclosed in official envelopes, printed or written "Official director's ballot" in red ink on the address side thereof.

Subpar. 1. (Ballots and envelopes, how furnished.) It shall be the duty of the secretary, thirty days before an annual and fifteen days before a special election for director, to mail one official ballot and envelope to each qualified elector residing in the district in which such election is to be held.

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Subpar. 2. (Inspectors of election.) The secretary shall, on the fourth Tuesday in March of each year, in the presence of the censors, who shall be inspectors of elections, open and count the official ballots cast for directors at the elections held two weeks previously.

Subpar. 3. (Candidates for directors.) Each qualified elector who desires to become a candidate for director of his district must notify the secretary of such desire four months before an annual and thirty days before a special election, and the secretary shall inform such candidate of the approximate cost in postage and printing necessary to place his name before the qualified electors of his district. If such candidate within fifteen days after the mailing of such information makes remittance to cover such expense, it shall be the further duty of the Secretary to cause the name and address of each such candidate, as well as the style of the mercantile house or houses with which each is connected, to be printed on each such ballot sent out by him, and mail one to each qualified elector of that district. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If two candidates tie at any election, then the two receiving the highest number of votes shall be eligible candidates at a special election therefor.

Par. 5. (Annual election of directors.) The annual election for members of the board of directors to fill the places of the outgoing class shall be on the second Tuesday in March of each year, and the newly elected members shall take charge of their office the second Tuesday in April next following and hold such office for a term of five years, provided they remain eligible during such period.

Par. 6. (Compensation of directors.) The members of the board of directors shall be compensated by salaries fixed by by-law and traveling expenses incurred in attending board meetings, and as an extra compensation for prompt attendance at the executive office at noon on Monday immediately preceding the annual parliamentary session on the second Tuesday in April of each year, and there remain during business hours until six o'clock postmeridian the following Wednesday, they shall be paid each $4 per hour spent in traveling by the quickest route from their homes to such executive office and return, and at the same rate per hour while actually attending to the duties imposed on them under this charter from noon on said Monday until said six postmeridian on the following Wednesday.

Subpar. 1. (Penalties for failure of attendance.) Any director who fails to attend the annual parliamentary session by noon on said Monday and there remain, during business hours, until 6 p. m. the following Wednesday shall receive no salary for the following year nor any portion of the extra compensation mentioned in the sixth paragraph of this section. And any director who shall have been derelict in attendance on such annual parliamentary sessions for three out of five years shall be rendered ineligible thereafter from holding such office.

Par. 7. (Salaries fixed by by-laws.) All salaries exceeding $2,000 shall be fixed by by-laws.

Par. 8. (Quorum.) A majority of the directors shall constitute a quorum for the transaction of business.

Par. 9. (Chairman of the board.) The board of directors shall elect one of their members chairman, who shall preside at the meetings or sessions of the board and may call the members together in extraordinary session by giving each member thereof at least fifteen days' previous notice.

Par. 10. (Nonpolitical control guaranteed.) No director shall hold or become a candidate for any office under any government or with any political party while he holds his directorship with the bank.

SEC. 3. (Electors.) Each merchant citizen of the United States who owns at least twenty-five shares of the bank's stock and twenty times as much interest in such mercantile house or houses as is defined in paragraphs one and two of this section, whose principal estate is invested in such house or houses and who does not own any stock or interest or hold any office in any other bank or banking institution stock bond or bill brokerage or bill discounting establishment is declared to be a bank elector and entitled to cast one vote by ballot at each election held for director or censor of the district in which he resides and has resided for at least two years previously except as otherwise herein expressly provided.

Paragraph 1. (Mercantile house defined.) The term "mercantile house" within the meaning of this section is a person, firm, corporation, or association engaged in the mercantile business which enjoys, continues to enjoy during the

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term of such electorship, and for five years previous to the acquisition of such electorship privilege has enjoyed good credit, and one-half of whose sales comprises articles purchased for a consumptive demand and not exceeding twenty-five per cent of whose sales are articles of its own manufacture or production.

Par. 2. (Consumptive demand defined.) The term "consumptive demand," within the meaning of this section, are purchases made to be disposed of in the ordinary course of trade on which the house expects to realize a merchant's profit in contradistinction to a speculator's profit.

Par. 3. (Rule for determining ratio of interests.) After the bank has been in operation ten years the rule for determining that the ratio between an elector's mercantile and bank investments is twenty to one, respectively, shall be according to the average net annual income derived from each class of investments for the five years next preceding; but during the first decade such ratio shall be determined according to the par values of the two stocks, if the mercantile house be incorporated, otherwise by the market or fair cash values of the two classes of investments.

Par. 4. (Disqualification of electors.) The board of censors may, by a unanimous vote and when they believe the public interest will be best served thereby, call a confidence election to disqualify any one or number of electors. Three months' notice must be given each elector who is sought to be disqualified, the reasons therefor set forth in writing and signed by the censors, and a copy furnished each such elector.

Par. 5. (Confidence election district.) Each director's district shall constitute a separate confidence election district.

Subpar. 1. (Voters at confidence elections.) Each citizen of the United States (exclusive of the electors, directors, and officers) who is a stockholder of record of the bank at least two years before such election, and who has been a resident for the same length of time of the district in which such election is to be held, shall be entitled to vote his stock at each confidence election held in his district, each share of such stock being entitled to one vote.

Subpar. 2. (Effect of confidence elections.) If ninety per centum of the stock of such voters is represented at such election and fifty per centum thereof is cast to disqualify an elector, it shall have the effect of disqualifying such elector from voting for a director thereafter or holding that office.

Par. 6. (How to become an elector.) Any merchant citizen desiring to qualify as a bank elector shall make such desire known in writing to the secretary, on receipt of which the secretary shall forward a formal electorship blank to such applicant, to be by him filled out, sworn to, and returned to the secretary in an envelope which the secretary shall inclose for that purpose in his letter replying to the request of such applicant, such envelope to have printed on its address side in red ink the words "Formal application for electorship." On receipt of such formal application properly signed and sworn to the secretary shall turn it over to the board of censors for verification, and when so verified it shall be returned to the secretary, who, if he finds the statements contained therein to be true and entitle the applicant to an electorship in the bank, shall cause the applicant's name and address to be recorded in the electorship book, file the application in the electorship vault, and issue an electorship certificate to the applicant.

Subpar. 1. (When mandamus proceedings may be invoked.) Should an eligible merchant citizen be denied the privilege of an electorship after complying with all the requirements imposed he shall be entitled to apply to any court of competent jurisdiction for a writ of mandamus.

Par. 7. (Electors to make affidavits annually.) It shall be the duty of the secretary and censors annually to prepare questions to be propounded to those electors of districts in which elections are to be held the following year touching their qualifications as such and cause the same to be signed and sworn to by them, and when replies thereto are received have them properly filed in the electorship vault.

Subpar. 1. (Confidential communications.) All information acquired by the secretary and censors by virtue of their office touching the qualification of electors shall be kept in confidence and not divulged to anyone except the Attorney General of the United States and such representative as he may designate to receive the same.

Par. 8. (Sectarian control prohibited.) Not exceeding thirty-four per cent of the electors of any director's or censor's district shall be of the same religious persuasion or sect. If a greater percentage than that should become qualified,

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then the ones last qualified shall not be entitled to vote for director or censor during the period such condition exists.

SEC. 4. (Governor.) The governor shall be a citizen of the United States who does not own less than two hundred shares of the bank's stock and who owns no stock or interest nor holds any office in any other bank or banking institution, stock, bond, bill brokerage, or bill discounting establishment.

Paragraph 1. (Governor's tenure of office.) The governor shall be elected by the board of directors on Wednesday next following the second Tuesday in April of each year which is the multiple of five, and shall hold his office for a term of five years and until another is elected in his stead: *Provided*, That the board of directors may, by a two-thirds vote, remove him from office.

Par. 2. (Duty and authority of governor.) The governor shall be the bank's chief executive officer and chargeable with the safe and efficient conduct of its business, to which end he shall possess power and authority to appoint such officers, managers, and employees not otherwise herein expressly provided to aid him: *Provided*, That every such appointee who is to receive a salary in excess of $2,000 per annum shall be approved by the bank court: *And provided further*, That he and his appointees shall be amenable to the by-laws and governed thereby.

SEC. 5. (Deputy governor.) The deputy governor shall be a citizen of the United States who owns not less than one hundred shares of the bank's stock, and who does not own any stock or interest nor hold any office in any other bank or banking institution, stock, bond, bill-brokerage, or bill-discounting establishment.

Paragraph 1. (Deputy governor's tenure of office.) The deputy governor shall be elected by the board of directors on Wednesday next following the second Tuesday in April of each year which is a multiple of five, and hold such office for a term of five years and until another is elected in his stead: *Provided*, That the board of directors may, by a two-thirds vote, remove him from office.

Par. 2. (Duty and authority of deputy governor.) The deputy governor shall perform the duties imposed by this charter on the governor during his absence or inability to act and such other duties as may be assigned him by the governor: *Provided*, That he and his appointees shall be amenable to the by-laws and governed thereby.

SEC. 6. (Qualification and number of bank court.) The bank court shall consist of nine persons who shall be qualified electors and own not less than fifty shares of the bank's stock, and who does not own any stock or interest or hold any office in any other bank or banking institution, stock, bond, bill brokerage, or bill-discounting establishment.

Paragraph 1. (Tenure of office of members of bank court.) The members of the bank court shall be elected by the board of directors annually for a term of one year: *Provided*, That the board of directors may, by a two-thirds vote, remove a member thereof from office.

Par. 2. (Duty and authority of bank court.) The bank court shall have authority to fix the discount rates, the same to lower and raise at their pleasure, and do and perform such other duties as may be delegated to them by the board of directors: *Provided*, That a by-law enacted by the bank court shall remain in force only until the next meeting of the board of directors The bank court shall, immediately after enacting a by-law, notify each member of the board of directors thereof.

SEC. 7. (Secretary.) The secretary shall be elected annually by the board of directors and hold such office for a term of one year and until another is elected in his stead. The board of directors shall elect an assistant secretary, who shall perform the duties imposed on the secretary during his absence or inability to act.

Paragraph 1. (Duty and authority of secretary.) It shall be the duty of the secretary to attend the meeting of the board of directors and bank court, and keep true records of what transpires thereat. He shall keep the stock and electorship books, become the joint custodian with the censors of the electorship applications and papers and evidence pertaining to the qualification of electors, and not divulge their contents to any person except the Attorney General of the United States and such representative as he may designate, perform the duties imposed on him under paragraph six of section three of this article, direct the work of the inspectors, and perform such other duties as the by-laws may prescribe.

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SEC. 8. (Inspectors.) The board of directors shall elect annually such number of inspectors as the business of the bank may require, who shall hold office for one year and until others are elected in their stead.

Paragraph 1. (Authority and duties of inspectors.) It shall be the duty of the inspectors to investigate infractions of this charter and the by-laws and report to the secretary. They shall do and perform such other duties as the by-laws may prescribe.

SEC. 9. (Censors.) The bank shall have three censors, who shall be elected four months apart for a term of one year each, and shall be ineligible for reelection. A censor must be, and for five years next preceding his election have been, a public certified accountant and resident of or maintain a business office in the censor's district from which he is elected.

Paragraph 1. (Classification of censors.) There shall be two classes of censors, first and second class. Those of the first class shall be elected from cities with more than one million five hundred thousand inhabitants, wherein reside at least six electors, and those of the second class shall be elected from cities having from one hundred thousand to one million five hundred thousand inhabitants, wherein reside at least six electors. There shall be one of the first and two of the second class. The electors of such cities shall be entitled to cast one vote each by ballot at each censor's election held therein.

Par. 2. (Directors to designate censors' districts.) The board of directors shall, at each annual parliamentary session, designate three censors' districts in which censors for the following year are to be elected.

Par. 3. (Manner of nominating and electing consors.) Six months before a censor's election the secretary shall notify each elector of such district of his privilege of placing in nomination one eligible candidate for censor. One month from that time he shall notify each candidate so nominated and ascertain if he be eligible and will serve if elected. Two months from that time he shall prepare ballots containing the name and address of each such candidate, as well as the style of the firm or corporation with which he is professionally associated, and mail one of such ballots to each of the qualified electors of such district, together with an official return envelope printed or written "Official censor's ballot" in red ink on the address side; and three months from that time he shall, in the presence of the censors, open and count the ballots cast at such election. Immediately after each censor's election the secretary shall notify the censor of his election and the date his term of office begins.

Par. 4. (Censors elected from separate States.) No two censors serving the bank at the same time shall reside in the same State or within two hundred miles of one another.

Par. 5. (Authority and duties of censors.) The censors shall have power and authority to supervise all elections, investigate the qualification of electors, directors, members of the court and officers, call confidence elections, scrutinize the loans and discounts of houses in which electors, directors, members of the court and officers own any stock or interest (and if the censors find such loans or discounts excessive or unsafe, they shall notify those who made them to cease granting further credit to them unless the bank's interests are fully protected), verify the statements, audit the accounts. and inspect the transactions and properties of the bank, and give such publicity to the errors and acts of those responsible for the control as in their judgment will be beneficial to the bank and the public interest: *Provided*, They shall not divulge any information acquired by them concerning the qualification of electors except to the Attorney General and such representative as he may designate.

ARTICLE VII.

SECTION 1. (Annual bank statements.) The governor shall cause to be rendered annually, at such date as the Secretary of the Treasury may designate, a full and complete statement of the bank, showing: First, the amount of business transacted by it the previous year; second, the total of its assets and liabilities; and, third, the amount of its liquid assets and the ratio which each item of such assets bears to the bank's borrowed capital payable on demand; and in giving the amount and ratio of such liquid assets represented by its commercial paper and bills and securities arising out of real commercial transactions the statement shall show the amount and ratio thereof maturing, as follows: Within fifteen days, within sixteen to thirty days, within thirty-one to sixty days, within sixty-one to ninety days, and beyond ninety days, respectively.

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Paragraph 1. (Other statements.) The bank shall render such other statements from time to time as the Secretary of the Treasury may require.

ARTICLE VIII.

SECTION 1. (Duty of Congress.) The Congress shall prescribe penalties for the violation of this charter and the by-laws enacted thereunder, embezzlements, forgeries and embezzlements, and enact appropriate legislation for the efficient and economic promotion of the bank.

I also have here an index to this charter and an analysis of the control provided under the charter, which I should like the committee to hear.

Article I gives the name of the bank; Article II treats of its object and authority; Article III treats of its place of business; Article IV treats of its capital and disposition of profits; Article V treats of its duration; Article VI treats of its control—the principal feature; Article VII treats of the statements required; and Article VIII treats of duty of Congress as to its promotion, etc.

I will now give an analysis of the control (Art. VI). The first subject treated is division of corporate powers. Section 1 divides the corporate powers of the bank among three separate bodies, viz: The executive (governor), legislative (directors and court), and inspectors (censors and inspectors, the censors to inspect principally the electors and directors, and the inspectors to inspect the officers and those directly responsible for control). In thus separating the powers of control I have followed the charters and practices of the banks of England, France, and Belgium.

The next subject treated is legislative power (directors and bank court). Sections 2 and 6 (Art. VI) vests the legislative power in a board of 49 directors, elected severally by the "great merchants" of the 48 States and the District of Columbia, and a bank court of 9 members elected annually by the directors, the court only to exercise such legislative authority as may, from time to time, be delegated by the directors. Coupled with this legislative authority the directors also elect the governor (the chief executive officer).

Then follows the important feature of a decentralized control. The principal difference between those three European banks and the proposed commercial "Bank of America" lies in the fact that their control is centralized, while this is decentralized. That is to say, they elect their directors collectively, on the national principle, while the directors of the proposed bank of commerce are elected severally by States, on the Federal principle, just as are our Senators and Representatives in Congress. This places the supreme corporate powers of the bank in the several States. This is the only practical way in which they could be elected. The "great merchant electors" of Texas know each other at the present time and can intelligently elect one of their number as a director to represent them on the board of the bank of commerce. They are made acquainted with each other through the commercial travelers who make that State, but the "great merchants" of Texas do not know the "great merchants" of Florida, because there is little business intercourse between them and the same commercial travelers do not make both those States. Therefore, it would be folly to expect the best merchants of one State to elect a director from the best merchants of another State.

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Decentralization will prevent shirking of responsibility. New York has amassed her wealth at the expense of the balance of the country simply because the business men of the other sections have shirked their responsibility of control. Under the proposed plan such a thing will be impossible, because if Texas goes without representation on the board, the merchants from Texas will have no one to blame but themselves, for no other State could elect a representative to fill such vacancy. The principal objection made by Thomas H. Benton to the old United States Bank was that—

its board of directors resided in six States, all bordering the North Atlantic Ocean, while the West and South furnished a large share of its business.

The proposed plan of decentralization is a complete answer to such objection. If we are to ever have a credit system free from bank domination, then the merchants of every section must assume the responsibility naturally resting on them; and if some shirk such duty we must be able to readily locate the responsibility and know who is to blame. The merchants of most other countries have assumed this responsibility, and there is no reason why those of this country will not do likewise, if we only provide a practical means under which they can act.

Now I come to an important feature of the control by electors or voting units. Section 3, Article VI, treats of the electors or voting units of control. The real meat of the proposition is contained in this section and the several paragraphs under it. Those great merchant electors are the very source of control in this, as in those great European banks of commerce, and that is all those European control banks are. Now the only way to have a real bank of commerce is to place the commercial interests in exclusive control, controlling it not for profit but as an aid and adjunct to commerce. The only way to do that is to proportion his stock holdings in the bank of commerce to his mercantile interests. I have placed that at the ratio of twenty to one—that is, I require a minimum bank interest of $2,500 (exactly the same as the Bank of England elector) and require a minimum mercantile interest of $50,000. This makes the great mechants merely trustees, as the public at large would own the stock as an investment. If a merchant were permitted to own as much stock in the bank of commerce as he owns in the mercantile business, then he would be selfishly interested in having such bank earn dividends, whether that institution served commerce or speculation. If the merchants who are to control this institution were permitted to own stock in a banking institution, then he would use the bank of commerce as a "feeder" to his banking interests. While the merchants of England, France, Belgium, and the Netherlands control their central banks (or banks of commerce), yet the principal customers of those four institutions are bankers, because they voluntarily keep their reserves with them on which they receive no interest. I will now give the number and financial responsibility of the voting units of those three European central banks as well as the Owen-Glass plan and "Bank of America."

Now, as to the number of voting units, the Bank of England has approximately 300.

The Bank of France has exactly 200.

The Bank of Belgium exactly 528.

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Proposed Owen-Glass plan approximately 60,000 to 250,000.

Then I take an average of a hundred stockholders per national bank. If all the national banks were to come in, there are 7,400 banks, or 740,000 stockholders. Divided that by 12 and we have a list of over 60,000 stockholders. If the State banks were to come in, that would make in each of these regional banks an average of about 250,000 stockholders. The proposed Bank of America, approximately 100 per State on the average (they would only be by States), there would be about 5,000 in the whole country.

Now I come to the financial responsibility of voting units. In the Bank of England it is $2,500 Bank of England stock and $100,000 and over of mercantile investments. No other banking investments permitted.

In the Bank of France, the 200 largest stockholders of the Bank of France who have large investments in commerce. No other bank investments are permitted.

In the Bank of Belgium, it is $2,000 Bank of Belgium stock and at least $50,000 mercantile investments. No other bank investments are permitted.

Under the proposed Owen-Glass plan, the wealth of voting units range from $100 to $100,000,000, all interested in banking and no commercial investment required.

Again, under the proposed Bank of America it would be $2,500 Bank of America stock, and at least $50,000 of mercantile interests, with no other banking investments permitted.

Then as to the stockholders who vote for control and those who do not so vote:

In the Bank of England there are approximately 300 voters and over 18,000 stockholders who exercise no voice in the control.

In the Bank of France 200 voters and over 31,000 stockholders who exercise no voice in the control.

In the Bank of Belgium 528 voters and over 10,000 stockholders who exercise no voice in the control, except to recall directors.

In the proposed Owen-Glass plan 60,000 to 250,000 voters who control; no nonvoting stockholders.

Under the proposed Bank of America plan 5,000 voters and approximately 250,000 stockholders who will exercise no voice in control, except to recall directors.

I now take up the incentive of actual electors of governor toward interest—that is to say, whether they are interest payers or interest gatherers. In the Bank of England they are interest payers, in the Bank of France interest payers, Bank of Belgium interest payers, proposed Owen-Glass plan interest gatherers, proposed Bank of America interest payers.

And then as to the occupation of governor's electors:

Bank of England, merchants; Bank of France, merchants; Bank of Belgium, merchants; proposed Owen-Glass plan, bankers; and proposed Bank of America, merchants.

As to bank-stock requirement of chief executive officer, who is the governor:

Bank of England, $20,000; Bank of France, $20,000; Bank of Belgium, $10,000; proposed Owen-Glass plan, none; and proposed Bank of America, $20,000.

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In the case of the Bank of England the governor of the Bank of England is elected at the annual meeting of the bank "Court of proprietors" (great merchants) by those "great merchants." Some of those "great merchants" do an acceptance business as an aid to their mercantile business. Six of the 24 directors are members of those acceptance houses. They are not bankers because they charge just as much for accepting a bill running 30 days as they do for one running 120 days.

Bank of France: The governor of the Bank of France is selected by the President of France from three names submitted to him by the minister of finance. But the minister of finance must choose a person owning 100,000 francs of the Bank of France's stock, worth $431 per $100, or $86,000. The transfer of the stock is controlled by the 200 merchant electors. And they see to it that nobody but a great merchant will ever get 100,000 francs of the Bank of France's stock. So, in the final analysis, it is the great merchants who control. The 200 great merchants of France, the 200 largest stockholders of the Bank of France, control it, and as they are merchants they will not permit another class to become large stockholders. It is gradually working up to that. There is no law making the Bank of France a merchant control or a bank of commerce, so you can see it makes no difference who would elect the governor of the Bank of France. It would be just the same.

Bank of Belgium: The governor is selected by the King of Belgium, but he must choose the governor from a number of stockholders owning at least 50,000 francs of stock. That stock is worth $450 per $100, which means an investment of $45,000. But the board of directors who are elected by the 528 "great merchant" electors will not permit anyone to acquire that amount of stock who is not fit to be the governor of the bank. Furthermore, the directors of the Bank of Belgium, just like the directors of the Bank of England and Bank of France, constitute the legislative body of those institutions, and the governors are amenable to the by-laws enacted by them.

The Owen-Glass plan: The chief executive officer of each of those reserve banks can not own stock in the institution over which they preside, as that is owned exclusively by member banks. So he may be a dummy, as is so frequently the case in the control of important American financial institutions. He will be elected by the nine directors, six of whom (a majority) will be elected by member banks. So that he will owe his position to the interest gatherers, while all those great banks owe their positions to interest payers.

Bank of America: This is to be a bank of commerce, and the only way to make it a real bank of commerce is to have it controlled exclusively by the commercial interests. But we don't want a dummy at the head of so important an institution, and the very best guaranty against dummyism is to require a reasonable stock ownership in the concern the head is authorized to bind for large sums.

It will be observed from the foregoing that the very source of control of those three European central banks is the great merchant electors, the most prominent interest payers of those countries.

Bank court: Section 6 treats of the bank court, composed of nine persons elected annually by the board of directors; each member of the court must be a qualified elector.

Senator REED. Does that relate to the European banking system?

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Mr. MILLIKEN. It relates to the bill that I have prepared as an amendment to this bill, establishing a bank of commerce, which is nothing in the world but the Bank of England.

Senator NELSON. He has prepared a bill for a bank here, and put it into the record, and this is to describe how that bank is formed.

Mr. MILLIKEN. This court would correspond with the executive committee of many American corporations to-day in the matter of imposing checks on the executive officers and thus prevent too frequent meetings of the board of directors, the members of which will be widely scattered in the several States. The establishment of this court corresponds also with the practice of the Bank of England. Its charter provides that the "court of proprietors"—300 great merchant electors—shall constitute a bank parliament, but it was found that that body was too numerous to fulfill such function, so that power was delegated to the board of directors, composed of 24 persons.

Secretary: Section 7 treats of the secretary, the home office representative of the board of directors, whose duties are clerical.

Censors and inspectors: Sections 8 and 9 treat of the inspectors and censors, respectively. One class is permanent and the other temporary inspectors. All are elected by responsible financial bankers not directly responsible for the actual management of the bank. They are elected by the very class who elect the censors for the central banks of England, France, and Belgium. Professional accountants, if elected in a practical manner by responsible financial bankers not in control, are far superior to Government inspectors, because their professional reputations will suffer by withholding from the public important information acquired by them, for their successors will be rivals who would surely expose them for such conduct. It is entirely different with Government examiners, persons who have no professions but the public service, and as man is naturally inclined to want to advance his condition in life, and that service offering no opportunity in that direction, he naturally looks about for some lucrative bank office to fall into when he gets out of the Government job. In order to accomplish their purpose they show favoritism to banks instead of protecting the public interest by exposing error.

No one who has studied the history of our Government-inspected banks and life insurance companies will deny the truth of this statement. Our abnormal banking condition is attributable to this system of paternalism. No country but ours inspects its banks. It is a species of special privilege which has done more to create public distrust than any other. It has taught our business men to look with contempt upon public officials, because many business men have gone out and corrupted those officials. We can never hope to have a sound and healthy credit system in this country until we abandon this species of special privilege.

Argument for this amendment: If this Congress will adopt this amendment and place the most prominent interest payers in control of one bank, just as most European countries have done, we will then be on the road to a sound and healthy credit system, but we will never reach that condition until that class of our citizenship assume the responsibility naturally resting on them in this important matter.

An increase in the quantity of gold is not the cause but only the effect of an advance in prices. It would have the contrary effect of

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reducing prices if it were used in production. The price of any commodity is regulated by the proportion existing between the supply and the demand for that commodity. Whatever increases the supply or diminishes the demand will lower the price, and whatever increases the demand or diminishes the supply will advance the price. The seasons and elements are the most potent factors in influencing the prices of agricultural products. Rain and sunshine coming at the right time and in proper proportions will produce abundant crops and consequently cause a decline of prices. For instance, in 1909, with a 12,000,000-bale cotton crop the price advanced to 16 cents, while in 1910, with a 17,000,000-bale crop the price declined to 8 cents, yet the latter year witnessed the greatest production of gold in the world's history—$500,000,000. Suppose the cotton-growing industry had acquired $200,000,000 of that year's gold production, gone into the market with it and bought up 4,000,000 bales, and that fact had been known to the spinners. Suppose also that it had been known to the spinners that the planters intended to take that number of bales off the market and hold it indefinitely unless they realized 20 cents for it. Such use of that gold by those selfishly interested in advancing its price would have effected an advance in the price, for each spinner would have been looking out for the purchase of enough to have kept his factory wheels busy, and as the available supply would have been less than the spinning capacity for that year, the price would undoubtedly have advanced. Whether this would have advanced the price to 16 cents or more would depend altogether on the effect which this organized effort on the part of the planters inspired among the spinners, but that it would have advanced the price to a considerable extent there can be no question. It will be observed, therefore, that it depends altogether on the use to which money is put whether it will effect a rise or a decline in prices.

Money is merely an interpreter of values among traders. But it must possess an actual value—a value aside from its use as money. If I offer to buy a horse of a person who knows nothing about any money except that of this country, and propose to pay him in soldos, our minds do not meet, because he has no conception of my offer. Let me tell him a soldo is an ancient Venetian coin containing 51.6 grains of standard gold and still our minds would not meet unless he knows what standard gold is and how much is contained in our gold dollar. But when I tell him standard gold is 90 per cent fine and our gold dollar contains 25.8 grains our minds come together immediately, because I have reduced our trading thought to a common denominator—standard gold. The unit of value with me would be 51.6 grains standard gold, while with him it would be 25.8 grains. Therefore when I speak of a soldo he instinctively thinks of $2, the equivalent; and if my offer for his horse be 100 soldos and he is willing to accept $200 our minds have completely met. But suppose I haven't the 100 soldos, then we could use the exact equivalent—200 gold dollars. Suppose I haven't the 200 gold dollars, then we could trade if we could agree on some other equivalent. Suppose I have 200 silver dollars, 200 silver dollar certificates, and 40 $5 greenback notes with me, and he knows that Congress has enacted a law requiring the Secretary of the Treasury to maintain the parity between all our so-called "moneys," or written promises of the Government to pay money, and that that official had declared that the

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only way to render that law effective was to give each holder of those "promises to pay" the option of choosing the kind of money he wished them to be redeemed in, then we could agree on any of those Government credit instruments and thus consummate our trade in Government credit.

Suppose I had none of those Government credit instruments but had a $200 certified check on a bank he believed to be solvent, then we could trade just as if I had possessed the gold. Suppose I had no bank-credit instrument with me but held a $200 bill of exchange drawn by the Standard Oil Co. on the Pennsylvania Railroad for fuel oil, at 90 days' sight. I suspect we could trade, as he would doubtless know that any bank in the country would discount it; but I would have to pay the discount charge, if he were to realize $200 cash for his horse. So, while we have thought in gold, we have traded in credit.

The Government's stamp on our gold coins does not make them money. While that stamp is indisputable evidence as to the quality, it is only prima facie evidence as the quantity of gold contained therein. To question the quality would be imputing dishonesty to the Government, and this the law will not sanction. But we all know that coins wear when handled, also that some evil-minded persons clip them for private gain. Therefore, in order to protect the public against either of those contingencies, the law properly protects the public by declaring that those stamps shall only be prima facie evidence as to their weight. Hence, the 25.8 grains of standard gold in one of our gold dollars constitutes the unit of value.

Ask an advocate of the quantitative theory of money if credit does not have an influence on prices, and he invariably replies in the affirmative; but ask him to state the relationship between the influence of gold and credit on prices, and he says he does not know; and I have never been able to get one of them to approximate the relationship of those two factors on prices. Hence it is that my mind fails to follow them. Please let me read you an excerpt from an address I delivered before the Young Men's Christian Association of this city on April 11 last bearing on this subject, which Senator Shafroth did me the honor to have incorporated in the Congressional Record on July 24 of this year:

Credit has as much influence on prices as gold. In other words, an expansion of credit by $100,000,000 has as much influence on prices as an addition of $100,000,000 to the quantity of gold. It matters not whether the credit instrument employed to bring about such expansion be bank notes, deposits, bills of exchange, promissory notes, or any other evidence of credit, the effect on prices will be precisely the same. John Stuart Mill says, "Money and credit are exactly on a par in their effect on prices." Henry Dunning Macleod, the great Scotch philosopher of credit, says:

"It is perfectly acknowledged that credit produces exactly the same effect on prices as gold. And it has been shown by authentic statistics that in modern times gold only forms about 1 per cent of the circulating medium of currency; and to suppose that a variation to the small extent of a fraction of 1 per cent in the amount of the circulating medium, or measure of value, could produce the effect so popularly attributed to it is wholly beyond reason."

Go to a store and buy an overcoat, and you thereby remove that one article of commerce from the market and, pro tanto, cause an advance in the price of that article, and the effect is precisely the same whether you pay for it in gold or obtain it on credit. That credit may be evidenced by your open account with your merchant, by your promissory note executed in his favor, by a bill drawn by you on some of your debtors or a person who has agreed to accept it, by your

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check on your bank or a bank note. The effect will be the same whether you use one or the other of those credit instruments or pay for that overcoat in gold. The cause for the advance in the price was your consumption of that article. Any credit system, therefore, which facilitates the production of commerce or restrains overconsumption is a good system, and any credit system which does not afford ample facilities for the production of commerce or which fails to restrain overconsumption is a bad system.

In conclusion, let me say that as credit is on a par with gold in influencing prices—influencing them downward when used for production and upward when used for overconsumption; as the production of commerce is an absolute necessity to civilized man's existence and overconsumption an evil which should be restrained; as credit has about ninety-nine times greater influence than gold in affecting prices—does it not follow, then, that we should have one credit institution in this country whose sole mission it is to facilitate the one and restrain the other of those conditions? Without such an institution commerce will not only suffer for lack of ample facilities, but panics will continue periodically to wipe us off the financial map.

Senator REED. Mr. Chairman, I move we now hear from the chamber of commerce.

The CHAIRMAN. The committee will hear from the United States Chamber of Commerce. We will be glad to arrange the hearing of any particular members of your committee you would prefer.

Mr. SIMMONS. If you will permit me, I will just make a general statement and then suspend in favor of Mr. Fisher, who has come here at considerable inconvenience and has an engagement in New York this evening and desires to get away.

STATEMENT OF W. D. SIMMONS, OF ST. LOUIS, CHAIRMAN OF THE BANKING AND COMMERCE COMMITTEE OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA.

Senator NELSON. Where do you live?

Mr. SIMMONS. St. Louis, sir.

Senator NELSON. Are you a banker?

Mr. SIMMONS. No, sir; I am a business man, and I am a director in a bank.

Senator REED. You are of the Simmons Hardware Co.?

Mr. SIMMONS. Yes, sir. At the last annual meeting of the National Chamber, as it is generally called, there was a resolution to the effect that our present banking and currency laws were entirely inadequate for the present needs, and the board of directors was requested to take such vigorous action as would, in their judgment, contribute most effectively to a solution of the problem.

When the Owen-Glass bill was first introduced, the committee on banking and currency of the National Chamber was instructed to come to Washington and discuss that bill and make recommendations to the board of directors. A report was made, and the board of directors instructed that it be made the subject of a referendum to the constituent members all over the United States. That referendum has just been completed and, in accordance with the directions of the board of directors, we are here to report to you the result of it.

It was submitted to the constituent members' inspection, first, as regards the report as a whole and then in seven sections in regard to certain specific details concerning which it was thought wise to have separate action by the constituent members.

Senator REED. Was any argument sent out along with this referendum vote?

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Mr. SIMMONS. Practically no argument, Senator Reed, because it is the custom of the chamber, when submitting to a referendum vote, if arguments are submitted, to submit exhaustive arguments on both sides, so as to have all sides shown.

Senator REED. Is there any argument in here?

Mr. SIMMONS. No, sir.

Senator REED. You simply sent the bill out?

Mr. SIMMONS. Just as it is there, practically no argument, except the recommendations of the committee and the reasons why.

Senator REED. You sent the recommendations of the committee——

The CHAIRMAN. This book was sent to each chamber?

Mr. SIMMONS. Yes; this book was sent to each chamber, in this form, and the recommendations of the committee put in that form, and the reasons stated in a very few words, practically without argument, unless those words are so considered.

Senator REED. What I am trying to get at is whether you sent this bill out and said, "Now, we would like you to let us know what you think of the bill, after examination," or whether you sent the bill out with suggestions as to defects, imperfections, etc., in it.

Mr. SIMMONS. That is what I was about to explain, Senator Reed. It was done in these seven sections: First, in regard to the committee's report as a whole, and then dividing up that report in these seven sections, so that the constituent members might either report as a whole, or might vote, as some did, on the separate sections.

Senator NELSON. You proceeded on the theory, then, that we would legislate by counting heads and not noses?

Mr. SIMMONS. I do not catch the significance of that.

Senator NELSON. I say you proceeded on the theory that we would legislate by counting heads and not noses.

Senator SHAFROTH. No; but their recommendations should be based upon that.

The CHAIRMAN. This organization, Senator, represents an organization of the various chambers of commerce of the United States, some three hundred and odd.

Mr. SIMMONS. Four hundred and over, now.

The CHAIRMAN. Some four hundred and odd. They appointed a special committee to study this question of banking and currency, and that committee discharged its duty and then submitted the result of its work to the various organizations through this book and they voted upon it, having this book before them as their guide, as the recommendations of their committee.

Senator NELSON. Those chambers of commerce voted?

Mr. SIMMONS. Yes.

Senator NELSON. I know how that is done; four or five get together and pass most any kind of a resolution.

Mr. SIMMONS. The vote in regard to the committee's report as a whole was 303 in favor and 17 against.

Senator SHAFROTH. In favor of what, now?

Mr. SIMMONS. In favor of the approval of the report as a whole. Under the heading of section A, which was in favor of our suggestion to increase the number of members of the Federal reserve board by having the original seven elect two others, subject to the approval of the President, and the compensation of the governor and vice

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governor of the board to be fixed by the board itself, that was voted upon favorably by 346 to 70.

Senator REED. Now, on what page do I find the statement you sent out along with your report on that?

Mr. SIMMONS. This is the statement right here, sir. It started right there—oh, in regard to that particular point?

Senator REED. Yes.

Mr. SIMMONS. That is on page 7.

The CHAIRMAN. How was that vote?

Mr. SIMMONS. That vote was 346 to 70.

The CHAIRMAN. How was the vote on the next one?

Mr. SIMMONS. On the next, B, which was in favor of a Federal reserve council, the president and vice president to sit in Washington and their salaries to be paid by the banks, the vote was 303 to 82.

Under D, which was in favor of the recommendation creating the new system of Federal reserve banks by beginning with the present central reserve cities and then having the Federal reserve board increase the number gradually as their judgment dictated, that was voted upon favorably by 343 to 73.

The CHAIRMAN. And on D?

Mr. SIMMONS. On D there were three divisions, A, B, and C, and the votes were somewhat different. On A, which was a restriction of the issue of Federal reserve notes—that is, that there be no restriction—the vote was 397 to 17.

B, that there be no interest charged on the Federal reserve notes, the vote was 378 to 17.

C, that it be unlawful for any Federal reserve bank to pay out any notes but its own, the vote was 397 to 17.

The CHAIRMAN. E, now.

Mr. SIMMONS. E, in favor of the report that the Federal reserve notes should not be obligations of the Government, but should be guaranteed by the Government, the vote was 367 to 48.

The CHAIRMAN. F?

Mr. SIMMONS. F, in favor of the Federal reserve banks mutually guaranteeing the reserve notes, the vote was 378 to 38.

The CHAIRMAN. G?

Mr. SIMMONS. G, in favor of the recommendation that the reserve requirements be modified and reduced, the vote was 390 to 23.

Now, Mr. Chairman, if it is agreeable to you I will let Mr. Fisher make his statement so that he may catch his train.

The CHAIRMAN. Have you a list of the chambers of commerce referred to in here?

Mr. SIMMONS. I am not quite sure we have it here, but we have such a list.

The CHAIRMAN. I think that ought to go in the record, so we will know who it is that is doing this voting.

Mr. SIMMONS. Yes, sir.

The CHAIRMAN. Mr. Fisher, we will hear from you now.

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STATEMENT OF EDMUND D. FISHER, DEPUTY COMPTROLLER OF THE CITY OF NEW YORK AND MEMBER OF THE COMMITTEE REPRESENTING THE CHAMBER OF COMMERCE OF THE UNITED STATES.

The CHAIRMAN. Will you give your name, residence, and the official position you hold.

Mr. FISHER. My name is Edmund D. Fisher, deputy comptroller of the city of New York and a member of the currency committee of the United States Chamber of Commerce.

I might state, Mr. Chairman, that the members of this committee were called here this morning by telegram received by them yesterday, and that there are, so far as I know, no formal statements prepared; and we ask as a matter of courtesy that you will send us for revision a copy of what we may say here.

The CHAIRMAN. A copy of your remarks will be sent to you for your revision.

Mr. FISHER. I presume my function here, as a member of this committee, would be, perhaps, to answer any questions in relation to the subject matter of this report, in the first instance; and in the second instance, and speaking personally, the one thought that occurs to me that might possibly be of service in the considerations of this committee is in relation to short-time notes.

Under the direction of Comptroller Prendergast it is my immediate function to sell what we call the revenue bonds and the revenue bills of the city of New York. Inasmuch as there has been a good deal of testimony before this committee in favor of handling the Government bond problem by, in part, converting the 2 per cent bonds into one-year notes, it has occurred to me that our experience in New York might have some bearing on the question.

We originate the short-time notes first, and then fund them into bonds. Your problem is the reverse problem, but I think the principles of operation are practically the same.

As I said before, I have no prepared statement, and consequently I will not guarantee my figures as being accurate, but the principles are correct.

Senator WEEKS. May I ask you a question right there? You say you originate the short-times notes first?

Mr. FISHER. I mean to say we issue them, and after a sufficient number, say $50,000,000, have been accumulated, we have a bond sale and fund those notes.

Senator WEEKS. You would issue the short-time notes, then, even if there were a suitable market for the sale of long-time bonds?

Mr. FISHER. Not necessarily. That is apart from this broad question. I want to try to show to you how a central bank, organized under the direction of this Federal reserve board which you are planning for, may help to safeguard the gold of the country through the operation of the short-time principle. I propose to give you a specific illustration showing how the city of New York, in selling at certain periods these short-time notes, may help the country.

For instance, in 1911—in the spring of 1911—money in New York and throughout the country was fairly tight. If I recall rightly, the

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rate at which I had to borrow in New York City on either the revenue bond type or the corporate stock note type was then 5 per cent. Of course, we had the option of borrowing this money in the local market in New York or Philadelphia or Chicago, wherever these notes might be placed, or, under the forms that we have developed, in Paris or London or Berlin, or any of the large money centers of Europe.

There had been exported at that time $5,000,000 of gold, and the banks who were commenting upon the situation estimated that there would be an export movement of gold, aggregating, if I recall rightly, about $15,000,000.

Now, having in our work, necessarily, through this large volume of business, the broad attitude as well as the local attitude in mind, it seemed wise to borrow the money in Europe, particularly as the exchange rate was very high. So we effected an arrangement aggregating £2,000,000—$10,000,000—at an exchange rate which approximated, when the transaction was initiated, about the gold export rate, we will say, for the sake of argument, 4.8775.

Now, the very act of effecting this arrangement in Europe compelled the city to sell exchange. In doing that, naturally, there was a tendency to depress it from 4.8775, for example, down to 4.8725. As we sold it the price was reduced and it automatically tended to withdraw gold from the export market, with the result that almost within 24 hours that export of gold ceased, and there was not a dollar over the five million exported, and we believe that, understanding the situation, the continuity of that export movement of the extra ten was partly stopped by the sale of those short-time instruments abroad.

In similar fashion any number of Federal reserve banks, acting in unity and in an endeavor to protect the gold reserves of the country, had a popular instrument—I do not want to argue necessarily that a 3 per cent short-time note would be a popular instrument; I think the rate, perhaps, might be too low, but I am not going to discuss that point—but if they had a short-time Government note that could be sold at such a time and there was a demand for it abroad, it would offset, if we may use that term, the export movement almost inevitably. Now, as to the rate. It is quite evident that there might be conditions arise where the Federal reserve bank would be willing to sell a 3 per cent one-year note perhaps with a maturity of three months and on a basis a little more favorable than 3 per cent. It is to be presumed that they would not always be able to effect their transactions upon the expressed rate of the instrument itself. Inasmuch as they were drawing higher rates in restricting the country's credits, presumably getting a profit on that basis, they might, at times, sell these notes at $3\frac{1}{8}$ or $3\frac{1}{4}$ or $3\frac{3}{8}$, although there would be a technical loss, apparently, on the particular transaction, but no loss, broadly, even perhaps from the standpoint of the profits of the bank, and ultimately a very great gain to the country as a whole.

So I believe the plan that was suggested some time ago by Mr. Warberg, that a portion of those Government bonds be taken and converted as a basis for currency, a basis for financing any such short-time notes, is a proper and sound principle.

Senator NELSON. It would not help the exports of gold unless you got a market for those notes abroad?

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Mr. FISHER. Exactly.

Senator NELSON. What assurance have you that we would have such a market?

Mr. FISHER. No assurance, any more than we had an assurance in New York City at that particular time that gold was being exported or that we could sell the notes. You must remember that the average rate abroad, looking back over a period of 40 years or more, has been lower than the average rate in this country. We hope there will not be that difference after you have passed this bill in modified form, but it is quite likely that the differences between the rates will be very much slighter and that the necessity for foreign borrowing will be very much less than at the present time.

Senator SHAFROTH. In the case of your $10,000,000 you would ship over in bonds and get cash for, why would that be reflected immediately any more than the $600,000,000 of the balance of trade that we have in favor of this country?

Mr. FISHER. For this reason, that when the transaction was initiated exchange was at the gold export point. In order to get that sterling abroad in this country in dollar form we had to sell exchange through the exchange houses.

Senator NELSON. At a premium?

Mr. FISHER. At the expressed rate, but when you sell exchange for a $10,000,000 loan you begin to protect the market, because there is only so much exchange available. If we did not sell exchange, the usual transaction would be this: That we would send the bills abroad and arrange for a countervailing shipment of gold to this side, but it is not done that way, as a rule, unless the trend of exchange is definitely in favor of the shipment of gold. In this case we were shipping gold to Europe, and that transaction ultimately impelled a shipment of gold to us, and one offset the other, and it was made vital in the selling of exchange to so protect the market for exchange and make it much lower than the gold export point, and during the following months there did not happen to be in this particular case any further exports of gold. Such a transaction, I will admit, may very easily be lost in the great aggregate of transactions; but happening to be involved in the matter personally, and happening to hear all the trend of thought on the subject, and realizing that we might help the country as well as get money at a lower rate, I initiated the transaction with what. to me at the time, was a very startling result, the immediate cessation of the gold export and the breaking of the exchange rate.

Senator WEEKS. Have you done that more than once?

Mr. FISHER. Oh, yes. The city of New York borrows an aggregate of $20,000,000 a month, so that you can see we are a very vital factor in the exchange market when we borrow that abroad.

Senator WEEKS. What has been the average rate?

Mr. FISHER. I should say about 4 per cent.

Senator WEEKS. Are the securities actually shipped or held in New York?

Mr. FISHER. They are shipped in the aggregate, although in some cases, owing to the tax laws abroad, there is a request to have them domiciled in the portfolios of some of the trust companies, but

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finally, to all intents and purposes, they are foreign transactions. They have a memorandum abroad if they have not the actual bills. In general, we know they are sent abroad because they bear the stamps of the foreign purchasers when they come back to us for cancellation.

Senator WEEKS. And you pay the expense of shipping?

Mr. FISHER. No.

Now, to come back and try to finish the discussion of this short-time note principle. There have been suggestions that these bonds be cut in half; that they be half short-time notes and half bonds in the initiation of this plan. Upon that point it is suggested that nobody knows the financing ability of the Federal reserve bank, and I should suggest two elements of flexibility. People have been arguing for flexibility in currency; I would argue for flexibility in plan. For instance, if the recommendation is made to cut the bonds in half and have one-half notes, I should say that not more than one-half the bonds be converted into notes and not less than 15 per cent, so that the banks will be able to absorb the business, letting them take it on gradually. Furthermore, if a 20-year limitation is made, I think it would be entirely unsound, to the extent that you might have difficulty in developing the principles of your plan, for the reason that they would run to 21, 22, or 23 years. I should say to the extent that your plan works slowly, putting the flexibility in at the beginning, to that extent you might not need flexibility at the other end. You need to introduce two principles of flexibility in the volume of those you wish to absorb, either in one way or another, and flexibility on the other end in the time of the ultimate applications of the principles laid down. I think those two points are very vital.

Senator WEEKS. Will you make a definite draft of your idea, not only as to the refunding of the 2 per cent bonds but the handling of the bonds in which they are refunded until maturity, and submit that to the committee?

Mr. FISHER. What you want is a definite section contemplating the philosophy that I have outlined, in the including of both elements of flexibility?

Senator SHAFROTH. Not the reason but the language itself, just as it ought to go into a law.

Mr. FISHER. You have no objection to an argument?

Senator SHAFROTH. Not at all.

Mr. FISHER. That is all I care to volunteer to the committee, but if any suggestions occur to you in regard to questions concerning the work of the Chamber of Commerce of the United States in relation to these points we have recommended I shall be very glad to answer your questions, if I can.

Senator NELSON. In order to save us the time reading this pamphlet, is there any one of you gentlemen who can state what the points are? I will not have time to read these things afterwards; I would like to get them on the spot.

Mr. FISHER. You want a recommendation on the underlying philosophy.

Senator NELSON. I would like to know what it is you desire to have in the bill and your ground for it.

Mr. FISHER. I think I will start with the first item on page 5. I will give you the suggestions of the committee, and I will try to

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specify the principles of the philosophy underlying the suggestion, if that is satisfactory to you?

Senator NELSON. Yes; that is satisfactory to me.

Mr. FISHER. The bill provides for a board of seven, of whom at least one shall have had banking experience. This element of banking experience can be strengthened without weakening the element of public control. We therefore suggest that the Federal reserve board be increased to nine; that the original seven shall choose two additional members, subject to the approval of the President; and that the board thus constituted shall elect the governor and the vice governor of the Federal reserve board.

My conception of that is, perhaps, somewhat colored by the discussions which have taken place; but I felt this, that in the first place we desired to accept the general principle of Government control that has been discussed here, and I need not go over it; and that the element of three administrative officers out of the seven developed lack of continuity in management. We have had some experience in New York City with the lack of cotinuity in management, and I suppose it cost the city $5,000,000 a year. I came into office four years ago, and I go out of office at the end of this year. It took me a year to digest and analyze all the principles involved in this broad question of financing the city. I had to start in the second day and borrow $5,000,000. I lost 7 pounds during the first week, but gained it all back during the second week. The point is this, it seems to me, that what you want is continuity in management.

Senator NELSON. It has been suggested here, and with a good deal of force, that instead of having three Government officials we only have one Government official, the Secretary of the Treasury.

Mr. FISHER. I would agree to that.

Senator NELSON. Eliminate two, for there would be no occasion for these extra two if that plan was adopted.

Mr. FISHER. There has been a great deal of talk about what we call the political quality of the board. You have had experience with bipartisan boards. I think it has been a definite mistake to try to make this a bipartisan board. I would rather have President Wilson appoint all Democrats, if necessary, than to be compelled—I mean from the standpoint of quality—to search over the country for the sake of balancing one party against another party. That is not what you want; you want quality.

Senator NELSON. If we drop two of those officials the board would be composed of seven?

Mr. FISHER. Yes.

Senator NELSON. And you would have six to which you could apply your principle of continuity, so there would be no occasion to increase the board by two?

Mr. FISHER. The President, under the proposed law, appoints four.

The CHAIRMAN. He would appoint six, under your suggestion?

Mr. FISHER. Then you adopt our suggestion in its essentials?

The CHAIRMAN. Yes; but we do not make it a board of nine.

Mr. FISHER. That is immaterial. You minimize the so-called political quality.

Senator NELSON. Is that a good solution?

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Mr. FISHER. That is an excellent solution, and I think that my confreres would accept that.

In the next item we suggest the organization of a Federal reserve council, elected by and representing the directors of the Federal reserve banks and serving in an advisory capacity.

This council should meet at stated periods in conference with the Federal reserve board. The president and vice president should reside in Washington, and sit at the meetings of the board, but without vote. The compensation of the officers and members of the council should be fixed and paid by the Federal reserve banks. You see the idea is not to destroy the philosophy of the bill.

This recommendation of the report has been partially adopted. The reprint of the bill provided for a Federal advisory council, to consist of as many members as there are Federal reserve banks, each Federal reserve bank by its board of directors annually selecting one member. The meetings of said advisory council shall be held at Washington at least four times a year and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure and a majority of its members shall constitute a quorum for the transaction of business.

The council shall have power, first to meet and confer directly with the Federal reserve board on general business conditions; second, to make oral or written reports concerning matters within the jurisdiction of said board; third, to call for complete information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold securities by reserve banks, open market operations by said banks, and the general affairs of the reserve banking system.

These changes do not provide that the president and vice president of the council should reside in Washington and sit at the meetings of the board, but specify that the members shall receive no compensation for services, contrary to the recommendation of the report that compensation should be fixed and paid by the Federal reserve banks which would make residence in Washington possible.

Senator REED. This bill gives to the banks a control of the regional banks directly and in the first instance. If there are 12 banks, there will be 60 representatives of the banks upon the boards of those 12 banks, in constant touch with the central board, familiar, as a matter of first instance, with the business with which they are concerned, free at any moment to approach the central board and confer personally or by letter. Why is not that a sufficient board or council to satisfy anybody?

Mr. FISHER. Because 60 men on various boards throughout the country have not, inherently in their position, the consolidated ability to express their judgment, and consequently, without in the slightest degree destroying the philosophy of this bill. If you have a Government board of seven men, with two officers, such a council as suggested will give that consolidated voice where it is most needed, in the most efficient manner, and without delay.

Senator REED. Let us see. How will these two men sitting there get that consolidated voice; from whom will they get it?

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Mr. FISHER. I should say that it would not express itself as a representative vote or representative voice; it would be an expression of judgment.

Senator REED. Of two men?

Mr. FISHER. Of two men, and, in the last analysis, representing the banking fraternity.

Senator REED. Yes; representing the banking fraternity and outside of this system?

Mr. FISHER. Yes; but the banks of the country would have a check on those men.

Senator REED. How?

Mr. FISHER. By their recall.

Senator REED. The banks can recall them?

Mr. FISHER. Certainly; through the medium of the Federal reserve banks they could recall them.

Senator REED. Let us spend a moment on that. We create a system of 12 banks—and I take 12 as the number merely because that is named in the bill. The banks elect 72 men to directly represent them; they are elected from each district. Those 72 men are familiar with affairs in the country at large.

Mr. FISHER. I should say that they are more particularly intimate with their particular districts.

Senator REED. Very well; but each of the six is particularly posted with reference to his district; he knows the facts, knows the conditions of the crop; he knows the conditions of the money demand and supply. He is in constant touch with 12 men who are impartial, and whose business it is to manage the entire sytem. They have an absolutely unselfish interest. If the central board is composed of intelligent men who understand the system, understand banking, are in direct touch with the sources of information all over the country, are they not from the very best and highest source, and they are in a position to receive the opinions and suggestions of all these men who directly represent the banks, and nobody else?

Now, I want to know if that is not a better representation of the banks than they can possibly have by sending down here two men who may have been picked by some banking organization which is generally under the control of these big men?

Mr. FISHER. I will again say no; that it is not a consolidated representation. They will express themselves in letters as to different points, but I believe that the two men whom we must also put in the catagory of the men of the same class you have stated would be disinterested and work for the benefit of the country.

Senator REED. They can not be disinterested if they represent the banks.

Mr. FISHER. Do you believe that two more men, simply because they happen to be chosen by the Federal reserve boards, will have the quality of disinterestedness?

Senator REED. Two more men? No.

Mr. FISHER. Or have the same quality of judgment?

Senator REED. But you gentlemen propose to have them selected by the Federal reserve board, as I understand you.

Mr. FISHER. The proposition is this, that the directors of each one of these Federal reserve banks will choose one man, and all

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those men will constitute a Federal advisory council; and, in the second step, this Federal advisory council will choose two men to represent them, and those two men will sit, without vote, with the seven proposed in this bill for what they are worth. If they are worth nothing they will do no harm——

Senator REED. I do not follow your conclusion. I have known of a great many occasions where people were not worth anything and they did harm.

Mr. FISHER. The precedent of this suggestion is in the German experience. They have there the imperial control, but they have in that imperial control the voice of the banking and business interests of the country, and that voice never has been at discord with the imperial control. They work in harmony, and that is the best possible illustration of the success of the principle suggested.

Senator REED. The whole system over there, of course, is entirely different from this.

Mr. FISHER. We have to search somewhere for ideas, however.

Senator REED. But you can not take one part of the system and fit it on to another, and necessarily draw a conclusion as to its value. I want to direct your attention to a fact that, it seems to me, the advocates of this suggestion overlook, and that is that these banks do have the right of direct appeal to their representatives, to the central board, the right to advise the central board, and the central board has the right to listen, and will undoubtedly listen, to great financiers and, I hope, to small financiers.

Mr. FISHER. I will simply say in addition that this is intended to furnish a definite basis for making that direct appeal forceful.

Senator NELSON. Would it not result in one of two things: Either these representatives of the regional bank on this council must have the advice and accord with the wishes of their boards of directors, or else they go there as mere individuals, representing their individual views? I mean these members of the advisory council. Now, which would it be? Would you have them go there as the representatives of the boards of directors, taking their opinion before they act, or would you have them go there and express simply their personal views?

Mr. FISHER. If there develops a definite opinion throughout the country in relation to a definite policy, that would of course express itself in a definite form in the minds of those two men. The truth of the matter is, however, and you all know it to be true, that banking recessions or accessions, the ebb and flow of banking, run along such definite and fixed lines that almost every banker in the country that has thought about it at all knows in advance almost what is going to happen. We talk about this discount rate. I have been told one week in advance what was going to be the policy of the Bank of England, and yet I do not believe that a single member of that board "leaked," as we call it, or in advance intimated to the public what he was going to do. It simply means this: That they inevitably had to advance or had to charge the discount rate; it was necessary. They knew it; every banker in the country knew it that was watching the broad aspects of commercial and business relations. There is not going to be, gentlemen, this conflict between politicians and bankers. You know your principle is sound and, in my opinion, it is going to work harmoniously, but you want to get as high a

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basis of intelligent judgment as you can. We believe that by having two men there, without a vote, but to advise and express their judgment—even their own judgment, if you will, but rather the consolidated judgment of the banking world—will give a better result in the aggregate than the method proposed.

Senator REED. Let me call your attention to this: The capital that is furnished by these banks as their contributions to the capital stock is, in the last analysis, furnished by the depositors.

Mr. FISHER. Yes.

Senator REED. They are the people of the country, speaking broadly. I am not, in what I say, trying to put myself in a position of antagonism to the banks——

Mr. FISHER. I understand; you want to bring out the facts and the truth, as far as you can get at it.

Senator REED. The Government then comes in and furnishes a very large part of the money that constitutes the assets of these banks, or, more properly speaking, the money that they have the use of, and then proposes to lend to this system its power to issue currency. The banks are put in control of the 12 regional banks. They are not content then to let the Government manage the general system on behalf of the bankers, on behalf of the borrowers, on behalf of the farmers, but they want a special representative. Can you tell me any more reason why the bankers should be specially and particularly and directly represented up there than the Farmers' Alliance?

Mr. FISHER. Representation in the sense that we recommend it is not control. We stand for Government control. We have not suggested that the bankers have even a minority representation on this board of seven. We merely say that it may be desirable to give them the ability to speak in a concrete and definite way in the meetings of that board. It does not take one iota from the control. And if their judgment is good, and if it is accepted, it is accepted with the knowledge and consent of the seven Government representatives.

Senator REED. But you do not answer my question. Why should not the farmers of the country have representation on that board in an advisory capacity? Why should not the merchants of the country have direct representation on that board in an advisory capacity?

Mr. FISHER. They have it because the very fabric of your bill provides that three of these members shall represent those very interests.

Senator REED. Oh, I am not talking about that; I am talking about the central board.

Mr. FISHER. We are not arguing for bank representation on the central board; merely a voice.

Senator REED. You are asking for a voice. You and I are talking about the same thing; don't let us get into a tangle about terms. If the bankers should have representation in the shape of an advisor upon this central board, appointed by the Government, why should not the great business interests, and the small business interests, have this same kind of advisor to represent them? Why should not the farmers have the same kind of advisor to represent them? And why might we not extend that indefinitely?

Mr. FISHER. Again I say that these two men represent not only the banking interests, but the commercial interests and the farming in-

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terests, because they are chosen by a series of composite boards that are manufactured by this bill to represent all those interests.

Senator REED. You know perfectly well, and I know perfectly well, and every banker that has been on the stand that has been asked about it has frankly said the banks will pick the six members from the boards of directors of the regional banks. They do not make any question about that, and we need not haggle about it now. It is going to be bank representation; it is bank representation——

Mr. FISHER. In the first instance.

Senator REED. Perhaps broadly so. Now, the bankers having that representation already in the regional bank, the Government board being here to represent everybody, if the United States Government and all the people need to have the advice of bankers especially, why not have some advice for great borrowers, and small borrowers, for farmers, and for other classes of people? I can not see why they do not need it just as much as the banks do.

Mr. FISHER. Do they need it at all?

Senator REED. I think it is a piece of absolutely unnecessary machinery, because I hold that this board, if it is properly constituted, will hear from all these original banks, will listen to financiers, to borrowers, and to people generally who have advice to give. It will not close its ears and cease to think, but any citizen that has a proper case to represent can go there and represent it. And I think it would be highly improper, if you want my opinion—and this is one question I am ready to vote on—to put a banker on that committee and let him sit in the councils of that board as an advocate who may speak behind closed doors.

Mr. FISHER. I will agree with you in the general statement that the board could hear the farmers and the merchants of the country, but, on the other hand, I do not agree with you that it will necessarily hear them.

Senator REED. Oh, yes; any proper board will.

Senator BRISTOW. Now, let me ask you this: Suppose the bankers were not required to subscribe to this capital stock, that any citizen could subscribe to the capital stock to keep this bank going——

Mr. FISHER. Mr. Chairman, I want to make the reservation, of course, at this point that what I am saying in this ejaculatory manner is purely personal and does not represent the views of the gentlemen of the committee. I have to use my own judgment in answering these questions.

Senator WEEKS. May I suggest, Mr. Chairman, that Mr. Fisher has to catch the 3 o'clock train?

Mr. FISHER. I have already missed that train and shall have to be an hour late. I am perfectly willing, under the circumstances, to take the 4 o'clock train rather than the 3 o'clock if I can be of service.

Senator BRISTOW. As I was saying, if the bankers were not required to subscribe to this stock—if it were purely voluntary with them or any other citizen that wanted to subscribe—then, of course, you would make no claim for representation?

Mr. FISHER. It is not a claim for representation; it is an attempt to help the quality of management. I am not in sympathy with the idea of representation particularly. All our discussions in the past few months on this question, where intelligent men have got together, has not been in favor of representation. When you appoint

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a man to the Supreme Court he has divorced himself from the bar; he may be a lawyer, but he represents the country in that court. And the banker does not expect to have a man on that board who will listen to what this bank says and what that bank says; he goes there in a judicial capacity, and I think you want to drop the idea and the bankers want to drop the idea of representation. The bill you have before you frankly says "One man of trained banking experience." If you will alter the complexion of the bill, we may withdraw this suggestion, but we have to take the bill as we find it. I do not want to see a board of whom only one man has trained banking experience.

Senator REED. Although I disagreed with you a moment ago, I am going to agree with you on that proposition.

Mr. FISHER. We are arguing on this bill; not any other bill.

Senator BRISTOW. But I am inquiring about a different proposition and I want your views on it. Suppose we amend this bill—which I hope we shall do very materially—and that there is no compulsory subscription required of the banks; suppose we leave it voluntary as to whether they subscribe or not, and that anybody may subscribe——

Mr. FISHER. Then I will answer you flatly that what I am arguing for, and what, I think, my confrères are arguing for, is quality of judgment, which has nothing to do with the principle of stock subscription.

Senator BRISTOW. Now, this bank or banks created in that way would perform functions similar to these, and in that event you would not insist that we ought to have this advisory council?

Mr. FISHER. Under the terms of this bill as it stands?

Senator BRISTOW. That would not be the terms of this bill.

Mr. FISHER. You mean if you put these men or some other men on that board——

Senator BRISTOW. Oh, this bank would be governed by a board, yes; but no banker would be compelled, in order to maintain his charter, to subscribe to it.

Mr. FISHER. But you retain the principle of one trained banker in the bill.

Senator BRISTOW. Oh, I do not care much for that.

Mr. FISHER. It makes a difference in my answer. I can not answer unless you change the complexion of the bill.

Senator BRISTOW. Leave it as it is.

Mr. FISHER. Then I say have the advisory council, most certainly.

The CHAIRMAN. And you argue that that would be along the line of the central auschuss of the Reichsbank?

Mr. FISHER. Yes; which experience has shown to be eminently satisfactory.

Senator NELSON. Would it not be simpler—I am putting a hypothetical case, not to intimate that it expresses my views—instead of having this cumbrous advisory council and the board of seven to have two practical bankers not owners of bank stock or interested in banks at the time, but with practical banking experience, on the board?

Mr. FISHER. I think personally that if the bill provided that at least three trained bankers——

Senator NELSON. No; two.

Mr. FISHER. I am giving you my answer; I am not accepting your idea. I would say this, that if the bill provided for at least three

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trained bankers, the advisory council would be much less necessary under the terms of the bill.

Senator NELSON. Why would not two be enough?

Mr. FISHER. They might both be sick in bed.

Senator NELSON. Would it not be better to have these two outsiders?

Mr. FISHER. No well-managed organization to-day can be handled successfully with only two officers. I think, by the way, Mr. Chairman, that is something you ought to contemplate in your amendments. You have not provided, for instance, for a deputy for your Federal reserve agents in case of illness or absence.

Senator NELSON. That would be provided by rules and regulations, I think.

Mr. FISHER. And I am inclined to think that a chairman and vice chairman are hardly sufficient. There ought to be provision for a substitute in case of emergency. No well-managed bank to-day of any size can successfully handle its business with only two executives, because if one is away on vacation or, as he properly might be, perhaps, in this case, in Europe studying banking conditions, the entire responsibility on one man might be entirely too great. I think that three, or at least two, with a provision for deputization of power, is quite essential wherever officers of chairmen are provided for.

Senator NELSON. Would it not strike you as simpler to have a board of seven, five appointed by the Government and two appointed by the Government, but from a list furnished by the banks of practical bankers, but not stockholders or officers in banks at the time? Would not that be a solution? I am putting a hypothetical case.

Mr. FISHER. No; I think that as this is, after all, a banking enterprise, two is rather a small number for me to argue for.

Senator NELSON. Why three?

Mr. FISHER. For the very reason I have stated, that with one man away there would only be one man left. If you have three, then with one man away you have two left. Understand, I am not worrying over the question of management. I am not worrying as to whom President Wilson is going to appoint. I think it will be satisfactory. We are discussing this thing from the standpoint of all time, and two men in any capacity is too small a number from the standpoint of practical business experience. Now, for the third point. In the creation of a system of Federal reserve banks a beginning should be made with the present central reserve cities, additions to be made by the Federal reserve board gradually as, in their judgment, conditions warrant them. Meanwhile the facilities required by other centers could, in our judgment, be adequately supplied by branches.

Senator NELSON. That means you would start with three regional banks?

Mr. FISHER. The philosophy underlying that suggestion is this, that the credit fabric of the country, the loan fabric, has now been built up upon the principle of central reserve cities and reserve cities. Our thought was, although it is not fully expressed here, that a Federal reserve bank, in the first instance, in every central reserve city, with a branch in every reserve city, would be a scientific and accurate basis of starting in this enterprise. That would mean that there would be no shifting of reserves where they are now segre-

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gated. It would be handled by rediscount in the centers where they now repose. I am inclined to think that is a very sound statement to make.

Senator NELSON. There is a good deal of philosophy in it.

Mr. FISHER. If you take twelve, an arbitrary number—and I want to state, gentlemen, that an arbitrary number is senseless. Why twelve? Why thirteen? Why nine? Why eleven? I see no philosophy in any arbitrary number. You want to draw a bill based on principles. For that reason we suggest one in every reserve city. Of course, when this suggestion was first made your reserve requirements were more along the old lines. You have since changed them. Our recommendations here in some cases have been carried out.

Senator NELSON. Your theory is this, that if you made the regional banks in the three reserve cities—New York, Chicago, and St. Louis—and limited it to that——

Mr. FISHER. At the start.

Senator NELSON. At the start, it would work less friction and less jarring to the reserves of the country? It would be more like these banks stepping into the shoes of the old system.

Mr. FISHER. It would not break down a single dollar of credit by diversion to the other sections, because your bill provides for rediscounts of $216,000,000—I do not recall the exact amount, but somewhere between $210,000,000 and $220,000,000. Now, if you take the bill as it stands and arbitrarily make 12 different centers there will have to be support drawn in a general sort of way from certain sections, and the money will be diverted to sections where it can not profitably be used.

Senator NELSON. And a good deal of it will come from these three central reserve points?

Mr. FISHER. Yes. Understand, I am not here arguing in support of any selfish principle, and I am sure our committee is not.

Senator WEEKS. Mr. Fisher, it seems to me to be a very practical suggestion, because there would be less disturbance perhaps than under any other that could be made. But I do not see anything scientific about it, because in order to become a central reserve city all the banks in a reserve city have to do is to keep 25 per cent of their deposits in reserve. In order to become a reserve city it has to be a certain size——

Mr. FISHER. You understand, since this suggestion was made, you have taken away the vitality of the central reserve city and the reserve-city idea largely.

Senator WEEKS. There is nothing left.

Mr. FISHER. And, consequently, this suggestion has force only in that the reserves in these sections are now supporting certain credit fabrics.

Senator WEEKS. We may say, then, as I have said, that it is a practical suggestion rather than one involving a principle.

Mr. FISHER. The principle has been taken away, because you have changed the reserve requirements, but it was based on a principle when it was first suggested. It is now a practical suggestion rather than a continuing principle, if you will note the distinction.

Fourth, at the end of paragraph 1 "Acceptances authorized by this act" are placed in the list with lawful money, national-bank

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notes, Federal reserve notes, and checks and drafts upon solvent banks as funds which must be accepted on deposit by Federal reserve banks. This suggestion, gentlemen, I think, has no force now since the bill was amended by the House committee. We need not consume any time on that point.

Fifth, substitute for lines 21 to 24, after the word "securities," the following:

but it shall include obligations issued by the United States, or by any State, county, or municipality in the United States, and maturing in not more than six months.

I want to call your attention, gentlemen, to the fact that this suggestion is fundamentally sound, and that the plan developed in this bill is fundamentally unsound; that is to say, particularly if you throw the burden on these Federal reserve banks, looking out for these 2 per cent bonds, it seems to me you do not want to bring into competition State bonds and municipal bonds and county bonds. But I think you can very happily for temporary purposes buy the short-time obligations of States and cities. You know you have had a great deal of argument here before you from time to time on the subject of fluid and fixed credit; and if there is any philosophy in those arguments it certainly is all directed against this principle in the bill, and if you do include it as a principle in the bill it should only be for capital purposes.

Senator NELSON. You are violating by putting a part of the resources of the bank or investing it in fixed securities what I call the principle of natural elasticity. Elasticity, as I understand it, is to be based on the commercial wants of the country—on what trade, traffic, and commerce need. You want part of it diverted to buy these securities?

Mr. FISHER. No; I say take fixed securities out and accept our suggestion of taking the fluid type.

Senator NELSON. All those securities are, in a sense, fluid.

Mr. FISHER. What I mean is this: Suppose the city of Philadelphia has taxes due on the 1st of July, and experience shows they collect 80 per cent of those taxes. They issue on the 1st of April a short-time instrument due the 1st of July to be paid by those taxes. That would be an absolutely gilt-edged investment, a type of investment that could be sold abroad, that would be bought abroad, and would in a measure help these Federal reserve banks in safeguarding market relations between Europe and this country so far as the gold question is concerned. I see no reason why strictly fluid city securities, or even State securities, which are to be paid out of taxes should not have just as good standing as the other type of fluid instrument. It has got to come from the people.

Senator NELSON. If you adopt that principle you would have our currency measured not only by the commercial wants of the country, but you would have our currency measured by the amount of these municipal notes issued, and you would get an artificial elasticity. You would measure it not only by what commerce needs in the shape of notes and bills of exchange and acceptances, but in addition to that you would inject into it this matter of municipal bonds, and you would absolutely destroy the scientific principle of elastic currency.

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Mr. FISHER. I want you to consider in that connection this feature, that the better type of these short-time instruments are very popular in Europe.

Senator NELSON. I do not care about popularity; here is the principle. Our currency under this system would fluctuate by the municipal wants of these cities according to the volume of municipal notes they issued.

Mr. FISHER. If you will let me finish what I was going to say: These short-time instruments are growing popular in Europe, and would be a character of investment—and I am making a distinction now between a currency basis and an investment basis—which could be sold in Europe. It would be a very easy instrument through which these Federal reserve banks could control the gold reserves. I have shown you, as an example, how the city of New York has been able to protect the gold reserves of this country by selling these instruments——

Senator NELSON. But you are all the time assuming that for this volume of municipal notes there would always be a market in Europe.

Mr. FISHER. I am suggesting further—and you remember I stated it in the beginning—that the principle of the investment of capital, which is an entirely different thing from the use of deposits, should be considered. You agree with me that this should be stricken out, as it stands?

Senator NELSON. We do not want municipal bonds in there. We do not want that the basis of our new currency.

Mr. FISHER. But you should consider, however, if you are going to have anything of this nature in your bill, this short-time-note principle, because it has a bearing on the subject entirely separate and apart from the currency question——

Senator WEEKS. Mr. Fisher, would your recommendation be that the reserve banks should be authorized to purchase public bonds having not longer than nine months to run?

Mr. FISHER. I told you what is really the scientific handling of this question. Of course, the warrants of small municipalities are easily handled by the local banks. The large cities, of which there are not very many, have a volume of issues that do go outside of their particular environments. Now, if this is to be treated properly, I believe that for capital purposes these Federal reserve banks could take the type of notes that would be issued in anticipation of definite revenues; and there should be in contemplation the history of experience. In other words, if the preceding year the taxes received were paid at the rate of 80 per cent, no issues should be taken that were not justified by the experience of the preceding year.

Senator WEEKS. You know we have a law in Massachusetts which authorizes municipalities to borrow in anticipation of taxes. Taxes are collected the 1st of November, and those obligations are always paid.

Mr. FISHER. Always paid except those against arrearages.

Senator WEEKS. That is a very small percentage, and even now a considerable amount of foreign money is invested in those short-time notes.

Mr. FISHER. Now, if you will limit it to capital purposes and not take in deposit money, it will make an excellent investment, because it is something that might be sold abroad, when you could not sell a

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short-time Government bond. That is a suggestion. It is at least worth considering.

And I think our suggestion has a sound basis. I fully recognize what our friend here says about the question of the commercial as against municipal credit; but these are strictly fluid credits; they are always promptly paid, as you know from your experiences, and I believe for capital purposes it would be a very desirable and a very useful type of investment.

Senator NELSON. I do not want to interrupt you, but it is merely to clear up my ideas.

Mr. FISHER. I agree with your fundamental principle, and consequently I would say that these short-time notes should be used only for capital purposes and should have some carefully drawn instrument which should provide for the quality of the revenue bonds taken.

Senator WEEKS. I suggest that you draw up for us what you have in mind.

Senator NELSON. Your modification of it. You understand my view of an elastic currency—we call it an asset currency—that is, based upon the commercial wants of the country; and it should fluctuate, ebb and flow with the commerce of the country.

Mr. FISHER. Yes.

Senator NELSON. Now, I do not look upon these bonds as a part of the commerce of the country in that sense.

Mr. FISHER. Neither do I.

Senator NELSON. And that is why I make the suggestion.

Mr. FISHER. And I agree with you that there should not be any principle developed by which State or municipal issues should become the basis of a broad expansion of currency; and I think that my conferees will agree with me that that should be a capital investment. Prof. Johnson, how do you feel about it; am I right?

Prof. JOHNSON. Thoroughly.

Mr. FISHER. I think we have now come to item No. 6.

Senator NELSON. If you will be kind enough to state what section that refers to as you go on, it will be easier for us to follow you.

Mr. FISHER (reading). "It seems to the committee that such a limitation"—the bill provided originally that there should be a limitation of $500,000,000 for the currency issues. That having been changed, I will omit making any reference to it.

So I will go next to item No. 7. [Reading:]

An issue of Federal reserve notes is hereby authorized. The said notes shall bear on their face the guaranty of the United States and shall be issued at the discretion of the Federal reserve board, and solely for the purpose of supplying currency to Federal reserve banks, as hereinafter set forth. They shall be receivable for all taxes, customs, and other public dues, and shall be redeemable in gold on demand at any Federal reserve bank.

Now, of course, this refers to what some regard as a very sore point in this bill. Our committee suggests——

Senator NELSON (interposing). Under section 17, the United States is not technically a guarantor of these notes. It is the principal debtor.

Mr. FISHER. The suggestion is fundamentally this, that instead of these notes being called the obligations of the United States, which seems to our committee an extremely indefinite thing, and not supported by any means by which the obligation is made definite, that

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a flat and definite guaranty will serve the purpose of developing the philosophy of the bill, which I take to be, that in the initiation of this enterprise the developing of Federal reserve banks with individual issues, there is to be a solidarity to all the issues, so that there will be no discrimination between New York and New Orleans, or Chicago or St. Louis.

We believe the principle of guaranty will be justified, so far as the Government is concerned, by the excess earning power which the bill plans to give to the Government.

Now, that will give the unity to the issues. It will be economically sound, because you can not have any fiat issues under a guaranty of some other people's notes, whereas at some time, at some distant future time, it might be possible that other types of obligations will come into competition with this bank obligation. I need not discuss the economic basis of the obligation. But if you do adopt it, I have no doubt you will have all the security you will need, under a principle that is economically sound and eminently practical.

Senator BRISTOW. Why should the Government guarantee the note of the bank?

Mr. FISHER. Why should they be Government obligations, as provided in the bill?

Senator NELSON. Well, is there any practical effect—not legal effect? Take the bill as an entirety; it provides that the regional bank shall keep a 33⅓ per cent reserve.

Mr. FISHER. Yes.

Senator NELSON. And they are required to redeem the notes themselves?

Mr. FISHER. Yes.

Senator NELSON. Practically, in one sense, although the phraseology is not such, it amounts to this, that the Government—the principal debtor, in effect, is the regional bank and the Government is the secondary debtor?

Mr. FISHER. We have another recommendation in that connection, which is simply this, that all the Federal reserve banks be mutually responsible for all these notes. That will make even less necessary the principle of Government obligation or guaranty.

Senator REED. Well, you are rather inclined to the view, I take it, that when this currency is issued it ought to be a currency that is backed by the assets of all these banks?

Mr. FISHER. Yes, sir.

Senator REED. And then ought to have, in legal effect, the guaranty of the United States Government on top of everything else?

Mr. FISHER. That is what we argue for.

Senator REED. So that it would be a currency as stable as the Government itself?

Mr. FISHER. Yes. I am not expressing any individual view. I do not think it is necessary.

Senator REED. That is the opinion of this board?

Mr. FISHER. That is the opinion of this committee.

Senator REED. That is a question which we have had some discussion about.

Mr. FISHER. But there is a very important difference——

Senator BRISTOW (interposing). That is what I want you to clear up. I do not think you differ from the others who have appeared.

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Explain the difference, will you, please, between an obligation of the Government and a guaranty of the Government.

Mr. FISHER. A guaranty, in the last analysis, implies the possibilty of a loss. In working this thing out properly there should be a segregation of the earning power of these various Federal reserve banks to establish a fund to meet such losses, and the Government, in effect, will be the trustee of that fund—will be its disbursing agent—and will provide for these losses.

But in order to make their action potent and effective it has got to take some form; and we believe that the flat guaranty, the same as the flat guaranty of a surety company, where it gets premiums as a consideration, is a business proposition, as against putting in, in a broad, indefinite fashion, the words, "These are the obligations of the United States."

Senator HOLLIS. Well, instead of the certificate or note bearing the statement, "This is an obligation of the United States Government," you would have it bear the words, "This note is guaranteed by the United States Government," would you?

Mr. FISHER. I would say this, in substance, "In consideration of the surplus earning power of the Federal reserve banks, which, under section so-and-so, subdivision so-and-so, is segregated for this purpose, the Government hereby guarantees, under the audit of the Secretary of the Treasury, this note."

Senator NELSON. You need not put in any consideration, as would be the case in a contract?

Mr. FISHER. It would be logical; that is all.

Senator BRISTOW. The surplus earnings are to go to the Government—or the Government could put a tax on them?

Mr. FISHER. There are many ways of handling it.

Senator BRISTOW. And that could be a sinking fund, and the Government, by virtue of having this fund collected from this business, could guarantee that these notes would be paid?

Mr. FISHER. Certainly, in a businesslike way. And they are watching their job, too, so that they will not have any losses.

Senator BRISTOW. Yes.

Senator NELSON. Would you want these notes payable on demand in gold?

Mr. FISHER. At the banks.

Senator NELSON. At the banks?

Mr. FISHER. Not at the Treasury. Only when there is loss is the Government interested in the thing. When there is loss, provide for it specifically, either from the fund or in some other way.

Senator NELSON. Will you tell me where this bill provides for the regional banks getting gold to redeem them?

Mr. FISHER. This bill?

Senator NELSON. Yes; this Glass-Owen bill. Is there any direct provision in this bill which enables the banks to get the gold in the first instance, the 33⅓ per cent gold?

Mr. FISHER. Well, that is an automatic proposition.

Senator NELSON. How do you mean, an automatic proposition?

Mr. FISHER. The development of a number of regional reserve banks and establishing deposits will throw the gold——

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Senator NELSON (interposing). There is nothing in this bill requiring these stock subscriptions or this 5 per cent deposit to be made in gold.

Mr. FISHER. But you can get the gold the next day.

Senator NELSON. Where would the regional reserve banks get the supply of gold?

Mr. FISHER. Oh, you can get the gold the next day—by the collection of other items.

Senator NELSON. What items?

Mr. FISHER. It might be well to amend your bill to make it "lawful money"; but mechanically it would be awkward to ship lawful money to Washington or New York or Chicago. A certified check, in ordinary banking practice, would bring you gold in the ordinary course of business.

Senator NELSON. But we will say that all these stock subscriptions and the 5 per cent fund can be paid in national-bank notes, for example, what then?

Mr. FISHER. I think if you make it "lawful money" that you will safeguard what you have in mind.

Senator NELSON. That is lawful money. They could be paid in either silver, gold, or greenbacks—all three.

Mr. FISHER. Yes.

Senator NELSON. Suppose the banks in their subscriptions and in their 5 per cent reserves—suppose they dumped in nothing but greenbacks—or silver, if you please?

Mr. FISHER. Yes.

Senator NELSON. What then? That would leave the bank to start without any gold, and it would throw the whole gold redemption onto the Government, if you leave the bill as it is, would it not?

Mr. FISHER. As a matter of business practice, I should suppose, unless there is some plan to the contrary, the Federal reserve bank would be inclined to change that to gold.

Senator NELSON. Would it not be better, in order to give these regional banks a gold redemption fund to start on, to require at least a part of this stock subscription and a part of the 5 per cent deposit to be paid in gold coin?

Mr. FISHER. I believe that a percentage, based on the relative amounts of money in the country, so much gold and so much greenbacks, and so much silver certificates, if you will, will be about as far as you can go. In other words limit the proportion relative to the poportion now existing in the currency of the country.

Senator NELSON. Now, my recollection is that the last bank statements—and the chairman, who is well up in figures, will correct me if I am wrong—showed that our national banks have over $700,000,000 in gold coin in their vaults?

Mr. FISHER. Yes.

Senator NELSON. That is my impression. I think I am not far out of the way, am I, Mr. Chairman?

The CHAIRMAN. That is substantially right.

Senator NELSON. Yes; I think a little over that. So that they could provide an ample reserve from that stock, could they not?

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Mr. FISHER. Yes. I think that the words "lawful money," however, would be logical, and that the trend of experience would give the proportionate amount of relative items that would be appropriate.

Senator NELSON. Yes.

Mr. FISHER. If you compel them to give gold, flatly, you would be compelling them to alter the normal, natural relations of their present reserves.

Senator NELSON. But would you not throw the whole burden on the Government in that case? Suppose we had a condition as we had during the last two years of Cleveland's last term, where it should pay the brokers and people of New York to ship gold to Europe; they would get those national-bank notes and go to the Treasury and snake out the gold and ship it to Europe and you would be throwing the whole burden of gold redemption on the Federal Government, would you not?

Mr. FISHER. It seems to me that what you call the burden on the Government to the extent that it is a burden, would be in favor of this semi-Government bank, and consequently no harm would be done. In the last analysis, it is more desirable to have the protection of the Government's gold supply in the hands of these banks than in the hands of the Government, because they have commercial means of protecting those supplies.

Senator NELSON. Yes.

Mr. FISHER. And so I have no special horror of that condition that you suggest; for even if these Federal reserve banks did go and exchange their greenbacks for some of that gold it would do no particular harm, because it would be merely a change of place of the deposit of that money.

Senator NELSON. Yes.

Mr. FISHER. Of course, no one knows just exactly what the experience would be if "lawful money" were used. And if you want to be severely scientific I suppose if you compelled it to be paid in "lawful money," as I said before, in the proportion in which the banks now have money, it would be about as good a result as you could expect.

Senator NELSON. Now, a part of the object of this bill, and I think a most worthy object, is to confer power on this system to do what I call the foreign exchange business, which is now done through the large foreign banks. In other words, to control the shipment of imports and exports with our American banking system. Now, if we base our money—get it out of line with the money of Europe, with the Bank of England, and make our money redeemable in the alternative, in gold or in national-bank notes, we are not in a position to compete with London and the London market in the matter of foreign exchange, it seems to me. You are putting us out of skew, to use a vulgar expression, with the banking system abroad.

Mr. FISHER. We have got to effect our ultimate exchange with international money; that is true.

Senator NELSON. Yes.

Mr. FISHER. But you always have the protection of peremptory mandate. The Bank of France, if it wants to—and there is no law that I know of that covers the situation—pays out silver, and they naturally discriminate between the demand of their local people and the demand of international trade. We, in our experience, naturally,

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would have to accept and comply with the demands of international trade. But I presume that if it came to a crisis we would be peremptory in our relations with our own people. In other words, we would give them some of these notes that you criticize.

Senator NELSON. Now, let me give you a concrete case—and this is a real case. A wholesale grocer in Minnesota, in importing coffee from South America, has to do it in this way: He has to buy a letter of credit on a bank or an accepting house in London, and then he has to issue his draft, draw on that bank or accepting house in order to get his coffee, and pays for it in that way. Now, that is the system we are acting under now.

Mr. FISHER. Our merchants are paying two charges for their exchange.

Senator NELSON. Yes. Now, we ought to get away from that system, ought we not?

Mr. FISHER. Your bill provides, in broad terms, to get away from it.

Senator NELSON. Now, can we get away from it and accomplish what you set out to do, unless we make our monetary system in harmony with the Bank of England notes, redeemable in gold?

Mr. FISHER. Now, I will refer to——

Senator NELSON (interposing). Well, I will not ask you any further——

Mr. FISHER. Well, it seems to me that we have got to accept for the time being, the fact that our currency is somewhat heterogeneous. But with the establishment of these Federal reserve banks, and with the full knowledge that we have $1,000,000,000 of gold deposited with the Government at the present time; and without any antagonism, gentlemen, on your part, I believe that those gold certificates will gradually drift into these Federal reserve banks, and that the notes of the Federal reserve banks will gradually take their place—that you have got a potential and very positive force which will increase the relative amount of gold in banking circles of the country. With all this, I think there is nothing ahead that is particularly dangerous.

Senator NELSON. Do you think that, dollar for dollar these new notes of the regional banks will take the place, without any "ifs" or "ands" of the gold certificates?

Mr. FISHER. Gradually; and if you will advocate the principle which is advocated by some, that these Federal reserve banks are to hold the reserve money of the banks of the country, you would have a very much greater reserve of gold, than you will under this bill. I am not prepared to argue for that principle; but it is being thought of; and it will give you a larger store of gold in the center than you can possibly have under the bill.

Senator REED. If these notes issued under this system are meant to meet the needs of commerce——

Mr. FISHER (interposing). Domestic commerce.

Senator REED. Yes. That, of course, involves the idea of expanding and contracting, as the demands of commerce are greater or less. Now, it has been argued here by nearly every witness that there was no danger in the amount issued, or but little danger, because they would be speedily turned into the banks and redeemed.

Mr. FISHER. If properly developed.

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Senator REED. Now, if you were to permit those notes to be used as bank reserves that would tend to deter the redemption and destruction of them and the retirement of them, would it not?

Mr. FISHER. Yes. But that is a different question. The time might come when through the relative lessening of the amount of gold in the Federal reserve banks the broad results of an international purpose of developing great stores of gold in the centers might justify the substitution of these notes for gold. It is not a question to-day, but the time may come. In Germany, the notes of the German Bank are held in the reserves of the banks. That throws a larger store of gold to the center. Truly, the redemption proper is much more slow, and in some cases the bills may never be presented. But it gives us a more potent gold power which may offset that inflation to which you refer. I am not arguing for it; but I want you to consider the point.

Senator REED. What I am trying to get your views upon—because you have had a good deal of practical experience—is this: When a man brings a promissory note or bill of exchange to a bank and that bank deposits it with the Federal reserve bank and gets currency for it, of course that is currency based upon credits.

Now, if you substitute as a redemption fund credit money, it seems to me that we would be in a position of redeeming credits with credits, and therefore we would destroy the idea of an ultimate redemption in something that the world calls money.

Mr. FISHER. The more prompt the clearing and the more prompt the redemption the less the inflation and the more accurately the commodities exchange themselves.

Senator REED. Therefore ought we not to insist that the reserve, whether it be a 33⅓ per cent reserve or a 20 per cent reserve or a 75 per cent reserve—whatever it is—should be an actual reserve in gold?

Mr. FISHER. Yes.

Senator REED. I thought I had misunderstood you.

Mr. FISHER. Not at all. I merely want to call your attention to the fact that the time may come when it is desirable to get into the center for international purposes some of the gold now reposing in the reserves of our national banks and our State banks and trust companies.

Senator REED. What do you mean by "into the center"?

Mr. FISHER. Into the Federal reserve banks. And to the extent that there are Federal reserve notes outstanding there will be a trend of gold to the center, and it will be a greater trend if some of these notes were held for reserve purposes. But it would mean this: That the aggregate reserves of the country would be relatively less. We have very much higher reserves here than in Germany or in France or England, and the time may come when we may have to be more on a parity of reserves, and that would be an easy way, and in some respects the best way—to reduce the reserves without reducing the percentages.

Senator REED. Now, it is a little aside from what you have been talking about, but it is kindred to the theme we are speaking of. Do you not believe that the very fact that the Federal Government has in its vaults a billion and nearly one hundred million dollars of

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gold, and in addition to that $150,000,000 more of gold stored away, is a great element of strength in our present financial system?

Mr. FISHER. In 1908, when I was invited to appear before the then House Committee on Banking and Currency, I argued on the plan that was then suggested—that the Government always should have behind all banking its own store of gold.

Senator REED. You would like to see that maintained?

Mr. FISHER. And it will be maintained under this bill to the extent that the certificates of that gold are held for reserve purposes.

Senator REED. Yes.

Mr. FISHER. It will be lessened to the extent that you can substitute in the hands of the people Federal reserve notes for gold certificates now locked up in safe-depoit vaults and in stockings all over the country.

Senator REED. Yes.

Mr. FISHER. In other words, if the gold, as you say, in the national banks is about $700,000,000——

Senator NELSON. A little over.

Mr. FISHER. It is probable that there will be a gradual trend, by which $300,000,000 more gold will come to the banking system under the Federal reserve banks.

The CHAIRMAN. There is a little over $900,000,000 of gold in all the banks, and a little less than $600,000,000 in the national banks.

Senator NELSON. I was referring to the national banks, Mr. Chairman. I am mistaken. You say a little less than $600,000,000?

The CHAIRMAN. Yes; in the national banks.

Senator NELSON. Yes.

Senator REED. You are a little away from the thought I had, Mr. Fisher. If it is a good thing to have this store of gold, whether it is represented by gold certificates or however it may be represented—if it is a good thing to have that great store of gold, which you and I seem to agree upon——

Mr. FISHER (interposing). Well, Germany has that principle, if you remember.

Senator REED. Well, if that is true, I wanted to ask you if, under our present bank-currency system and greenback system, this gold that is now in the Treasury is not accumulated there by virtue of the fact that the greenbacks and the bank notes circulate generally among the people, performing the functions of money, but at the Treasury of the United States—at the custom house—they are not receivable as a full legal tender, and therefore gold flows in?

Mr. FISHER. I think that is one source of the gold supply. And the second and greatest is that nobody wants gold.

Senator REED. Very well; they do not just now.

Mr. FISHER. No.

Senator REED. That is about the only way we get it. Would it not be the part of unwisdom to retire those two forms of currency without substituting some other method by which we would gather this gold in?

Mr. FISHER. If I recall rightly, in the recommendation of our committee, to which we are coming, there was the thought—although we did not say so in so many words—that it might be possible, as an added use of the earning power of the Government, as an outgrowth

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of this system, to give the Government the privilege of buying up its own obligations.

Now, that expression "own obligations" is a broad term. It may mean notes, it may mean bonds. And if I recall the discussion on that point, it was broadly regarded as unsound to develop any principle in banking in this country that did not ultimately contemplate—perhaps not immediately, but ultimately contemplate—the retirement of the greenbacks, on the ground, perhaps, not so much that they are any particular danger to-day; they have been absorbed in the credit relations; and any effect that has come from increased prices has been lost sight of for many years; but it has been recognized that, if you have the principle of Government issues based on them, in one year you may have a larger amount than in another year; and just as soon as you increase such issues, just so soon do you inflate prices. That is an automatic result. You know it was the case in war times, and it may be the case at any time in the future while you have an issue based on debt. So that all economists and practically all bankers, although they recognize there is no particular danger to-day with the greenbacks, also recognize that fundamentally it would be a very desirable thing to get rid of them.

Senator REED. Well, if you think the issuance of money based upon debt works inflation and governs prices, then it seems to me that this bill ought to be scanned with some care, because we propose to issue money here based upon debt.

Mr. FISHER. What kinds of debts?

Senator REED. Debts of individuals indorsed by banks and reindorsed by the Government.

Mr. FISHER. When payable?

Senator REED. At various times.

Mr. FISHER. Not to exceed?

Senator REED. Well, let us say 90 days; and there is no reason in the world why they should not be immediately renewed and kept out upon new paper, so that the volume would be constantly greater.

Mr. FISHER. Well, in this state of the wisdom of the banking world, or of the legislative world, it would be absolutely impossible to make a scientific relation between commodity prices and banking practice—I will agree that we can not do that, but we understand the general trends.

Now, there is a vast difference between a note based upon a debt which grows out of the sale of commodities, which is manufactured to exchange those commodities, which clears itself and is paid, and the commodities consumed, and a debt of a Government for war supplies, or any other kind of supplies which may be paid, never, or from 1 to 20 years hence.

Senator REED. I know.

Mr. FISHER. There is a vast difference in solidity.

Senator REED. There is a difference in the two systems, and a very radical one, if you assume, first, that the Government issues its currency to pay its running expenses and makes no provision for the speedy retirement of that currency; and then you issue another currency based upon obligations that all mature within 90 days, and thereby the currency is retired.

But we must take into consideration that as far as this bill is concerned if $1,000,000,000 of money was issued on 90-day paper to-day,

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there is no reason why as that 90-day paper matures other paper can not be substituted for it—a continual flow of paper coming in to take the place of that which is paid off; and thus the currency be kept—$1,000,000,000 in excess of what it was before the operations began.

Mr. FISHER. The truth is, just what you say is entirely the practice of the last 15 years, and during that period you have seen prices go up in this country 40 per cent. One of the chief elements, in my judgment, for prices having gone up in such a fashion has been the development of credit on collateral loans, on single-name paper, we build factories and other enterprises. And, strictly speaking, we can not get any nearer to a correct relation between money and prices than prompt clearing, and everything you can develop in this bill to effect prompt clearing will bring you nearer to that relation. I think credit currency is absolutely sound, but you can not do any more in this form than to provide the trend.

Senator REED. Can not that be worked out to a great extent by using this term "automatic"?

Mr. FISHER. I do not think you can possibly, scientifically, develop the absolute correct relations between the loan made upon fixed and upon fluid credit. We understand the philosophy of it, and within the last year there has been a great deal of thought and attention paid to that subject. I agreed to write two suggestions for two amendments; but I would not agree, and I do not believe any man in the world would agree, to write any amendment that would segregate scientifically and correctly the relations between fixed and fluid credit.

Senator REED. Would it be your idea if a certain currency has been out a certain length of time, it should begin to bear some kind of interest charge which would compel its retirement?

Mr. FISHER. This bill provides that currency shall not be issued by any other bank than the one that originally issued it. In other words, it will come back for redemption. Now, we have two definite experiences. If I remember rightly, at the very most Canadian currency does not remain out more than 30 days. I think the Scotch experience, perhaps, because of being a smaller country, is that it remains out a shorter time. I do not remember the exact figures. I do not think you need worry about inflation under the bill, because you provide prompt redemption. Other than that, it is based on fluid credit. Of course, going into the broad question, you have developed scientifically that collateral loans should always be against time deposits that can not be spent. Fluid loans should be the only basis for currency issues, and should be the only basis for demand deposits; and if you carry those ideas out into the realm of the savings bank, into the realm of the trust company, of the State and National banks, you are developing the principle—if you could give the proper relations that would help. You have done something in this bill that I think will cause added confusion between the prices of fixed and fluid credits, and that is putting the savings bank section in the commercial bank section. Unless there is an absolute segregation, and an absolutely scientific management, you have provided a means by which you can do a broad business upon a lower reserve basis and upon a fixed form of credit.

Senator REED. You think there is some danger of inflation unless it is safeguarded?

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Mr. FISHER. Unless the segregation between the savings and commercial banking is properly safeguarded.

The CHAIRMAN. There are one or two questions I would like to ask you, Mr. Fisher. It has been suggested, with regard to the 2 per cent bonds, that a certain volume of those bonds might be annually retired upon the plan which I shall explain to you—that is, that the 2 per cent bonds held as a basis of note issue might be taken over in a certain fixed amount. We will say, for the purpose of convenience, 10 per cent of the outstanding volume, amounting to some $70,000,000, to be taken over annually. Then, when those twos would be taken over by the United States, the United States would, in that event, assume the redemption of the national-bank notes issued against those particular bonds now held by the Comptroller of the Currency. The United States, in redeeming those national-bank notes, which now rest upon the 2 per cent bonds, would issue its own Treasury notes, payable in gold, at the Treasury in Washington, and place in the reserve division of the Treasury those $70,000,000 of twos, but in the form of threes, with a right in the Treasury Department or the Federal reserve board to issue them either as bonds maturing in 20 years or as annual notes renewable during a period of 20 years at the 3 per cent rate. In that way it would provide a basis of obtaining gold, if necessary, to redeem such notes, and to issue those notes in small denominations so that they would be readily absorbed as till change, and therefore prevent, by that arrangement, the rapid delivery of these notes for redemption.

Along with that suggestion, as a part of it, it was proposed that a like amount of gold should be put in the Treasury reserve by taking the gold from the current funds of the Treasury and putting them into the reserve division and issuing, in lieu thereof, a like amount of Treasury gold notes. The effect of that would be, in one such transaction, $70,000,000 of bonds and $70,000,000 of gold going to the reserve division, and against it $140,000,000 in Treasury notes payable in gold at the Treasury in small denominations.

Is that too complicated a proposal for you easily to follow?

Mr. FISHER. The proposition for the Government to redeem its bonds with short-time obligations is good. The currency provision I do not like at all. It would simply be an added confusion to our currency system.

The CHAIRMAN. The purpose being eventually to retire——

Mr. FISHER. I would let the currency be handled by the banks. You might better let the short-time notes go into the banks and let the banks finance the $70,000,000. Let the Government retire and finance, perhaps, the sale of 3 per cent bonds, but it seems to me the issue and financing of short-time notes should be done by the banks and not by the Government. I would not confuse the two principles.

The CHAIRMAN. The proposal was to retire the national-bank notes, and this was the method by which to retire the national-bank notes instead of the 2 per cent bonds alone. There would be in lieu of that 50 per cent of bonds and 50 per cent of gold.

Mr. FISHER. It seems to me the retirement of the national-bank notes can be effected by the Federal reserve bank. You have the germ there of a good idea, but the currency function should be handled by the banks and the other end of it by the Government—

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that is to say, pay off the long-time bonds by short-time notes. But I would not let the redemption gold reserve of the currency function unify itself with the general principles of your bill, and I think it will be very much more satisfactory because, potentially, as you give it, there is an element of inflation there.

The CHAIRMAN. The note issue would be identical; there would be no inflation whatever. The notes issued would be notes to take the place of the national-bank notes on the one side and to take the place of the gold on the other.

Mr. FISHER. That probably could be done if there were no collateral bank plan developed at the same time, but I do not think the two together would be desirable.

The CHAIRMAN. The purpose was to provide for the 2 per cent bonds in a way that would be satisfactory to the banks of the country, who have been a little apprehensive that they would suffer a loss.

Mr. FISHER. I believe the plan, however, to let the Federal reserve bank retire a certain percentage each year by the issue of bonds or currency either, maximum and minimum, as I have suggested, would be a much better plan and the whole fabric of our currency would be much stronger.

The CHAIRMAN. Mr. Simmons, who have you now?

Mr. SIMMONS. If you will permit me, I will continue with that.

STATEMENT OF W. D. SIMMONS—Continued.

Mr. SIMMONS. I will not attempt to follow Mr. Fisher's lead in the scientific discussion, but from the standpoint of a business man, with the exception that we utilize, as business men, the services of Mr. Fisher and a number of men in conference with us to give an explanation to us of certain points; and, as a result of those conferences, we have formed our conclusions and made a report to the business men of the country.

Mr. Fisher stopped at No. 8. It speaks there of a tax upon notes, and the point I wanted to make is that our conclusion was that the taxing of notes put a tax upon certain elements of the business interests of the country, because they have occasion to use notes and as compared to those who only have occasion to use checks. And it was a discrimination which we thought ought to be avoided, because we saw nothing in it but discrimination. Inflation is next. Inflation could be without any issue of notes at all. It could occur, in fact, where no notes are called for or desired. That covers 8 and 9.

As to No. 10, the mutual guaranty of the notes, that was covered by Mr. Fisher.

No. 12, the statements of the Federal reserve bank has been covered in your recent draft of the bill.

No. 13, the authorization of the Federal reserve banks to make deposits in and discounts for any other Federal reserve bank. We distinguish there between authorization and requirement. It seemed to us that unless your requirements were very thoroughly protected, perhaps as has been proposed since, it was very much better and safer to trust to the judgment and patriotism of the Federal reserve banks and their directors, as a whole, than to leave there a requirement with a possibility of the use of it as has been suggested might occur.

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Senator NELSON. Mr. Simmons, Mr. Vanderlip suggested that unless you had such a compulsory process the system would not work at all. You must have it so arranged that you can pipe the reserves from one regional bank into the other, and you could not do that unless you had the compulsory system.

Mr. SIMMONS. I say unless it was safeguarded, as has been suggested, by a nonpartisan element and the requirement of unanimous consent.

No. 14, the automatic continuance of the banking system. It seemed to us there was a danger to the business interests of the country to have no provision for the automatic continuance of the existence and authority of banks to do business in case there should be some delay in forming some substituted plan when these charters expire. There have been such things as deadlocks and things of that kind, and it seemed to us that some provision should be made here so it would be automatic and have the business of the country continue, rather than have the whole business of the country thrown in a turmoil.

Senator NELSON. This does not interfere with the automatic business you refer to, except in the bond provision providing for the gradual retirement of the circulating notes and in the change of the reserve provision of the existing law. This system of pyramiding reserves, the bill provides for a gradual change from one system to the other within three years, beginning with 3 per cent during the first year and culminating at the end of the third year with 5 per cent. Otherwise it does not interfere with the existing system of the national banks.

Mr. SIMMONS. But their charters would practically all expire at the same time.

Senator NELSON. Oh, no; their charters continue. They would expire if they did not come into the system, but if they come into the system they would continue under their charters as they are.

Mr. SIMMONS. Indefinitely?

Senator NELSON. No; those charters are only for 20 years in each case.

Mr. SIMMONS. That is the point, and that is the reason we thought if at the end of those 20 years there was not some substitute legislation the banks should be allowed to continue.

Senator NELSON. We do not change that system; there are a great many banks that have renewed their charters. They renewed after the 20 years. Some have had two renewals and lots of them have had one.

Senator REED. And, Senator, there has never been a renewal denied in case the bank was sound.

Senator NELSON. I do not recall any renewals being denied where a bank was sound. They were always given as a matter of course. And, for instance, if the bank joins this system its charter is for 20 years and, assuming it has run for 10 years and has 10 years more to run, it would run under that. And at the end of the 10 years, unless we change the law and this bill does not change that part of it, as a matter of course they could get a renewal if in a sound condition. I think there are only two changes, and they are in the matter of reserves and in the matter of gradual retiring of the circulation, which

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is squinted at in one section with reference to the bonds. Outside of that they are left intact.

The CHAIRMAN. The intention of this bill was to limit the life of those reserve banks to 20 years, and I understand Mr. Simmons's suggestion relates to putting in an automatic provision, in this connection, with regard to the life of the Federal reserve banks and not the ordinary national banks.

Senator NELSON. No; he referred to national banks. You referred to national banks, didn't you?

Mr. SIMMONS. If I did, I beg your pardon; I did not intend to refer to national banks. Our one point is, as we understand this law, to provide that the Federal reserve banks should automatically continue at the end of 20 years if, at the end of that time, there is no provision made, or there is no substitute provided. Unless there is some provision made for that, they should automatically continue the same as directors continue until their successors are elected.

Senator NELSON. The same as in the case of the national-bank act. I thought you referred to national banks.

The CHAIRMAN. It would require affirmative action, of course, at the end of the 20 years.

Senator NELSON. I think the bill ought to provide as the national-bank law does for renewal under proper conditions. Otherwise, the system would be at the mercy of Congress.

The CHAIRMAN. The intention was to make it at the mercy of Congress, instead of having Congress, possibly, at the mercy of the system.

Senator REED. There ought to be a phrase put in there providing, in the event of no other legislation, that the system might continue.

Mr. SIMMONS. That is our whole point.

Senator REED. We will consider that.

Senator NELSON. You are right. In case the system is retained, then there can be a renewal, if the bank is sound.

Mr. SIMMONS. No. 15 has been covered by Mr. Fisher, except it refers to the use of some of these profits to liquidate the existing demand obligations of the United States. The situation as we see it from a business standpoint is that those notes, as they come out, with lawful money as a reserve against them, are practically the obligation of the maker, the United States, backed by security—good commercial paper—and then against them for their protection, a reserve—the obligations of the same maker, without any backing. Our idea is that the existence of the greenbacks is what makes that necessary, and it would be wise, so far as possible, or, as soon as possible, to get rid of that which makes that obligation.

Senator NELSON. You would avoid that by making the new notes redeemable in gold?

Mr. SIMMONS. Yes.

Senator NELSON. Don't make war on the greenbacks. The greenbacks and the soldiers are what saved this country, and I want you to remember the soldiers carried the greenbacks in their pockets while they carried the muskets on their shoulders. It was not the capitalists who saved the country; it was the people of the country who were willing to take that currency and the people of the coun-

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try who shouldered the muskets. Don't make war on the greenbacks.

Mr. SIMMONS. I am not making war on the greenbacks, but I am suggesting taking a rather anomalous situation out of the way.

Senator REED. Senator, you never came around and growled because you took those greenbacks at 35 cents on the dollar, did you?

Senator NELSON. Oh, no; we took the greenbacks and were glad to get them.

Mr. SIMMONS. The only other section that requires attention is the one with regard to the use of the words "Secretary of the Treasury," and his position. It seemed to us that the provisions relative to the Secretary of the Treasury were, in some cases, the way this bill came to us—some of those instances have since been changed—were rather conflicting in respect to his relation to the board of which he was a member. In some cases he was practically in a position to supersede the action and authority of the board of which he was a member. It seemed to us wise to suggest that it be made entirely clear. If the Federal reserve board principle is to obtain—and we are ready to grant it is perhaps the best one—then it would seem to us the Federal reserve board should be and have entire control and should not be superseded by one member of that board. The other points, I think, have all been covered in your recently drafted bill.

Senator BRISTOW. I was not present during the statement of Mr. Fisher. I was called out and did not get to ask a question I wanted in regard to the character of the Government's guaranty of these notes—that the Government stood as a guarantor, and, by virtue of the Government's standing as such indorser of those bank notes of these banks, it should receive the profits from and above the 5 per cent—60 per cent of it—and, presumably, those profits to the Government would create a fund which would justify it and make it safe in standing for this security for the ultimate redemption of these notes. Is that an idea that reflects the opinions of your committee?

Mr. SIMMONS. Yes. It reflects the conclusion we came to under existing conditions. I think the opinion of our committee generally, and I think the general consensus of the business opinion of the country, is that it would be well to have these notes a bank issue, and then, if you want that Government protection, it can be; but there is something to go back of that, something where the Government supervises and guarantees the holder of that note, perhaps, but does not get into the shape of a maker, and the compensation being that it shall have the profits of this fund to make it entirely safe.

Senator BRISTOW. That is a sound business principle, is it not? Do you not think it makes it entirely so?

Mr. SIMMONS. It appears so to us; yes.

Senator BRISTOW. Now, what would you think, in order to give this bank and national banking system of the country greater stability, of having a similar provision in regard to the deposits of the bank. Let the Government levy a tax of some kind on the operations of the bank, to create a fund which would guarantee losses by depositors in case the national bank failed.

Mr. SIMMONS. I would think the general consensus of opinion is against anything in the shape of the Government guaranteeing deposits, based upon experiences that have been had.

Senator BRISTOW. What experiences do you refer to?

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Mr. SIMMONS. I think the experience they had in Oklahoma, which I think your chairman can tell more about than I can. I am not stating except what I believe is the general opinion on that point.

Senator BRISTOW. I mean where there has been some condition of failure in Oklahoma. But suppose the Government did not stand sponsor, but that it created a fund by taxing the banks and that fund was in the nature of a sinking fund out of which any of these depositors would be paid, similar, we will say, to the Kansas law, it simply administered an insurance department of the banking department. As I understand, there are private insurance companies now created to guarantee against the loss of bank deposits. Such companies are in operation now, as well as State companies that have been organized. In the State of Kansas there is a company that is supervised by the banking department—that refers to the State banks—and another company is organized which insures the deposits of national banks. It is a private insurance company for that purpose.

Why would it not be just as practicable for the Government to create a fund, which fund, so created under the supervision of the Government, should be pledged to the payment of depositors for losses upon the same principle we are creating a fund to incure the payment of any of these notes that might fail.

Mr. SIMMONS. I am not authorized to speak for the National Chamber, because that point did not come up, but I think I understand the general attitude of the business interests toward that proposition, and that it would be unwise because it would practically put a premium on lack of care in the use and loaning of the deposits, the idea being it would not make any difference and would help most the man who regarded the thing least, with the least care in his work and the least care in his credit, without himself taking the risk.

Senator BRISTOW. Have you ever examined the operation of the Kansas law?

Mr. SIMMONS. Not sufficiently to speak with thorough knowledge of it; no, sir.

Senator POMERENE. What is your judgment of that, Senator?

Senator BRISTOW. The actual operations of the law have been entirely satisfactory. A depositor can not lose anything in a Kansas State bank. It is a voluntary fund; it is entirely voluntary as to whether a bank comes in.

Mr. SIMMONS. It is not as to the depositor?

Senator BRISTOW. No; it is not as to the depositor.

Mr. SIMMONS. He is the citizen, and he pays the bill; he loses his share.

Senator BRISTOW. No; the citizen does not pay the bill. It is like insurance exactly.

Senator POMERENE. How many bank failures have you had since that time?

Senator BRISTOW. One.

Senator POMERENE. Within what period?

Senator BRISTOW. Four years. And the depositors receive immediately a certificate for the amount of the deposit, which bears 6 per cent and it at once goes to a premium.

Mr. SIMMONS. That is not an insurance company.

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Senator BRISTOW. It is by insurance. It is a mutual insurance company organized by the State and supervised by the banking department. It simply provides that any bank which desires to insure its depositors can subscribe to this fund and pay its assessments, and that goes into a fund that is kept in the State treasury. If a failure occurs of any of the banks, the banking department of the State pays the depositors, takes possession of the failed bank and closes up its affairs, and then the receipts from the winding up of the bank's affairs go into this fund which has been drawn upon.

Senator NELSON. That is practically the Canadian system.

Senator BRISTOW. It works just as Mr. Dawson said the Canadian system worked. The depositors of the failed bank really get more money, because their certificates at once go to a premium.

Senator NELSON. They get certificates that draw 6 per cent interest.

Senator BRISTOW. Ours is exactly the same. The national banks have organized a mutual insurance company which they supervise, and it is not supervised by the State. They have had no failures.

Mr. SIMMONS. Who is it in that case that decides who shall come in?

Senator BRISTOW. It is wide open to anybody that will comply with the conditions.

Mr. SIMMONS. It is not wide open to anybody, but they make conditions.

Senator BRISTOW. The State makes conditions also. Nobody can come in except a bank that has a proper standing.

Senator POMERENE. With your experience in Kansas, it would hardly be fair to say that banking insurance placed a preium on bad banking.

Senator BRISTOW. No. That is the argument of people who do not know anything about it.

Senator NELSON. The real opposition is it places the big banks that are such good institutions on a level with the others that are not so good—with the small institutions. They have as big a show to get deposits under that system as we have, and that is where the opposition comes from.

Senator REED. Mr. Simmons, are you directly interested in the banking system yourself?

Mr. SIMMONS. I am a director in a bank; yes, sir.

Senator REED. Your principal business is running the great hardware business with which you are connected?

Mr. SIMMONS. Yes, sir; entirely.

Senator REED. And I think you have one of the largest wholesale hardware businesses in the country. Now, your banking business is a sort of an incident?

Mr. SIMMONS. A very decided incident.

Senator REED. As a business man, you recognize the fact that you are constantly interfered with in your business by the uncertainty as to whether a bank can let you have all the money you want, even when there is absolute solvency?

Mr. SIMMONS. The uncertainty as to whether they are going to continue to be for some time to come.

Senator REED. And you fear these financial panics and depressions that come. Do you think, under all the circumstances and in view

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of the conditions, that every line of business, including the banks, can afford to make some sacrifice in order to get a stable system?

Mr. SIMMONS. Well, I think they already have; it is a question of what you mean by sacrifice.

Senator REED. That a bank can ever afford to sacrifice it profits?

Mr. SIMMONS. Yes; I do; undoubtedly; a financial sacrifice.

Senator REED. And that they could all get together and cooperate to work out a system and not be, as I fear some people have been, fighting a system; I do not mean you bankers.

Mr. SIMMONS. Perhaps I can answer you by calling your attention to the pending clause of the report of our committee, recommending that we recognize here a definite effort to do a constructive thing and to supply this country with the kind of currency system. The attitude of the committee was to see to what extent they could be helped to do that; not to find fault, but to see what we could do to add strength to that.

Senator NELSON. You have a very able report, and I want to congratulate you on the points you have made and to the sound basis on which you have argued. I think you have been very helpful to us here in making your suggestions.

Mr. SIMMONS. You are very kind to say that, Senator.

Senator REED. I agree with that remark.

Mr. SIMMONS. If it is agreeable to the committee, Mr. Wheeler, the president of the Chamber of Commerce of the United States, will address you now. He can give you a pretty clear idea of the purpose of the chamber in taking up this matter.

The CHAIRMAN. We will be very glad to hear Mr. Wheeler.

STATEMENT OF HARRY A. WHEELER, VICE PRESIDENT OF THE UNION TRUST CO., CHICAGO, ILL., AND PRESIDENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES.

Senator REED. Will you give your name and your business connections.

Mr. WHEELER. Harry A. Wheeler, banker; vice president of the Union Trust Co., Chicago, Ill., and president of the Chamber of Commerce of the United States.

Mr. Chairman and gentlemen, this matter has been so clearly stated, it seems to me, by Mr. Fisher and Mr. Simmons relative to the points covered by our committee on banking and currency, and submitted for the vote of the chambers of commerce of the United States, that if I should go over that matter it would be a waste of your time and simply a repetition. I would like to put into the record, however, a statement of how we came to ask for this hearing on behalf of the chambers; how they are tied together, and how the vote was taken; for Senator Nelson, voicing the idea that chambers of commerce have always acted through a few men who voice the sentiments of all the members, holds the impression that we fear some of the rest of you gentlemen hold that this vote was taken in a desultory sort of way without the idea of getting the sense of the organizations and therefore would represent merely the sentiment of the few men who might have received the report and read it and voting "aye" or "no."

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Now, the chamber of commerce——

Senator NELSON. I am disabused of that idea. I think our experience here in Congress, of getting resolutions of chambers of commerce and other organizations which do not mean very much may have given us that impression, but after hearing what you gentlemen have had to say to-day I am satisfied that that does not apply to your case, because you seem to be working on bedrock all the time.

Mr. WHEELER. I thank you, Senator.

The Chamber of Commerce of the United States was formed only 18 months ago. It was an organization to bring together as a united body all of the national trade organizations and the chambers of commerce and boards of trade of the country. And a chamber of commerce in a city of 1,000 inhabitants is made just as welcome as a member, and it is made just as possible for them to become a member as the Chamber of Commerce of the city of New York, or of the city of San Francisco, or of Boston, or of any other of the larger cities, or of the American Bankers' Association, or of the National Wholesale Dry Goods Association. That democracy has been written into the organization, and its board of directors, which comprises 25 men chosen from definite geographical divisions in every part of the country, have had conferred upon them no power to commit the chamber to any policy or any piece of legislation, and that it may be fully decided whether the matters submitted to the chamber are of a national character, and proper to be submitted to the various bodies for their opinion, and if it is so determined, then such a referendum as this must be prepared and submitted to all the organizations affiliated with the chamber.

Senator Reed asked whether there was argument. If you gentlemen had the time I would like to have you see the manner in which this is put up, with the report of the committee, its relation to the bill then being considered, and the marginal notes with the suggestions that were made, and with marginal notes relative to the amendments that had been suggested. There is not one single syllable in that urging any member of the chamber of commerce to support any one of those provisions, but they are placed exactly before them in a business way in order to endeavor to ascertain what is their mind and what is their opinion in regard to that matter.

Now, gentlemen, when this referendum was issued there were 380 organizations represented in this body, and it represented 200,000 business firms and business men in the constituent membership of these organizations. If I were to say to you that the vote which has been taken and recorded to you by Mr. Simmons was the vote of the business men of this country, I would deserve your censure and condemnation, because it is not. You know as I do how hard it is to get business men to take economic questions and study them and record an intelligent opinion upon them. This went out to the various organizations and associations and was voted upon by more than one-third of the organizations and by 41 per cent of the full voting strength of the chamber. The voting strength is made up so that the Chamber of Commerce of the city of Boston, for instance, has 10 votes and the Chamber of Commerce of Phoeniz, Ariz., 1 vote. The maximum number of votes that any organization may cast in regard to any question or piece of legislation upon which a referendum is submitted is 10 and the lowest, of course, is 1. So that an organization of thousands of members can not record more

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than 10 votes and never by any combination can dominate the vote of the whole, and 41 per cent of all the votes that could have been cast upon this question was cast by the associations.

Senator, it was my good fortune during the 45 days that this question was pending before the business associations of this country to visit a good many cities, working with them in connection with what I regard as one of the most fundamental principles of our business life, to get our business men interested in something besides trading their own goods for other people's goods or their own goods for profit; that they shall interest themselves in a sane way in finding out what is going on, what is their relation to it, how it affects their business, and get them to form a clear opinion and to express an opinion where it may be of value.

In that the Chamber of Commerce of the United States from its beginning has wished to say to the executive and legislative branches of this Government in Washington we are not coming to you and asking that you pass legislation for us; we are not pressing bills for your consideration; we are asking that you help us to help you if you want the business opinion of this country upon measures that are before you. We will give it, as we have tried to do in this case, an absolutely impartial and unbiased opinion upon various points, presenting the matters of these organizations, not asking that they support the measures as we proposed them, but that they give us their advice and help and suggestions.

I never have seen business men more keenly interested in any subject than the people have been in this matter.

The boards of directors of various organizations have called their organizations together, and when that was impossible they have sent out extracts from this report and asked that these arguments and extracts and explanations be read and the vote recorded, and during the last 45 days, Mr. Chairman, I have sat in conventions of business men who have asked me to come in and talk to them about these seven provisions, and they have recorded their vote upon them. You will know from Mr. Simmons's report that it is not a unanimous vote. There were some 90 votes against the one which received the greatest number of negative votes and I believe some 390 votes in favor of the provision which received the greatest number of affirmative votes. So that there was thought in this matter, and in presenting it to you as we do to-day we present it as the sober and deliberate action, favoring these recommendations for amendment or the suggestions for your consideration. They come from 140 of the largest commercial organizations in this country, in 28 States of this country, and comprising a membership of more than 150,000 business men.

And if you have time to read the letters that have come from those organizations which did not vote and find how conscientiously they considered their relation to this subject you would be still more impressed. I am only going to give you one. One organization having had its committee at work upon this proposition, brought it before its executive board for consideration and said, "We can not approve all of the amendments suggested by the committee of the Chamber of Commerce of the United States. We can not vote against your bill, because in so doing it would tacitly approve the bill as now written. Neither can we vote for your bill, and because we can not do either

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one we dare not vote at all." They have been conscientious in the matter and tried to look at it in a fair way. I do not believe in that standpoint. I do not believe that is a good thing, but these organizations have, so far as possible, endeavored to form their conclusions soberly and honestly, and I give them to you for what they are worth.

As this organization grows it will endeavor, whenever it comes before a committee of the Senate or House, to bring to you the honest and unbiased and unprejudiced opinion of the members of these various organizations.

I am very much obliged to you, gentlemen.

The CHAIRMAN. The committee very highly appreciates the pains you have taken to carefully examine this bill and criticize it and suggest amendments to it, and nothing could be higher evidence of the opinion you have given than the form in which you have presented it to your own members.

Senator SHAFROTH. We expect to utilize this very much.

Senator BRISTOW. Of course, this does not purport to reflect so much the views of these men as to what legislation we ought to have and what amendments ought to be made to this bill?

Mr. WHEELER. That is right, Senator.

Senator BRISTOW. Now, some of us believe that a central Federal bank would be better than 12 Federal banks organized as these are proposed to be organized. Now, as to the choice between a central Federal bank providing for the performance of certain functions in our financial system or 12 banks organized as these are, we would not have the judgment of these gentlemen as to that, but only an amendment which they feel ought to be made to this specific bill?

Mr. WHEELER. That is right. Our committee on banking and currency when it came to Washington to study this bill and endeavored to formulate a report felt that your effort in Washington was one directed toward constructive legislation; that you had certain principles which you believed should be worked into the bill, and we were ready to try to support you in legislation on those principles.

We therefore put to our constituent members no question that was not related to the bill itself. We did not argue that a central bank was better than 3 or 12.

Since we came to look at this as a business proposition, knowing, as business men do, the difficulty of establishing a great working machine with a large number of branches thrown out, we felt, when in the wisdom of the Federal reserve board of this association there should be a gradual development of the regional associations instead of endeavoring to establish a great number at once and thereby making confusion, that possibly that could be avoided and yet not destroy any of the principles that underlie this bill, beginning with the natural centers and increasing as the demand came or as the Federal reserve board saw fit to increase them. That is the nearest we came to that point.

Senator BRISTOW. Would we infer properly from that that in your opinion if this Federal reserve board should start with one Federal reserve bank, extend branches of it or establish others of a similar character until it gradually absorbed the entire functions which are contemplated, would be safer and create less possible disturbance of the normal operations of our business affairs than to undertake to create the whole thing at once in one general enactment?

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Mr. WHEELER. Not from the Chamber of Commerce of the United States, because it has expressed no voice upon that. Personally, if you are going to adhere to the provisions of the bill relative to the number of regional associations, and you want convenience as well as safety, I believe that more than one regional bank started at the beginning is desirable rather than detrimental.

Senator BRISTOW. How many would you suggest?

Mr. WHEELER. I hold with my own committee that with perfectly natural conditions certain three centers might be chosen, and then you may have within six months nine more. That development would be the natural and logical development under the development of the Federal reserve board.

Senator NELSON. Your suggestion is that we start with three in the central reserve districts.

Senator BRISTOW. That strikes me as an interesting suggestion.

I would like your own opinion on this phase of the subject. We are creating here by this bill a Federal reserve board that sits here in Washington and supervises these banks at a distance without any personal contract with them. Under your suggestion there would be three. These three banks that are in active operation as banks are presided over by boards of directors and superior to them stands this Federal board. Would it not be better, from a business point of view, safer, and tend to efficiency to have that board itself in the active management of the bank, so that with its experience in contact with the operations of the banking business it would have a judgment based not only upon its theoretical knowledge but on the actual experience of the men who are to decide, ultimately?

Senator NELSON. You mean one single bank?

Senator BRISTOW. Well, yes; if those men were in charge of a bank, would they not be better equipped to pass wisely upon the questions that would come naturally before them?

Mr. WHEELER. You ask this as my personal opinion?

Senator BRISTOW. Certainly.

Mr. WHEELER. I think if it were possible to secure it from Congress and with the consent of the country, that the highest efficiency would come through greater centralization, but I am also equally convinced that it is not practical at the present time to do it.

Senator BRISTOW. That suggestion has been made to us heretofore. Please tell me why you think it is not practical.

Mr. WHEELER. I think that the same reason that brought into disrepute the bill put out by the Monetary Commission—the fear of control which would always be present—would probably have the effect of making your central bank distasteful to a large number of the people of the country.

Senator BRISTOW. Have you taken into consideration the wide difference between the Monetary Commission's plan and the one suggested?

Mr. WHEELER. I think, Senator, that you have a very admirable adaptation in the present plan. It is in a sense a broadening of the scope of the other, and in another sense it is a contracting of that scope through the elimination of a very large amount of machinery that might have been very difficult or expensive to operate. Personally I have no fault to find with the provision of the bill creating, as it does, a given number, or even if you make it an indeterminate num-

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ber, in the discretion of your Federal reserve board or regional associations that shall be linked together definitely by a board that shall have control of the issue and shall really have control in large measure of the actual direction of the banking functions of the country.

Senator BRISTOW. You think that board, situated, as it will be, at a distance, in Washington, as a governing board, and not actively in touch with the operations of the banking business, will be more capable of passing wisely upon the questions that grow out of the operations than if they were in active touch with the situation?

Mr. WHEELER. In so far as they are required to do it in their general supervision. If you gentlemen can, in your wisdom, work into the bill some advisory capacity that is real and not fanciful, that has responsibilities and that is responsive to the country itself, then I say yes, they can do so.

Senator Reed raised the question of the relationship of the two members of an advisory council. May I suggest, Senator, that their relationship, to my mind, is like this: They are elected by an advisory council, one member of the council being chosen by each regional bank, by the vote of the directors of that bank, representing three banks, three representing the commercial and industrial and agricultural interests of the country, and three appointed by the Federal reserve board. You have, therefore, a board of directors of your regional association elected a member of the advisory council or board of the regional association, really being representative of the three elements that constitute our national life.

I believe that you can safely say that an advisory council elected as suggested is really representation more than the bankers, although I grant you that six of the nine board of directors of the regional bank are elected under certain provisions of your bill by the member banks; but they are so safely guarded that your Federal reserve board has the right to change that representation, and therefore your advisory council, in my judgment, with either 5 or 7 or 12 or 20, would really be representative of the several sections of our life rather than only the banking elements of our life. If the council was then elected, and out of their number best qualified to serve them in an advisory capacity with the Federal reserve board at Washington, charged with no other task than to keep informed relative to the financial and the agricultural and commercial conditions in their regional districts, and had that as their sole task, I believe you add distinct strength, because your Federal reserve board is charged with the task of guiding and supervising all the affairs of the regional banks and practically protecting all of the functions of those banks, and they have a task which is a big one for seven to perform, and these two men will bring live-wire information to the seven relative to the districts and their condition.

Senator BRISTOW. As I understand you, you would prefer to have these three regional banks governed as the provision is made in this bill rather than to have one central bank governed by a board selected similar to this Government board?

Mr. WHEELER. Again, personally, I can only reiterate what I said before. From the point of my efficiency, if it seemed possible, there are advantages in a central bank, as there are always advantages in centralization. But, next to that—which does not seem to me practicable—I believe this plan is good.

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Senator BRISTOW. But please leave out the proposition as to whether it is practicable or not——

Senator NELSON. Will you allow me to put in this remark right here in connection with this, that in answering the Senator you must bear in mind that the Aldrich bill, so called, was controlled by the bankers, and this plan is to give the absolute control to the Government.

Senator BRISTOW. That is exactly the point. This proposition is that the Government shall control a United States bank, and the bankers shall not appoint any of the officers that shall control it. They need not subscribe to the stock unless they want to.

Mr. WHEELER. Senator, I think the difference very largely is this: Under the so-called Aldrich plan, which was a control by the banks, as you say, your central bank had full banking functions, but had attached to it a very large amount of a very cumbersome machinery—more district associations than you gentlemen have reserve associations in this bill, and tacked on to this a large number of local banks that were feeders into these others.

Senator BRISTOW. If you will pardon me, I would rather have this than the Aldrich system, but I am very much against this.

Senator POMERENE. I thought you favored the Aldrich system.

Senator BRISTOW. I should not vote for it under any consideration. But I am trying to get at another thing. I want to know if you believe that a central bank, controlled by the Government, by a board appointed for that purpose, operated by that board, performing all the functions that are intended to be performed by this system, providing means for the mobilization of reserves, a bank of issue, a bank of Government deposit, a bank of rediscount—if you think it would be more efficient than three regional banks governed as suggested in this bill?

Mr. WHEELER. I do not.

Senator BRISTOW. Why do you not?

Mr. WHEELER. The only advantage we can get from a central bank, governed and controlled as you would have it in relation to this same sort of movement, would be a possibly greater mobilization of reserves. The power of issue lies with the Federal reserve board, as you have it here in your bill, and the supervision likewise, and with a central bank you must have branches, and many of them probably, to serve, as you will in this case have to have branches of your regional association. And I believe that for convenience sake where you have tied up your regional association through such a number as you here propose—and I depart from some of the testimony that has doubtless been given by many in my own profession relative to the power that you may give to cause reserves to be transferred. I believe they should be in some wise safeguarded, but the permissive power to require certain functions to be performed must be given to your central body, whether it be a Federal reserve board, as planned in this bill, or the board of directors of a central bank such as you may suggest. And I believe that for the convenience of the country it will ultimately work out better, as experience is gathered and as we may make certain amendments, in the operation of these regoinal banks and in the control of the Federal reserve board, to have them located at various parts of the country instead of absolutely centralized at one point.

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Senator BRISTOW. Now, suppose that instead of having these directors of the regional banks selected as they are we have them all appointed by the President and confirmed by the Senate, so that the regional banks are controlled and governed by a Federal board.

Senator POMERENE. I do not believe I understood your question. Do you mean that all of the members of the regional board be appointed by the President?

Senator BRISTOW. Yes; that is just what I mean.

Mr. WHEELER. Senator, I think, that if you were to do that you would either be compelled to work into this bill some provisions that would absolutely compel the banks of the country to join in this movement, or you would drive them away from it. If you compel subscription to the capital stock of a body that has to do not only with that capital but with the reserves and without any voice or control whatsoever in the matter except such as may be delegated to it by an appointive power from a distant point, I think it would be an injustice to the men who contribute the capital, and I think they would not feel very much like joining into a regional association plan of that kind.

Senator BRISTOW. You think it is more unjust, if I understand you correctly, for the Government to appoint the managers of the regional banks than it is for the Government to appoint the board which supervises the action of the managers of the regional banks?

Mr. WHEELER. I think the central board, which is in the control and appointing power of the Government, is the supervisory power of the functions of all the banking of the country and the power of issue, and the Government in this bill to stand back of the notes that are issued, and if it stands back of them as responsible it has the right to name the men who shall control that issue and who shall supervise—and wisely supervise, we in business believe—the banking operations and functions of the country.

Senator BRISTOW. You distinguish, then, between this supervisory board here at Washington, that you do not care to have a member on, but that you want to be in intimate relations with—you distinguish between that board and a board that is to actively manage these banks?

Mr. WHEELER. Yes; I do.

Senator BRISTOW. Now, there are some of us that believe that the same interest that would control Mr. Aldrich's central bank would control these regional reserve banks—some of us have not any doubt about it—that this provision is simply a very adroit way to avoid the unpopularity of Mr. Aldrich's plan and still not lose the essential substance of it.

Mr. WHEELER. Well, you have safeguarded yourselves in this way. Out of the board of nine, six are elected under certain conditions—and, I think, very ingenious conditions. And I do not agree with you that they are likely to work to central control by the member banks. Let us not forget that three of the nine are appointed by the Federal reserve board and that three of the nine may be removed by the Federal reserve board if they should not be representative of the interests that are supposed to be covered by the provisions of that bill.

Senator BRISTOW. Suppose that we here, in our judgment—I am not saying that many members of the committee would favor it—

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make six of them appointed by the Government direct, or seven, and let the bankers elect two; in other words, have the same proportion of the management of these regional banks that you want on the Federal board here.

Mr. WHEELER. Again, personally, Senator—because these are only personal opinions, and they have nothing to do with the referendum—I like the present plan better.

Senator BRISTOW. That is what I have been trying to get at. I have an impression that the great interests which are so much interested in this legislation are willing to accept a Federal board provided they can have a close relation to it, but with supervision in a general way; but they would strenuously object to having the regional boards have direct personal control, even if they did not have to subscribe the stock.

Mr. WHEELER. Admitting now there should be another method of stock subscription?

Senator BRISTOW. Yes; what would you think of that?

Mr. WHEELER. I think if you leave the banks out of it altogether they have no voice. Make it optional for them to come in or not. You choose your method of control as you please. Not speaking for the banks, but from a common-sense viewpoint, I should judge they would not be interested when they were not parties to the transaction, in any sense of the word.

Senator BRISTOW. Do you think that kind of system would succeed in this country; that kind of Federal bank, based on popular subscription?

Mr. WHEELER. I am not competent to answer that question.

Senator BRISTOW. Is it not quite similar to the French system?

Mr. WHEELER. They have a widely scattered stock holding; so have the others; so has the Bank of England, but not absolutely open to the general public in point of controlling power. If you are going to give your shareholder in your American bank, who holds one share, voting power, then naturally you would confer upon him something they do not have among those who hold stock in the Bank of England. You democratize it; I do not know that you benefit the selection, by any means, of the directorate.

Senator BRISTOW. What is the capital of your trust company?

Mr. WHEELER. $2,000,000.

Senator BRISTOW. And its deposits?

Mr. WHEELER. The deposits are $22,000,000.

Senator BRISTOW. You are the vice president?

Mr. WHEELER. Yes.

Senator BRISTOW. Who is the president?

Mr. WHEELER. Mr. Frederick H. Rawson.

Senator NELSON. Are you affiliated with a national bank?

Mr. WHEELER. Senator, I am not.

Senator NELSON. I do not mean you personally, but the trust company?

Mr. WHEELER. We are not.

Senator NELSON. No national bank is a stockholder or has any interest?

Mr. WHEELER. Not in the slightest degree.

Senator NELSON. There are some trust companies that are only annexes of national banks. Yours is not one of them?

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Mr. WHEELER. Happily, ours was organized in 1869, and has stood on its own legs since that time, and has no other affiliation.

Senator NELSON. There is one point more I should like to call your attention to. As I understood it, your opinion and the opinion of your delegation is this, that inasmuch as we are now starting on a new experiment, the issuing of what I call asset currency, a currency that we have never had since the old system of State banks before the war, you feel—and I understand it is the force of your referendum—that that currency should be guaranteed, although it is a currency of the banks; that it should be guaranteed by the Federal Government?

Mr. WHEELER. That is the recommendation of the referendum.

Senator NELSON. That is as I understand it. That is all.

Senator WEEKS. Mr. Wheeler, if the Senate passed the bill as it came to it from the House, would your trust company come in under the bill and become a member of the association?

Mr. WHEELER. I do not think it could, Senator, because the bill as I read it now in the last copy that I have is so clouded with respect to the relation of the State bank and trust company to the other scheme that I doubt if it could come in without some changes in the present bill.

Senator WEEKS. If the bill were changed to conform to the recommendations made by the chambers of commerce, do you think that that would change the conditions so that you would come in?

Mr. WHEELER. That would not change it, Senator.

Senator WEEKS. Then you do not think your trust company would become a member of the association under any circumstances that are likely to prevail?

Mr. WHEELER. Quite to the contrary, I think they would, but I think the necessity would be to clear up certain phases of the bill which are now rather indistinct in our minds relative to the savings-bank section. There are provisions there relative to liabilities. As I understand it, the bill was drawn with the idea that it should apply to the national bank, and not any very great care was used in phrasing the bill to make it possible to apply it jointly to the National and State banks.

Senator WEEKS. You have not discussed that, of course, in any form, because you are here to discuss the report which the chamber of commerce has made; but I suggest to you that you in some way communicate to the committee your views on that particular point, because that is something we have to consider, or should consider, before we finally report the bill.

Senator SHAFROTH. We should like very much to get your trust company in.

Mr. WHEELER. I think if you can make this attractive enough so that the State banks and trust companies will be desirous of affiliation, it will greatly strengthen the whole thing.

Senator WEEKS. We want to make it attractive enough, and we want to know what we have to do to do that.

Mr. WHEELER. Senator Weeks, you received from Mr. Hulbert, of the Merchants' Loan & Trust Co., certain suggestions from the State banks of Chicago.

The CHAIRMAN. Yes. Do you happen to have a copy of that?

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Mr. WHEELER. I have a copy at the hotel, and should be glad to send it to you.

The CHAIRMAN. I should be glad if you would. I had a copy and lost it.

Mr. WHEELER. Those we subscribe to; and while I was present at the meeting which considered Mr. Hulbert's suggestions the bankers present distinctly stated that in making these suggestions they did not say that the bill with those suggestions incorporated would be one that would invite them in. They asked the Senate committee to give consideration to them to clarify the provisions of the bill so as to make possible their coming in, whereas now they feel they could not.

Senator WEEKS. I want to bring up just one point which you have discussed during the questions which Senator Bristow asked you, and that is about the question of local credit. You are in close touch with the depositors and the borrowers of your trust company. You have talked with them about their needs, and you try to respond by loaning to them when they need it. Do you think a board here in Washington is going to be competent—it does not make any difference how wise the men are—to determine that a customer of yours does not need the accommodation, or that you should not lend him the money, even if you needed to make a rediscount by so doing?

Mr. WHEELER. I do not think, Senator, that any Federal reserve board at Washington can properly sense the needs of the customer of an individual member bank.

Senator WEEKS. Let me put that proposition of mine in a little different form? Don't you think this law ought to be such that a member bank may, within certain limitations as to amount, be able to go to the reserve bank and get rediscounts—assuming, of course, that it is paper that comes within the provisions of the law—without any veto from anyone?

Mr. WHEELER. I think that would add greatly to the attractiveness of the measure and its working basis, but you have, as I understand, in your reserve association the power of discrimination with respect to paper, or you intend to have it.

Senator WEEKS. I have not very much confidence in the power of a board in Washington to discriminate as to the paper of your customers in Chicago.

Mr. WHEELER. What about the board of the regional reserve association?

Senator WEEKS. Well, I have not very much confidence in that even. I would rather have your judgment. I want to have this law finally framed so that your customer needing money may go to you, and, if you agree that he does need it, you may make a loan, even though you have not the money to lend and need to make a rediscount by so doing, and that you can get your rediscount as a matter of right, not as a matter of say so of some board—up to some limit, of course. I do not think we ought to provide for rediscounting an amount greater than the capital of the bank—perhaps some such limit as that—but, up to some such limitation, I think the banks should have the right to go to the reserve bank and get accommodations without any veto from anyone. If we do that we are going to have a national system and we are going to accommodate the business interests of the country, as those interests are determined by the local

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banker and by the local borrower and not by a board in Washington or anywhere else. If we are going to provide that a board shall determine those things, in my judgment we are going to have all kinds of confusion and dissatisfaction.

Senator NELSON. Senator Weeks, let me call your attention to one thing that occurs to me——

Senator WEEKS. I intended to have Mr. Wheeler express an opinion. I was doing the talking when I intended to have him doing the talking.

Senator NELSON. I was waiting for his answer.

Senator WEEKS. I wanted to know, Mr. Wheeler, if you agreed to that proposition.

Mr. WHEELER. I am in agreement for anything in this bill that will make flexible the operation of the bill with respect to the member banks.

Senator WEEKS. And that will accommodate the business interests of the country with certainty?

Mr. WHEELER. Yes. There is, however, just one question that I think deserves consideration in connection with that statement. If you make it a matter of right up to a certain limitation to demand the rediscounting privilege of the paper that comes under the class, you do not then give any consideration to the ability of the regional bank to meet those demands which may at some time grow excessive. And I think therein the supervisory power—the veto power—is good. You strengthen in that case rather than weaken your system, for the safety of the whole fabric must lie upon the ability of these regional banks to do the things they are asked to do and that they could not be forced to do by making it the right of a member bank—something that we are not in a position to do with respect to funds available for the purpose.

Senator WEEKS. Why, Mr. Wheeler, if we had no reserve board at all, if member banks were allowed to go to the member banks and rediscount every dollar of paper they had in their portfolios, in my judgment that paper would be redeemed and taken care of, and you never would hear of any disturbance at all, without any supervision whatever. I do not mean to say I am in favor of removing all supervision and restriction, but I think there is no question that would be the result.

Senator NELSON. Senator Weeks, here is one thing that occurred to me in this connection. These regional banks practically have two kinds of discounts—one is a discount for the purpose of obtaining currency and the other is an ordinary discount where they seek to borrow money. Now, ought there not to be a brake on the discount for obtaining circulation in order to prevent inflation?

Senator WEEKS. I should like to discuss that with you sometime, but I do not think we ought to interrupt Mr. Wheeler's statement in order to do so now.

Senator NELSON. Can you not see there are two kinds of discount there—one for the purpose of circulation and the other for the purpose of obtaining a loan?

Senator WEEKS. I can see that the borrower might use the discount for two different purposes, but, as far as the effect is concerned, it would be of the same character.

Senator NELSON. Probably.

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Senator POMERENE. Would you advise the rediscounting of certain classes of paper which you would not permit to be used for purposes of issue of currency?

Senator WEEKS. Probably; I should be glad to talk with you about that matter.

Senator POMERENE. I should be glad to talk with you about that.

Senator NELSON. That is the point I referred to—the discounting of paper for other purposes and securing currency.

Senator REED. Mr. Wheeler, I want to discuss with you for a moment the question of this advisory board, and see whether, after all, there is any necessity for it. You do not doubt for a minute, do you, that the central board of control will be in reasonably close touch all the time with the 12 regional banks, if it is a competent and proper board?

Mr. WHEELER. Reasonably close; yes.

Senator REED. It has a direct representative on the board of directors of that regional bank, and the bank in interest has the president of the bank—for, of course, they will elect him. So that each of these 12 regional banks would be in a position to directly correspond with and make their wishes known to a central board through two agents, one of which is the president of the bank, selected by the men the bankers have selected—that is, by the six directors—the other will be the chairman of the board of directors selected by the Government. Now, there are pretty direct sources of information and advice, and they, in a way, represent different interests, do they not?

Mr. WHEELER. Yes.

Senator REED. Now, do you think, if you constituted yourself this central board. and you had those two sources of information, together with daily reports as to the transactions of the bank, you would have much difficulty in getting all the advice you needed from both sides of the question, and sound advice?

Mr. WHEELER. I think, Senator, if you impose upon the directors of the Federal reserve board the necessity for securing this information, it is going to be a slower process than if you had two men sitting with them who were supposed to have the information and to have nothing else to do but to get it and keep it available. And it seems to me a matter not of multiplying methods, but really of concentrating to a point that would make available to the seven members of the board, without the necessity of correspondence or of communication, except to verify, as they may wish to verify, with their own agent in that regional association, the information they desire relative to the needs of that district.

Senator REED. Now, these two men sitting in Washington would have to get their information somewhere?

Mr. WHEELER. Yes; just exactly the same, but they would have solely the business of getting it, and not the business of following the affairs of the banking system of the country, whereas the seven men are responsible for some very heavy operations.

Senator REED. Don't you know, when you boil the criticism down, that there is not much in it, particularly when you take into consideration the fact that these banks would effect any kind of organization they want for the purpose of having a representative here in

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Washington who can go down to the board every day and talk with the board and the board always be willing to listen to him, as long as he comes in a proper way? Don't you know that is the way this will work out?

Mr. WHEELER. It may, if the authorized source inclusive in the machinery——

Senator REED. I would not have any objection at all to allowing the banks to have two agents in Washington; but I do object to have them sitting with this board.

Mr. WHEELER. Well, they are powerless, unless they do.

Senator REED. Well, certainly they are powerless, except to give the board information. Now, if you mean to put them on this board for the purpose of controlling this board let us be frank about it and say that.

Mr. WHEELER. That is ridiculous. Whether the president of the United States is the present incumbent, or any other, this Nation will always trust him to appoint men in that important capacity that could not be controlled by two men elected by a dozen representatives of the Federal reserve or regional association.

Senator REED. Now, it is ridiculous that they should control. Therefore, all that is left is that they should advise. Is not that true?

Mr. WHEELER. That is just what we ask from them.

Senator REED. Do you doubt for a minute—and is it not ridiculous to assume; I will adopt your adjective—that any Federal reserve board would refuse to listen to any man who substantially represented the banking interests who came there with a proper suggestion?

Mr. WHEELER. I thoroughly believe that your Federal reserve board will do just that thing. But rather than have to wait until some man may come, as chance may send him, or as a crying need in his region may demand that he go, if you can have instead a continuous representation there on the ground, in communication with those who have the information at their hand and can give it to them, I think it is an advantage to the Federal reserve board to have this representation present at all times rather than have it come spasmodically.

Senator REED. Well, I think the suggestion would not be urged with such pertinacity and in such a serious way unless there was in the back of somebody's head the thought that those bankers would have a potential influence—I do not mean an improper influence; but I do think, since we are talking about it, that a Federal reserve board properly organized, with its machinery and its employees, will be every day—and I will go further and say every hour of the day—in actual touch with the 12 regional banks and know exactly what is going on. If it does not, I do not want to see the system established.

Mr. WHEELER. Senator, might I suggest this to your mind? You assume that these men would be bankers; and I think you are absolutely right; and they would be, in a sense in the employ of the reserve associations, as they would be elected by those who were elected by the regional boards of directors. But when it comes to the question of residence in Washington and having authority to sit there, and have their cause strongly advocated before that board,

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please do not forget that the bankers have absolutely eliminated from their recommendations the idea of the advisory council, and have asked you for another thing in connection with the Federal reserve board. The Council at Chicago which was held a few weeks ago distinctly said "No" to the advisory council, and had it been one of those propositions that the banks of the country were interested in putting two men on that board, without vote, in order that they might be watchers, they certainly would not have seen fit to forego that as one of their recommendations.

But the suggestion does not, as I understand it, come out of the banking fraternity. I think the first suggestion that was made for the advisory council was made by the committee of the Chamber of Commerce of the United States, and I think that Senator Owen, the chairman, talked with the members of our committee back in July on that question. At any rate it was worked into the bill after that conference had been held here in Washington. Now, it is not a banker's proposal, Senator, as I understand it. It is a proposition that comes from the commercial interests of the country.

Senator REED. Well, if it came from the bankers, I would not turn it down on that account.

Mr. WHEELER. We are not all bad.

Senator REED. No. I say there are two very ridiculous things going on. One is the gentleman who indulges in writing a letter denouncing all bankers as wicked, and the other the bankers getting together and denouncing Congress as a lot of socialists, and between the two I think I have the most sympathy with the fellow who writes the letter, because he has got the most sense; but not much with either.

Now, suppose that, instead of adopting your suggestion, this committee should conclude to recommend taking the Cabinet officers out of this board, leaving the Secretary of the Treasury, and should conclude to require, say, three practical bankers to be appointed, and that they should recommend that the bill should provide for good salaries, and that the permanency of this board as to its membership should be largely assured, do you not think that would go a long way toward satisfying the demands that you people make along that line?

Mr. WHEELER. I think that you would have reduced the necessity; but the utility of the advisory council from an advisory standpoint still remains.

Senator REED. Well, I will not argue that point. I think there are objections, but I am very much obliged to you.

Mr. WHEELER. Mr. Chairman, will you please accept my thanks again for your courtesy in hearing me?

The CHAIRMAN. The committee very greatly appreciates you gentlemen having been here.

Gentlemen, it is now 10 minutes after 5 o'clock.

Senator REED. There is a gentleman here from my State—but I believe he has gone.

The CHAIRMAN. Then, suppose we adjourn until 10 o'clock tomorrow?

Senator BRISTOW. Would it not be better to make it 10.30, Mr. Chairman?

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Senator NELSON. Yes; half past 10 would be better. Who are to be heard to-morrow?

The CHAIRMAN. Prof. Jenks, of Columbia University. Mr. Gilbert was to follow him, but he says he can not get here at that time.

Senator NELSON. I want to hear somebody on the foreign-exchange question.

The CHAIRMAN. That is Prof. Gilbert.

The following additional statement of Mr. George H. Shibley was filed with the committee:

Mr. Chairman and gentlemen of the committee, when I was before you on October 7 and had closed my statement, a request was made of me by one of your number that I incorporate my ideas in a bill, and I have done so, suggesting amendments to the House bill. Herewith I present the copy to the committee, and will ask that it be published in the record, together with a brief summerization of the main points.

My proposal is for legal-tender notes, whereas the House bill proposes a paper currency that would be inferior to gold money in legal-tender qualities, and therefore the banks and individuals would hold gold and thus keep it from being placed in the Nation's gold reserve.

I propose a single gold reserve in connection with 12 banks of issue. At the start the gold reserve would amount to more than $1,250,000,000—all of the gold at present in the United States Treasury—which is more than six times the amount of England's central gold reserve and one and one-half times more than the French central gold reserve, the largest in the world to-day.

An added power for the Federal reserve board that I propose is that the law shall transfer to it the $759,000,000 of United States bonds, now held by the Treasurer of the United States as security for the bank-note circulation, this change to be brought about by the retirement of the bank notes, followed by the purchase of the bonds by the Federal reserve board through the issuance of Federal reserve notes. The proposal is to reissue the bonds to the Federal reserve board as 3 per cent's, to be used as needed to retire paper currency to prevent inflation. Paper currency will have to be retired somewhat in proportion as the national bank reserves are lessened; probably $350,000,000 of paper currency will have to be retired as rapidly as the bank reserves are lessened if stability in the purchasing power of money is to be maintained; and then there is the immense output of gold from the mines. This volume of gold from the mines is such that doubtless something like $100,000,000 of paper currency should be retired yearly during the dull season of the year until such time as the mint price for gold is reduced throughout the gold-standard world. These needed provisions for retirement of paper currency can be met by placing within the control of the Federal reserve board the large volume of United States bonds, as I have suggested.

To meet the unusual demands for money within our country, the only thing needed is authority to provide an elastic volume of legal-tender paper currency, the same as is supplied in each of the leading European countries except England.

To provide for the prompt retirement of the paper currency that may be issued in times of threatened bank failures, I have proposed a plan for the resale of commercial paper by the Federal reserve banks to such of the member banks as may have more money on hand than is needed.

The success of the proposed system would in nowise be dependent upon the cooperation of the national banks or the State banks or trust companies. Immediate and continued success would be assured, and both the banks and the people should heartily approve the system. All are vitally interested in the establishment of a system that will promote prosperity, as the proposed system unquestionably would, for it is constructed upon the principles in successful operation in Europe for 40 years. No untried ideas are suggested; whereas the present bill is in many of its details in direct opposition to the successful experiences in Europe, as I have explained in my statement of October 6 and 7.

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[The parts to be eliminated from the House bill are in brackets, and the parts to be added are in italics. Comments are in parentheses.]

AMENDMENTS PROPOSED BY MR. GEORGE H. SHIBLEY TO H. R. 7837, SIXTY-THIRD CONGRESS, FIRST SESSION.

AN ACT To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That the short title of this act shall be the "Federal Reserve Act."

FEDERAL RESERVE [DISTRICTS] *Banks.*

SEC. 2. That within ninety days after the passage of this act, or as soon thereafter as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as "The reserve bank organization committee," shall designate from among the reserve and central reserve cities now authorized by law a number of such cities to be known as Federal reserve cities, and shall divide the continental United States into districts, each district to contain one of such Federal reserve cities: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the area of such State or States as may be wholly or in part included in any given district. The districts thus created may be readjusted and new districts may from time to time be created by the Federal reserve board hereinafter established, acting upon a joint application made by not less than ten member banks desiring to be organized into a new district. The districts thus constituted shall be known as Federal reserve districts and shall be designated by number according to the pleasure of the organization committee, and no Federal reserve district shall be abolished, nor the location of a Federal reserve bank changed, except upon the application of three-fourths of the member banks of such district.

The organization committee shall, in accordance with regulations to be established by itself, proceed to organize in each of the reserve cities designated as hereinbefore specified a Federal reserve bank. Each such Federal reserve bank shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago," and so forth. The total number of reserve cities designated by the organization committee shall be not less than twelve, and the organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigations as may be deemed necessary by the said committee for the purpose of determining the reserve cities to be designated and organizing the reserve districts hereinbefore provided.

[Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to twenty per centum of the capital stock of such national bank fully paid in and unimpaired, one-fourth of such subscription to be paid in cash and one-fourth within sixty days after said subscription is made. The remainder of the subscription or any part thereof shall become a liability of the member bank, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe: *Provided*, That no Federal reserve bank shall commence business with a paid-up and unimpaired capital less in amount than $5,000,000.] The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

POWERS AND DUTIES OF FEDERAL RESERVE BANKS.

Sec. 3. The powers and duties of each Federal reserve bank shall be:

(a) To establish and maintain throughout the Nation an improved system for the transfer of money and credit, to be known as the Federal reserve sys-

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tem, to consist of twelve or more Federal reserve banks, also a supervisory board, and as many of the privately owned banks as care to join, each of said privately owned banks to deposit with the Federal reserve bank in its district sufficient reserves to settle the daily balances.

(*b*) *Through the mechanism hereinafter provided each Federal reserve bank shall control the interest rate for money within the district where the said bank is located, the rate of discount to be subject to the supervisory power of the Federal reserve board provided for in this act, and the aim shall be to promote stability in the purchasing power of the standard of value, thus to aid in the development of the industrial system and of prosperity and deal justly as between the industrial groups.*

(*c*) *In connection with the official rate the Federal reserve bank shall at all times* (*1*) *offer to supply money to the national and such other banks as comply with the requirements of this act, the cash to be distributed by rediscounting short-time business paper as hereinafter provided, and* (*2*) *be in a position to reduce the volume of money in circulation* (*a*) *by retaining the cash received from the payment of the short-time business paper,* (*b*) *by reselling business paper should offers for it be made, and* (*c*) *should occasion require to retire from time to time some of the existing currency or its substitutes.* [Two additional sources of change in the volume of money in circulation will be the inflow and the outflow of gold from our shores.]

(*d*) *The national board of the Federal reserve system shall be placed in control of the gold in the United States Treasury, subject to the existing obligation with the holders of gold certificates, and there shall be maintained a gold reserve for the entire Nation, so that demands for gold from abroad will not affect the volume of money in circulation in the United States, and that the gold standard of prices will assuredly be maintained, resulting in a fixed par of exchange with the other countries using the same standard.*

(*e*) *In connection with the paper currency, which shall be legal tender, there shall be back of every dollar issued an equal amount of gold or an equal amount of commercial paper, as hereinafter provided for, or bonds of the United States or of a State or of a municipality of this Union, and every dollar of paper currency in circulation from whatever source shall be redeemable in gold at the main offices of the Federal reserve board upon demand, at par.*

(*f*) *Branches within the district shall be established wherever the board of directors shall deem best, subject to a right in the Federal reserve board to finally decide.*

(*g*) *With the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, prime foreign bills of exchange arising out of business transactions which bear the names of two or more responsible parties or are secured on the property sold.* (Compare page 27 of House caucus bill.)

(*h*) *To accept payments for the Federal Government without charge, and, without charge, to make payments for the said Government to the extent of its credit balance, and as far as may be requested by the said Government to take over for safe-keeping or management, free of charge, securities and valuables belonging to it or placed under its management.* (From Swiss law.)

(*i*) *The said bank shall become a body corporate, and, in the name designated in the organization certificates, shall have power to perform all the acts necessary and proper to carry out the purposes of this act, and shall have succession for a period of twenty years from its organization unless sooner dissolved by act of Congress.*

(*j*) *The Federal reserve board and the boards of directors of the Federal reserve bank shall not invest funds in real estate except with the consent of Congress.*

ONE GOLD RESERVE.

Sec. 4. That as rapidly as gold certificates shall be paid into the Federal reserve system, and paid into the United States Treasury and the subtreasuries, they shall be retired, and in their place shall be issued a like amount of legal-tender notes provided for in this act. (See page 1846 of Hearings.)

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As rapidly as the Treasury notes and the United States notes now outstanding shall be paid into the Federal reserve system and paid into the United States Treasury and subtreasuries they shall be retired, and in their place shall be issued a like amount of the legal-tender notes called for in this act.

Whenever gold bars or gold coins are tendered to a Federal reserve bank at its main office it shall forthwith purchase it at the rate of $18.60 per troy ounce, nine-tenths fine, and when pure at $20.66⅔ per ounce. The purchase money shall be the legal-tender notes provided for in this act, and all of the gold received by each Federal reserve bank shall be held by the national board. (See Hearings, page 1825, last paragraph.)

As rapidly as gold coins shall be received in the United States Treasury and subtreasuries they shall be transferred to the Federal reserve banks in exchange for the legal-tender notes called for in this act unless the Government shall choose to retain them. (See page 1825 of Hearings.)

ADDITIONAL POWER IN THE FEDERAL RESERVE BOARD.

Sec. 5. That the circulating notes of the national banks shall be retired under regulations to be provided by the Federal reserve board hereinafter provided. The said board shall offer to purchase at par and with accrued interest the United States bonds on deposit with the Treasurer of the United States as security for the said circulating notes, payment to be in legal-tender notes issued under authority of this act. The bonds purchased shall be canceled, and in their place shall be issued to the Federal reserve board an equal amount of three per cent United States bonds, to be held by the said board for future use. The bonds shall be made payable at such times as the Federal reserve board shall specify: Provided, That the time shall not exceed twenty years from the date of sale by the said board. These bonds shall be exempt from Federal, State, and municipal taxation, both as to income and principal, and shall be used by the Federal reserve board to retire paper currency whenever required for promoting stability in the purchasing power of money, and may be used to maintain the gold reserve. (On the proposed basis of maintaining stability in the purchasing power of money probably $350,000,000 of paper currency will have to be retired to prevent inflation from the reduction in the volume of the national-bank reserves. To prevent inflation from gold from the mines it may be that each year $100,000,000 of paper currency may have to be retired until an international agreement is reached to reduce the mint price for gold; pages 1773–1781 of Hearings. The total volume of paper currency in circulation before the retirement of any of it as above suggested would be $2,355,000,000, with a gold reserve amounting to more than 50 per cent.)

If at any time $200,000,000 of paper currency shall be retired to make place for gold from the mines, the President shall invite the Governments of the earth that are coining gold to unite in an agreement that each will amend its mint law by reducing to an agreed figure the price at which gold shall be coined. (See pages 1775–1782 of Hearings; also memorial by Mr. Shibley dated May 12, 1913, pages 7, 18, published by Senate Committee on Banking and Currency.)

[FEDERAL RESERVE BANKS.]

Boards of Directors of Federal Reserve Banks.

SEC. [4] *6.* [The national banks in each Federal reserve district uniting to form the Federal reserve bank therein, hereinbefore provided for, shall under their seals, make an organization certificate, which shall specifically state the name of such Federal reserve bank so organized, the territorial extent of the district over which the operations of said Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the names and places of doing business of each of the makers of said certificate and the number of shares held by each of them, and the fact that the certificate is made to enable such banks to avail themselves of the advantages of this act. The said organization certificate shall be acknowledged before a judge of some

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court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record, and carefully preserve the same in his office. Upon the filing of such certificate with the Comptroller of the Currency, as aforesaid, the said Federal reserve bank so formed shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power to perform all those acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six, Revised Statutes, save in so far as the same shall be limited by the provisions of this act. The Federal reserve bank so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by act of Congress.] (See sec. 3, par. i.)

Every Federal reserve bank shall be conducted under the oversight and control of a board of directors, whose powers shall be the same as those conferred upon the boards of directors of national banking associations under existing law, not inconsistent with the provisions of this act. Such board of directors shall be constituted and elected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the [stock-holding] *member* banks.

Class B shall consist of three members, who shall be representative of the [general] public interests of the reserve district *except the bankers.*

Class C shall consist of three members, who shall be [designated by the Federal reserve board] *representative of the public interests of the reserve district except the bankers.*

Directors of class A shall be chosen in the following manner:

It shall be the duty of the chairman of the board of directors of the Federal reserve bank of the district in which each such bank is situated to classify the member banks of the said district into three general groups or divisions. Each such group shall contain as nearly as may be one-third of the aggregate number of said member banks of the said district and shall consist as nearly as may be of banks of similar capitalization. The said groups shall be designated by number at the pleasure of the chairman of the board of directors of the Federal reserve bank.

At a regularly called directors' meeting of each member bank in the Federal reserve district aforesaid the board of directors of such member bank shall elect by ballot one of its own members as a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The said chairman shall establish lists of the district reserve electors, class A, thus named by banks in each of the aforesaid three groups and shall transmit one list to each such elector in each group. Every elector shall within fifteen days of the receipt of the said list select and certify to the said chairman from among the names on the list pertaining to his group, transmitted to him by the chairman, one name, not his own, as representing his choice for Federal reserve director, class A. The name receiving the greatest number of votes, not less than a majority, shall be designated by said chairman as Federal reserve director for the group to which he belongs. In case no candidate shall receive a majority of all votes cast in any group the chairman aforesaid shall establish an eligible list, consisting of the three names receiving the greatest number of votes on the first ballot, and shall transmit said list to the electors in each of the groups of banks established by him. Each elector shall at once select and certify to the said chairman from among the three persons submitted to him his choice for Federal reserve director, class A, and the name receiving the greatest number of such votes shall be declared by the chairman as Federal reserve director, class A. In case of a tie vote the balloting shall continue in the manner hereinbefore prescribed until one candidate receives more votes than either of the others.

[Directors of class B shall be chosen by the electors of the respective groups at the same time and in the same manner prescribed for directors of class A, except that they must be selected from a list of names furnished, one by each member bank, and such names shall in no case be those of officers or directors of any bank or banking association. They shall not accept office as such during the term of their service as directors of the Federal reserve bank. They shall be fairly representative of the commercial, agricultural, or industrial interests of their respective districts. The Federal reserve board shall have power at its discretion to remove any director of class B in any Federal reserve bank

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if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.

[Three directors belonging to class C shall be chosen directly by the Federal reserve board and shall be residents of the district for which they are selected, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and shall be designated as "Federal reserve agent." He]

Directors of class B and class C shall be appointed by the Federal reserve board from among those who shall have been nominated by the organized citizens of the district other than the bankers, subject to the advice and consent of the Senate. The aim shall be to select residents of the district who shall be fairly representative of the citizens of the district other than the bankers.

The chief executive officer of each Federal reserve bank shall be known as governor and shall be nominated by the board of directors and confirmed by the Federal reserve board. His term of office shall be indeterminate, subject (1) to the will of a majority of the board of directors, or (2) the Federal reserve board may call for the nomination of a successor.

In the transaction of business between the Federal reserve board and each of the Federal reserve banks, the national board shall be represented by its appointee, who shall be a person of tested banking experience, and shall be designated as "Federal reserve agent." *He may be present at all meetings of the board of directors at which business is officially transacted, and shall have unrestricted access to the books and papers of the bank* [and in addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed.]. He shall be required to maintain under regulations to be established by the Federal reserve board a local office of said board, which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal reserve board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly [by the Federal reserve bank to which he is designated] *from its treasury upon vouchers issued by order of the said board.*

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for members of such boards shall be subject to review by the Federal reserve board.

The reserve bank organization committee may, in organizing Federal reserve banks for the first time, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this act and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank after organization it shall be the duty of the directors of classes A and B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years; but the [chairman of the board of directors of each Federal reserve bank designated by the Federal reserve board, as hereinbefore described, shall be removable at the pleasure of the said board without notice, and his successor shall hold office during the unexpired term of the director in whose place he was appointed]. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

MEMBER BANKS—THREE CLASSES.

Sec. 7. That in connection with each Federal reserve bank there shall be three classes of member banks, as follows:

Class A. The national banks.

Class B. The State banks and trust companies that comply with the regulations of the Federal reserve board concerning the rediscount of commercial paper.

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Class C. The banks that become members of the Federal clearing house.

Each national bank and each State bank and trust company in the United States on the mainland may become a member of the Federal reserve system for clearing-house purposes, and the condition of membership shall be the depositing of sufficient funds to settle the daily balances, also the compliance with the other clearing-house regulations to be issued by the Federal reserve board.

To entitle a State bank or trust company to the right to rediscount commercial paper as hereinafter provided it shall comply with the regulations by the Federal reserve board on this subject, which shall not request that banking capital be deposited with the Federal reserve system.

To safeguard the national banks against runs by depositors and to safeguard the citizens against losses and inconveniences from insolvent national banks, the Federal reserve board shall issue regulations whereby each national bank shall be entitled to rediscount commercial paper, and also, when necessary, secure direct loans from the Federal reserve system to the amount owing to depositors: Provided, however, That the liability of the Federal reserve system and of the Government of the United States for losses from this source shall be limited to the amount of the profits of the Federal reserve system for the preceding ten years. (See pages 1841–1842 of Hearings.)

FEDERAL RESERVE BOARD.

SEC. [11] *8.* That there shall be created a Federal reserve board, which shall consist of [seven] *five* members, including the Secretary of the Treasury, [the Secretary of Agriculture, and the Comptroller of the Currency] who shall be [members] *a member* ex officio, and four members appointed by the President of the United States, by and with the advice and consent of the Senate [. In selecting the four appointive members of the Federal reserve board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of different geographical divisions of the country. The four members of the Federal reserve board appointed by the President and confirmed as aforesaid], *who* shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of $10.000, together with an allowance for actual necessary traveling expenses [and the Comptroller of the Currency, as ex officio member of said Federal reserve board, shall, in addition to the salary now paid him as comptroller, receive the sum of $5.000 annually for his services as a member of said board]. Of the four members thus appointed by the President [not more than two shall be of the same political party, and] at least one [of whom] shall be a person experienced in banking. [One shall be designated by the President to serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President.] *The term of office shall be four years unless sooner recalled by the President.* (Pages 1787, 1816, and 2526 of Hearings.) Of the four persons thus appointed, one shall be designated by the President as manager and one as vice manager of the Federal reserve board. The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and Federal reserve board, shall be the active executive officer of the Federal reserve board.

[The Federal reserve board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock, an assessment sufficient to pay its estimated expenses for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.]

The first meeting of the Federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the reserve bank organization committee. The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board. No member of the Federal reserve board shall be an officer or director of any bank or banking institution or Federal reserve bank nor hold stock in any bank or banking institution; and before entering upon his duties as a member of the Federal reserve board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the four members of the Federal reserve board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the

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Senate, to fill such vacancy, and when appointed shall hold office for the unexpired term of the member whose place he is selected to fill.

The Federal reserve board shall annually make a report of its fiscal operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by or through banking associations, the chief officer of which bureau shall be called the Comptroller of the Currency, and shall perform his duties under the general direction of the Secretary of the Treasury, acting as the chairman of the Federal reserve board:" *Provided, however*, That nothing herein contained shall be construed to affect any power now vested by law in the Comptroller of the Currency or the Secretary of the Treasury.

Powers and duties of Federal reserve board.

SEC. [12] *9*. That the Federal reserve board hereinbefore established shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of such Federal reserve banks, single and combined, and shall furnish full information regarding the character of the lawful money held as reserve and the amount, nature, and maturities of the paper owned by Federal reserve banks.

(*a*½) *To control a central gold reserve for the benefit of the entire Nation.*

(b) To permit or require, in time of emergency, Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks[, at least five members of the Federal reserve board being present when such action is taken and all present consenting to the requirement]. The exercise of this compulsory rediscount power by the Federal reserve board shall be subject to an interest charge to the accommodated bank of not less than one nor greater than three per centum above the higher of the rates prevailing in the districts immediately affected.

(c) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified, such tax to be uniform in its application to all banks; but said board shall not suspend the reserve requirements with reference to Federal reserve notes.

(d) To supervise and regulate the issue and retirement of Federal reserve notes [and to] *including the prescribing of* [prescribe] the form and tenor of such notes, *except that the notes shall be issued in the name of the Federal reserve system.*

(*d*½). *To formulate the method whereby the index number or gauge showing the purchasing power of money* (see paragraph b of section 3) *shall be constructed, and be maintained.*

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this act; or to reclassify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.

(f) To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for cause relating to violation of any of the provisions of this act, the operations of any Federal reserve bank and appoint a receiver therefor.

(i) To perform the duties, functions, or services specified or implied in this act.

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[FEDERAL ADVISORY COUNCIL.]

(*Inquiries and advice.*)

SEC. [13.] *10.* There is hereby created a Federal advisory council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive no compensation for his services, but may be reimbursed for actual necessary expenses. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

[The Federal advisory council shall have power (1) to meet and confer directly with the Federal reserve board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for complete information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.]

That the representatives of the bankers on the boards of directors of the Federal reserve banks and every national organization of citizens may inquire of the Federal reserve board concerning its affairs and answer shall be made. Also, representatives of the said organizations may rightfully tender advice. (See page 1789 of Hearings.)

REDISCOUNTS.

SEC. 11. *That banks in classes A and B may, at an office of the Federal reserve bank within the district wherein the applying bank is located, rediscount notes and bills of exchange that arise out of commercial transactions as hereinafter defined.*

The paper that shall be eligible to rediscount within the meaning of this act shall consist of notes, bills of exchange and acceptances issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or [may] *are* to be used, for such purposes, the Federal reserve board to have the right to [determine or] define the character of paper thus eligible; but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stock, bonds, or other investment securities, nor shall anything herein contained be construed to prohibit the rediscounting of notes and bills of exchange secured by staple agricultural products, or other goods, wares, or merchandise.

The security to the Federal reserve banks shall include the indorsement of the banks.

The maturity of the paper eligible to rediscount shall be stated from time to time by the Federal reserve board, together with such other regulations as it may deem proper.

The aggregate of [such] notes and bills, based on the exportation or importation of goods, and bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any national bank may, at its discretion, accept drafts or bills of exchange drawn upon it having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half the face value of its paid-up and unimpaired capital.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First Notes of circulation.

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Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of sections [two, five, and fourteen] *eleven* of the Federal reserve act.

LOANS TO MEMBER BANKS.

(From the Owen-Glass bill.)

SEC. [14.] *12.* Whenever in the opinion of [the Federal Reserve Board] *a board of directors of a Federal reserve bank* the public interest [so] requires [the Federal Reserve Board may authorize the reserve bank of the district to] *that the bank shall* discount the direct obligations of member banks, secured by the pledge and deposit of satisfactory securities, *authority so to do is hereby granted.* (See section 7, above.) [; but in no case shall the amount so loaned by a Federal reserve bank exceed three-fourths of the actual value of the securities so pledged or one-half the amount of the paid-up and unimpaired capital of the member bank.]

OPEN-MARKET OPERATIONS.

SEC. [15] *13.* That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

[REDISCOUNTS.]

Deposits.

SEC. 14. That any Federal reserve bank may receive from any member bank deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent banks, payable upon presentation.

Resale of commercial paper.

Sec. 15. That whenever member banks of class A or B possess excess cash they may purchase interest-bearing paper from the Federal reserve bank in their respective districts. The Federal reserve board shall prescribe rules under which the reserve banks shall offer to resell the paper they have purchased.

NOTE ISSUES.

SEC. [17] *16.* That Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the [United States] *Federal reserve system* and shall be [receivable for all taxes, customs, and other public dues] *legal tender.* They shall be redeemed in gold [or lawful money] on demand [at the Treasury Department of the United States, in the city of Washinton, District of Columbia, or at any Federal reserve bank] *at the office of the Federal reserve board in each of the Federal reserve banks.*

Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such an amount of the Federal reserve notes hereinbefore provided for as it may deem best. [Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section 14 of this act, and] *Delivery of the notes shall be made as called for, and at the close of each business day the Federal reserve bank shall transfer to the Federal*

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reserve agent an amount of acceptable commercial paper taken under authority of sections 11 and 12 of this act, which, together with the amount of gold certificates and of gold received, shall equal the amount of notes used. The Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of notes to and by the Federal reserve bank to which he is accredited. The said Federal reserve board shall be authorized at any time to call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

[Whenever any Federal reserve bank shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on its books gold or lawful money equal in amount to thirty-three and one-third per centum of the reserve notes so paid out by it, such reserve to be used for the redemption of said reserve notes as presented; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold or lawful money sufficient to make said reserve equal to thirty-three and one-third per centum of its outstanding Federal reserve notes.] Notes [so] paid out *by each Federal reserve bank* shall bear upon their faces a distinctive letter and serial number[, which shall be assigned by the Federal reserve board to each Federal reserve bank]. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued[, or shall be charged off against Govrenment deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption]. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. [Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the five per centum redemption fund hereinafter provided and returned as hereinbefore provided to the reserve bank through which they were originally issued.]

[The Federal reserve board shall have power, in its discretion, to require Federal reserve banks to maintain on deposit in the Treasury of the United States a sum in gold equal to five per centum of such amount of Federal reserve notes as may be issued to them under the provisions of this act; but such five per centum shall be counted and included as part of the thirty-three and one-third per centum reserve hereinbefore required.] The said board shall also have the right to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent and in the amount that such application may be granted the Federal reserve board shall, through its local Federal reserve agent, deposit Federal reserve notes with the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal reserve board, [which rate shall not be less than one-half of one per centum per annum,] and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, become a first and paramount lien on all the assets of such bank.

[Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by the deposit of Federal reserve notes, whether issued to such bank or to some other reserve bank, or lawful money of the United States, or gold bullion, with any Federal reserve agent or with the Treasurer of the United States, and such reduction shall be accompanied by a corresponding reduction in the required reserve fund of lawful money set apart for the redemption of said notes and by the release of a corresponding amount of the collateral security deposited with the local Federal reserve agent.]

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of Federal reserve notes deposited with it and shall at the same time substitute other collateral of equal value approved by the Federal reserve agent under regulations to be prescribed by the Federal reserve board.

[It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last men-

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tioned, nothing herein contained to be construed as prohibting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.] *The Federal reserve board shall issue regulations providing for a clearing house for the entire Nation on the mainland. The rates at which funds shall be transferred through the said system shall be fixed from time to time by the Federal reserve board, and its decision after a public hearing shall be final. The hearings shall be published.*

SEC. [18] *17.* That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed.

BANK RESERVES.

SEC. [20] *18.* That from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal reserve bank has been established in any designated district, every [banking association] *national bank* within said district [which shall have subscribed for stock in such Federal reserve bank] shall be required to establish and maintain reserves as follows:

(a) If a country bank as defined by existing law, it shall hold and maintain a reserve equal to twelve per centum of the aggregate of its deposits, not including savings deposits hereinafter provided for. Five-twelfths of such reserve shall consist of [money which national banks may under existing law count as legal reserve.] *legal-tender notes* held actually in the bank's own vaults; [and for a period of fourteen months from the date aforesaid at least three-twelfths and thereafter at least five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of its district.] The remainder of the twelve per centum reserve [hereinbefore required] may, [for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided,] consist of balances due from national banks in reserve or central reserve cities as now defined by law *and balances due from a Federal reserve bank or banks.* [From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided the said remainder of the twelve per centum reserve required of each country bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.]

(b) If a reserve city bank as defined by existing law, it shall hold and maintain, for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter eighteen per centum. At least one-half of such reserve shall consist of [money which national banks may under existing law count as legal reserve.] *legal-tender notes* held actually in the bank's own vaults. [After sixty days from the date aforesaid, and for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district.] The remainder of the reserve [in this paragraph required] may[, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided,] consist of balances due from national banks in central reserve cities as now defined by law *and balances due from a Federal reserve bank or banks.* [From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided, the said remainder of the eighteen per centum reserve required of each reserve city bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.]

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(c) If a central reserve city bank as defined by existing law, it shall hold and maintain for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter [eighteen] *twelve* per centum. [At least one-half of such] *This* reserve shall consist of [money which national banks may under existing law count as legal reserve,] *legal tender notes*, held actually in the bank's own vaults *and balances due from a Federal reserve bank or banks.* [After sixty days from the date aforesaid, and thereafter for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the eighteen per centum reserve required of each central reserve city bank shall consist either in whole or in part of reserve money actually held in its own vaults or of credit balance with the Federal reserve bank of its district.]

SEC. [21] *19.* That so much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

A NEW TITLE.

Following is a proposal for a new title for the bill:

"*A bill to provide for the establishment of Federal reserve banks, to establish a unified control of the purchasing power of money and that shall aim to promote stability, to insure competition in the loaning of money, safeguard the solvency of banks, guarantee the safety of deposits in national banks, and for other purposes.*"

Mr. SHIBLEY. Gentlemen, there is an important detail in connection with the proposed law that I merely touched upon in my statement of October 6 and 7. In the House bill there is a proposal that of the four members of the Federal reserve board who are to be other than Cabinet members and the Comptroller of the Currency—

"One shall be designated by the President to serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President." (Sec. 11, lines 16–20, p. 18.)

The effect of this proposal if enacted into law would be to abolish to some extent the people's self-government in connection with the monetary system. The proposal is that the term of office of a majority of the seven members of the Federal reserve board shall be eight years, and therefore is nearly as oligarchical as the plan whereby the people elect Senators for six years and a Chief Executive for four years, thereby making it possible that the people's will as expressed at an election of Representatives may be blocked for two or four years. The proposal for the Federal reserve board is that it might be nearly two years after the people had turned a set of leaders out of power before they could get control of the Federal reserve board. To realize the far-reaching nature of this proposal let us briefly review the history of the Government of our country.

The Revolutionary War was successfully fought under a system of self-government by the people. The people's will prevailed because of a system of government in which the nomination and the election of members of the legislatures and the governors was comparatively simple and direct, in combination with a system whereby the voters instructed their representatives at will, and the legislatures elected the members of the Congress, subject to recall at any time. And Congress controlled the national executive department.

It was through the use of this system that the colonists fought the mother country and, with the aid of France and Divine Providence, won their freedom.

With the coming of peace and the opening of the country to trade with England the small amount of gold and silver that was in the country was largely shipped abroad to pay for purchases. This export of the gold and silver resulted in falling prices for commodities and the usual hard times. The control of the volume of money was in each of the 13 States, and, as usual, there was

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much debate as to what should be done about issuing paper currency. In New Hampshire the voters at town meeting balloted upon a proposed State law for the issuance of more paper currency and rejected the proposal. In Massachusetts the volume of money was such that prices for commodities fell tremendously and mortgages were foreclosed at a mere fraction of what had been the selling prices for property. The creditor class controlled the legislature, and continued to do so for several years, which gave rise to Shay's rebellion during the latter part of 1786 and the first few months of 1787. The Constitutional Convention for the proposing of amendment to the Articles of Confederation met early in 1787, and it was a reactionary organization, having been elected by the existing legislatures. The people were not permitted to elect the delegates. It was so reactionary that of the 56 patriots who 11 years before had signed the Declaration of Independence only 6 were elected as delegates to the National Constitutional Convention.

In other words, the Federalists were in control. Instead of carrying out the instructions whereby they held office, namely, to propose amendments to the then-existing system of National Government, they at once closed the doors of the convention to the public and proceeded to plan a new and a reactionary system of government, one that would, if placed in operation, effectually abolish self-government by the people. The people were to be denied the right to instruct the men in office, thereby making the few in office a set of elected rulers; and only one of the four sets of officials in the National Government were to be elected by the people.

In the campaign for the election of delegates to the State conventions that were to pass upon this proposal it was described in various ways, among others in a set of letters by leading Federalists in what has come to be termed "The Federalist." In Letter No. X it is plainly stated that the will of the majority ought not to be permitted to prevail. The plan proposed was "The delegation of the Government to a small number of citizens elected by the rest."

And the letter continues:

"The effect is to refine and enlarge the public views by passing them through the medium of a chosen body of citizens." (P. 57, Lodge's edition.)

But the reactionists did not fully succeed. The only way that they could get the approval of the needed number of States for the proposed limitations on the people's power was to agree with the patriots that the First Congress would submit amendments restricting the power of Congress. This Massachusetts plan, as it was termed, resulted in the first 10 amendments materially limiting the power of Congress.

And eight years later the people's leaders succeeded in establishing party government. Washington was to retire from office and the patriots nominated Jefferson for the Presidency, and as they had developed quite an organization throughout the country they almost succeeded in securing control of the entire Government. They secured a majority of three in the House, and thus could stop some of the reactionary measures.

But two years later, owing to unfortunate conditions in France, a country that had made a failure of an attempt at popular government, the Republicans in the United States lost control of the House and the Federalists came into full control. They acted so in violation of the doctrines of popular government that in 1800 the people turned them out of the Presidency, the House, and the Senate and the incoming organization, headed by Jefferson, was pledged to majority rule and all of the other doctrines of the people's rule, and the pledges were kept.

Thus the people recovered their liberties to a very large degree. But there still remained the six-year term of office for the Senators and four years for the President, so that a people's victory in an election of Members of the House might not give them the control of the Government. That system of checks upon the people's rule is unknown in most of the countries in Europe. In England, France, Italy, and most of the European countries the party organization in control in the most popular branch of the legislative body has become the ruling power throughout the nation.

And here in the United States of America the tendency is to open a channel so that the party organization that is successful at the polls shall take charge of the Government and be given an opportunity to promote the general welfare, instead of dividing the control of the Government between two sets of party leaders, so that one can veto the acts of the other.

Therefore the forthcoming currency and banking law should provide that whenever a party organization shall elect the head of the Government he shall

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be authorized to carry out in the administrative department the pledges made to the people; for example, carry out the pledges as to the control of the price level and the other features of the currency and banking system that are under the control of the Federal reserve board. The control within this board should be the same as in the Department of the Interior and the other departments, so that the head of the Government, whom the people elect, shall at once enter upon control as soon as he is sworn into office. It would not do to provide that the departments should be placed under boards not controlled by the people's elected representative, nor will it do to provide that the Federal reserve board shall not be responsive to the people's will at a presidential election. In order to make the needed change in the bill there should first be dropped the provision for private capital stock and a vast amount of bank reserves. Then the conditions would be such that it would clearly appear that the control of the Federal reserve board should be in the head of the Government, elected by the people, the same as the control of the Treasury Department.

I now turn to another subject, and one upon which I have been asked to speak. Some of the witnesses before this committee have not recognized that during recent years there has been a scarcity of fluid capital, but declare that there has been a scarcity of money. That is a serious error.

Each year an immense volume of consumable articles are produced throughout the world, termed "fluid capital," as distinguished from fixed capital, such as the railroads. The result of establishing a unified control of the interest rate in this country will be that intelligence will be used in adjusting the interest rate for money, so that it will be fed out at rates that will conserve the volume of products. Money and bank credits are used to purchase the consumable articles, and the interest rate should be such as to spread out the consumption over the entire year and not run into a shortage. That will be accomplished through the control of the interest rate by the Federal reserve board if it properly performs its duties.

The principal thing in this connection is to distinguish between a scarcity of consumable things; that is, fluid capital and scarcity of money.

One more point. I have been asked if the gauge for the measurement of the purchasing power of money should include houses, lands, railroads, and other forms of fixed investments.

The proper answer, I believe, is no, because there are so many other factors than the volume of money that affect the prices of houses, lands, and railroads. The recent law for railroad valuation has affected the prices of railway stocks, and the changes in the density of population in each community affects the prices of land and of houses, whereas the prices for products in the primary markets—that is, the leading wholesale markets—are at once affected by changes in the interest rate for money. Thus the prices for commodities at wholesale have come to be used to measure the purchasing power of money. Economists are agreed on that point.

That concludes what I wish to present.

(The chairman presented the following, with request that it be printed in the record:)

REPORT OF CURRENCY COMMITTEE OF THE UTICA (N. Y.) CREDIT MEN'S ASSOCIATION.

To the officers and members of the Utica Credit Men's Association.

The entire work of this committee during the past year has been in connection with the efforts of the commercial interests of this country to bring about a proper and adequate reform of our banking and currency laws. Owing to the great lack of knowledge of business men generally upon the subject, the committee has devoted a considerable part of its efforts to forwarding the campaign of education which has been carried on by the national association.

Under date of February 17 we issued to the members of our association, and to business generally in this vicinity, over 800 of the national association's leaflets No. 1, together with a circular letter from the Utica association calling particular attention to the leaflet and the points covered by same.

On May 23 we issued in a similar manner, the national association leaflet No. 2.

On January 18, under the auspices of the Utica association, a meeting was held at Hotel Utica, to which a general invitation was extended to anyone interested, and which meeting was addressed by Edmund D. Fisher, deputy comptroller of New York City, an acknowledged authority on banking and finance.

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Another important part of the committee's work consisted in issuing to our members and business men in this vicinity bulletins requesting them to urge upon the various authorities in Washington proper consideration of this important subject.

We feel that the work done by the national association in its various branches has contributed very largely to the progress already made in this matter, and we also feel that the most important work lies ahead and that the immediate future is the most critical point in the progress of this much-needed legislation. It is a well-known fact that practically all legislation in countries such as ours must, to a certain extent, be in the nature of a compromise, and that it is impossible to obtain the passage of any law that will please all.

The national committee on banking and currency, and also your local committee, have carefully considered the bill now before Congress, and while they feel that it is not all that could be desired, they believe that an honest and earnest effort is being made to give us a law that will overcome the principal defects in our present system. We feel that any criticisms should be made in a friendly and helpful spirit, and that we should aim to make only such as are of a constructive nature. After careful deliberation, your committee feels that it can do no better than indorse the changes to the so-called Glass-Owen bill recommended by the banking and currency committee of the national association, and which are embodied in a brief presented by them to the Senate Committee on Banking and Currency at a hearing which was accorded them on September 24, a copy of which brief it attached and made a part of this report.

We therefore offer the following resolutions:

Whereas it is a well-known fact that the waste incident to financial crises has always been a serious burden to the business interests of the country; and

Whereas the Utica Association of Credit Men includes in its membership practically all of the larger and more important commercial interests of Utica and vicinity, and is a part of the National Association of Credit Men, representing the larger part of the business interests of the United States; and

Whereas the banking and currency committee of said association has carefully considered the so-called Glass-Owen currency bill and changes recommended in same: Now, therefore, be it

Resolved, That this association urges upon the proper authorities at Washington and in particular upon the Senate Committee on Banking and Currency the necessity of the following changes in order that the bill when enacted into law will fully meet the situation and give us the relief from the recurring crises and financial panics which it is aimed to obtain:

I. That the number of Federal reserve banks be materially reduced. A smaller number, not over six, would insure banks of larger capital and resources and would overcome to a great extent the present serious defect of scattered reserves and would simplify the supervisory work of the Federal reserve board.

II. That either the Federal reserve banks have a representation on the Federal reserve board or the powers of the advisory board be increased and that the advisory board be allowed to select its own officers and that two of such officers receive salaries, maintain an office where the office of the Federal reserve board is located, and attend the meetings of the Federal reserve board but without a vote. We believe that the influence of these two members of the advisory board, supported by public sentiment, would be more effective than were they granted voting powers.

III. That the Federal reserve notes should not be the obligation of, nor be guaranteed by the Government, but be the direct obligation of the bank that issues them and redeemed by that bank *in gold* on demand. Making the Government guarantee the notes presupposes that the Government is to be a beneficiary in some way or receive a valuable consideration through the issue of them, and to compel the Treasury to redeem them on demand presupposes that the Treasury will have the means of acquiring the gold required for such purposes. Being a direct and first lien upon the assets of the issuing bank and secured by prime commercial paper and other high-class securities acceptable for rediscount under the provisions of the act and a gold reserve of at least 33⅓ per cent there will be no doubt that such notes without further security would circulate freely at par and perform their functions properly and adequately.

That the reserve against notes issued should be gold exclusively, and that the words "lawful money" as applied to reserves for the redemption of notes should be stricken from the bill.

IV. That the interest be not paid by Federal reserve banks on deposits of

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any sort, but that if it is to be paid on Government moneys the same rate should be paid to banks as an inducement to them to deposit that part of their reserve which the measure leave optional with them to keep in their own vaults or to deposit with the Federal reserve bank.

V. That the provision for saving departments in connection with national banks be stricken out entirely. We believe that commercial and investment banking should be kept as nearly separate and distinct as possible.

Resolved, That certified copies of these resolutions be forwarded to Hon. Elihu Root and Hon. James A. O'Gorman and to Hon. Robert L. Owen, chairman of the Senate Committee on Banking and Currency, and that they be urged to give them their most careful consideration and that they be assured that the criticisms or suggestions are offered in the most friendly spirit and with the sole object of contributing to the end that is desired.

Respectfully submitted.

W. I. TABER.
F. W. SESSIONS.
A. H. DOBSON, *Chairman.*

A BRIEF PRESENTED TO THE SENATE COMMITTEE BY THE BANKING AND CURRENCY COMMITTEE OF THE NATIONAL ASSOCIATION OF CREDIT MEN.

Our commercial history shows that the waste attending financial crises falls heaviest upon business, and business men are therefore directly interested in the adoption of a banking and currency system that will meet the needs of a growing commerce and save them from the occasional heavy waste and the constant menace of an ineffectual system.

The banking and currency committee of the National Association of Credit Men has closely examined the proposed Federal reserve act to ascertain its powers as a regulative measure to provide for the nation's banking and currency requirements and to save business from the depression and waste of financial crises.

The committee is convinced that the spirit of the proposed act is constructive.

The framers of the bill could not foresee all the situations that such a measure is destined to meet, therefore Congress should receive in a friendly spirit the criticism which is directed by bankers and merchants against some of its provisions which, if not changed, may impair its efficiency as a governmental instrument of regulation. Such criticism should not be regarded as prejudiced, but as coming in a spirit of helpfulness from those whose experience qualifies them to forecast the effect of the proposed law upon the business of the country.

The committee offers the objections hereinafter set forth in the friendliest spirit. It is believed that the changes suggested are essential to win the confidence of the people and make the meausre a safe and effective means of accomplishing the purpose for which it is intended.

Other changes, suggested by a careful study of the measure, but which seem to be of minor importance now, can safely be left for consideration until after the bill has been enacted into law and its practical application has demonstrated the need and value of such changes.

The committee suggests and urges the following changes:

I. THE NUMBER OF FEDERAL RESERVE BANKS.

The minimum number of Federal reserve districts and Federal reserve banks required by the proposed act, namely, 12, should be materially reduced.

The needs to be met and the benefits to be derived from an adequate reserve system are best assured through banking associations of large capital and resources. A smaller number of Federal reserve banks would be more efficient in consolidating and mobilizing reserves and protecting and conserving the Nation's supply of gold than the minimum number mentioned in the bill, and would concentrate and economize the supervisory work of the board of control.

The needs of different sections of the country can be met by branches of Federal reserve banks just as effectually as that service may be performed by the parent banks.

II. CONTROL AND MANAGEMENT.

The Federal reserve board is to possess very great powers and is to perform a public function of far-reaching importance. Therefore its members should be above suspicion of inefficiency, prejudice, and political control. They should possess high qualifications, based on a profound knowledge of and a wide ex-

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perience in the theory and practice of finance. We can see no menace in having the Federal reserve banks represented upon this board, but if the Federal reserve banks are denied representation upon the Federal reserve board, then the powers of the advisory board should be increased. This board should be allowed to select its officers, and two of such officers should receive salaries, maintain an office where the office of the Federal reserve board is located, and attend the meetings of the Federal reserve board, but without a vote. The influence of these two members of the advisory board, supported by public sentiment, will be more effective than were they granted voting powers.

III. FEDERAL RESERVE NOTES.

These notes should not be the obligation of nor should they be guaranteed by the Government, as there is no provision in the bill for the Treasury to acquire and maintain the gold reserve necessary for their redemption. They should be the direct obligation of the bank that issues them and redeemed by that bank in gold on demand.

To make the Government guarantee the Federal reserve notes and compel the Treasury to redeem them on demand presupposes:

A. That the Government is to be a beneficiary in some way or receive a valuable consideration through the issue of said notes.

B. That the Treasury will have the means to acquire the gold required for redemption purposes.

As the Government will not receive a valuable consideration through the issue of these notes, and all Government moneys will be deposited in the Federal reserve banks under the provisions of this measure, leaving the Treasury powerless to acquire gold except by issuing bonds, it will be dangerous to the credit of the Government to impose upon it this redemption requirement.

As a direct and first lien upon the assets of the issuing bank and secured by prime commercial paper, acceptances and other high-grade securities, acceptable for rediscount under the provisions of the proposed act, and a gold reserve of 33⅓ per cent, there need not be any doubt that such notes without any other security will circulate freely at par and perform their functions properly and adequately.

The reserve of not less than 33⅓ per cent and not more than 40 per cent held by the issuing banks for the redemption of these notes should consist of gold exclusively. The words "lawful money," as applied to reserves for the redemption of notes, should be stricken from the bill.

IV. INTEREST ON DEPOSITS.

From an economic standpoint the Federal reserve banks should not pay interest on deposits therein, but if interest is to be paid on Government moneys, the same rate shoud be paid to banks as an inducement to them to deposit that part of their reserve which the measure leaves optional with them to keep in their own vaults or on deposit with a Federal reserve bank. There should be no preferred depositors in Federal reserve banks.

V. SAVINGS DEPARTMENTS IN NATIONAL BANKS.

That provision should be stricken out entirely. It is dangerous. A careful reading of that provision of the bill impels one to believe that unless the Federal reserve board exercised very close scrutiny and established strict regulations very nearly all of the functions performed by the commercial department of a bank could be exercised by the savings department upon a very small and inadequate reserve, thereby defeating the reserve requirements of the bill as applied to national banks and jeopardizing the security of depositors.

We urge the eliminations and changes suggested in these five objections as directly concerning essential parts of the proposed act, and without which its powers to do the work for which it is directly intended may be seriously questioned.

The committee urges upon legislators, business, and banking men, in considering banking and currency legislation, that is in its judgment the greatest of our present national questions, a spirit of deep patriotism, so that the general and not special interest may be served.

(Hearing held Sept. 23, 1913.)

(Thereupon, at 5.10 o'clock p. m., the committee adjourned until tomorrow, Friday, October 17, 1913, at 10.30 o'clock a. m.)

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FRIDAY, OCTOBER 17, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.45 o'clock a. m.

Present: Senators Hitchcock (acting chairman), Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

Senator SHAFROTH. Prof. Jenks, will you please give your name, your business, and your experience in banking?

STATEMENT OF PROF. JEREMIAH W. JENKS, PROFESSOR OF GOVERNMENT, NEW YORK UNIVERSITY, NEW YORK CITY.

Prof. JENKS. My name is Jeremiah W. Jenks and I am professor of government in New York University. What more information would you like along this line?

Senator SHAFROTH. Well, your experience in any matters concerning economics or banking.

Prof. JENKS. I have been professor of economics for something over 20 years, and have taught along these lines more or less.

At the time that the question of the establishment of a new monetary system for the Philippines was under consideration I was asked by the War Department to visit the English and Dutch colonies, to look into their monetary systems, and advise on the legislation for the monetary system in the Philippines. I made a report on that, and a year or two later at the request of Secretary Root, at that time Secretary of War, I went to the Philippines again to advise further with reference to the establishment of that system.

I was also a member of the Commission on International Exchange that, at the request of the Chinese Government——

Senator SHAFROTH (interposing). That commission was asked to advise with them as to the establishment of a monetary system?

Senator NELSON. You were also on the Industrial Commission, were you not?

Prof. JENKS. I was not a member of the Industrial Commission, but was special agent in charge of their investigation of industrial combinations.

Senator BRISTOW. Have you ever been engaged in the banking business?

Prof. JENKS. Not at all.

Senator BRISTOW. You are just a student of these problems?

Prof. JENKS. I am just a student of these problems.

Senator SHAFROTH. Now, Prof. Jenks, you can tell us what you think of the bill, and what features of the bill are good and what features, in your opinion, are bad.

Prof. JENKS. I have been looking over the bill with a great deal of interest, and it seems to me that, fundamentally, it is good, and that there is very good reason for believing that it will improve very decidedly our present very defective banking system.

The three special points that have seemed to me of dominant interest are, first, that with reference to the issue of bank notes, because I think that our banking system has needed, almost more than any-

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thing else, a system of currency that would have sufficient elasticity to adapt the supply of currency to the needs of business from time to time. I shall have one or two suggestions to make on that point, but it seems to me that, on the whole, the bill covers that point quite satisfactorily.

Secondly, heretofore we have had nothing that we could speak of as a real banking system for the country—a unified system. The bill aims to cover that feature; and although I think some changes in the bill as it stands now should be made on that point, it will, with some changes, meet that need quite satisfactorily.

In the third place, we have hitherto lacked any organization by which the bank reserves against deposits and against the issue of notes also could be easily mobilized to meet the needs of business in the different sections of the country at any time. The bill is making provision for that, which, again, I think is not quite satisfactory, but is clearly looking toward that; and it is likely, with some amendments, to accomplish that fairly well.

Most important of all, and underlying all of these, is the desirability that the currency system of the country should be on an absolutely sound basis; that it be a system so based upon gold that there can be no question in the mind of any person here or abroad that it is really sound from that viewpoint. There must be confidence on the part of the business men, here and abroad, as to the real stability of the system.

Along that line also, I think it desirable that new measures be taken so that the gold reserve of the country will be maintained in sufficient quantity and with a sufficient degree of stability so that confidence will not be disturbed.

There, again, it seems to me desirable to have some slight modifications made in the bill.

Those are the four most important needs that I had in mind. There are one or two other minor matters. Perhaps it would be well if I were to speak of those four points in that order, and then let other questions come up afterwards.

Senator SHAFROTH. Very well; that will be agreeable to us.

Prof. JENKS. Regarding the note issue, my own opinion has been—as I think it has been the opinion of most people who have been students of currency and banking—that it is better to have the elastic part of any currency system bank notes, rather than Government notes.

On the other hand, I have myself felt, in looking through this bill with a good deal of care, that although these are Government notes, the provisions for the issue of these notes, for their redemption, and for the reserve against them, are such that they possess practically all of the features of a bank-note currency issue with a Government guaranty.

Under those circumstances, while I myself should prefer to see it provided frankly and openly that they are bank notes, with, if it seems desirable, a Government guaranty—although I think they can be protected so that such guaranty would not be necessary—I think there is no very serious objection to them as they stand, because they are quite different in nature from the ordinary Government note that proved so disastrous in our earlier history and in the history of

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almost all countries where Government notes have been directly issued.

Senator REED. Now, may I interrupt you there? I came in a little late and did not get your name.

Prof. JENKS. Jenks.

Senator NELSON. He is Prof. Jenks, of New York University.

Senator REED. You referred to the disastrous results which followed from the issuance of Government notes. Do you refer to the greenbacks in their early history?

Prof. JENKS. I think that is a very good illustration.

Senator REED. What other Government notes do you have in mind?

Prof. JENKS. I have in mind some of the French Government notes; some of the French assignats of the earlier days.

Senator REED. They were issued without proper safeguards, were they not?

Prof. JENKS. Yes; issued without proper safeguards; and also without the possibility of ascertaining what the business demands called for, and without proper provision for redemption.

Senator REED. Yes.

Prof. JENKS. It seems to me that, as regards the plan proposed in the bill, those defects are very largely covered——

Senator REED (interposing). Well, Prof. Jenks, do you not think that the trouble with the Government note was not the fact that the Government issued it instead of the bank but that it was an improvident issue?

Prof. JENKS. I think that is very largely true; but that brings up also another phase of the matter——

Senator REED (interposing). Well, just a moment, if I may cut off your answer; we will give you plenty of latitude.

Prof. JENKS. Yes; certainly.

Senator REED. The experience of the world with bank notes has been about a thousand times as disastrous, has it not, as the experience with Government notes—for the very same reason that the proper safeguards were not taken?

Prof. JENKS. It has been often disastrous.

Senator REED. So that the "unsafety"—if I may use that sort of an adjective—of the issue does not depend upon the question of whether the Government issues it or a bank issues it, but upon the conditions under which it is issued?

Prof. JENKS. I would agree to that. On the other hand, it is, I think, also true that the notes issued by the banks have a better opportunity—the people who are in charge of the bank issue, if they are the bankers themselves, have a better opportunity of adjusting them to the needs of business than Government officials have.

Senator REED. Do you remember the days of wildcat banking in this country?

Prof. JENKS. At the time of wildcat banking in this country conditions were such that the difficulty was the other way; the people who were in charge of issuing those bank notes had an opportunity of issuing them fraudulently; they were not properly watched or safeguarded.

Senator REED. Those were the evils in that system.

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Prof. JENKS. Yes; there were many evils in that system.

Senator REED. I was interested in getting your opinion, because I have never been able to fathom the reason for the assertion which has been made that a bank note was perfectly good until the United States Government wrote its guaranty on it, and then it at once became an element of danger and a poor kind of currency.

Prof. JENKS. The matter depends, as I said before, upon the provisions for adapting it to the needs of the country and also to the securing of its ultimate safety. And, as I said before you came in, it seems to me that the provisions of this bill, while making Government notes, are substantially identical with providing what a bank note would be, if properly supervised and guarded by the Government, with an added Government guaranty, because the Government itself makes no provision whatever for the redemption of the notes by itself until after the banks have exhausted all of their resources.

Senator REED. Does not the virtue of the banking system and the strength of the Government make it safe?

Prof. JENKS. To a certain extent that is true. I should prefer it the other way myself, for almost all banks the world over have been in the habit of looking at this question from the standpoint of the bank note; and I think that many of the attacks which have been made upon this bill by the banks because they are Government notes instead of bank notes have been made without looking at the fundamental provisions made in the bill.

Senator REED. I am glad to have your analysis of the way the bankers look at it. While the bankers look at it that way, 99 per cent of the people of the United States would rather have a Government note than a bank note. And it seems to me that that feeling is a great element of safety for the Government note.

Prof. JENKS. I differ in my estimate as to how people look at it. I should say that, aside from the bankers, the business men of the country, the leading merchants, the leading importers, the leading manufacturers, and so on, would be more inclined to look at the matter in the other way than in the way you put it.

Senator REED. They are the 1 per cent of the people of the United States, but I am talking about the other 99 per cent.

Prof. JENKS. There, again, we should differ as to the percentage. The fundamental thing, after all——

Senator SHAFROTH (interposing). What has been the matter with our greenbacks, I should like to know?

Prof. JENKS. The fundamental trouble with our greenbacks? I am glad you raised the question. I was going to raise it myself in a different way.

Senator NELSON. You had better let the greenbacks alone; I give you fair warning. [Laughter.]

Prof. JENKS. I am willing to leave them alone.

The point, of course, is this, as regards the Government issue of greenbacks: It was an emergency issue made at a time when the Government was very much in need.

Senator REED. And the Government was in an emergency.

Prof. JENKS. I say the Government itself was in a very serious emergency.

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Senator SHAFROTH. The Government saved interest on $300,000,000 or $400,000,000 for 30 or 40 years.

Prof. JENKS. I am inclined to think that it cost a great deal more than that saving, because of the depreciation of the notes.

Senator SHAFROTH. That was not a result of the notes, but of the war condition.

Senator NELSON. You overlook the fact that the people who took that money were our soldiers. I carried a musket and a rifle, and I carried those greenbacks in my pocket, and thought, as Fitz Green Halleck expressed it, we were "ready to smoke the pipes in peace and carry the tomahawks in war."

Prof. JENKS. Yes.

Senator NELSON. Now, we had enough faith in the Government to take that money, and we never raised an issue on the depreciation. That came from the fellows higher up that gobbled up the money after we got through with it. [Laughter.]

Prof. JENKS. I agree with that; but it would have been better for you, if instead of carrying a 40-cent or a 50-cent dollar you had been able to carry a 100-cent dollar. It may be that the Government had no other alternative; but it would take most of the day to discuss that question.

But granting it that it was an emergency matter, a case of necessity at the time, it was, after all, forcing the soldiers and others into a situation that was very unfortunate. Prices were double what they otherwise would have been; perhaps somewhat more than that at times.

Then, when it came to the getting them back ultimately to the gold standard, by contracting the currency, the only way possible, over a series of years, it led to a depreciation of business that was very serious. I think we would all agree on those facts.

Senator NELSON. It was very helpful during the war in paying old debts. [Laughter.]

Prof. JENKS. That is a viewpoint, however, I think, that in the piping times of peace that we have now we should hardly like to take as a principle.

Senator REED. Prof. Jenks, I just want to call your attention to some figures. I am not just making an argument on the greenbacks. But there has been so much said about it. Now, I have always had an idea that the only trouble with the greenback issue was the size of the Confederate Army. [Laughter.]

And I want to call your attention to some figures. I find that this is the situation:

Specie payments were suspended in 1862 and remained suspended until 1879. The greenbacks—the average gold value of the United States note ran in this way: In 1862 was 63 cents on the dollar.

Senator NELSON. I guess in 1864 it was the lowest.

Senator REED. In 1863 it was 68.9 cents. In 1864 it was 49.2 cents. Senator Nelson is right.

Senator NELSON. Yes.

Senator REED. In 1865 it was 63.6 cents. In 1866—now we have got through the war—it was 71 cents; in 1867, 72.4 cents; in 1868, 71.6 cents; in 1869, 75.2 cents; in 1870, 87 cents; in 1871, 89.5 cents; in 1872, 89 cents; in 1873, 87.9 cents; in 1874, 89.9 cents; in 1875 it

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dropped back to 87 cents; in 1876, it was 89.9 cents; in 1877, 94.4 cents; in 1878, a year before the resumption of specie payments, it had gone to 99.2 cents.

So, I think that the war had something to do with that; and when we commenced to get our debts paid off and get some money in the Treasury, it got to be pretty good money.

Prof. JENKS. We began retiring them, and it was known that we were perfectly certain to retire them.

Senator REED. And in 1879 we resumed specie payment.

Prof. JENKS. Certainly. As soon as people became convinced that the greenbacks were going to be redeemed, and enough of them were redeemed, of course they went up in value.

Senator REED. But that is not all. They went up before that.

Prof. JENKS. Of course, they were going up during that period. But when we do get depreciation, and it becomes essential to contract the currency to restore its value, that act tends toward the depression of business generally.

Senator SHAFROTH. There have been no discounts on them since 1879, 34 years, have there?

Prof. JENKS. No.

Senator HITCHCOCK. Prof. Jenks, are you arguing against the issue of United States notes?

Senator NELSON. We had better drop greenbacks and get back to this bill.

Prof. JENKS. No, Senator, what I was arguing for was this: I said that under the circumstances my own opinion had been in favor of bank notes rather than Government notes, but that all of the provisions that have been made in this bill have given the Government notes practically the character of an excellent quality of bank notes, with a Government guaranty back of them.

So it seems to me that the difference between those who are advocating Government notes, as provided in the bill, and those who are advocating bank notes, is really very slight; the difference is largely a matter of name.

Under these conditions, personally, I have little objection to the bill as it stands on this point, although I should prefer to have it put the other way—straight bank notes.

Senator HITCHCOCK. Have you made any study which would enable you to decide whether the reserve provided for in the Treasury for the redemption of these notes is adequate?

Prof. JENKS. I have thought this with reference to that question: The proviso made for the reserve in the Treasury is 5 per cent; and, of course, it can call upon the reserve banks to have that supplemented at any time, if necessary. I imagine that would be sufficient. Of course it might happen that there could be a sudden demand upon the Treasury from some section of the country that it would be a little difficult to meet out of that 5 per cent that came from that section of the country, but I think if you take the whole Treasury reserve, and the fact that it can be supplemented immediately by telegraph if necessary, I do not see why that is not sufficient.

Senator HITCHCOCK. Do you think that 33⅓ per cent reserve provided for in the bill is ample?

Prof. JENKS. I had a suggestion to make on that. I think it is much better to have that reserve handled in a somewhat different

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way. The proviso in the bill as it stood earlier—some amendments have been made—was that the Federal reserve board should have the right to suspend that provision with reference to reserves, and no provision was made in the first place with reference to a tax upon a deficiency of reserves. That has been changed.

My own judgment upon that matter would favor the form in which the bill stands now as regards bank notes. The Federal reserve board should not be called upon under any circumstances to suspend the provisions of the law, but that the law shall provide a tax for any deficiency in reserves. I prefer to make the reserve a little higher than 33⅓ per cent—say, 35 per cent—and then impose a tax for every 1 per cent below that 35 per cent, and a steadily increasing tax, so that the pressure would come pretty soon—say, by the time the reserve got down to 30 per cent—so that the banks would only under the most extreme emergency be inclined to let the reserves go lower.

I did have some objection to the suggestion that you could put the reserve at 50 per cent and then tax it 1½ per cent for every 2½ per cent deficiency. A 50 per cent reserve is unnecessarily high.

The thought occurred to me that you could start with about 35 per cent reserve and tax every deficiency; 1 per cent for every 1 per cent fall, until the reserve reached 30 per cent and then increase your tax to 1½ per cent for every 1 per cent of decrease. The tax would thus be 12½ per cent when the reserves were 20 per cent. The rate might increase more rapidly if it seemed best.

Senator HITCHCOCK. What advantage is there in taxing that deficiency in reserve rather than increasing the charge for the notes?

Prof. JENKS. I think the point is quite different. I will speak of the two separately, if I may.

Senator HITCHCOCK. Yes; certainly.

Prof. JENKS. As regards the deficiency in reserve, the thought is this: We do not provide for a reserve of just 33⅓ per cent, or whatever per cent we take, with the idea that there can be no going below that. We expect the bank, in case of emergency, is going to violate that provision. And it is a very bad thing for the country, I think, to have a banker or any other man think he can violate a law as it stands.

Now, what you want to do is this: You want to have a reserve large enough so that you can feel that at all times it is safe, and then when the pressure comes for the extension of credit in the time of a threatening crisis you want to be able to make the man who takes the credit under those circumstances pay for it, and pay high enough so that he will not want to take very much, but take just what is necessary to save his business.

The bank, of course, will extend the credit or will not extend the credit as it sees fit; the bank ought to be willing to extend the credit just as far as it safely can.

If the bank has to pay a considerable tax upon the deficiency in reserve it will keep stiffening up the terms under which it makes the loan, without absolutely stopping, in such a way that it will, in many cases doubtless prevent the bankruptcy of individual concerns, and at the same time will not be violating the law. That much as covers the reserves.

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It seems to me that you have a sufficient degree of elasticity to insure the safety of the system and to protect the business men of the country, because you can under these emergencies give them accommodation without violating the law.

On the other hand, you are making your terms severe enough so that there is no danger of your reserves getting below a perfectly safe amount at all times.

Now, that is a perfectly automatic process, and every one of our laws ought to work automatically, just as far as they can, and you ought not to confer upon any board or any individual the right to exercise discretion more than is necessary. The banks have to exercise discretion anyway with reference to the credit of the person who wants the loan, but when it comes to the demand for suspension of the law I do not see how the Federal reserve board can act really intelligently on a question of that kind.

Let us assume a case like this: The Federal reserve board has its seat in Washington. They, of course, have their Federal reserve agents reporting to them from all over the country. There comes a pressure, let us say, in a distant part of the country, San Francisco, a very severe pressure that comes suddenly; they will have to take the judgment of the Federal reserve agent out in that section as to whether, on the whole, they should suspend that provision. They are not really in a position, as a board, to take intelligent action in the case, based upon their own knowledge, because, if action is taken, it ought to be taken within 24 hours.

Senator HITCHCOCK. I agree with you fully, Prof. Jenks; but would not an increase in the interest rate or the tax charged for the use of the currency by the reserve bank have the same effect?

Prof. JENKS. Yes; in part; but that also requires special discretion, and is not automatic. May I take that up separately, and it will answer your question?

Senator NELSON. In connection with that subject, there are two questions in connection with this matter of currency that I would like to call your attention to. One question was suggested the other day by one gentleman who appeared before the committee, and that is that after these notes—the regional-bank notes—have been issued under the bill they are required to be redeemed by the bank issuing them.

Prof. JENKS. Yes.

Senator NELSON. Or, if they came into the hands of another regional bank, they have got to be sent to the issuing bank.

Prof. JENKS. Yes.

Senator NELSON. Now, the question that was raised the other day was: After those notes are received in that way can they be put out into circulation again, or have they exhausted themselves?

Prof. JENKS. I should prefer, myself, having them canceled.

Senator NELSON. Well, is the bill clear on that? That is the point.

Prof. JENKS. I do not think so.

Senator NELSON. That question was raised—as to whether the notes when received are retired, or can they be put out again into circulation. That is a very important question.

Prof. JENKS. I think it is.

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Senator NELSON. Now, the Bank of England notes, you know, after they are once redeemed, that is the end of them.

Prof. JENKS. Yes; that is the end of it.

Senator NELSON. And the question is whether——

Senator HITCHCOCK (interposing). There is a radical difference in the two cases, because in the case of the Bank of England when a note comes in gold is paid out for it.

Senator NELSON. Certainly; I understand that.

Senator HITCHCOCK. Or a credit is given for it upon the books of the bank. But in this case when the notes come in the Federal reserve bank may pay over to the Government of the United States the amount it has borrowed, and its commercial paper may still be segregated for the security of that loan.

Senator NELSON. Well, it may owe the money to the regional bank upon the commercial paper deposited.

Senator HITCHCOCK. No; I mean the regional bank which receives this note from the Government may still owe to the Government of the United States the amount that it borrowed when it got the note, and those securities may still be on deposit with the Government for the payment of that note.

Senator NELSON. But it did not borrow from the Government.

Senator HITCHCOCK. Certainly it did.

Senator BRISTOW. Yes; it borrowed from the Government.

Senator HITCHCOCK. The regional bank, in order to get currency, has got to segregate a certain amount of its notes, its commercial paper. Now, then, it procures a loan, say, for 30 days by the segregation of a particular batch of paper, and it gets currency.

Senator NELSON. It gets it for its notes.

Senator HITCHCOCK. It has borrowed this for 30 days. It procures $50,000 of currency. Now, suppose $10,000 of that currency comes in. Why should it be required to cancel it when it still owes the amount to the Government of the United States?

Senator NELSON. It simply owes it on the commercial paper that it has put up.

Senator HITCHCOCK. No; it owes it. It is an absolute obligation to the United States Treasury.

Senator NELSON. As an indorser of the commercial paper; that is all.

Senator BRISTOW. But how is it to get back this commercial paper from the Government?

Senator HITCHCOCK. It still has an obligation of $50,000. The only way to get back that $50,000 is to return either gold or currency. In the meanwhile the time has only half run, and $10,000 of those identical notes come in. Why should not the bank continue using those notes in its business until the 30 days have expired?

Senator NELSON. That is the question.

Senator HITCHCOCK. I am drawing a distinction——

Senator NELSON (interposing). I suggest the bill is not clear.

Senator HITCHCOCK. I am drawing a distinction between the Bank of England, which borrows nothing, and the reserve bank, which does make a loan.

Senator NELSON. It is not a loan from the Government, strictly speaking. The Government is acting simply as a depository. The

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bank deposits this commercial paper with the Government, with the bank's indorsement, and the bank is only liable to the Government upon that paper as an indorser. The principal liability is upon the man who executed the commercial paper. Is not that so?

Senator HITCHCOCK. No; the reserve bank has procured this $50,000 of currency.

Senator NELSON. It has procured it how?

Senator HITCHCOCK. By depositing commercial paper which it has in its assets.

Senator NELSON. I know, and that commercial paper is the promises of A, B, C, and D.

Senator HITCHCOCK. Yes; but the only security for the reserve bank——

Senator NELSON (continuing). And the bank that deposits that—the member bank—indorses that and is liable as indorser.

Senator HITCHCOCK. The member bank indorses it to the regional reserve bank, and then the regional reserve owns the security discounted. Now, owning this paper, it wants to procure $50,000 of currency from the Government. It segregates this paper in its vault instead of sending it on to Washington. Now, then, it has borrowed $50,000 on this collateral security. When the 30 days are out it can pay the $50,000 in cash or return its notes, the currency, to the Government—either one.

Senator NELSON. Oh, not return the notes to the Government; return them to the member bank that got the notes.

Senator HITCHCOCK. No; I am not talking about the commercial notes; they are paid; they are canceled. I am talking about the currency notes.

Senator NELSON. They are exactly the same.

Senator HITCHCOCK. No; the currency notes are secured from the Treasury.

Senator NELSON. They are not secured from the Treasury. The only security for the notes is the notes deposited with the bank with the indorsement.

Senator HITCHCOCK. Senator, I think we are confusing terms by using notes. Let us resort to "currency." I will say this currency comes from the United States Treasury to the reserve bank, and the reserve bank deposits collateral as security for its loan. That collateral represents the notes which have been discounted for the member banks. Now, then, if the reserve bank has procured this currency for 30 days, say, at the regular rate of interest or tax, when the 30 days have expired the reserve bank can either pay in gold or pay it in the currency which it has secured.

Senator NELSON. Yes; but we will put a case. Let us say here is a member bank which goes to the regional bank with $1,000 of commercial paper, and says, "I want currency for this. I want currency of your regional bank for this commercial paper. I have indorsed it," and the commercial paper is left there on deposit with the regional bank.

Senator HITCHCOCK. Oh, it is not left; it is discounted. These are banks of discount.

Senator NELSON. No; it is left there. The member bank does not keep that paper; it is left with the regional bank.

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Senator HITCHCOCK. I say it is discounted there.

Senator NELSON. The bill does not even say that he has to put up notes.

Senator HITCHCOCK. I understand there are two methods by which the member bank can secure either credit or currency. It may borrow and deposit security or it may discount its commercial paper.

Senator NELSON. That commercial paper is due from time to time, and suppose that is paid; in the meanwhile—suppose the commercial paper is redeemed in the meanwhile; paid from time to time.

Senator HITCHCOCK. Yes.

Senator NELSON. The note——

Senator HITCHCOCK (interposing). What notes?

Senator NELSON. Just put yourself in this position: I am a member bank and you are a regional bank.

Senator HITCHCOCK. Yes.

Senator NELSON. I come to you and deposit $100,000 of notes, commercial paper. I want to get circulation.

Senator HITCHCOCK. Yes.

Senator NELSON. You give me circulation.

Senator HITCHCOCK. Yes.

Senator NELSON. In the meantime, as those notes fall due, I am redeeming them. I send you money for those notes, and keep redeeming them.

Senator HITCHCOCK. You mean the commercial paper?

Senator NELSON. The commercial paper, yes. I keep redeeming those notes as they are due.

Senator HITCHCOCK. You have nothing to do with them.

Senator NELSON. Of course I have. I have indorsed them.

Senator HITCHCOCK. No; the reserve bank owns them.

Senator NELSON. Yes; but I am indorser.

Senator HITCHCOCK. But the reserve bank owns that commercial paper. When it becomes due it sends it out for collection.

Senator NELSON. Have not I the right to pay it? I am an indorser on it.

Senator HITCHCOCK. Yes; but you won't be when it is paid, if the maker pays it.

Senator NELSON. The maker may pay it. Suppose the notes are paid; never mind whether they are paid by the maker of the notes or the indorser; they are paid, and I shall keep redeeming them. They are redeemed and paid off, and still the notes are out in circulation.

Senator HITCHCOCK. You mean the currency is out in circulation.

Senator NELSON. Yes; the currency is out in circulation, but the notes in the meantime are redeemed.

Senator HITCHCOCK. That is all right. The reserve bank meanwhile is making other loans. That identical currency does not have to be returned when the commercial paper is paid.

Senator NELSON. Won't it lead to inflation? That is the question.

Senator HITCHCOCK. I think not, because other loans are being demanded all the time, and the amount of advances which the reserve bank will require of the Treasury will depend upon the aggregate demand which the member banks are making upon it for discounts.

Senator NELSON. It is not of the reserve bank. The demand for currency comes from the member banks upon the reserve bank.

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Senator REED. Senator Hitchcock, I think what Senator Nelson has in mind—it bothers me a little now—is this: A bank goes down with $100,000 of promissory notes and it goes to the regional bank and puts up this $100,000 of notes.

Senator NELSON. And indorses them.

Senator REED. And indorses them, and thereupon the regional bank issues or delivers $66,000 of currency and sets aside $34,000 of gold. Now, the transaction is thus far complete.

Senator HITCHCOCK. No; I think you stated it erroneously, Senator. When a member bank presents $100,000 in notes for discount, commercial paper for discount, it gets $100,000.

Senator REED. Does it get $100,000 and the other bank set aside $33,000? I do not care either way. There is $100,000 then out. It is out in paper currency, and that bank, which deposited the promissory notes, has used that paper currency and it has gone into the business of the country. At the end of the 30 days this $100,000 in promissory notes which was deposited as collateral is paid into the regional bank. The $100,000 of paper currency is still out in circulation, and the regional bank has now $100,000 of ordinary money in its vaults and has in circulation $100,000 of its notes. Now, what is the provision for the retirement—compulsory retirement of those notes?

Senator NELSON. Let me add to that example, there: Suppose the member bank, after taking out this currency, taking out this new currency, and while this is outstanding—suppose the makers of these notes that have been deposited for circulation, of the member bank—suppose they come in and redeem these in national-bank notes. In that way, you will have a double quantity of currency. If you will have those promissory notes that were deposited as security for circulation, and you will have them redeemed by national-bank notes and then you will have the paper currency outstanding.

Senator HITCHCOCK. Those national-bank notes are redeemable at the Treasury in gold, so that if you call on the Treasury for gold, you will get gold for them.

Senator REED. You have got to put in this bill a provision, if it is not already here in some form, that when that $100,000 promissory note has been paid, the regional bank shall thereupon retire $100,000 of its currency notes.

Senator NELSON. Can you have it elastic without that? I would like to hear Prof. Jenks on this point.

Prof. JENKS. May I explain the way it has seemed to me the bill intended to have this?

Senator REED. We ought to be doing that instead of arguing this with each other, but occasionally that is the case with us.

Prof. JENKS. It is extremely important for me to know what the bill means. I had supposed the case was a little different from the way Senator Nelson expressed it. May I take the same illustration?

Senator NELSON. Yes.

Prof. JENKS. When the member bank wants to have $100,000 of these notes, that it can loan out, of course, to 50 or 100 different people, it takes the promissory notes from its customers as you suggest, indorses them, deposits them with the regional bank, and asks for $100,000 worth of notes, and gets the $100,000, I think,

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as Senator Hitchcock suggested. The regional bank itself, of course, is compelled to keep, in addition to that $100,000 worth of indorsed commercial paper, 33⅓ per cent of lawful money, also, as a reserve. Now, Senator Hitchcock suggests that as those individual notes become due they will be sent out for collection. They, presumably, will be sent to the member bank and be collected through the member bank. But, as I understand the matter, as long as that member bank keeps that $100,000 worth of notes, which Senator Nelson says are out in circulation, it must keep, also, $100,000 worth of commercial paper in the vaults of the regional reserve bank. Now, this individual note, we will say, for $1,000 that is paid, must be replaced by another note for $1,000 that will meet the approval of the reserve agent. So there is a continual exchange, say day after day, almost, of these small individual notes indorsed by the various member banks, that are held against the notes issued from the regional reserve bank. They must keep, all of the time, the full amount there, but it is not the same notes all the time.

Senator HITCHCOCK. No; it is not a segregated lot of paper, it is just a limit that has to be kept.

Prof. JENKS. It is fluctuating every day. Now, here, I might add one thing that I think is an objection to this procedure. This Federal reserve agent at a large Federal reserve bank will have coming up for approval 100 or perhaps 1,000 different commercial notes every day. He has to be sending out some for collection, and he has to have others coming in to take their place. I do not see, myself, how he is going to be able to exercise any large amount of discretion. Neither do I see, under those circumstances, why there should be an absolute segregation of those notes. What he can do as a practical matter, and that is all he can do as a practical matter, is to see that there is kept against the notes that the bank has out an equal amount of paper which he considers good. Now, if they should be taken off one shelf in the vaults and put over onto another shelf, instead of merely having an entry made in the bank's books, I can not see that the process would be improved. If, instead of saying you would segregate in the vaults of the bank a sufficient amount of commercial paper, you would say you would segregate on the books of the bank an equal amount of commercial paper, that shall have the approval of the Federal reserve agent, it seems to me it is absolutely the same thing in practice. But, nevertheless, if you leave in your bill that it is to be segregated in the vault, it simply means that every one of those piles of notes has to be pulled over every day, practically, and perhaps 1,000 notes taken out and another 1,000 put in, and the Federal reserve agent could not do it.

Senator POMERENE. Your thought there is that means physical segregation?

Prof. JENKS. I so understand the bill. If it does not mean physical segregation then it means what I suggest, that it ought to be segregated on the books of the bank. That, I think, is essential.

Now, may I add a word to what Senator Nelson suggested in regard to inflation. Supposing, as the Senator says, that one man, to make the illustration specific, has borrowed $5,000. He has taken that $5,000 out in these new notes. He comes and pays them off with national bank notes. There, as you see, the national bank notes are

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paid in, and the new notes are out in circulation. There is no inflation as long as those national bank notes stay in the bank. What the bank would do in a case of that kind I suppose is this: When it gets those national bank notes in its vault—I am speaking of the member bank—it may, if it wants to, send that $5,000 of notes into the regional reserve bank and say, "I would like to cancel $5,000 of my obligation," which I suppose it has a right to do. But it is more likely, I should suppose, for the time being at any rate, to hold those as part of its reserve and get the chance to put out other notes, the new Government notes, as best it can.

Senator NELSON. So, other than that, it will lead to no duplication or inflation?

Prof. JENKS. The point about inflation, as I think was suggested a little while ago, depends pretty largely upon the bankers themselves and depends upon how careful they are as to getting good security for the notes. Now, that is what I was going to bring out in a little different way. I think there is great danger under this bill of depleting the gold reserve of the country.

Senator NELSON. Before you go into that, I was going to ask you another question in connection with the subject. What provision is there in the bill for the regional banks acquiring the necessary gold reserve, assuming the reserve must be in gold, instead of lawful money—what provision is there in the bill; how can those regional banks secure under this bill an ample gold reserve? What machinery is there in the bill?

Prof. JENKS. There is no machinery in the bill by which they can secure a gold reserve, as I understand it. Of course the bill says, regarding the reserve, "gold or lawful money." There is no provision in the bill, as I understand it, that covers that point, except that the different member banks, to organize the regional reserve bank, have to pay in 10 per cent of their capital. I suppose that will be paid in in cash.

Senator NELSON. Suppose we make these notes redeemable in gold; ought we not in that case to require the subscription to the stock, or a part of it, to be paid in in gold?

Prof. JENKS. I would quite agree with that, Senator; I think so.

Senator NELSON. So that the regional bank could start with some gold as a reserve.

Prof. JENKS. I think so. I would quite agree to that.

Senator WEEKS. When you say cash, you mean gold?

Prof. JENKS. I mean lawful money.

Senator POMERENE. They would have the Government deposit, and of course there is a substantial amount of gold.

Senator NELSON. That is a fluctuating amount.

Prof. JENKS. Yes; but would it not be a wiser plan, as the Senator suggested, to have the capital subscription paid in part at least in gold? Because I was going to suggest that the reserve against these notes be kept in gold instead of "lawful money." I suggest that for this reason: If the banks are as careful as I should suppose they would be, considering their responsibilities and considering also the responsibilities of the regional reserve banks, and the fact that the Federal board is watching them all the time—if they are careful as to the quality of the commercial paper they take, I do not see any

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danger of any extreme or dangerous inflation. Whenever the demands of business get larger the notes would come out, and whenever those notes are paid off the cash—whether it be in these notes themselves or in the national-bank notes or gold—goes into the vaults of the banks and goes from there into the vaults of the Federal reserve banks, as they redeem their obligations there. And if the Federal reserve bank wants to get rid of its obligation it will go back into the United States Treasury, and with this procedure there is no inflation. But, on the other hand, I can not help but feel there is danger of the country losing too much gold, and for this reason: These bank notes, of course, are not available for reserves at all.

The consequence is that when any of these banks take in over their counters greenbacks, or gold certificates, or silver certificates—either the gold or the silver certificates—they will hold those. They won't pay them out, because they are all available for reserve, and they will want to hold them, of course, as reserve. They will pay out the new notes, just as now, with national-bank notes, and hold the others for reserve, and they will keep paying them back again into the regional reserve bank. Now, the consequence is, if there comes any slackening in business at all in any way they will have been pushing out those notes as fast as possible, and there will be a tendency toward inflation. It will be a slight tendency, I think, because that takes care of itself. There will be enough of a tendency probably, to push prices just a trifle up—not seriously, but enough to make a demand for the export of money. Now, the almost inevitable result, if you have even a little surplus of money in the country, is a tendency toward the export of money, and the only currency we can export is, of course, gold. I am inclined to think, with the enormous business demands, because the people are borrowing all the banks will let them, the banks will want to loan money just as long as there is a profit in it and as long as they think it is safe; that the banks will always pay out the notes and hold back the gold as a reserve. But there is a tendency toward inflation. I do not think it is a dangerous tendency, except to this extent, that it is almost sure to lead to a considerable export of gold. Now, I think, if you adopt Senator Nelson's suggestion and say that the reserve must be kept in gold——

Senator POMERENE (interposing). You mean the 33 per cent?

Prof. JENKS. Yes—should be kept in gold, then we have a demand for gold in this country that would be quite worth while, and it would be but a short time until we could make arrangements to simplify the currency by having some of these other forms of currency retired.

May I say another word in reference to that export of gold? We have, at the present time, a very large amount of gold in the country—a very large gold reserve. If, through the substitution of these new notes for gold it should lead to an export of gold in an amount, say, of several hundred millions—because I believe that is entirely possible—it would, beyond any question, tend toward an increase of world prices, which we all feel is not a good thing for the country now. I believe that is really a serious danger—not so much of getting too many notes out, but the substitution of notes for other forms of money—that would lead to the export of gold.

Senator NELSON. Prof. Jenks, we have an abundance of gold in this country for any amount of currency we need, have we not?

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Prof. JENKS. Surely; I think so.

Senator NELSON. And all we have to do is to husband that and keep it so that it won't slip away from us.

Prof. JENKS. I think so. That brings up another point along that same line. Isn't it a good thing to make provision just as soon as it can reasonably be done for the retirement of a considerable quantity of national-bank notes—I, myself, would say the greenbacks, too? We are not going to have the use made of these new notes to so great an extent as I think would be, on the whole, desirable unless we make provision for the retirement of some other form of currency.

Senator NELSON. Will you allow me to make a suggestion?

Prof. JENKS. Certainly.

Senator NELSON. Would it not be wiser to leave the greenbacks alone and provide for the gradual retirement of the national-bank notes?

Prof. JENKS. Personally I should favor the retirement of the national-bank notes first.

Senator NELSON. So that you would have one kind of bank notes; that is to say, practically, as you stated a moment ago, bank notes with a Government guaranty?

Prof. JENKS. Yes; in essence.

Senator NELSON. And it would be better to have this currency gradually supplant the national-bank currency?

Prof. JENKS. I agree with that.

Senator NELSON. But you must let greenback alone.

Prof. JENKS. I probably shall, in view of the feeling shown here. [Laughter.]

Senator HITCHCOCK. Now, I think you assented to a suggestion made by Senator Nelson, that the banks in joining this new system should be required to pay their capital of $105,000,000 in gold?

Senator POMERENE. Only a part of it.

Senator NELSON. I did not suggest the entire subscription; I said at least a part of it.

Prof. JENKS. The point of the matter, I think, Senator, hangs on just this: If we are going to make these notes redeemable in gold it is desirable that we provide some means for the regional reserve banks to secure gold, and I can see no simpler or better way than to say they shall pay at least part of the capital subscription in gold. and in that way cover that.

Senator HITCHCOCK. We already have pretty good evidence it is going to be a serious matter for the banks joining the association to part with this large amount of cash capital, because at the present time we only have in these national banks about 8 or 9 per cent of their deposits actually in gold or lawful money; and if their reserves are to be depleted by taking gold or legal tender out of it, it is going to make much more difficult their joining the association and is going to require them to call in loans for the purpose of raising the means.

Prof. JENKS. Would it not be sufficient to provide. as I understand was really implied in the Senator's question, that the gold could be paid in more or less gradually?

Senator HITCHCOCK. You mean the capital?

Prof. JENKS. You could pay in the capital in installments also, because the demands will not come upon it immediately; but if you

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give a few months' time—six months—they ought to be able to get the gold.

Senator HITCHCOCK. You mean the individual banks joining this association?

Prof. JENKS. Yes. If they call in loans, as you suggest, they would not need to call them in to any great extent, because the large majority of those loans mature in six months. It would check things slightly. But, at the same time, their customers have need for loans every day, and they would be glad to get loans through the new note system.

Senator HITCHCOCK. What I mean when I said they would call in their loans——

Prof. JENKS (interposing). You mean it would check the amount that is put out?

Senator HITCHCOCK. I mean when notes come due, they would require their payment instead of renewing them. Under the present system the body of loans throughout the country does not fluctuate from season to season. It would to some extent.

Prof. JENKS. When the notes come in, if they want them renewed, they would renew them in credit. They are not required to be paid, but they could make another loan in these new notes.

Senator HITCHCOCK. There seems to be a contraction of credit almost inevitable in the banks if they are going to be required to pay cash. It has even been suggested that the banks be permitted to make a part payment of cash and a part payment of commercial paper, discounted simultaneously. But if you take the other course and require the banks to pay all in gold or in legal tender, you are going to add to the apprehension that already exists.

Prof. JENKS. It may be arranged in this way, as I said before: Supposing they would pay part in gold and part in commercial paper. That would, of course, keep working toward the place where the time limit would expire, so that gradually you could substitute one for the other. But they do not need to get this large gold reserve immediately, because they will only need to redeem those notes as the notes come out, and are presented for payment, and these notes are only going to be gradually substituted for the other forms of money. It is sufficient if the substitution of the gold for the other type of security is made in proportion to the issue of the notes themselves.

Senator SHAFROTH. What is the use of having such a large gold reserve in these regional banks, when $150,000,000 has been ample to sustain the whole structure of national bank notes and the greenbacks—probably a billion of dollars?

Prof. JENKS. There are two reasons, I think. The first reason is because it is of prime importance that there be no question of the quality of these notes in order to secure confidence; and, the second reason, the one I have given before, that, unless we do make a provision for these banks to hold gold to a very considerable extent in their reserves, we are almost sure to have a large export of gold because of the substitution of these notes for the other forms of currency.

And if we export gold to any very great extent it will, in the first place, lessen confidence in the security of the new system, and in the second place, if as much as four or five hundred millions go out in the

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course of a year or two, that would have a tendency toward increasing prices in the world's market, and I do not think we want to do anything——

Senator SHAFROTH. Do you think any money will go out of the country except for the purpose of settling balances against us?

Prof. JENKS. Those balances, of course, shift with the course of trade, and it is, as far as I am aware, the universal experience—and if I may go back again to the old technical expression we have heard so much of, Gresham's law—that if you put into competition in any one country different kinds of currency the currency that, on the whole, is the cheapest for the people is the currency that is going to stay.

Senator SHAFROTH. Unless it is redeemable in gold?

Prof. JENKS. Well, unless it is redeemable in gold. Now, if you are going to make them redeemable in gold——

Senator SHAFROTH (interposing). The question purely is whether there should be a gold reservoir in the United States Treasury for the purpose of doing this, or whether we should have gold in each regional bank.

Prof. JENKS. I should say both.

Senator SHAFROTH. That would take four or five times as much gold.

Prof. JENKS. Yes; and I think it is a very desirable thing.

Senator SHAFROTH. I do not believe in locking up the gold for fun.

Prof. JENKS. But is it locking up gold for fun? Here is the situation, and I think it is what Senator Nelson has in mind as to the danger of inflation. When you have a dollar in gold you can not loan more than that dollar, but if you can issue notes on that dollar you can issue, if there is anybody who will give you good security for them, three or four times the amount of the gold, and still have a reasonable degree of safety. Three to one gives all the safety we want. When it comes to putting this money into circulation, the banks are going to prefer to put out these notes instead of their national-bank notes or the gold certificates: they are going to put those out, and by putting them out it drives these others all into the reserves, and it will only mean the very slightest inflation. Prices will go up a little here, and as soon as prices go up only a little here, we shall find that we are in a position to export gold.

Senator HITCHCOCK. The exports of merchandise will be checked; prices rising will check the export in merchandise, and that compels the gold to go?

Prof. JENKS. That is it. It is a matter simply of the cost of shipping gold to Europe. If we can make a demand in the banks for reserves of some hundreds of millions of gold, then we will check that tendency. It is as the Senator says, if these notes are absolutely redeemable in gold and we keep enough gold here we are not going to ship it abroad. Even then there is a tendency toward expansion, because for every dollar in gold the notes are perfectly safe, 3 to 1, and that is all the law requires. I believe in the bank-note system, largely because it can adapt itself so easily to the necessities of trade. But I should think it extremely unfortunate if we were to export, in the course of the first two or three years, $400,000,000 or $500,000,000 of gold.

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Senator SHAFROTH. We have had some very large inflation in the issuance of banking currency, expanding from two hundred and some odd millions in 1909 up to $750,000,000 now, and yet we see no movement of gold going away.

Prof. JENKS. I simply do not believe that there has been an in-inflation beyond the demands of business.

Senator SHAFROTH. But there has been a large amount of new money used?

Prof. JENKS. That is true.

Senator WEEKS. It has not increased any more rapidly than the business demanded it?

Prof. JENKS. I do not think so.

Senator WEEKS. I do not think so, either.

Prof. JENKS. I do not think there has been any inflation, except a temporary inflation.

Senator WEEKS. Where there is an increased demand there is going to be an increased inflation now?

Prof. JENKS. May I explain that again? May I explain this with reference to the question of inflation. When business has been best, at times our national banks have issued considerable quantities of notes, but no more than business needed. When there came a slackening of business, we may have had a little too much currency at times, and at times we know gold has gone abroad. That export has not been enough to be at all serious. I think these new notes are likely to bring about a condition which is a good deal more serious, and that for this reason: There is a better opportunity for the banks to make money, to make their profits in loaning these notes and holding the other kinds of lawful money in reserve. These new notes can not be held in reserves. Whenever they get currency available for reserve they are going to keep that in their vaults instead of the new notes. Whenever they are called upon to make a loan they will pay out the new notes. That is good judgment.

Senator WEEKS. Do you think they ought to be made legal reserves?

Prof. JENKS. No; I do not think so. What I think should be done is this: To make provision as fast as can be done for the retirement of our national-bank notes and see to it that we keep our gold here. If we retire the national-bank notes as soon as we can, then I should say that will make a void for a lot of these notes. I should be glad to see the system come down to nothing except gold and these notes and small currency. I think it would be wise to have these notes in denominations of not less than $5. I should leave the small coins and small certificates for the ordinary small change, because that is not so elastic as $5 notes and notes above that. I should be glad to see the present national-bank notes retired as soon as possible. Then if we have enough gold here we are perfectly safe. If we send abroad $500,000,000 of gold, or two-thirds of that, we shall feel it in increasing prices.

Senator WEEKS. I want to discuss the question of sending gold abroad. Say Europe owes us money and we owe Europe money all the time; if that condition obtains either way, eventually the debt has got to be paid. We may delay the payment of the debt by various artificial means and the payment of the debt may be delayed, because the creditor in that case may find it to its advantage to loan its credit in the debtor country.

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Now, suppose we have a balance of trade against us—it is not usual, but suppose we do have a balance of trade against us for a couple of hundred million dollars. In the ordinary course of business, if it were an individual transaction, we would have to pay that, and we can only pay it by shipping gold. That is one of the things you have in mind.

Let us suppose the interest rate is materially higher in this country than it is abroad, which is ordinarily the case. Is it not true that that money is likely to be loaned in this country so that we would not ship gold unless there was some scare which would induce the owner of that money abroad to draw it home and loan it out there at a lower rate? When this system is established—assuming it will be established—are we not going to have the means of preventing the shipment of gold under such conditions? For instance, we should, in my judgment, authorize the regional banks to invest some part of their capital and deposits in foreign bills, and instead of shipping gold we simply would send home their evidence of indebtedness against us, or we may increase our interest rate and should do it, which would have a moral influence in checking the exportation of gold.

By various other artificial means, such as Mr. Fisher indicated to us yesterday, in selling them short-time notes, either municipal or Government notes, it has been suggested that we refund some of these 2 per cent bonds in short-time Government notes, and use them for that purpose. Do you not think we can in that way, if that whole question is treated properly and scientifically and practically, that we can control the question of gold exportation from this country so that there will not be any probability of our losing gold in an amount that would embarrass us? That is a pretty comprehensive question.

Prof. JENKS. That is a pretty comprehensive question. As regards the way in which the question is put, I think I should agree to every individual statement, but at the same time I would answer the question you have asked in the affirmative again, that there is danger, I think. May I explain that?

In the first place, these various measures that you have suggested are, part of them, at any rate, as you say, artificial methods. Take, for example, the raising of the rate of discount. I suppose you mean by the Federal reserve board?

Senator WEEKS. I do, and the raising of the rate of discount would have a tendency to induce the owner of the money to loan it here because he could get a higher rate.

Prof. JENKS. That is perfectly true.

Senator HITCHCOCK. We only postpone the day of settlement.

Senator WEEKS. So that we can settle in some other way.

Prof. JENKS. There is where the point comes. It is an artificial method that must be applied by a group of men who are not really in touch with business, although they are in touch so far as getting reports is concerned. It is an artificial method that has to be employed from day to day. Is it not better to have a system that works substantially automatically, so that it will adjust itself? There are times when it is a good thing for this country to export gold and there are other times when it is a good thing to import gold. It all

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depends upon the natural course of prices. As you say, Senator, we may at times postpone settlement. We may at times, perhaps, hasten settlement, if you want to.

But all of that is ignoring this fundamental condition that the banks are going to want to substitute these new notes for the money we now have on hand. As has been said repeatedly, there is money enough now in circulation to do our business very well under ordinary conditions. But if we are going to get the new notes into circulation we must either retire some other currency that we have in circulation now, or else we are bound to have, if these new notes are put into circulation, a surplus of currency, which will mean that we shall ship gold. I do not think it will make inflation to such an extent that it would be likely to cause a crisis. I think it would be much simpler for gold to flow abroad, as it would, unless we adopt these artificial means. But if we do adopt them, there is no telling just where we are going to stop, because this process is going to keep on for years. Why should it not?

If you are a banker you are going to use these new notes. If we provide that the gold shall be in the reserves there is a reason why the gold will stay here, and then we shall soon retire some of these other forms of currency, which I think should be done.

Senator WEEKS. I think so, too. I have grave doubt whether the condition which you indicate is likely to exist; yet if there is any probability of it I admit that precaution should be taken to prevent it, and that is why I am in favor of a bank-note circulation, because I think that is absolutely responsive to trade, and it is impossible, as a practicable proposition, to get out more circulation than the needs of business require.

Prof. JENKS. I think that is so when you have a sound system to begin with.

May I state, in a little different way, the conditions under which gold goes abroad? You say that in the trade between different countries and this country, if the balance is against us we shall have to pay, or if it is the other way we shall get the balance.

What do we pay that balance in? The statement is ordinarily made, and especially by banks, that we have to pay that in money. As a matter of fact we always pay balances in whatever is the cheapest to pay them in. That simply means this, that if we have a pretty big wheat crop, so that the price of wheat is low, we are paying those balances in wheat; and if we are having a big cotton crop and the price of cotton is low, they are being paid in cotton.

Senator WEEKS. But the net balance is being paid in gold?

Prof. JENKS. Yes; although you suggested a moment ago that it will be done by artificial means. The net balance is not necessarily paid in gold. It is, of course, when we come to the bank statements, but ordinarily it shall be paid in other things. What I am afraid of in this system, as it stands, and what I think is almost certain to happen, is that we will find it cheaper to pay in gold than in anything else. That means that whenever anything occurs to increase prices here a little bit, then other people want to sell here.

Senator HITCHCOCK. Exports are checked?

Prof. JENKS. Exports are checked and the imports are increased at the same time.

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Senator HITCHCOCK. Exports of merchandise are checked and imports are stimulated.

Senator WEEKS. You forget that this tariff bill is going to so stimulate our foreign trade that there will not be any question about the settlement of our indebtedness.

Senator HITCHCOCK. It is also going to stimulate our exports.

Senator WEEKS. That is what I mean.

Prof. JENKS. So far as I have seen the signs in the stores, they think it is going to stimulate the imports. But it is immaterial. I always feel that this currency question is much more important than the tariff question.

Senator HITCHCOCK. Certainly.

Prof JENKS. I feel pretty strongly on this matter, that there is this tendency toward an expansion which may not run to the dangerous length of overspeculation, or to the extent of bringing on a crisis, but which is almost certain to run to the extent of a pretty large export of gold.

Senator HITCHCOCK. Can you give us any idea, Prof. Jenks, of the effect of an expanding currency upon the prices of commodities?

Prof. JENKS. Well, yes; speaking generally, I think so.

Senator HITCHCOCK. Does an increase in the supply of gold tend to increase prices?

Prof. JENKS. Yes; beyond all doubt.

Senator HITCHCOCK. Does an increase in the supply of paper currency have the same effect?

Prof. JENKS. Unless that is immediately so responsive to the demands of business that there is really no more money in circulation than is needed to meet its immediate demands.

Senator HITCHCOCK. Does an increase in bank credits have that effect?

Prof. JENKS. It all has the same effect.

Senator HITCHCOCK. Of raising prices.

Senator SHAFROTH. To the same extent as gold?

Prof. JENKS. No. We are fixed on a gold basis, as practically all the leading commercial nations of the world are. This gold basis is really the basis of practically all of the currency in these different nations, and also to a very considerable extent—it is in the terms of gold that we have all these credits. Whenever we have any new device in the currency system that tends to make the use of gold more effective, that has much the same effect as if we were to increase the amount of gold. I think that the putting of this new currency into circulation here is going to make gold more effective; if it does, it will have the same tendency, and so far as that is true, it will have the same effect in increasing prices that an increase in the gold supply would have.

Senator HITCHCOCK. It is proposed in this bill to very materially reduce the limit on reserves held by 7,000 national banks. What effect is that likely to have upon the volume of currency and upon prices?

Prof. JENKS. I should say again that while I am inclined to approve of that myself, I nevertheless feel that the effect is as your question intimates, practically the same as increasing the amount of currency. By currency we mean money in circulation, in distinction

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from the money locked up in the vaults of the banks and that in any country.

Perhaps, I may venture to suggest something that I was saying to Senator Shafroth a little while ago, that as regards this question of the effect of the increased supply of gold upon prices, I feel that that is by far the most important element in the increase in prices that we have had the world over since 1897. In the same way again, the quantity of gold was by far the most important element in the decrease in prices that we had between 1872 and 1873 and 1897. I was saying to one of the members of the committee that I had made at two different periods some special studies which seemed to make that clear.

In 1897 I was asked to read a paper before the New York State Bankers' Association on "The causes of the fall of prices since 1873." By means of diagrams that showed the course of prices and the output of gold and silver and things of that kind, taking account of minor influences that always come in, it seemed to be clearly established that the chief reason for the fall in prices was the lessening output of gold, together with what was of still more importance, the very largely increased demand for gold in Europe, as several of the countries went over to the gold standard.

Then about a year and a half ago I was asked to read a paper before the State Bankers' Association of Michigan, and I suggested the question of "The causes of the increase in prices," and I applied the same principles, and see if they would work. Taking absolutely the same data, bringing them up to date, it established, with substantial clearness, that the main cause of the increase in prices had been the very largely increased output of gold without a corresponding increased demand for it.

Senator SHAFROTH. Has there been, at the same time, a great increase in the use of bank currency in France and Germany?

Prof. JENKS. There has been; it is all along the line. In all countries of the world, we are getting more and more to substitute methods of business for gold. You take, for example, our own country. Our country has more fully developed, particularly in the eastern part, the use of checks than probably any other country. In Germany they do not begin to use the number of checks that we do. But nevertheless they are getting to use them more and more during the last 10 or 15 years far more than earlier.

Senator HITCHCOCK. On the whole then, there has been since 1897 all over the world a great increase in the volume of the circulating medium?

Prof. JENKS. Beyond all doubt. In addition to that there have been improved methods, so that it has tended to stimulate the effect. That is the point in this bill. You are going to improve your method of handling gold so much that it will make it more serviceable than before. There is that tendency toward expansion of currency unless we retire more largely some of the other media of circulation. If you will retire other currency and require gold as reserve, we shall keep our gold.

Senator NELSON. I see your theory is that the rise and fall of prices is governed by the volume of currency?

Prof. JENKS. Not entirely, but that is the most fundamental thing.

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Senator NELSON. Have you not overlooked the fact that in this country at least one of the main causes is that production has not kept pace with the demands for consumption; is that not a great factor?

Take it, for instance, in the matter of beef just now. It is not currency, it is because the ranch business is becoming obsolete, and we are raising less cattle in this country, and beef is becoming scarcer.

Prof. JENKS. I quite agree with that. My point is this: If you take any individual article like beef, you, of course, will find your immediate answer in the relation of the demand to the supply. If you take the great mass of commodities—of course, the best estimate that we have of those are in the figures collected by the Government—we get the average price as nearly as possible. Take those the world over and you will find a very decided increase in prices, some special commodities down and some up.

Senator NELSON. There is no great difference in the volume of currency in this country this year and last year?

Prof. JENKS. No; that is perfectly true.

Senator NELSON. Now, then, I want to call your attention to this fact. Have you observed the difference between the price of corn this year and last year, and the price of cotton this year and last year, and also the price of potatoes this year and last year. Can you charge those differences to the volume of currency?

Prof. JENKS. That is the point I made a moment ago, when you take single individual articles, and that is especialy true of agricultural products, because when you take those you will find a temporary explanation from year to year in these local influences you spoke of. If you draw a chart of the course of general prices over a series of years there will be very little fluctuation from year to year but you will find the great waves of change over periods of years.

Senator NELSON. Is it not a fact with this country, Prof. Jenks, that our population, our body of consumers has been increasing faster than our producers have, especially producers of raw material?

Prof. JENKS. It is certainly true as regards the producers of raw material, but as regards the manufacturers it is not true.

Senator NELSON. Compare the difference between our urban and rural population, you can see the great change.

Prof. JENKS. I quite agree with that in regard to individual cases.

Senator NELSON. The urban population is a body of consumers, while the rural population is a body of producers?

Prof. JENKS. Yes; I grant that with regard to individual cases.

Senator BRISTOW. Has not this vast increase in agricultural prices had a tendency to lift the entire price level?

Prof. JENKS. Beyond question. On the other hand, there have been some counter influences.

Senator BRISTOW. Not in agriculture?

Prof. JENKS. Not so much; a little in improved methods.

Senator BRISTOW. Do you not think this increase in the price of agricultural products is due practically wholly to what Senator Nelson called the congestion of the population in the centers?

Prof. JENKS. If you add to that also the difference in crops. As I was saying the other day, I am not sure that the short corn crop this year is not going to offset some of the effects of the traiff, because that

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affects very materially the general level. Those are annual fluctuations.

Senator BRISTOW. I can see that a short corn crop would, because the wheat is not very high and corn is very high, relatively.

Prof. JENKS. Yes.

Senator BRISTOW. But you take this movement from the farm to the city, and it seems to me that that is as much responsible for the advance in prices as the circulating medium.

Prof. JENKS. That, beyond any question, is considerably so all over the world, because that tendency is practically universal. But at the same time, if you will go back over a period of 50 or 75 years and note the general changes in prices, you will find that the fundamental reason is, the output and use of gold, to my mind—of course, there are differences of opinion—but to my mind, that is more important than any other one of these things.

Senator REED. What is?

Prof. JENKS. The supply of gold as it relates to the demand for it.

Senator SHAFROTH. Mr. Barry testified before the committee a few days ago, and he said that while there has been an apparent rise in the price of commodities, that so far as fixed investments are concerned, the prices are no higher than they were 12 or 15 years ago. He cited the stocks of railroads and urban property, and things of that kind. What do you think of that theory?

Prof. JENKS. That is true to a considerable extent, but I do not think it affects the question particularly. It is not true as to railroads.

Senator REED. Nor as to railroad stocks, either.

Prof. JENKS. It is as regards a good many stocks.

Senator REED. But the general average price of railroad stocks, except those companies that have absolutely flooded their treasury with watered stock, is much higher, the aggregate of the stock is higher—I mean the value of the whole stock issue is greater, but the value of an individual share may not be so great, because they have issued so many shares.

Senator SHAFROTH. I think the increase in farm lands has been going up because of the increase in the prices of products.

Prof. JENKS. There is another point in connection with that also. There is always a tendency in all countries as the demand for farm products increases, and the people have to use more and more intensive methods of agriculture to go to lands that originally were not quite so fertile as the other lands, and there is always a tendency for the price of agricultural products to go up, and that will continue.

Senator REED. May I get back to a matter that concerns the bill? You stated, in discussing the difference between bank circulation and other forms, that one of the virtues of the bank circulation was that it responded to the business needs of the country. Now, I understand you to say that there has been going on in this country in recent years a real expansion outside of the mere matter of the amount of money, growing from the fact of an additional use of money through checks, so that the same dollar may be used many times in a day without passing from the place of deposit. That has been going on extensively?

Prof. JENKS. Yes.

Senator REED. There has been an increase of gold, which has been an expansion. Now, on top of all that expansion, is it not true that

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the national bank circulation, instead of retiring, as it ought to have done under those circumstances, has been increasing right along in this country?

Prof. JENKS. There is this other point, though, that the demands of business have also increased very greatly. And when we are speaking of an increase of the currency we always ought to speak of it in relation to the demand for the currency.

Senator REED. But the demands of business—and we are coming right to the point I wanted to get at—always multiply in the face of an inflation, do they not?

Prof. JENKS. Surely.

Senator REED. So that as you get inflation you get more demand and then more inflation to meet the demand, and these bank notes that are supposed to be an automatic check and to reduce that demand have utterly failed to do it, and have gone right along with the inflation, and therefore I think, Professor, that that is an idle dream that has been put before us many times—that the bank notes will retire automatically.

Prof. JENKS. Our national-bank notes will not, not our present notes.

Senator REED. Certainly not. In 1911 there were $687,000,000, dropping the odd dollars. In 1912 there were $705,000,000, and there is a steady increase of those notes almost from the first, with the exception of a very few years when there was a decrease, and it seems to me those facts demonstrate that a bank-note circulation follows an inflation just like any other character of money.

Senator WEEKS. Will you allow me to make this suggestion? I do not know anyone who ever contended that the national-bank currency which we have outstanding fluctuated with the volume of trade. The trouble with the circulation is that it has depended on the price of Government bonds rather than on the needs of the commercial community. If a bank could make 1 per cent or 2 per cent, or some other per cent on circulation, or a prospective profit on the principal of the bond which it purchased, then it would take out additional circulation.

Senator HITCHCOCK. Why will it not be so in this case? If a bank can make money by borrowing from the reserve bank, why will not the result be to stimulate loans?

Senator WEEKS. Because the security which the bank holds is paid, and it has no need for the circulation any longer. In the case of the Government bond the security was never paid.

Prof. JENKS. Yes. I was about to say that I do not agree to Senator Reed's proposition for practically the same reason. Our present bank-note issue is not a bank-not issue in anything like the same sense as provided in this bill, or like a bank-note issue in Germany, France, or Canada. Canada is one of the best illustrations we have.

Senator REED. I beg pardon for interrupting——

Prof. JENKS (interposing). Before you ask another question, I was going to suggest some means by which, I think, this system would now contract, and I was going to make one or two suggestions with respect to a method of making it contract still more promptly.

Senator REED. That is what I wanted to get; but before we come to that let us consider this. I will waive the present bank note as a

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demonstration, although to my mind it has not been fully answered, although I think that the considerations offered are entitled to weight. But I go back to the proposition I made a minute ago, to which you assented, that an increase in the volume of money increases prices, thus making a demand for more money. The increase in prices and the increase in volume of money stimulate industry, stimulate business, apparently, at least, and the greater the quantity the greater the demand. Thus we have an endless chain, if you please, constantly in operation. The appetite grows by what it feeds upon. And therefore I do not believe, and I have to be convinced, that there is any bank-note issue in the world or that can be devised that will automatically retire itself unless there is attached to its issue conditions forcing its retirement. I want to hear how that is going to be done under this bill.

Prof. JENKS. I am very glad you put the question in that way. I think there are two things to be said about that, and I quite agree with you when you say they either have to be forced to retirement or else there must be some inducement. Inducement is better than force——

Senator REED (interposing). When I say "forced," I only mean that there must be a force created to cause their retirement. That force may be in the form of an absolute command or it may be in the attaching of conditions which make it desirable to get rid of that piece of paper.

Prof. JENKS. Yes. Now, as regards your first proposition, I would agree that an expanding currency—other things equal, unless there is a corresponding expansion of business—does tend toward increasing prices; and also that a tendency toward increase in prices does tend to make business go on faster. People want to expand their credits, and that is the fundamental cause of most of our crises, if they are monetary crises. And the trouble has been ordinarily, whenever we have had a monetary crisis, that there has not been this inducement toward a contraction of the currency. That has been the danger in many cases where we have had Government note issues or speculative bank-note issues not properly controlled.

There are two ways in which we can see to it that the currency does lessen when a normal business demand slackens. One is along the line of the German system, by which, when we get a certain amount of money out we put a tax on any larger amount and leave the banks to raise their rates of interest.

Senator REED. I call that a force.

Prof. JENKS. That is a force. Another way, which, on the whole, I think, better, is the plan that is used in Canada. It is this: Each bank being anxious to get its own notes out so far as it can with safety, takes up the notes of every other bank and sends them back for redemption immediately. Now, as has been intimated here a number of times this morning, and was said a moment ago by the Senator——

Senator REED. That certainly is a force, but it is not applied by the Government but by the other banks.

Prof. JENKS. All the better, because it is much more nearly automatic. They are both forces; that is true.

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Let me suggest again that when a man makes a loan and gets these notes out there are that many in circulation. If he pay back his debts in notes, either of that bank or any other bank, that lessens the circulation by an equal amount, so that ordinarily in the course of business we have the expansion of the currency and contraction of the currency just in accordance with the normal demands.

Now, may I speak of the system you have in the bill. You have a system under which people will borrow. They will get these notes into circulation. We are speaking now, of course, of the member banks. When the notes are paid into the member bank, whether they are paid in these notes or in the notes of another Federal reserve bank, they will be held in the vaults of the member bank, and will be paid out over and over again. The system will not work automatically in the way it does in Cánada. That is, they will not be sending any of the notes of the other banks back, and if those notes get quite a long way from home, there will be a considerable element of expansion.

Now, there are two ways in which that can be covered. The bill itself covers that in part by taxing the notes that are advanced to the separate regional banks, and if it seems that the demand is getting too strong the tax rate would be raised. That, again, is not automatic.

Senator REED. That rests in human discretion.

Prof. JENKS. And that I do not think is wise. I was going to make another suggestion that perhaps may help. The amendment that was made to the bill providing that no reserve bank should issue the notes of another reserve bank was a very wise one, and that they redeem the notes of any other reserve banks that may come into their hands. That is wise. Why not extend that principle further? There are two ways: In the first place, say that no member bank shall pay out over its counter any notes except those of its own regional bank. That would strengthen the law a great deal along that line. The only objection I can see to that is the cost of shipping the notes that come in from any other regional bank back to the home regional bank, and I think the home regional bank could very well afford to pay that. That would go a long way toward strengthening the redemption system. That would bring it much more near the Canadian system.

Senator POMERENE. Would the Federal board, under the terms of this bill, have that authority?

Prof. JENKS. I had not supposed it would have that authority; and it seems to me the wise thing to do is to provide for that in the bill. And, further, what makes the Canadian banks return notes so promptly is that they are making money by doing it. Why not apply that same principle here?

Senator POMERENE. Let me see if I understand your limitation. Assuming that there is a regional bank in New York and a member bank of the Chicago regional bank would receive a New York note; then you would have that returned to New York, would you?

Prof. JENKS. What I mean is this: Supposing a member bank in Chicago—not the regional bank—gets this New York note. It would be allowed to lend that out over its counter, as I understand it, under this bill. It is only the Chicago regional bank that can not issue it

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Senator POMERENE. I understand that, but that does not quite answer the thought I had in my mind. Would you refuse to permit the member bank of the Chicago regional bank to pay out a Chicago note also?

Prof. JENKS. Oh, no.

Senator POMERENE. That is, I mean after it had been once paid in.

Prof. JENKS. That I do not think is of very great consequence, whether it does that or not. The bill, as I understand, provides that it could pay out its own regional bank notes over and over again. Personally I should like to have every regional bank not allowed to pay out its own notes the second time, as was intimated before—practically the Bank of England plan. It would be a little more expensive, but, in the first place, it would be an absolute check against counterfeiting, as these notes are being retired all the time; and another advantage would be, as in England, that you are in touch with your circulation all the time. But I think that is of much less importance.

Senator REED. Are you not thereby circumscribing this to such an extent it would cease to have any value as money?

Prof. JENKS. Not at all, I think.

Senator REED. Let me see if I understand you. Suppose I run a member bank in Kansas City; Senator Bristow runs a member bank across the street. I go over to Senator Bristow's bank and get $100,000 from the regional bank on 30, 60, and 90 day paper.

Prof. JENKS. You mean from his Federal reserve bank?

Senator REED. No; from you, as a Federal reserve bank. A man comes in to borrow $100,000, and I pay it to him in cash. He walks across the street to Senator Bristow's bank and deposits that $100,000. Senator Bristow then has practically to cancel it.

Prof. JENKS. No; I do not mean that at all. The point I make is this: Suppose that you get $100,000 from your regional bank in Kansas City. There is no reason why you can not pay that out back and forth as much as you like. But suppose a customer comes in, and when he makes his deposit with you he deposits some notes from the Chicago regional bank. Then I should say you should not take those and loan the Chicago reserve bank notes over your counter.

Senator REED. What value do I get out of them? What good are they to me if I can not lend them out?

Prof. JENKS. You can get them redeemed through your regional bank.

Senator REED. I must send those in to be redeemed?

Prof. JENKS. You must send them to your regional bank, which is across the street, as you say. Your regional bank would charge them against the Chicago bank.

Senator REED. I can not find this bank across the street; it is 600 miles away.

Prof. JENKS. Then you send them to your regional bank, wherever it is, and the regional bank should pay——

Senator REED (interposing). And have a constant stream of money going in every day by express?

Prof. JENKS. Absolutely; a stream of notes for redemption. Not necessarily by express; I should make a sound provision to use the parcel post these days.

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Senator REED. And I send these bills by parcel post?

Prof. JENKS. I think I should.

Senator REED. I should want to cancel them before I send them, then.

Prof. JENKS. That is something you can arrange. There is this point to that, Senator——

Senator REED (interposing). Is there not a plan that is much simpler than that and that will absolutely work? Let me suggest it to you.

Prof. JENKS. I have not finished with my plan yet.

Senator REED. I thought you had. Proceed, then.

Prof. JENKS. I was going to say that I do not think that plan is as cumbersome as it might appear to be. In the first place, we know it is workable, because it is the plan that is worked continually in Canada and has been worked for years, and they pay the express charges without difficulty and are glad to do so for the sake of getting the notes of rival banks out of circulation.

Now, if you are a member of the Kansas City regional bank you are going to get 40 per cent of the profits they may make. You would be rather glad to have that currency circulation reasonably profitable.

Senator REED. We are going to take that out of this bill, I think.

Prof. JENKS. That is something, of course, I have not any discretion about.

Senator REED. I do not know, but I am just judging by the talk.

Prof. JENKS. I am not sure that it would be wise to take it out, because here would be an inducement to keep your circulation down. Now, if instead of paying that currency from Chicago out over and over again over your counter whenever you get the chance you send it to your regional bank you compel them to redeem it. You do not need to send it every night, but certainly as often as every week, and you would very likely send it every two or three days, as in Canada. And your regional bank could afford to pay the express charges in order to have that done, and you could afford to have them paid to get them out of circulation in your region.

Then there is another thing about it: By far the largest proportion of the bank notes in circulation in your region would be those of your own regional bank, of course. There would be relatively few from the Chicago region or the San Francisco region. That would help very decidedly this situation.

Another thing that would help still more is this: Why should you charge interest to the regional banks for having these notes issued to them unless it is necessary to keep the rate fluctuating from time to time to contract the currency? If the Federal reserve board charges interest to the regional bank, that interest is almost sure to be added to the loans to the customers throughout the country, and why should a farmer in Texas or a grain grower in Minnesota pay a half per cent or 1 per cent, or 2 per cent, maybe, for his bank notes, to put revenue into the Federal Treasury, unless the plan is absolutely necessary to contract the currency? If it is, I say by all means do it.

But it seems to me that by far the better system, and one that would tend to keep the rate of interest somewhat lower, one that would make the bill far more automatic, also relatively lessening the

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power of the Federal reserve board, would be not to charge interest and to let them have the profit that is suggested; but to provide they shall issue over their counters only the notes of their own Federal reserve bank and send the others back for redemption. Then you will get a system that will work practically as automatically as the one in Canada, I am inclined to think.

Senator REED. I may suggest something that may be utterly chimerical, but I make the suggestion. Suppose we write into this bill that when money has been issued by any Federal reserve bank it shall at the end of not to exceed 90 days—or some other period—turn over to the agent of the Government an amount of these bank notes—I call them that to distinguish them—equal to the amount that is issued. That is to say, a reserve bank to-day issues upon proper collateral to member banks $1,000,000. At the end of 90 days that Federal reserve bank must turn over to the Federal reserve agent $1,000,000 of their circulation, and if it can not do that it has to turn in other money. Now, you have expanded the currency by $1,000,000 and you have provided absolutely to end that expansion at the end of 90 days, which is the maturity of the paper that was put up. What is the use of all this circumlocution? Why not just do it? Maybe I am wrong——

Prof. JENKS (interposing). I really think you are.

Senator REED. If I am, I should like to have somebody point out where.

Senator HITCHCOCK. I rather sympathize with that position of Senator Reed. It seems to me the plan you propose, Professor, and which seems to be contemplated by this bill, is going to involve tremendous shipping of currency. It is going away from civilized methods and getting back to the dark ages where actual transfers had to be made. At the present time it is a mere matter of credit which is transferred on the books of the banks, very largely, but you propose the physical shipment of currency.

Prof. JENKS. Only the physical shipment of currency from sections of the country remote from where you are doing your business.

Senator HITCHCOCK. But this is a country which does business in a very homogeneous way. We have no national lines, and business does not run according to State lines.

Prof. JENKS. The essential thing, of course, is to see that you have your contraction prompt; that you get your bills out of the way and redeemed.

Senator REED. And then, if this is workable, as I suggested, you do not have to keep the printing presses running printing new money and a lot of clerks destroying it. You set aside this money when it comes into the Federal reserve bank, this $1,000,000; you take $1,000,000 of these notes out of circulation and put them over with the Federal reserve agent and he holds them. Day after to-morrow that bank needs another $1,000,000 for a similar transaction. It comes over and gets $1,000,000 of this currency that has been through the channels of trade and takes it and loans it out, and at the end of 90 days it has to retire that $1,000,000 again, and you do not have to keep the printing presses running. Maybe there is a hole in all that——

Senator POMERENE (interposing). You make a fixed quantity of it?

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Senator REED. No; that does not make it a fixed quantity.

Senator POMERENE. There is $1,000,000 issued, and you destroy $1,000,000 at the end of 90 days.

Senator REED. That is exactly the point. The point is, we have issued this $1,000,000 for the purpose of floating certain commercial transactions which we have been told all along are to pay this off. They are to do it within 90 days. At the end of 90 days, therefore, the use of this money for that particular transaction has ceased. If you leave it out longer you have an inflation. Now, this provides that the bank shall take it by direct methods—not by the indirect method of canceling bills that come into the wrong place—shall take up $1,000,000 of that currency.

Suppose we have $150,000,000 out, for the sake of illustration; that is, what we think is safe. We have issued $100,000,000. To-day the banks issue $5,000,00 more. Now, we have $105,000,000 out. To-morrow there is $5,000,000 more of this paper that has to be taken up. It is carried over here and retired with the Federal agent. The next day they need $5,000,000 more. They have taken out of the aggregate that is circulating around, and they have this money over there with the Federal reserve agent. They have gathered it up, and they simply take it and issue it upon this collateral. Then every time that collateral comes due—every 90 days—they have to have a contraction that equals the expansion, and that 90 days does not mean each period of 90 days; you are contracting and expanding all the time.

Prof. JENKS. That is the question, I think, the Senator here had in mind, and I was going to ask a question. What you mean, I understand, is this, that on every day a provision shall be made that there must be paid in to the Federal reserve agent as much money, or as many notes, or the equivalent of those notes, as was taken out 90 days before.

Senator REED. Yes.

Prof. JENKS. So it keeps up a continuous process. So far as that is concerned, that is practically provided in the bill now, and I do not see that it affects the situation.

Senator REED. If that is provided, that ends it, does it not?

Prof. JENKS. I do not think it does quite. What is provided is this, that the Federal reserve agent has reported to him every day, of course, what the situation of these accounts is. If a collateral note is paid off, he is either going to have the Government notes back or have some other collateral notes substituted.

Now, if the business is expanding, the chances are 10 to 1 that he does not get these bank notes in; and I do not quite see now that he ought to get the notes in, because he has substituted, we will say, for the $50,000 of collateral notes that are due to-day $50,000 others; and I am inclined to think that your plan would involve a good deal more shipment of money than mine would.

Senator REED. I do not think it involves any.

Prof. JENKS. In this way: These loans are not made by the regional banks themselves, but through the different member banks that are scattered 100, 200, or 500 miles away.

Now, if those actual physical notes that are sent out from this regional bank have to go back to the regional bank so that they can be

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turned over at the end of 90 days and the equivalent amount of them substituted, you have got a good deal more of shipment under your plan than I have under mine. Perhaps, however, I misunderstood you.

Senator REED. No; I think you have gone into a detail that I did not take up.

Prof. JENKS. Yes.

Senator REED. Well, the member bank now owes the regional bank $1,000,000, which it got from the regional bank 90 days ago?

Prof. JENKS. Yes.

Senator REED. And its collateral is up with that regional bank?

Prof. JENKS. Yes.

Senator REED. If the regional bank collects that collateral, it has now got in its vaults all the money it loaned out, and the $1,000,000 is still kiting around the country somewhere—the $1,000,000 of currency.

Now, the question is, how to get that back.

If you provide that the bank which got the accommodation wipes out its obligation by either—its obligation is already wiped out by the payment of this collateral if it is done in that way. I do not assume that it will be done in that way; I asume that those collateral notes will be collected by the member bank and remitted to the regional bank; and I asume that there will be passed through that regional bank, consequently, a large flow of this currency; that it will go there in vast quantities and that all it has got to do is to take the $1,000,000 of that that is coming in, retire it from circulation for the time, and turn it over to the Federal Government.

Senator POMERENE. Is it your contention that this $1,000,000 shall be set aside at the end of 90 days?

Senator REED. Set aside; yes; at the end of a given period. In other words, I go down to a bank—I look at the transaction in this way: I go down with my credits to a Federal reserve bank, with $1,000,000 of promissory notes.

Prof. JENKS. Yes.

Senator REED. Now, I in fact borrow from the Federal Government, for temporary use, $1,000,000 of this currency. The purpose is now, if I understand the thought of this bill, to carry me until the transaction involved in that 90-day paper which I put up has been completed and the paper has liquidated itself. That is the theory of this bill. Now, at the end of 90 days, that collateral has all matured.

Senator NELSON. And is paid.

Senator REED. And is paid. Now, either the member bank has collected that or the regional bank has collected it. Assuming, for the present, that the regional bank has collected it, then at the end of 90 days, the regional bank is whole. It has got its money back, but it has got $1,000,000 of its notes floating around.

But, coming to that regional bank must be a constant stream of this bank currency, and I would make it the duty of the officers of that bank, at the end of 90 days, to take $1,000,000 of those notes and retire them. Then the transaction is completed; it is over.

If the member bank was to collect the collateral, it would be reimbursed now. And then I would make it the duty of the member

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bank in that case to notify the regional bank, and the regional bank would deduct from the amount of credit to that member bank $1,000,000 and retire at once $1,000,000 of this paper.

Why is not that workable? I am not a practical banker—but you have got to pay that debt; and they have been telling us the reason there was not any inflation in this bill, or any dangerous inflation, and the reason it was a safe money was because the money was issued upon promissory notes, which represented an actual commercial transaction which liquidated itself. Now, that is——

Senator NELSON (interposing). Now, if I understand, Senator Reed, will you allow me to put your question into shorter form?

Senator REED. Certainly. You generally can do that better than anybody I know.

Senator NELSON. If you would not take any offense, I would like to do it.

Senator REED. No; I would not take any offense at all.

Senator NELSON. Would that be better, when one of those regional reserve notes, or currency, is redeemed by the Federal reserve bank, that that was the end of that note; that it was retired from circulation? Would not that cover the point?

Senator REED. That is what I mean.

Senator NELSON. Would not that be the safest way of regulating the currency automatically?

Prof. JENKS. As far as I understand, the bill does that now pretty well, except that it does not cancel its own notes.

Senator SHAFROTH. It holds them.

Prof. JENKS. It holds them. But there is a point that I am not quite sure I understand, and that is this: I think that most of these notes will be collected through the member banks.

Senator NELSON. You mean redeemed?

Prof. JENKS. Yes; redeemed. Well, now, I ought to put it this way: I ought not to have said "note." I mean the commercial paper.

Senator NELSON. The collateral for the currency.

Prof. JENKS. Yes; the 90-day paper which the Federal reserve bank is holding will be sent back to the member bank for collection. When that is collected it will be paid in these notes—this currency—and if it is paid in these notes, the proper credit is given to the member bank and some other commercial paper substituted in the regional bank.

But, now, why should that member bank—why should that cancel the currency note from its own regional bank? And the present bill does not provide that it should. It lets it hold that as long as it wants to. And I think that is all right; that will avoid shipping the notes back and forth. If they are to be shipped back and forth, as the Senator suggests, there would be a great deal of shipping.

Senator REED. I do not think there would be any at all, if we follow it on. Let us take this transaction: You are a regional bank and I am a member bank.

Prof. JENKS. Yes.

Senator REED. And I go to you and say, "I want to borrow $1,000,000."

Prof. JENKS. Yes.

Senator REED. And I say, "Here is $1,000,000 collateral." It is put up with you simply to make you say, "I issue my obligation for

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$1,000,000." It is due in 90 days. At the end of 90 days I have got to take it up. You give me the money. I take it home to my bank and loan it out.

The 90 days expires. I owe you $1,000,000. I have a balance there with you. I have been maintaining a balance. You charge me $1,000,000, and instantly substitute $1,000,000 for these notes that have been coming through your window, putting them with the representative of the Federal Government, who locks them up; they are no longer in circulation.

Now, I have no credit with the bank whatever. Of course I have to send you the money, or I have to send you a draft for that $1,000,000 on some other bank. And almost all of it will be done in that way. And all there is in the whole scheme of physical labor is the book entries and the action of the Federal reserve agent coming over to the bank across the aisle each day, and saying, "There is $1,000,000 of this paper to be retired; give it to me." And he takes it and locks it up.

Prof. JENKS. Let me ask you one question further. Now, supposing when he comes over and asks for that $1,000,000 I should say, "I have not $1,000,000 here in the notes that have been coming in, but I have," we will say, "$700,000 in those notes, and I will turn over $300,000 to you in lawful money."

Senator REED. That is all right. The money has been shrunk that much. Now, you know mighty quick, when you get the notes, you will say to him, "I want to swap those notes for lawful money."

Prof. JENKS. I understand that the bill provides for that at the present time, with this exception, that if the notes that are on hand at the Federal reserve bank are its own notes it turns them over and they are held there to be issued again. If they are the notes from some other regional bank, they are canceled and sent back for redemption.

Senator REED. I am not in favor of issuing a sectional currency in this country. So far as I am concerned, I want a dollar that has got the Government of the United States stamped on it; good not only in every part of this country, but I would like to see it good in every part of the world.

Senator HITCHCOCK. I think it might be a pretty serious embarrassment to the western reserve bank to have suddenly dumped upon it a large volume of the reserve notes of another bank, because it can not pay those notes out without a penalty of 10 per cent. It can not hold them in its reserves, which it is obliged to maintain. It has got to suffer all the loss while it is sending them to the Treasury for redemption.

You take a western reserve bank; perhaps it would be a week or 10 days before it could get that back from the Treasury. And I agree with Senator Reed that there ought to be some way in which these reserve notes ought to be as good for any use in one part of the country as in another.

Prof. JENKS. They are as good till they reach the reserve bank. I do not see how they can be as good for reissue and still insure their prompt redemption so as to contract the currency. So far as that point of delay that you are making just now is concerned, that would seem to be a matter of the credit, that could be arranged with the Treasury and reserve agent promptly. There is no delay necessary.

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Senator REED. Why will not the currency be made absolutely stable for this reason? Let us take the illustration a little differently.

Prof. JENKS. Yes.

Senator REED. Take your illustration. Here is $1,000,000, which it is the duty of Senator Bristow, as Federal reserve agent, in your regional bank, to see that the $1,000,000 that I have got from you is retired to-morrow.

Prof. JENKS. Yes.

Senator REED. To-morrow morning he comes in to you and says: "Here is that paper that you issued to Senator Reed's bank and it is due and I want you to retire it."

You say, "We have only $700,000 of his paper." "All right," says Senator Bristow, "give me your $700,000 and give me $300,000 gold." And he takes that over and puts it in the Government till.

The gold that you have there is a complete answer to any danger or any question of inflation. You have it there to redeem these notes on demand. You have it there for every purpose. It is a little better than your note.

The whole scheme amounts to no more than this, that I issue my check and I start it kiting around the country. It comes due and you are my agent of redemption. Well, when it comes due the check is not there. You say, "All right, let the check stay out for $100, give me $100 in gold, and I will retire that gold from circulation." There is the same amount of circulation out, and while that circulation which is out is not of the highest type, as long as the gold is there locked up to represent it and redeem it at any moment it is pretty good.

Prof. JENKS. Yes; that is all right.

Senator NELSON. Prof. Jenks, you must not think that we are spending time unnecessarily——

Prof. JENKS (interposing). I think that is an extremely important point, Senator Nelson. It is a new matter that I had not seen before.

Senator NELSON. This matter which Senator Reed and others have been discussing is to me very important.

Prof. JENKS. Certainly, it is important.

Senator NELSON. Let me put a case like this to you: We will say that you are a member bank and that Senator Reed is a regional bank.

Prof. JENKS. Yes.

Senator NELSON. And you deposit with him $100,000 of commercial paper due in 90 days.

Prof. JENKS. Yes.

Senator NELSON. And you get $100,000 in his notes?

Prof. JENKS. Notes; yes.

Senator NELSON. Or currency.

Prof. JENKS. Yes.

Senator NELSON. You loan that out to people around the table here, let us say.

Prof. JENKS. Yes.

Senator NELSON. By and by that currency comes back to Senator Reed for redemption, and he has to redeem it.

Prof. JENKS. Yes.

Senator NELSON. In the meantime the 90 days have run and that commercial paper is paid. It has been paid to the bank that issued

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the notes. The commercial paper has been paid; the 90-day paper has been paid; and there are the proceeds of that 90-day paper with Senator Reed and there are the notes. Now, should not the proceeds of those notes that have been paid wipe out that currency? If you are going to keep that currency in circulation after you have got the commercial paper redeemed, you must put other commercial paper in there in place of it.

Prof. JENKS. Surely.

Senator NELSON. So, if you put other commercial paper in place of it you must return the money that has been collected on the 90-day paper to the member bank.

Prof. JENKS. Unless you are substituting one piece of commercial paper for another.

Senator NELSON. If you change it before they are paid.

Prof. JENKS. Yes.

Senator NELSON. But if you do not change it before they are paid, what then?

Senator HITCHCOCK. We have been going on the assumption that the Federal reserve bank secured this currency from the Government upon a definite length of time.

Prof. JENKS. I did not suppose so.

Senator NELSON. Oh, no.

Senator REED. No; I did not mean that. The Federal Treasury gives to its reserve agent—will furnish its reserve agent with a large amount of these bills and instruct him how he is to pay them out. And he will have it on hand in these banks all the time, undoubtedly.

Prof. JENKS. Oh, yes; undoubtedly. He could not go to Washington every time any demand came in.

Senator HITCHCOCK. They will change from day to day.

Senator REED. And every day the Federal reserve board will be notified as to how much money there is out.

Prof. JENKS. Yes.

Senator REED. And when they see that there is more money out than the law allows—and I am in favor of putting an absolute limit upon it—they, of course, stop. And beneath that point which I hope the law will fix they will have a discretion, and if they see that there is too much money going out will raise the interest rate; so that the interest rate to-morrow will be so much. Or they will say, "We will not issue any more." I know you shake your head, Prof. Jenks, at the absolute limit of the law.

Prof. JENKS. Yes.

Senator REED. But I have got more confidence in the law than I have in the best human judgment when it comes to matters of this kind.

Prof. JENKS. I agree to that also, but I should think——

Senator REED (interposing). There should be a limit. I think it might be generously fixed.

Prof. JENKS. Yes.

Senator REED. But there should be some point that this board can not exceed until Congress and the President pass another law changing it.

Prof. JENKS. Why not put the limit on the basis of your reserve, which will make it all absolutely safe? Then you have got it adjusted to the demand of business, whatever it may be.

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Senator HITCHCOCK. One o'clock has come, shall we take a recess?

Senator SHAFROTH. I suggest, Mr. Chairman, that we meet again at half past 2.

Senator HITCHCOCK. All right. We will take a recess until half past 2.

(Thereupon, at 1.05 o'clock p. m., the committee took a recess until half past 2 o'clock.)

AFTER RECESS.

Senator HITCHCOCK. Prof. Jenks, will you resume your statement?

Senator NELSON. I would like, Mr. Chairman, to get back to a question that is not clear to me at all; and I am going to put the question in a little different form from that in which I put it this morning. Prof. Jenks, this currency issued by the regional banks is nothing but the promissory notes of the regional banks which are guaranteed by the Government?

Prof. JENKS. Substantially that.

Senator NELSON. A promissory note to obtain money.

Prof. JENKS. Yes.

Senator NELSON. Well, we will say that you are a member bank and I am a regional bank. You deposit with me $100,000 in notes—90-day commercial paper—and you get $100,000 of that currency from me. You put that currency in circulation, it goes around, and ultimately it comes back to me?

Prof. JENKS. Yes.

Senator NELSON. I redeem it as the regional bank. Now, it may not come back until after all that commercial paper has been paid and collected.

Prof. JENKS. Yes.

Senator NELSON. We will suppose that you did not want to renew those notes or put in new notes. You allowed the notes to be paid, they were collected, and the money went to the regional bank, and the reserve notes that were issued upon it came back to the regional bank. Now, in that case are not the notes paid?

Prof. JENKS. The notes are paid.

Senator NELSON. The notes are paid, and they ought to be extinguished, and there would be no warrant to put them in circulation again in such a case. Now, the only warrant for keeping those notes in circulation, Prof. Jenks, seems to me this, that in order to continue them in circulation the regional bank must keep paper there—substitute paper for the 90-day paper?

Prof. JENKS. Yes.

Senator NELSON. And keep a continuing stream of that paper?

Prof. JENKS. Yes.

Senator NELSON. As soon as you cease to do that, and the last deposit of notes you have left there are paid or redeemed, and the money goes back to the regional bank that issued the notes, those regional notes are paid, are they not?

Prof. JENKS. Those regional notes are paid—redeemed.

Senator NELSON. They are redeemed.

Prof. JENKS. Yes.

Senator NELSON. And they ought not to be in circulation again. Do you understand my question? I will put it again, so that you can understand it.

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Senator HITCHCOCK. Yes; I would like to hear you restate it.

Senator NELSON. Suppose Prof. Jenks is a member bank and I am a regional bank. He deposits commercial paper, 90-day paper, with me, and I issue to him $100,000 in this new currency. He puts the currency out; it travels around through the world and finally comes back to me, the issuing bank. In the meantime those notes—that commercial paper that he deposited with me has become due and it is paid. Paid in to me, the regional bank.

Now, does not that, when those notes—suppose he does not care about renewing the notes or giving more notes.

Senator POMERENE. Renewing the collateral, you mean?

Senator NELSON. Yes; renewing the collateral. He allows those notes to be paid to me, the regional bank, in full. I get the money and the regional notes that are issued for that commercial paper come back to me. Now, are not those notes paid, those notes of the regional bank?

Senator HITCHCOCK. Well, my judgment would be that, as fast as the commercial paper is paid to the regional reserve bank, that bank will see its reserve increasing.

Senator NELSON. Yes.

Senator HITCHCOCK. And as its reserve increases it will reduce its obligation to the Government by turning in notes or gold without waiting for the particular currency to return; that it will be a daily transaction, that as the reserve of the regional bank increases by reason of the payment of commercial paper the regional bank will reduce its obligation to the Government, and it will not wait for the particular currency to come back; and when that comes back it may either be paid out for other loans or it may be turned over to the agent of the Government in the regional bank.

Senator NELSON. No. But as a matter of fact this new currency, while it is in form the obligation of the Government, is really the obligation of the bank, and it is a debt that you owe to the bank.

Senator HITCHCOCK. Yes; but I——

Senator NELSON (interposing). And if that debt has been paid, why should those notes circulate any longer?

Senator HITCHCOCK. It is like a national-bank note now. The national-bank note comes in for redemption at the bank. A man may come in and present it and get gold for it. But within five minutes afterwards the national bank, if it has a demand for loans, will pay it out to a man borrowing money, or will pay it out to a depositor who is withdrawing money.

Senator NELSON. But you see the Government bonds as security are a continuing security which remain there.

Senator HITCHCOCK. And for that reason the bank is not able to reduce its currency. It remains stationary. But under this new system, from day to day, as its cash reserve rises, it will pay off its currency obligation to the Government. It will not wait for any particular currency to come back; and on the other hand it will, even after it has come back, continue to keep it out until it has additional use for it and the state of its reserves requires its use.

Senator NELSON. Yes.

Senator HITCHCOCK. I think it is the reserve in the bank which is going to govern the volume of currency. Do you not agree with me, Prof. Jenks?

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Senator NELSON. Let us go back to Prof. Jenks as the member bank. He has got this currency from me, the regional bank.

Senator HITCHCOCK. I think you are mistaken there.

Senator NELSON. And the currency he gets is the promissory note of the regional bank.

Senator HITCHCOCK. I think you are mistaken that he necessarily gets currency for it. If he runs a bank and he desires to discount paper with you——

Senator NELSON (interposing). There are two kinds of discount. I am putting a case where he discounts paper with the regional bank for the purpose of getting currency issued by that bank.

Senator HITCHCOCK. Well, let us say he discounts paper with you. It is for him to say whether he wants it in the form of notes of your bank or currency, but whichever way he gets it, he gets something which he can use in his business.

Senator NELSON. What do I get?

Senator HITCHCOCK. He does not necessarily get currency.

Senator NELSON. I am taking the case where the discount is made purely for the purpose of getting currency.

Senator HITCHCOCK. You may get gold.

Senator NELSON. Not necessarily. I deposit this paper under the provisions of the bill, and say, "I want to get currency for it."

Senator HITCHCOCK. The bill does not give him any right to say that he wants currency for it.

Senator NELSON. But, upon application, he may do so. It is, of course, in the discretion of the board to issue it.

Senator HITCHCOCK. No; it is in the discretion of the bank; but it uses that currency just as it uses gold or national-bank notes. And upon any application from a member bank—it will depend upon what that member bank wants—as to what that bank gets. It may merely want a credit upon the books of the reserve bank.

Senator HOLLIS. He has got a right to assume that he will get currency upon his application.

Senator HITCHCOCK. He has a right to assume that he will get currency, but it is not treated differently from any other form.

Senator NELSON. But what is that currency, except a promissory note of the bank to pay it——

Senator HITCHCOCK (interposing). That is right. Here is a national bank——

Senator NELSON (interposing). But he has deposited with me as security for the redemption of that currency commercial paper due in 90 days.

Senator HITCHCOCK. It is not for the redemption of that currency. It is for the payment of the notes——

Senator NELSON (interposing). It is for the redemption of payment of that currency.

Senator HITCHCOCK. No; I think not.

Senator NELSON. The currency is issued on that commercial paper and on nothing else.

Senator HITCHCOCK. I think you are mistaken, because that paper can be changed from day to day.

Senator NELSON. Suppose he does not want to change it?

Senator HITCHCOCK. If he leaves it to you, as the reserve bank, you can change it from day to day.

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Senator NELSON. How can I change it, unless you have new sets of men who have given new notes to the member bank?

Senator HITCHCOCK. No; the bill gives the reserve bank the power to change that security from day to day.

Senator NELSON. But how can the reserve bank change it?

Senator HITCHCOCK. Very easily. If Prof. Jenks has deposited $100,000 commercial paper with you and taken out either currency or credit, the very next day—you deposit that with the Government agent—and the very next day you can go to the Government agent and say: "I want to withdraw $50,000 of that paper and I will give you $50,000 of other paper in its stead.

Senator NELSON. But suppose Prof. Jenks does not care to do that? Suppose he lets that paper go to maturity and the money is paid in? Suppose he does not care to substitute other paper for it?

Senator HOLLIS. Then at the end of 90 days he walks in and gives you lawful currency to take the place of that issued to you; and he owns that absolutely because he has paid you for it; and those bank notes stay out to take the place of the lawful currency you turned in.

Prof. JENKS. May I answer the Senator's question as I understand it? It seems to me that he is perfectly right when he says this, that whenever those notes which have been issued for this $100,000 of collateral come in and are presented to the bank and redeemed that closes that transaction, and those notes are redeemed and that ends it.

Senator NELSON. And they should not be issued again.

Prof. JENKS. And the Senator says they should not be issued again. Now that might be put in in this way: They may be canceled completely and some new notes of the same denomination printed; but in case the bank and the Government think it is wise, instead of having that extra expense of printing, they might have these same notes go out again; it is the same printing, but it is really a new transaction; it is substantially a new note.

It is just the same as if I were to issue my personal promissory note to the Senator for an obligation, if it would be likely that he would take it payable to bearer on demand, and without interest. Then, whenever I pay that note off he gives it back. Suppose, a week later, I have not torn that note up and I want to borrow some more money from him; if he wants to take the same piece of paper back again that is all right. It is a new note, of course. It would be unusual, but if I have in hand that form it may be used.

Senator NELSON. It is a new note?

Prof. JENKS. It is a new note absolutely. So I say this: If the note has been redeemed, and either that paper or some other piece of paper is put out, it is in reality a new note, a new obligation.

Senator NELSON. And should have a new deposit of commercial paper back of it?

Prof. JENKS. Oh, certainly, it would have a new deposit of commercial paper back of it.

Senator POMERENE. Does not the difference here arise from the fact that we provide that the reserve notes are not issued on the initiative of the member bank, but upon the initiative of the reserve bank?

Senator HITCHCOCK. Yes.

Senator POMERENE. And all that the member bank is concerned with is to get the proceeds of its discounted or rediscounted paper? And it is a question, primarily, for the reserve bank to make applica-

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tion to the agent of the Federal Government for the reserve notes? And it is a question between the reserve bank and the agent as to when that collateral shall be renewed; and it is not a matter about which the member bank concerns itself?

Prof. JENKS. But, as I understand Senator Nelson's question——

Senator NELSON (interposing). Well, Prof. Jenks, will you tell me this: How can the reserve agent and the member bank renew those notes without action of the makers of them? They have got to be renewed by the makers of the notes, have they not?

Senator POMERENE. The reserve bank might take notes from the New York bank, or the Syracuse bank—I mean collateral notes—or the Buffalo bank, or any other bank; and it is a question between that reserve bank and the agent as to when this paper shall be redeemed and what additional collateral may be hypothecated from time to time.

Mr. FISHER. The point I understand Senator Nelson to make is this, that when the reserve bank finally returns these notes to the reserve agent and as they are redeemed and he takes something else instead, whether that closes that transaction. As I understand it, it does close that transaction.

Senator POMERENE. I think so.

Prof. JENKS. But it is still possible, under the law—and I judge is contemplated under the bill—that these same pieces of paper may be reissued a second time for new collateral put up. They do not need to print new paper every time.

Senator POMERENE. No; I should think not; I do not so understand the bill.

Prof. JENKS. I judge, also, if these notes are redeemed by the Treasury, that the Treasury sends those notes back to the Federal reserve bank and that the Federal reserve bank is authorized to put them into circulation again against proper collateral. They do not need to reprint every time; that is the point; but it is practically a new issue of notes every time after they have been redeemed once.

Senator POMERENE. Yes.

Senator HITCHCOCK. Now, do you think the effect of this is going to make it easier for banks to lend money?

Prof. JENKS. I think that, as the bill stands, it is going to make the banks rather more desirous of lending money, because there is a chance of a somewhat better profit than under the present national-bank note system. Under the present system, as I understand it, the direct profit of the banks on circulation is kept pretty low, below 4 per cent, including the interest on the bonds, as a rule. Under this system the profit of the banks would be substantially on the amount loaned above the reserve, whatever the rate of interest might be at the place where they were making the loans, less the interest that might be charged by the Government for the issuance of the note at the Federal reserve bank. That would presumably be the case. That, I should suppose, would be rather more than under the present circumstances, so I think they would be a little more eager to get the notes into circulation.

Senator HITCHCOCK. Now, if a man comes into a national bank in the city to borrow money, if he is perfectly good the bank will not be able to lend him because it is so near the limit of the reserve.

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Prof. JENKS. Yes.

Senator HITCHCOCK. If he goes into such a bank, after this bill passes, that bank will be perfectly free to lend him, if his credit is good, because of its ability to rediscount his note or any other note like it at the reserve bank, and the operation would be profitable.

Prof. JENKS. Yes.

Senator HITCHCOCK. Now, I want to ask you, under those circumstances, whether the result will not be that there will be a probable expansion of bank loans?

Prof. JENKS. I think there is likely to be some expansion of loans. I do not see any reason for thinking there is going to be any very large expansion of bank loans. The reason for that is, that at the present time, although a bank may decline a loan, and sometimes I suppose has to, because it is near the limit of the reserve, that does not very often happen. It is only in times of extreme emergency that it happens. And there is where, it seems to me, is the special advantage of this bill. It is in times of real emergency when there is really a great emergency that the bank wants to go beyond a certain fixed limit. Under this bill, by means of rediscounts, it can. And, further than that, this bill allows the bank, without violating the law, to go below the fixed reserve of 33⅓ per cent, as you have it in the bill.

Senator HITCHCOCK. Has not the experience of Germany been, with a system very similar to this, that there have been periodic expansions of credit which have been followed by a severe strain upon their banking system and then a depression because of the contraction?

Prof. JENKS. I think we are bound to have anyway, no matter what system we have, certain periods of expansion and, following them, periods of relative depression, but we ought not to say that the expansion would be the cause of the contraction. Contraction is part of the phenomenon, but I do not think it is strictly because of expansion. If I may explain a little further what I mean by that, I should say that ordinarily most of the panics we have had come from what we might call simply the weakness of human nature. When business is running on well and there is a tendency toward prosperity, every business man is anxious to expand his business, of course. He is making a good profit, and he goes to a bank and gets credit, and he continues expanding that credit as much as possible. The bank shares that same feeling. It says, "This man is good, and I will loan him freely"; and so the whole movement of the country, at times, is toward expansion of credit. There is practically no limit. But if credit keeps on expanding and everybody is borrowing, the people begin to get speculative; they take more and more risks, and the banks share in that feeling for a while. But finally the banks see things are going too far, because they are likely to be conservative on that line, and then they will say to the borrowers, "I have got to stiffen my rates a little," and they begin to check down on credits. When they do check down on loans, naturally that makes the man who has been borrowing have some trouble to pay his obligations and there is a tendency toward stress. Now, if the banks start this process early enough, by putting the discount rate up promptly and keeping the brakes on steadily, that may prevent a too great expan-

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sion, and then, perhaps, a sudden panic. But I do not see how, considering human nature as it is, we are going to avoid those times of expansion, followed afterwards, perhaps, by times of rather rigid depression. Then, in a little while the same process is repeated. I think that is inevitable in human nature. The difficulty we want to avoid is as many bankruptcies as possible. As soon as people get to this highest period of expansion, under the present circumstances when there are one or two failures the banks feel the danger and begin to contract loans. The banks who have deposits with the reserve banks call on them, and the reserve banks find their reserves called out by the smaller banks all over the country. Each one is grasping to get its reserve out, and they shut down suddenly and too emphatically upon loans; then the big failures come and we have a panic.

Senator HITCHCOCK. I think it was in March or April the bank statement showed a very low level for the reserves. They were down to the danger line, and since March, up to September, the banks have been strengthening their reserves, because it was seen they were down to the danger line. Now, suppose in March the banks had not been able to see the danger line indicated by the low reserve; suppose they had been able to go to the reserve bank and get additional currency to lend their depositors; then that danger line would not have been seen, the natural contraction would not have resulted, and we would have gone on expanding credit in this country. Would not that have led to a worse disaster if the banks had been in a position to put that off by rediscounting paper?

Prof. JENKS. I do not think there is that danger, for this reason: When we are getting down toward the danger line under this system—provision is made here that the reserves shall be a certain fixed amount—then we can see it is time to contract the credits.

Senator HITCHCOCK. You mean the reserve kept, not in the individual banks, but in the regional bank?

Prof. JENKS. In both.

Senator HITCHCOCK. I do not see how the individual bank would know, because the individual bank, if it finds its reserve low, all it has to do is to rediscount paper with the regional bank and fortify itself with cash.

Prof. JENKS. Of course that would appear also in the falling reserve of the regional bank when it did that.

Senator HITCHCOCK. That would at once strengthen its reserve and every bank could do the same thing.

Prof. JENKS. The regional bank, when it saw things going that way, would say, "We are not prepared to discount paper except at a higher rate."

Senator HITCHCOCK. The regional bank?

Prof. JENKS. The regional bank directors, as well as other banks, will be able to see it in time.

Senator HITCHCOCK. Where do they see it?

Prof. JENKS. The Federal reserve board notices the reserves are getting low and it will notify the banks. Its statements are to be published weekly, as I understand it: at any rate, so that the whole country will be notified if the country does get into that situation. Under those circumstances the presumption is that the regional

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banks would already have begun to put on the brakes, anyway, at about the same time. But, if they do not, it is the business of the Federal reserve board to say you must.

Senator HITCHCOCK. Suppose the reserve of the regional bank appears to be getting low, down to 33 per cent—and you favor allowing them to go lower in the banks?

Prof. JENKS. Yes; and put the tax high enough to stop it.

Senator HITCHCOCK. Suppose they had gotten down to 33 per cent. Now, a bank having applied for currency, can go there and get, say, a million dollars of currency from the Government, and set aside $300,000 for reserve and have $700,000 for——

Prof. JENKS. Oh, I beg your pardon, it does not set aside 33 per cent of that; it has to set aside 33 per cent in gold, which is quite a different proposition.

Senator HITCHCOCK. It is not so very different, because by putting out that currency it draws gold in. Gold is coming in over its counter all the time. It could not set aside the reserve out of that particular million dollars, but by getting that million dollars of currency it would be only required to keep $333,000 of gold or legal tender, so it would have $667,000 to advance the banks.

Prof. JENKS. If it keeps the requisite amount of gold back of it continually, and is careful with reference to the credit of the people to whom it is making its loans, it is safe. But of course there is always that danger, and I think that always will be true under whatever system you get. We shall expand in times of good credit, of real prosperity, all along the line, and the regional bank will be doing the same as the individual member banks. There is always danger of that. That can not, so far as I can see, be absolutely avoided. Under the proposed system, when we are on the verge of a crisis, with our reserves down to substantially 33 per cent, and a case comes in where a bank is on the verge of bankruptcy unless it gets a little help to carry it over and it can put up good collateral, the reserve bank will say, "Very well, you can have that, but you must pay a good high rate." And the presumption is, seeing that coming, they will be putting up the rate before the crisis comes, and that is what is done in Germany and France continually. As soon as they see the reserves diminishing they put up the discount rate, and that does put the brakes on.

Senator HITCHCOCK. You rely, then, on the Federal reserve bank checking the loans of the member banks?

Prof. JENKS. The reliance is all along the line, but the ultimate reliance is upon the Federal reserve board. Next the reliance is upon the boards of directors of the regional reserve banks, and then, beyond that, upon the boards of directors of the member banks, and that is one of the great advantages in this bill—you have there one great system. Really, if the proper requirements are made for having the regional banks and the Federal reserve board working together, you have one great system, where, as the law is now, you have 25,000 different fellows working in different ways.

Senator HITCHCOCK. Suppose John Smith comes into the bank now and applies for a loan and the banker tells him: "I am sorry, Smith; you have perfectly good credit, but I am not able to loan you because there is such a strong demand for money and we are down to our reserve limit." That is an answer to John Smith.

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Suppose, now, under the new order of things, John Smith comes into a bank and the bank says, "We are sorry, Smith, we can not lend you; we are down to our reserve." Smith says, "That does not make any difference; you can discount your paper with the reserve bank." That is no answer to Smith.

Prof. JENKS. I think it is an answer to Smith, because the bank would put it this way: If John Smith is perfectly good and the bank is confident he is all right, then it is up to the bank to rediscount his paper and accommodate him.

Senator HITCHCOCK. Now, then, apply that to the tens of thousands of borrowers and the thousands of banks; is not that one influence alone going to expand bank loans?

Prof. JENKS. It will, some, but I think it will do no harm, and the reason for that is this, that John Smith is told: "Under the present circumstances you realize that the rate of discount has gone up, and instead of your paying 4½ per cent, as I have been charging you before, because you are a good customer and have rather large loans, I have got to make it 6½ per cent," and that will rather open his eyes. And especially if it goes to 7, he will say, "I guess I will hold off a little bit."

Senator BRISTOW. When it goes to 7 what is the bank paying the Government for the money?

Prof. JENKS. What the bank would be paying the Government for the money would depend upon what the board of directors of the regional bank says, with the approval of the Federal reserve board.

Senator BRISTOW. How much would you, in your judgment, think that ought to be?

Prof. JENKS. I do not believe I have much of a judgment on that matter. I do not think that question could be answered categorically in that way. It would all be dependent upon the circumstances of business at that time.

Senator POMERENE. That would be a variable quantity?

Prof. JENKS. Yes.

Senator BRISTOW. Here is John Smith and his loan is turned down, and he says, "I will have to charge 7 per cent," when you have only been charging 6. He knows; he is an intelligent man and understands this bill. He knows on good security you can get money at the bank. You decline to do it and give those reasons. Now, suppose you lend this money at 7 per cent, how much is the bank to pay the Government for the use of that money?

Senator NELSON. The bill presupposes a tax of not less than a half of 1 per cent upon the currency.

Prof. JENKS. I do not think that covers it, Senator. It presupposes that tax, which I personally may be inclined to object to, but the point, I think, is rather dependent upon the discount rate. Now, I should suppose that the discount rate of the regional bank, in ordinary times, would not be high. I am not a banker; I have not much of an idea, but I should say, really, it would be very low—2 per cent, perhaps.

Senator BRISTOW. Two per cent?

Prof. JENKS. Remember, I do not want to be held to that as a definite thing, but I say when you get to this condition of affairs you

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are speaking of, then I should expect the regional bank to put the rate up to 4 or 5 or 6 per cent, perhaps. You see, there is quite a difference between the question you are putting to me and the question that comes up in the Reichsbank in Germany or the Bank of England, or any of those that have a fixed rate of discount, and that difference is essentially this: In this country we are to deal only with the banks, but they also deal with the individual concerns. They go into the market in competition with other banks. The purpose of this bill, I think, is very wise. It does not deal with John Smith, no matter how big a man John Smith may be. It deals with other banks. And, moreover, the purpose of this Federal reserve bank is not to make profits. Its reserves are to back up the individual reserves throughout the country. It would, I should suppose, under the circumstances throughout the country, keep its interest rate down low enough so that it could pay the 5 per cent or 6 per cent and, if anything beyond that, enough to make it reasonably safe. But I do not think it should keep the rate of interest high enough to make big profits for the regional bank. They let the profits—and it in fact will have to—go to the member banks, or the member banks would not be in business with them.

Senator BRISTOW. Now, Professor, there are a number of sides to this. If this regional bank is loaning these member banks money for 2 or 3 or 4 per cent less than that member bank is asking its customers, your system will not stand 12 months in this country.

Prof. JENKS. Let us put the matter in this way: When the regional bank is rediscounting the paper of the member bank it is, after all, not of itself taking any large profits, while, if it would charge more than 1 or 2 per cent, the individual bank would not come to it. Why should it? The citizen knows that you are the manager of the local bank; you can loan money at 5 per cent, and where you get your money to loan, ordinarily, is from the deposits, on which you pay no interest at all. You have to keep a third of your deposits in your vaults in order to keep yourself safe and in order to be within the law, and you are getting a large part of what you loan for nothing.

Senator BRISTOW. That is not the fact, though.

Prof. JENKS. Not quite. Of course, we know in a bank with large deposits it has to pay 2 per cent.

Senator BRISTOW. The country banks pay more than that for the large part of their deposits.

Prof. JENKS. I suppose they do sometimes.

Senator BRISTOW. Usually.

Senator SHAFROTH. Most of the banks will require accounts of $5,000 balance before they will pay any interest.

Prof. JENKS. I was going to say also in the case of most of the banks in the larger cities they require the small depositors to have an account of at least $200 with no interest.

Senator BRISTOW. You take the average banks, and they pay interest on deposits of $200 to $500 on time certificates of deposit, the rates running all the way from 3, 4, or 5 per cent.

Prof. JENKS. That is another situation—the time deposit—that is another matter. We are talking about demand business. On demand business they do not.

Senator BRISTOW. No; on demand business they don't.

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Prof. JENKS. On demand business, they do not, and a very considerable portion of their loans are made on these deposits.

Senator SHAFROTH. Three-fourths of them.

Prof. JENKS. Yes. Now, if they do that, why should they ordinarily go to the regional banks and pay any large amount of interest? In case of emergency, they will.

Senator BRISTOW. I will tell you why: They have loaned out all of their deposits, and along comes a farmer that is good, and they do not want to refuse him. He wants more money, and they are going to accommodate him. They can not turn him down. They have an excuse now. We are dealing with human nature.

Prof JENKS. Certainly. That is an emergency.

Senator BRISTOW. He comes into my bank; our relations are very cordial, and he says, "I want $5,000." I will say, "Now, I don't know, our reserve is down, and I do not know what is coming, and I do not like to spare it." He will say, "Well, that is true," and he will be satisfied. He will have to be. But now, he will say, "We have a new system here; we have a Federal reserve bank here that you are a stockholder in, and they will discount your paper and give you the money to loan to me, and I want it; I need it." That bank is going to ask for that money.

Prof. JENKS. Oh, yes. And, for that matter, under those circumstances, which is a real emergency circumstance, he will pay the regional bank whatever they ask to be able to let him have it, if necessary.

Senator BRISTOW. Yes. Now, then, he says, "Here, your bank charges me 7 per cent, and it comes down here to Washington and gets the money for four," and it gets the money from the Government, as the public understands this to be, because if that is not what it means, then you are buncoing the public.

Prof. JENKS. Under those circumstances which are not the normal I should say they will charge the going rate there, whatever that is.

Senator BRISTOW. Professor, that is going to happen in every bank in the United States, just as sure as this law goes into effect, and I think you are up against a pretty serious proposition.

Senator WEEKS. It seems to me you have probably fixed, in your mind, the rate of interest that will be charged by the reserve banks much lower than it will be in actual practice.

Prof. JENKS. Excuse me, I had not fixed any rate, at all.

Senator WEEKS. I mean the rate you stated. That is the French bank rate.

Prof. JENKS. Yes.

Senator WEEKS. But the actual result in European countries is that the rates have been substantially the same in the joint-stock banks and the central banks for a long period of years.

Prof. JENKS. Yes.

Senator SHAFROTH. It is a little higher in the joint-stock banks?

Senator WEEKS. Frequently; sometimes higher and sometimes lower. I agree with Senator Bristow that if there were to be a difference in the rate of 2 or 3 per cent the people would not stand for it.

Prof JENKS. I agree to that, too, Senator.

Senator WEEKS. I do not think that would be a good thing. I think it would be a bad system, but I think, being in a developing

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country as we are, the rate of the reserve bank should be higher than the European banks, and it would gradually equalize and lower the rates in the United States.

Prof. JENKS. Yes; I agree to what you say on that point.

Senator NELSON. But here is one point that strikes me: If a member bank can not charge a greater rate of interest than that paid to the reserve bank——

Prof. JENKS. It must.

Senator NELSON (continuing). It would have no profit; it would have the expenses of borrowing the money and loaning it again without any profit whatsoever.

Prof. JENKS. I do not understand Senator Bristow to imply that the rate should be the same.

Senator BRISTOW. I think the people might stand for 1 per cent, probably, or a half per cent, or something like that.

Prof. JENKS. Wasn't the point this, Senator, that the charge made by the smaller national banks would be made independently of the regional banks? The regional banks are primarily a reservoir to use when the member banks are pushed somewhat.

Senator BRISTOW. I will tell you, Professor, what I think. I think we are creating machinery here that invites me to go to my own bank and ask for credit when otherwise I would not, because I know there is a great reservoir here where this banker can get the money. I think that. I think we are creating too complex a machinery, a more complex machinery than is necessary to take care of a simple problem. What we need is an elastic currency.

Prof. JENKS. Yes.

Senator BRISTOW. And, they say, mobilization of reserves. The result of these hearings shows that there is not much to that. That is theoretical more than practical, because these reserves are being used every day now just about as much as they can. The fact is we have 6 per cent reserve in national banks, or a very little more. But, be that as it may, if there was some automatic way by which the bank at Salina, Kans.—that is where I live—could make me a loan, and let the loan depend on its action and its ability, but when the crisis came upon the center—the crisis, I think, never originates outside the center; it is never in the country; it is always in the center—when the crisis comes, so that the center can not get money to pay out to the exterior regions when they want it, but let it go to the Government with its assets and get that money. If New York, in 1907—that is where the crisis started—could have gone to the Federal subtreasury with assets that were good and gotten $500,000,000, which is down here printed now, there would never have been any panic. Now, why can not we make some simple addition to the present facilities without taking the chance. Nobody knows what this bill will do. We can guess at it; we can theorize on it, but what will be the practical operation of it is an experiment.

Prof. JENKS. Of course, that is true with reference to almost any new thing. But it seems to me, on the other hand, Senator, that unless you do have the machinery of something of the type provided here, you are not going to get what you have put down as the first consideration, and that is, your elastic currency. That is something that must be provided for readily and steadily all the time.

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This point you made last, with reference to the time of emergency is what is provided for in this bill, first, in the way of their being ultimately in a position to rediscount—and it is not expected that they will rediscount from day to day, as I understand it—to rediscount pretty freely, and to get notes to practically an unlimited amount as long as they can put up the security.

Senator BRISTOW. If they shall not have to do it from day to day. But we have no currency except this and the greenbacks; and the national-bank notes are to pass out?

Prof JENKS. Ultimately.

Senator BRISTOW. All the currency we have is to be this currency, regulated by human judgment?

Prof. JENKS. Regulated by the demand of the local banks themselves. That is what it will amount to. I would not say it was entirely regulated by human judgment.

Senator BRISTOW. Would it not be? If the local banks want to issue these notes when it needs them, and then let them nominally retire and let the Government guarantee them?

Prof. JENKS. I, myself, said at the beginning of the hearing that my own personal preference would be for bank notes, properly secured. I said, so far as this bill is concerned, I think it is excellent along that line; although they were Government notes, they were issued only through the banks on the demand of the banks, with the banks responsible first, and responsible in practically all points up to the double liability of the stockholders and that the Government was only ultimately responsible, so that in effect, I think you have in this system here substantially what you are asking for, a bank note with a Government guaranty. That is what I think it really is, under a different name.

Senator BRISTOW. Yes; that is the theory advanced here by a number of people. Say that it is a bank note with a Government guaranty. Why should it not be arranged so that I could go into a bank at home, and if I borrow, say, $1,000, the bank gives me credit for $1,000; I simply deposit that. That is the way it is done, and that amount is there subject to my check.

Prof. JENKS. It is, now.

Senator BRISTOW. Now, if I wanted currency instead of credit, instead of a check book, why should not the bank give me its notes instead of a check book?

Prof. JENKS. As I said before, I think that this, with very slight modifications, could be so arranged that it would give its own note. I should say that substantially now the bank in giving these Government notes—is giving its own notes, because it is responsible for them just the same as if they were its own notes.

Senator BRISTOW. If that is true, why do we want the bank at Salina, Kans., to pay 5 per cent down here at its regional bank, and take 10 per cent out of the capital stock, and drain that little community of that much of its accumulations in order to do that?

Prof. JENKS. I think, perhaps, I see now the difference of opinion which we would have. I should say the reason why it had, the chief reason why it had to do that is because it is desirable to have a real system that will give a mobilization of reserves back here, so that if your bank finds itself more or less pinched at any time it

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will be in a position to handle its reserves, whether or not it could under the absolutely independent circumstances it is in now. Even under our present system your bank out there has to keep a deposit in a reserve bank, and it is probable that it would anyway, even if it did not have to, as a matter of convenience.

Senator BRISTOW. Now, Professor, I think that the hearings we have had here have demonstrated this to my mind, that the reserve which we now have is much more elastic and more mobile than the reserve will be in the regional bank. It comes about in this way: Take the bank at Salina, Kans. It keeps its reserves at Kansas City, Chicago, and New York. Say it has $1,000,000 deposits; it will keep $90,000; we will say it has $30,000 in each of these cities. Now, in the course of its business it will sell exchange, probably $30,000 worth in one day on Kansas City and have very little demand on New York. Now, it has a little above the 9 per cent always. It has to be to make this secure. If it has more than 6 per cent in its vaults the amount runs up from $60,000 in the vaults until it is $75,000. It can go below $15,000. It has reserves in all of these cities; it can take out every dollar it has in New York or Chicago or Kansas City, if the sum total amounts to that, and so the bankers have told us that some days they do sell their entire account in Chicago, and the next day or the next week there may be a run in some other city. But in all of the cities and at home they have that mobilization and versatility, while now they have to have 5 per cent at home and 5 per cent in the regional banks, and they can not credit one with the other.

Prof. JENKS. Under the new system I believe the larger part of this will be done substantially as it is now, so far as that is concerned; but they must keep these minimum reserves, and as you say, the larger part of the business they will probably handle as they do now.

Senator BRISTOW. Then you will be impounding 5 per cent in this way here, which is of no use to them except as an insurance.

Prof. JENKS. There is the point. And, of course, there is a little bit more than that. There is the insurance, which is quite worth while, because these times of stress come every few years anyway, and in addition to that they are getting some return on this 5 per cent.

Senator BRISTOW. On the capital; not on the deposits?

Prof. JENKS. On the capital; not on the deposits.

Senator BRISTOW. In times of stress the experience of the country is, and I think it would be admitted by all of us now, that the country banker never has any trouble to get money from his reserve agent if that reserve agent can get the money.

Prof. JENKS. That is the point.

Senator BRISTOW. He does not have any trouble. Most of them get enough. The testimony here has been that the country banker's reserve agent takes care of the country banker. If the reserve agent can take care of himself by going to the Treasury, as he could now, if it were made a little more flexible, and get this Government money we have printed down here, which has all the qualities which our timid friends want, there would be no trouble. Now, what is the use, as a practical proposition, in our taking the chances on disaster here when we can remedy the defect by such a simple process?

Prof. JENKS. Could not the question be put fully as well the other way? What is the use of our taking the risk of not having a pro-

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vision of this kind, which is secure and certain, for something that would not be so sure and certain the other way? Just let me add one word further. Suppose we were to adopt the system you have in mind, and say we would permit—I do not know whether you mean the large private or national banks in the central reserve cities to get money there?

Senator BRISTOW. Any bank which has the assets.

Prof. JENKS. And then leave it to them to determine how they shall take care of their customers. There is a great deal of competition among the different bankers for currency all over the country in times of stress like that, and my impression is that the large majority of the people would prefer to have an institution of this kind provided in the bill, where they know they can go and there can be no chance for any question of discrimination on the part of some private banker who will have some customers he would be much more likely to want to take care of than of others.

Senator BRISTOW. I would let any bank that had collateral come in and get relief, any bank that wanted it. But, so far as the practical operation is concerned, if he had an opportunity to go to the subtreasury which might be located in a reserve city and get relief, there is not a correspondent that would not take care of him because they know they could not hold him up.

Prof. JENKS. Yes.

Senator NELSON. I want to call your attention to this difference: Take a bank in a central reserve city; it is required to keep a reserve of 25 per cent, and technically under the law it has no right to pay that out. Now, this 5 per cent fund in the reserve bank can be used as a basis for discount?

Prof. JENKS. Yes.

Senator NELSON. There is not that inhibition against the use of that by the reserve bank that there is in the case of the central reserve bank?

Prof. JENKS. That is true.

Senator NELSON. So it can be made 5 per cent, and while it is a fixed amount it is not as fixed as under the central reserve system; it can be made the basis of discount by the regional bank, whereas under the other system the 25 per cent under the law could not be used at all.

Prof. JENKS. That is true. There was still another point I was going to make with reference to what has been said before. That question in regard to a subtreasury opens up the very broad question of the single central bank of the question of a Federal reserve board with active banking power, and, of course, that is an entirely different question.

Senator BRISTOW. I would like to have your judgment on that as compared with this.

Prof. JENKS. My own personal feeling on the matter is again largely on account of this matter of the mobilization of reserves, that the best system would be a single Federal reserve bank with branches that should be established where it is necessary, rather than a Federal reserve board.

Unless you can have that central bank, and have that handled in a way that would be for the interest of the country under very careful Government direction, I think the Federal reserve board should have

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its powers as far as possible supervisory rather than immediately directive. That is one criticism that can be very properly made against this bill, that in a number of cases the Federal reserve board has so many powers given it, and it has such discretion given it, that it is in itself practically a central bank.

Senator BRISTOW. Why not make it in fact a central bank and let it operate the bank just like a board of directors operate the regional bank?

Prof. JENKS. Personally, I should favor that.

Senator NELSON. Would it not be better to have one central bank under the control of the Federal board, with all the powers that this board has, than to have a number of reserve banks?

Prof. JENKS. I think there is no question about that.

Senator NELSON. Would it not be perfectly safe if it was under Government control?

Prof. JENKS. I think so; that is my own personal preference.

Senator NELSON. Could not the reserves be utilized much better and be more available if there is 1 bank than 10 or 12?

Prof. JENKS. That is my judgment, clearly. I think the number of 10 or 12 is a very serious defect in the bill. If that number were put at 3 or 4, with the board so organized that they could have pretty ready intercommunication, I think that would do fairly well. I personally would prefer 1. I think it would be better.

Senator BRISTOW. I am trying, and I am glad to say this for the record, that I would like us to develop a system that will serve the country the best. I do not care who is the author of it or who gets the credit for it.

Prof. JENKS. Surely.

Senator BRISTOW. It is the best thing for all of us to devise and work out some scheme that will satisfy the people better by giving them the best service.

Prof. JENKS. Clearly.

Senator BRISTOW. I have been exceedingly hostile to the Aldrich scheme of a central bank. I believe it would be controlled by a few men for selfish purposes. That is my judgment. That practical plan which has been suggested here occasionally seems to me would be so much more simple than the one suggested in the bill; the control of it would be the same, because it would be controlled by the Government itself; and then if there was anything in the mobilization of reserves you get the best that can possibly be had, because you have a single reservoir, and then any bank that wanted to become a member would avail itself of the privileges, whether it was a State, national, or private bank, if they met certain requirements.

Prof. JENKS. I had not understood when you used the word "subtreasury" that you had in mind a single central bank.

Senator BRISTOW. I did not.

Prof. JENKS. I should have agreed with you more promptly if I had thought that was what you meant. I supposed you meant some Government official whose main business was something else, and that I think is an impossibility. If you are going to have a central bank to do this business you want expert managers who know the business through and through and whose business it is to look after it.

Senator NELSON. And they want to be men independent of the banks?

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Prof. JENKS. Yes; I would agree to that.

Senator NELSON. Absolutely under the control of the Federal Government.

Prof. JENKS. I should agree to that. I think I should prefer this, however, since we are speaking of this Federal reserve board: It would be better if we had a single bank with a board of directors. If we are going to have anything like the Federal reserve board named in the bill, I should like to have it made clear that the banks that are supplying the capital have some minority representation. I should not care to have them appoint the directors. I favor something of this kind, that out of a board of seven or nine they appoint two or three, or select a number of men from whom the President would make the appointments.

Senator NELSON. Present a list?

Prof. JENKS. Present a list. If they were to have a choice of three out of nine, I should say they should present a list of, say, 9 or 10, from whom the President could select three appointees.

Senator NELSON. Or two out of seven?

Prof. JENKS. Let them present a list of six or eight, and let the President take any two out of that list, or reject them all and ask for another list if he did not care to select any out of the list that was first submitted.

The banks, after all, are putting up the capital. They have great interest in it. In fact, they are the customers; they are the depositors. Everybody has a great interest in it, and it is extremely important that any system we have should have the confidence of the community, including the confidence of the bankers.

Let them have a direct representation, with men who have had experience. If they nominate 10 men, the President could take any 2 out of their list, and they would know they were men whose judgment they could trust, and they would know everything that was going on, and I think that would be better than the system proposed in this bill.

Senator NELSON. You think that would be better than the advisory-board system?

Prof. JENKS. I think so. If we are going to have the present system with the advisory board, I think the advisory board's functions ought to be changed. Say the chairman and the vice chairman of the advisory board be given the right to sit, without vote, with the Federal reserve board, so that they would know everything that was going on and have a chance to express their opinions in regard to all matters that were up for consideration. I think the common people of the country, who are interested in these banks, because most of them are depositors or are interested in the bank notes, I think they would prefer that. I was very strongly opposed to the Aldrich bill because I thought it was economically unsound to give so much control to the banks. The representation of the Government was an ex officio representation. I think the banks ought to have a representation, but distinctly a minority representation.

While we are speaking in regard to the board may I add that if we are going to have a Federal reserve board such as is proposed here it would be much better if ex officio members were not put upon it? What can the Secretary of the Treasury do in the way of actual direction when it nearly kills any Secretary of the Treasury to do his

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present work? If he is chairman of the board, that implies that he is going to appoint committees. He can not give the work the attention which it ought to have. It seems to me that while the Government should have representation, and, for that matter, should have the controlling representation, it should surely be a representation by men who are appointed because they know the business and can give their whole time to it.

Senator NELSON. Devote their whole time to it?

Prof. JENKS. Devote their whole time to it. They can call on the Secretary of the Treasury for any information within his power to give, and they can do the same with the Secretary of Agriculture and the Comptroller of the Currency. There is another point, however, about the Comptroller of the Currency. He is in a position to examine these banks. He will be playing in two capacities. I think that is rather unfortunate. I think the Federal reserve board would be distinctly better if the three ex-officio members were left off.

Senator NELSON. Some people have suggested that we take off two and leave the Secretary of the Treasury on alone. What do you think of that?

Prof. JENKS. I should be inclined to leave the Comptroller of the Currency on rather than the Secretary of the Treasury, if I were to leave any of them, because his business is primarily with the bankers, and the business of the Secretary of the Treasury is primarily not with the bankers.

Senator NELSON. The business of the Secretary of the Treasury is with the entire fiscal system of the United States?

Prof. JENKS. Yes. And, moreover, the Treasury Department is so enormous and the demands are so strong that no man as Secretary of the Treasury can give any attention to this business that is worth while.

Senator NELSON. You think it would be better to leave on the Comptroller of the Currency rather than the Secretary of the Treasury?

Prof. JENKS. Yes; of the two I should prefer to leave on the Comptroller of the Currency. He is devoting his time entirely to the banking question, but to a different phase of the banking question, so I should think it would be better if none of them were left on and the entire board be made up of men who would give their full attention and time to it.

When it comes to the inauguration of this system, with the selection of Federal reserve districts, I think to make of these three men an organization committee, as is proposed in the bill, can not be a practical thing. They can not give any time to this very difficult task of organizing the system to begin with. They will have to deputize it to secretaries and clerks. Instead of doing that, why not appoint three or five men who are men of the right type for the organization committee to begin with? That is simply in addition to the other. It seems to me a mistake, especially at the inauguration of the system, when they are going to make the whole plan, to put on men who are not expert bankers and who can not give any time to it. Why not put in three men that the President can pick out who are really experts and let them give their whole time to it and get the thing done right?

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Senator HITCHCOCK. The sentiment of the committee is strong in that direction.

Prof. JENKS. I think as regards the board also, the ex officio members really can not do the work that ought to be done. If the board is going to have the powers given by this bill, it is extremely important that the members of the board should be able to give their whole time to the work. No man ought to take a position on that board if he is not an expert and is not willing to give his whole time to it. He ought to be well paid for it, and expect to give his whole time to it.

Senator BRISTOW. You spoke of the banks having representation on this board because they were the stockholders. How would it do to have the stock of this central bank a voluntary subscription?

Prof. JENKS. I had a suggestion along that line that I thought of putting before the committee later, but since you raise the question I will put it before you now. I do not feel that I can speak with quite the degree of positiveness about this that I should like to, but I think it is worth consideration. I think it is rather unfortunate to drive national banks into this system, or drive anybody into the system. It seems to me that, on the whole, the wise plan, as I said about the notes, is to make a system that seems best for the country, and make it so attractive that most of the banks would want to come in.

Now, this brings up the question of the bonds and of the way in which the banks come in. As it stands at this time you are practically to force them into the system. Would it do to say this to the banks: You have your 2 per cent bonds now on which you are issuing circulation. You may come in or you may stay out just as you like. If you stay out you keep your 2 per cents and continue as now; if you come in we will exchange the twos for threes and we will give you all the privileges of the system. If you do not come in you will get none of the privileges, but at the same time you are free to do as you please. I think the banks have some reason to feel that when the 2 per cents were issued they were supposed to hold them until 1930, and we can say to them, at the end of that time, "You will have to give up your circulation, and in the meantime you may be free to do as you like."

Then, in case the banks do not take enough stock to supply the capital that you want, say $100,000,000, open the subscription to private individuals to take the rest. Then, of course, the banks are in this position: If they have not come in within the time of that subscription, and want to come in afterwards, they must find their stock; they will have to buy from somebody else. In that case you would be sure of your capital, and as sure of your control as you are now. You would not have a great group of people feeling that they were hurt and were rather disposed to stay out, or feeling that they were being coerced, or anything of that kind. I rather think that under those circumstances most of them would want to come in.

Senator SHAFROTH. Would not that policy lead to the principal object of the reserve banks being to make money, because their stockholders being paid stockholders, they naturally would want to get as big a dividend as possible?

Senator BRISTOW. Why not limit the dividend?

Prof. JENKS. There is another side to that. May I just add a word along that line? I rather think there will be no trouble, because you

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have what is substantially, at any rate, a 5 per cent guaranteed dividend. It is not quite that, but I think it would amount to a 5 per cent dividend, and if you leave also a 40 per cent return on the amounts above that on the stock invested, you would have no trouble in getting investors, and you would find banks coming in and bidding for it before a great while, and I think you would have your stock above par.

Senator SHAFROTH. If you start with $285,000,000 of deposits by the Government and $400,000,000 of reserves and $150,000,000 of gold reserves, you have over $800,000,000 to start with, and you are bound to make money out of that?

Prof. JENKS. I think so. It seems to me that in all governmental matters it is a desirable thing to make the legislation rather attractive than compulsory, so far as it can be made so, and at the same time the rules must be rigid, in order to prevent abuse. I think most of the banks rather than keep their 2 percents and stay out would prefer to take their 3 percents and come in and give up their circulation and take their privilege of rediscounting; and incidentally that would bring about the other thought, which I think Senator Nelson has in mind, that we should get rid of all the present national-bank notes very promptly and substitute the other notes for them.

Senator HITCHCOCK. I would like to see how you can figure out a profit for the regional banks.

Prof. JENKS. I do not know that we can.

Senator HITCHCOCK. Suppose they make a margin of 1 per cent on their loans to member banks?

Prof. JENKS. It seems to be the opinion of a number of people here that they can not make more; that if they do there will be trouble on the part of the people; they would not stand for it at all.

Senator HITCHCOCK. What do you think would be a proper margin?

Prof. JENKS. On that question, as I said before, I should prefer not to give any figures, because I do not know. I am not a banker; I have not been in that kind of business at all, but there is this situation that is certain with reference to that: If they were to go into the regular banking business they could make large profits. They are not supposed to do that, but I should suppose that with the deposits they have and the loans they will make to other banks, it may be expected they will charge enough so they would be sure to pay their 5 per cent dividend and something beyond that, at any rate.

Senator SHAFROTH. To adopt the suggestion of the Senator from Kansas would make them make more money, if there is only to be a difference between the amount of discount and the amount the Government pays in relation to the matter. They must charge 4 or 5 per cent. If it goes to 5 per cent, it goes into their treasury.

Prof. JENKS. If you make the division a little differently and allow the Government to get more, would the people stand for that, too?

Senator BRISTOW. But when they discount a note they get all but just a bare margin, enough to permit the member bank to come out even.

Senator HITCHCOCK. Of course, that is all guesswork. I want to ask a few questions about something you suggested, Prof. Jenks, sometime ago. Do you think this bill provides for such a mobiliza-

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tion of reserves as is brought about by the European organization of a central bank?

Prof. JENKS. No, I do not; I think there are too many regional banks.

Senator HITCHCOCK. Suppose there were only one bank. Would that be such a mobilization as they have in Europe?

Prof. JENKS. I see no reason why it should not.

Senator HITCHCOCK. Take the Crédit Lyonnais, in France. It is a customer of the Bank of France, but the law does not compel the Crédit Lyonnais to keep any per cent of its deposits in its own vaults So the result is it only keeps till money in its own vaults. The rest of the money is loaned up virtually. That is absolute mobilization; the reserves are all in use; they are all centralized in the Bank of France. But in the system we have here the banks are required to keep a certain per cent of their reserve in cash in their vaults, and what is cash in their vaults is not mobilized. They are required to keep another certain per cent with the reserve agent, and only two-thirds of that is permitted to be used, so that is only mobilized to the extent of two-thirds, is it not? Is not our mobilization in efficiency far below the European mobilization?

Prof. JENKS. Under the bill as it stands it clearly is. If we were to have a single central reserve bank with its branches in different places, or even have two or three, or even four, your reserve banks would be in a much better position by charging one branch and crediting another with funds; to transfer their credits from one section of the country to another than they are now under this bill. Under this bill there is a provision for reserves here and there in different sections of the country. And even although there is a provision made in the bill that the Federal reserve board may compel them to rediscount—and if you are going to have the 12 regional banks, I see no way out of that—I do not think that is a normal, easy, ready way to do it. I think it is desirable they keep in their vaults a certain amount, say, 5 per cent, for cashing notes as they come in, for paying depositors, etc. They must keep a certain amount there, and it does not seem to me that is too large.

But when it comes to going back to the larger reserves, they ought to be held so they can be distributed wherever they are needed in different sections of the country, and I do not see how with 12 banks, even with your Federal reserve board to order them to rediscount, you are going to get that reserve in anything like as fluid a condition as they have in the European systems.

Senator HITCHCOCK. Perhaps the mobilization of reserves is not as good an expression as efficiency of deposits.

Prof. JENKS. Efficiency of the resources.

Senator HITCHCOCK. Yes; where they do not need reserves in any shape at all.

Prof. JENKS. The efficiency of the resources of the banks, I think, would be greatly increased with a central bank.

Senator HITCHCOCK. Is there not another reason why this is not effective, that the banks that do not belong to the system are not allowed to deposit, so, as far as they are concerned, there would be just as much scattering of deposits as there is now?

Prof. JENKS. Yes; though that depends upon what their credit is with the banks in the reserve cities, and, as indicated by Senator

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Bristow some time ago, by the condition of those banks themselves in time of stress.

Senator HITCHCOCK. How do you estimate the relative importance of the mobilization of reserves as compared with providing an elastic currency? Which is more important?

Prof. JENKS. It is hard to answer where both seem so absolutely essential. My own feeling is that the thing of most importance now, under the present circumstances, taking the matter as a whole, is the question of the elasticity of the currency. I should put second the question of the disposal of the reserve. If we include in the question of the elasticity of the currency the system we have here for increasing that currency promptly, I should say that is far and away the more important.

Senator HITCHCOCK. That is what will save us from disasters in the shape of panics?

Prof. JENKS. Yes; under our present system of issuing notes I should think it would be the other way. But with the system you provide in the bill, where they can rediscount and get notes directly, I should say the note issue is far and away the more important.

Senator SHAFROTH. They dovetail into each other; when the reserve gets low, the notes issue.

Senator BRISTOW. The reserve is a minor quantity when you can get the notes.

Senator SHAFROTH. What would you think of this, Mr. Chairman: Provide that these reserves which are specified in this bill as a minimum could be drawn upon by the banks upon the consent of some person like either the Comptroller of the Currency or the president of the regional bank, so that instead of having it fixed as it were, and the bank trying to get along without doing that in emergencies, letting them go into that and run it down to zero?

Senator HITCHCOCK. I think the professor's suggestion about that is the best, that the banks be permitted to run below the limit on condition of their paying the tax upon their percentage of deficiency.

Senator SHAFROTH. That is good; but as a matter of fact, if you do not get that it seems to me that there ought to be some power that can give it in times of emergency.

Senator HITCHCOCK. I much prefer the automatic method.

Prof. JENKS. Of course, your bill now provides that the Federal reserve board may suspend that provision, which, I think, is unfortunate. But, on the other hand, this automatic provision—supposing you had a rule that there shall be 35 per cent of reserves, and that for every 1 per cent your reserve drops below that you charge a 1 per cent tax. It is suggested, I believe, that when you get below 30 per cent you charge 1½ per cent. Then you are in this position: When you get down to 30 per cent reserve you are going to pay 5 per cent; when you get down to 29 per cent you pay 6½ per cent; when you get down to 28 per cent you are going to pay 8 per cent, and so on. By the time you are down to 25 per cent reserve you can not make any loan at all unless a man is practically on the verge of bankruptcy—as in a case I heard of during the panic, when a large concern needed very much to borrow $5,000,000—it was a huge concern. It got it at 6 per cent and paid $1,000,000 bonus. Well, that was better than going into bankruptcy.

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Senator SHAFROTH. Prof. Jenks, could you put down in concrete form that amendment you suggested, and exactly where it is to come in?

Prof. JENKS. Yes.

Senator SHAFROTH. And will you take with you one of these bills and make in it all other changes that you think advisable, and mark it "Amendments suggested by Prof. Jenks"?

Prof. JENKS. I should be pleased to do that.

Senator BRISTOW. I would like to ask you to amend this bill so as to provide for a central Federal reserve bank—a central bank governed by a Federal board. I have a preference—although I do not want to suggest it to you; of course, you would use your own judgment—for independent stock holding, the same as the Bank of France, so that the public would subscribe to the stock. Then any reputable banking institution that wanted to keep a reserve with this Federal bank could, by virtue of keeping that reserve, come to it for aid in time of need and get it on the proper collateral.

Prof. JENKS. I should have no objection to either of those.

Senator BRISTOW. Then any banking institution that was sound and had collateral could get it in time of need, and it would not break up in any way our democratic banking system, which, I think, is the pride of our country.

Prof. JENKS. For that matter, this present bill does not break up our present banking system.

Senator BRISTOW. Oh, I think it does; I think it breaks it up. This other could not. There is this concentration——

Prof. JENKS (interposing). I am not sure about that. I think the concentration in the other would be pretty nearly as much as in this; because, I think, if you are to have a bank of that kind, a national bank of that type, it should be the sole source of the issuing of notes. Ultimately, as I think it should be, it would almost of necessity need to establish a good many branches.

Senator BRISTOW. Of course, you have to have branches. But, Professor, suppose this Federal bank here in Washington could stand behind the notes of any banking institution in the country that had a proper standing—that was regularly examined by the Comptroller of the Currency, or whatever means we have for examining these banks—and that such a bank could issue up to the amount of its capital stock, whatever it is, of these bank notes?

Prof. JENKS. If by that you mean an independent issue of notes by that bank, I should not favor that; no. If you are going to have a central Federal bank, I should favor making it such a bank substantially as the Bank of Germany, as far as the note issue is concerned.

Senator BRISTOW. I do not know but what you are right; yes. It would issue notes and discount, and the Government would be behind it, because it would be a Government institution.

Prof. JENKS. That would be the point. I should be glad to do that.

Senator NELSON. Would you have no limitation at all behind the note issue?

Prof. JENKS. No; I would not in definite numbers of dollars. As regards definite figures there, it seems to me——

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Senator NELSON (interposing). I mean definite proportions.

Prof. JENKS. Compared with the reserves? I would.

Senator NELSON. I mean of these reserve banks, of the amount of notes they could take out. Would you allow them to come in and apply on their commercial paper for any amount they saw fit?

Prof. JENKS. I would leave it discretionary with the central bank, of course, but I would limit only by the character of the paper you are going to put in and the amount of reserve that was kept.

Senator NELSON. But not otherwise?

Prof. JENKS. No.

Senator NELSON. You would not limit it in proportion to the stock and capital of the bank?

Prof. JENKS. No; I do not think I would. In a good many countries they do put the limitation at the amount of the capital stock, as in Canada. I do not see why that is necessary.

Senator NELSON. I know there is a limitation in Canada. What is that?

Prof. JENKS. The capital stock. They can issue up to the capital stock and not beyond, except from October 1 to January 31, when to move the crops they may issue, in addition, up to 15 per cent of the capital and surplus on payment of a tax. I do not think a fixed amount is a desirable thing myself. I do not see any reason why there should be any limit except a limit of absolute safety.

Senator NELSON. If we limit it to the capital stock, we could know then, in a general way, that they never could exceed that limit.

Prof. JENKS. We might want them to exceed that limit.

Senator NELSON. I do not think so. If this system prevails, we would never want them to exceed the amount of capital, if we get all the national banks into it.

Prof. JENKS. You mean the amount of the capital stock of the central reserve bank? I think we will.

Senator NELSON. The capital and surplus. The law contemplates they shall have a surplus of 20 per cent.

Prof. JENKS. Yes. I do not see any reason for that kind of limitation.

Senator NELSON. Would there not be danger, unless there were some kind of limitation, that we might get an undue inflation of our currency—that it might lead to undue speculation and to going a little too fast, as we commonly say?

Prof. JENKS. I do not feel that there is that danger, provided we have the proper supervision and provided we make our restrictions pretty rigid as regards the keeping of the reserves. I think the demands of business will attend to that and the proper methods of redemption also—a good many redemption centers.

Senator NELSON. Have not our troubles in the past come rather from poor banking than from bad currency; that is, from the banks unduly extending credits?

Prof. JENKS. It is still worse than that, I should say, Senator. Take the panic of 1837 for example. It was not merely that they were extending credits, but they were only too anxious—dishonestly so—to get these notes out that did not cost them anything.

Senator NELSON. Of course that is no criterion, that old State bank currency. I can remember as a boy seeing some of that old

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stuff. But take the panic of 1893, and especially the panic of 1907, which the people at large call the bankers' panic. It did not arise from any vicious or unpropitious economic conditions in the country. The country as a rule was in a prosperous condition, and money was abundant in the country as a whole. It grew out of vicious banking and overextention of credit and an insufficiency of reserves.

Prof. JENKS. May I add just a word to that? In the main, I should say that was true, but it seems to me when it came to the panic finally it practically came from this, that there had been very prosperous years, there had been undue extension of credit until it was reaching the danger point, and then these larger banks that had been extending credit were practically forced to shut down on loans to a very considerable extent.

Senator NELSON. And shut down on their reserves. They would not respond on their reserves.

Prof. JENKS. How could they? Because here were the banks all over the country, each one anxious to strengthen its own reserves and pulling out its deposits from the others.

Senator NELSON. Do you know, Prof. Jenks, that, as a matter of fact, out in the Mississippi Valley a large number of our smaller banks, the banks with capital from $100,000 down to $25,000, never suspended at all, but kept open shop day after day, so the panic had no effect upon them?

Prof. JENKS. I know that, but it did have a little effect in some places. I remember going to a bank for some little loan, and the cashier said, "What do you want it for? We are taking care of our depositors and customers. If you need money to pay obligations"——

Senator NELSON (interposing). That was a case where you wanted to borrow. I am speaking about depositors. Our depositors could draw on their accounts without limit.

Prof. JENKS. Oh, yes; they could where I was.

Senator NELSON. That showed the healthy condition of the Mississippi Valley, which is the heart of the agricultural part of the country. We were in a good condition out there.

Prof. JENKS. Yes; and at the same time I do not think, Senator, it is quite right to say you were in good condition as long as they were shutting down on loans on good security.

Senator NELSON. Why were we shutting down? Because under this vicious system of reserves our reserves were tied up in the East.

Prof. JENKS. That is so, certainly.

Senator NELSON. If our banks had had their supplies at home they could have supplied the local demand.

Senator HITCHCOCK. Now, Prof. Jenks, I understand you feel there is some probability of an expansion of credits under this new system?

Prof. JENKS. Yes.

Senator HITCHCOCK. More than under the present system?

Prof. JENKS. A little more; yes. Not enough, I think, to be a serious matter, provided you look after the proper gold reserves. But, as I said before noon, I think it will come in this way: Every bank will want to hold in its own vaults and to keep to its credit in the Federal reserve bank and elsewhere the lawful money that it

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can use as a reserve. The consequence is it is going to pay over its counter whenever it can do so these new notes, and pull the other kinds of currency out of circulation. It is a substitution of one for the other. Now, under those circumstances we are going to have piling up in our vaults rather more of this lawful money than, on the whole, we need. My impression is it does not need to pile up enough to have the effect of raising the rate of exchange on London and the prices more than 1 or 2 per cent until we shall begin to see our best money going abroad—that is, our gold. I think the expansion will not be enough to force any panic at all to begin with, but at the same time it is desirable that the people of this country have the utmost confidence in the new system, whatever it may happen to be. If we should have $50,000,000 of gold going out people will say, "That looks very bad; things are going bad," even if we do not need that here; even if it would go under normal conditions. And if it got to $100,000,000 it would be a very serious matter on account of the effect it would have on confidence in the country.

Now, as a matter of fact, there might not need to be more than a very slight expansion in order to send that gold out. It would be simply a substitution of these new notes for another kind of money that would send gold out of the country. We need just expansion enough to raise the rates of exchange so we will ship gold instead of shipping more goods, and that does not take very much. It seems to me that the simplest way of stating what leads to the export of gold is this, that we always pay our foreign obligations in whatever is the cheapest thing to pay them in. Usually we pay them almost entirely in goods of some kind or other, but in times when money is peculiarly plentiful and prices here are getting a little high on that account, then we export gold. And that is a good thing under ordinary circumstances. If we have a good stable system, whenever business is in such a condition that prices here go up a little it is a good thing for something to go abroad. It comes back in the same way, and there is no trouble about that if your system is sound.

Senator HITCHCOCK. One of the evils complained of in this country at the present time is the high cost of living.

Prof. JENKS. That is what I was saying before, that the high cost of living would be affected by that only to a very slight extent in the first instance. It might put up prices a trifle, but not enough, I think, to detect it. It would be felt somewhat by people doing the exchange business, sending the gold abroad. But within three or four years, if we let three or four hundred millions of gold go abroad, or even more than that, as we could without endangering our system at all, I think we should have another increase in world prices that would be unfortunate.

Senator HITCHCOCK. And in the cost of living?

Prof. JENKS. Certainly.

Senator HITCHCOCK. Why, then, do you favor a bill of this sort when it involves this danger?

Prof. JENKS. Here is exactly why I favor it. As I suggested before, we have under the present conditions the most inelastic system that any country in the world that pretends to do business has.

Senator HITCHCOCK. Is our system any less elastic than that of England?

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Prof. JENKS. Distinctly so.

Senator HITCHCOCK. They issue no notes at all, except $90,000,000, that are not represented by gold. The rest are all gold certificates, practically.

Prof. JENKS. They have enough notes in hand to do their ordinary business, and now and then they can issue an unlimited amount against the deposit of gold.

Senator HITCHCOCK. But they are nothing but gold certificates.

Prof. JENKS. That is eventually true.

Senator HITCHCOCK. What elasticity is there in the currency of the Bank of England? The Bank of England to-day can not issue a note except gold is deposited. When the gold comes out the note goes in.

Prof. JENKS. There is this, however, that tends to make their system—but not as far as that point is concerned—very elastic, and that is the elasticity of their credits. But as regards our currency, in connection with our reserves, we will have a good elastic currency if we provide for the proper system of redemption, which I think we have done in part, but that, as I said before, I think, ought to be extended further along that line.

Senator HITCHCOCK. I want to get back to what Senator Bristow said——

Prof. JENKS (interposing). May I just finish what I was saying here before you take that up? I do not think there is any material risk under this new system that can compare at all with the benefits under the new system, provided you will see to it that the reserves as fast as you can do it are put on a gold basis. You could do it within a year—six months, I think. And as long as your reserves for the redemption of these notes are to be in gold, if you will also make arrangements for the retirement as fast as necessary of the national-bank notes or of some of our other substitutes for money, so that these elastic notes will have the opportunity of circulation, you will have an excellent system. There is no danger of overexpansion if you make your gold reserves larger.

Senator NELSON. Prof. Jenks, is it not a fact that London is the seat of the international exchange market of the world?

Prof. JENKS. I suppose it is; yes.

Senator NELSON. And they require less currency, because it is a world clearing house, so that all the currency they require there is to settle balances on their international transactions?

Prof. JENKS. Yes; that is largely true.

Senator NELSON. Now, you take it, I believe, that these notes should be absolutely and unconditionally redeemed in gold?

Prof. JENKS. I should myself favor that; yes.

Senator NELSON. This bill proposes in one feature that we enter the international exchange market, as we ought to do, in order to do our business with foreign countries through our own banks. Now, we could not go into that field unless we have our notes, our currency, absolutely and unconditionally on a gold basis, could we?

Prof. JENKS. There is no doubt about that.

Senator NELSON. And under this system our regional banks here could establish branch banks in London, and those banks could, for this country, act as accepting houses and accept bills of exchange, and in that way we could carry on our business. In order to transact

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our business now we have to rely on what they call accepting houses over there to accept our checks and bills of exchange. It is only after they have been accepted there by a merchant or bank or accepting house in London that they will accept them and allow them to circulate at par. Is not that true?

Prof. JENKS. Yes.

Senator NELSON. Now, we can, under this system, if I understand the purpose of it, if we adhere strictly to the gold standard, enter that field, and compete with the Europeans, at least so far as our own foreign trade is concerned.

Prof. JENKS. I see no reason why we should not.

Senator NELSON. And we need to do it.

Prof. JENKS. I think so.

Senator NELSON. And we are not in it at all now.

Prof. JENKS. No.

Senator HITCHCOCK. Here is a difference between currency and bank credits that I should like to have you clear up. I should like to see how under this bill any currency at all can be issued without inflation. If this plan is put into operation, we are going to have $100,000,000 of capital that the regional banks can lend. They are going to have Government deposits, say, of $150,000,000, of which they can lend two-thirds, or $100,000,000. They are going to have $450,000,000 of deposits of banks, of which they can lend $300,000,000. So that before they advance any currency at all to the banks of the United States they will have $500,000,000 of cash that they can lend to the individual banks. Now, does it not follow, therefore, that bank loans may be swollen to the extent of $500,000,000 before any currency is issued?

Prof. JENKS. Is not the implication of that question that you are getting this $500,000,000 without taking it from any place? Is not that money that you are speaking of now taken from places where it is loanable now? The Government deposits, for example, are—not entirely, but to a considerable extent—in other banks now.

Senator HITCHCOCK. Not very much. There has been only about $60,000,000 in the banks until very lately.

Prof. JENKS. Some of them are. And what comes from other banks into this regional bank here can be loaned now.

Senator HITCHCOCK. Oh, yes; ordinarily the Government has to keep about $60,000,000 in bank, but it has about $150,000,000 in the Treasury, which now is to be put into the regional bank. So I have made it very moderate when I say the Government deposits will be about $150,000,000, of which $100,000,000 can be loaned. The capital of $100,000,000 is taken out of other banks, and to some extent that is now being used probably. But the reserves amounting to $450,000,000 are largely located in bank vaults now, and not available, because the reserves are not used except to a partial extent. So it seems to me inevitable that these reserve banks will have actual cash funds to lend to the extent of three or four hundred, or possibly five hundred millions before they will call on the Government for any currency at all; and you are going to have an inflation of bank credits without any addition to the currency or any elastic character given to it.

Prof. JENKS. There is this, it seems to me, that covers the question of bank credits as well as the bank currency. You are not going to

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lend to people that are not going to make some use of the money and pay for it; so far as the expansion is concerned along the line of either credit or currency, that depends, I think, entirely upon the control that your banking system has over the lending of that money.

Moreover, my own feeling is that there is rather more of that money loanable now than you had in mind, but that is a matter of detail.

Senator HITCHCOCK. These reserve banks will have large funds at their disposal to lend before they ask for any currency at all.

Prof. JENKS. Yes. But then there is also this about it. They can not go directly to the lending public. They, of course, may advance to the other banks; otherwise they do not use it.

Senator HITCHCOCK. Yes.

Prof. JENKS. And, as I understand the essential purpose of this bill—and the same thing would be true of a national bank—it is to back up the other banks when they need help.

Now, if the other banks need that, here is a great reservoir that can be drawn upon, just as now we have from time to time in the Treasury lying idle, considerable money and in time of emergency the Secretary of the Treasury has, in exceptional cases, put it out into circulation. This will come out in a much more normal, easy, businesslike way than has been done heretofore.

Senator HITCHCOCK. We will assume that there is some truth in these figures given here; and the idea has just occurred to me, and I want to ask you what the effect will be in this big expansion of bank credits and loans, without a corresponding increase in actual currency; is that a healthy thing?

Prof. JENKS. Why, I consider it not in the least unhealthy to have the banks have resources by which they could supply the business interests of the country freely at rather low rates.

One advantage that I hope is going to come from this system is on the whole something of a reduction in the rates of interest throughout the country. So far as this system is going to make our loanable capital more easily available, and more promptly available than it is now, so far there is going to be a tendency to a slight reduction in the rate of interest, and I think that is desirable. That is the only effect, so far as I can see.

The fact is, of course, that no bank is going to loan money unless there is a legitimate demand for it for business purposes; and under those circumstances it is rather desirable to have the capital so mobilized that it can be readily supplied at reasonable rates.

I would like, if that covers that question, to take up a question which I did not finish this forenoon, which you, Senator Hitchcock, as well as Senator Reed, were asking me about, because it is connected with this.

Senator Reed, in speaking of the redemption of these bank notes, spoke as if he were opposed to having the notes of the different regional banks distinguished one from the other; and he put the question somewhat in this way: In case one of the member banks goes to the Federal reserve bank and borrows $1,000,000, and takes that $1,000,000 in notes and deposits securities that would mature, we will say, in 90 days, Senator Reed's thought was that this bill should contain a provision—the law should contain a provision—that at the

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end of 90 days the Federal reserve bank should account to the Federal reserve agent for $1,000,000 in notes, so far as it had notes in hand; and beyond that, in gold, provided gold is what is made the reserve; otherwise in lawful money; and his idea was that that should be embodied in the law.

He asked me what objection I had to that. And the committee adjourned before that was brought out fully. What brought that question out was the statement I had made earlier that I thought it would be desirable to extend the system forbidding the regional bank from paying out over its counter the notes of another regional bank. In case the system that the Senator was speaking about were put into effect, and the $1,000,000 had to be immediately accounted for in either notes or lawful money, I do not see that the system would work at all, because I do not see why any of the local banks, the member banks, would take out notes under those circumstances.

The reason why banks take out notes and issue notes instead of gold over their counter is because they can hold the gold as reserve, and they can issue three to one on it.

Now, in case they had to account at the end of 90 days either with the notes themselves, to begin with, or the money that had been used as a reserve, lawful money, they would not make that profit because they would have to call in loans to meet the obligation; and they simply would not take it out, the currency. If you limit the question to any one bank, one can easily see how that would be. The bank deposits its collateral in the form, we will say, of 90-day paper, and takes out its bank notes, which it pays out over the counter. At the time that commercial paper is redeemable it is taken up, to be sure, but its place is supplied in nine cases out of ten by still other paper that is put in—commercial paper that is put in there instead.

And in that way, by keeping their notes out and keeping the security—only continually changing the commercial paper—and the reserve of one-third, they are able to make a profit on two-thirds; that is, on three times as much as they would if they had to lend the gold itself.

It seems to me that the Senator's plan would practically force them, in some way or other, to redeem those bank notes every three months or to pay up the full amount in lawful money; and if they were to pay up the full amount in lawful money they would not make any profit on it.

Now, as a matter of fact, if each one of the member banks was in the same situation as this one bank that I have spoken of, the Federal reserve bank would not be getting in, from day to day, enough bank notes so that it could pay back all of the loans that were out. It would probably get back, we will say, a quarter or a third, and the rest would have to be paid over in the lawful money of the country that they are holding as reserves, and that would take the profit all away.

Senator HITCHCOCK. Well, it can pay it in the notes of other banks.

Prof. JENKS. But they could not possibly get in the notes of other banks enough to cover. The main notes of other reserve banks that it got would be those that were sent in to pay obligations of member banks. They would not get the notes of other reserve banks in, any more than they would get in the notes of their own bank, unless the

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proviso which I suggested were put in, that no member bank was allowed to pay out over its own counter the notes of any reserve bank other than its own. Then they would get the notes; otherwise, not. How would they do so? Suppose you were a member bank and had deposited $1,000,000 in gold commercial paper, and had taken in $1,000,000 of notes and were loaning them from day to day. You are keeping in your vaults or with the reserve bank cash to redeem any presented. But when it comes to a man paying the loan back to you, and he pays it in your own notes, you will not send them to the reserve bank; you will lend them to somebody else. Under the system as proposed in the bill, if, instead of paying you the notes of your own bank he pays the notes of another Federal reserve bank, you will do the same thing with them. There is no reason why you should send those notes in; you will loan those notes to somebody else the next day. The consequence is that you are not going to have a steady, regular redemption of the notes in this system.

Senator HITCHCOCK. That will lead to inflation.

Prof. JENKS. I fear it will, more or less. I think that is something of a danger.

Senator HITCHCOCK. Would not danger also result from the fact that all State banks would be permitted to use these funds as a part of their reserves?

Prof. JENKS. That is another matter that I think—I do not know that that makes any very serious difference, because they can use the national bank notes for reserves now.

Senator HITCHCOCK. And they do use them very largely.

Prof. JENKS. Yes; they do use them to considerable extent. But there is this point to be made: It does not seem to me in this bill that we have gone far enough in way of providing for a steady, regular contraction.

Now, the only way we have provided for the contraction is: That when the member bank gets in a number of these notes—that is, when they find that people are not borrowing enough money from them so that they are getting a pretty large supply of these notes on hand—then if they want to reduce their credits with the Federal reserve bank they will send them in; they do not want to pay interest on them any more.

Then, the Federal reserve bank will turn them in also, and they will be redeemed. But that will not happen excepting from time to time when the bank feels that it is carrying more of these notes than is desirable to carry.

On the other hand, if you make this further provision that not only the Federal reserve bank must not pay out over its counter any notes except its own notes, but that none of its members shall pay out over its counter any notes of any Federal reserve bank except its own, those notes of other banks will be coming in every day to a very considerable extent; the cost will be the cost of shipping some of those notes. But that, in my judgment, is a relatively small item as compared with a steady, regular contraction; and the reason for the contraction will be the same as in the Canadian system.

Senator HITCHCOCK. You will have to penalize the bank for paying these out, will you not?

Prof. JENKS. Certainly; as now you will penalize the Federal reserve bank.

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Senator HITCHCOCK. That is another objection, then, to their belonging to the association?

Prof. JENKS. No; I would more than overcome that by issuing the notes to the Federal reserve bank without any tax, and there would be a decided difference arising from that. Your provision in the bill is that you must charge a minimum of one-half of 1 per cent tax. I would take that tax off. This other provision for sending the notes back would be only, if I remember rightly, according to the rate under which the express companies carry currency now—I think it would not be over one twenty-fifth or one-fortieth of 1 per cent.

Senator HITCHCOCK. Let us see, then; there is another dilemma. If you issue this currency to the reserve bank without any charge, of course you either make a very large profit for the reserve bank which pays that currency out to its members, or else you make a very low rate of interest?

Prof. JENKS. Exactly. I think a low rate of interest is desirable.

Senator HITCHCOCK. If you make a low rate of interest you stimulate borrowing and lead to inflation?

Prof. JENKS. If you keep a proper supervision over credits it need not do so. I do not think there is any danger of inflation.

Senator HITCHCOCK. Then I come back to my former illustration of John Smith coming into a bank to borrow money. Let us suppose you are running a bank, we will say, at Wichita, Kans., and John Smith comes in to borrow money from you now, and under the present conditions you have not the money to lend John Smith, because your reserves are down to your legal limit, and you tell John Smith that.

But, after a while this new system is put into operation, and you are a member bank and John Smith comes in to borrow money of you, and you tell John Smith that you would like to accommodate him but can not do so because your reserves are down, and John Smith thereupon says to you:

> That does not make any difference if your reserves are down; you can always get currency from your Federal reserve bank at a low rate of interest, and therefore you can accommodate me if you want to.

There are thousands of member banks and hundreds of thousands of John Smiths, and how can you possibly avoid a great increase in the borrowing of money, because you have removed the great barrier which the banks now have in their reserve requirements. But there is no check at all if that bank can get indefinite rediscount from the reserve bank upon that paper.

Prof. JENKS. There is this to be said all along the line: Your national bank also has to keep its reserves against its deposits. But entirely aside from that, the whole question lies here: Is it not a desirable thing to have, on the whole, a low rate of interest and a lower rate of interest than we have now? One reason why I think it would be desirable to remove this half per cent tax is because I think it would, in all probability, lower the average rate of interest throughout all the Middle West and the West and the South by one-half per cent; and I think that would be a very desirable thing to do, provided you can be sure of your security.

Now, I think if John Smith comes in and can put up the proper security and can show he is going to use the money in a proper way—

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and if he is one of my customers I know whether he is going to use it properly or not; otherwise I would not let him have it—I do not see why the loan should not be made. If, instead of charging him 7 per cent, I can let him have the money at 6 per cent or, better, at 5 per cent, it will be a good thing.

Senator HITCHCOCK. Now, take the case of John Smith again. Suppose he is going into the sheep business, and another John Smith is going into the sheep business, and another is going into the sheep business, and you get a great many John Smiths who are going into the sheep business. It looks profitable, but we all know that at times it has been enormously overdone, and has been followed by great losses all around. But suppose another John Smith is going into buying farms and another John Smith is going into the exploitation of an electric road. Where is going to be the check that the bank now has on the limit of its reserve against overlending? We know that there comes a time when they overlend. We know that there comes a period in every country where there is overexpansion and credit extended until disaster follows. How are you going to avoid it in this instance?

Prof. JENKS. But we know also that after that period of disaster there comes a period when credits are checked a good deal more than they ought to be, and everybody goes the other way.

Senator HITCHCOCK. Yes; and then they go the other way.

Prof. JENKS. I do not think it is possible to avoid those periods. That is human nature, and it is going to come. But I think it will go a long way to prevent reaching the breaking point if this plan is adopted.

Now, as to John Smith going into the sheep business and going into the farming business, we are not going to lend any money at all to John Smith, except on what we call bank paper, that is to say, it must be short-time paper; 90-day paper; the large majority of it should not be over 90 days.

Senator HITCHCOCK. That is, the reserve banks will not, but the individual banks will lend a great deal of money on paper that is not available with the reserve banks; they do not expect to rediscount all the paper they take in.

Prof. JENKS. That is doubtless true. But with that pressure on them, that they can not dispose of any paper with the Federal reserve bank that runs beyond 90 days, they have got that restraint upon them; and the question with them is what proportion of their paper shall go out for a period longer than 90 days—and the proportion ought to be kept pretty low.

Senator BRISTOW. Prof. Jenks, you say that you have got that answer to John Smith, that they can not lend it to him because his note does not mature in 90 days.

Prof. JENKS. I said let him have it whenever you could.

Senator BRISTOW. Yes; but if I understand your theory, that limits the credits to 90-day loans, which would be a safer loan than the loan to John Smith who was going into the sheep business, or enlarging his farming business.

Suppose that, instead of John Smith being in the sheep business, he sees a fine opportunity to prosecute some commercial business—say to buy and sell wheat, to go into the grain business—and he buys

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his wheat and he buys it for the purpose of holding it for, we will say, 60 or 90 days, thinking the price is going to advance. He buys the wheat which he is going to sell, and he gives a 90-day note for it; and here is your merchantable product. And wheat goes down. That note is not as good as a six-months' note of the farmer who grew the wheat, because the farmer has got his farm and other things besides the wheat.

Now, you are taking the note that depends upon the wheat, which the man is likely to lose and break up on, and you are refusing the note of the farmer who has bought cattle and given a six-months' note—as he will have to do in order to market his cattle.

Prof. JENKS. So far as that is concerned, that is a matter for the judgment of the banker as to the nature of the credit. Of course it is true in our larger centers where wheat—using your illustration—is held in large quantities and is salable any day, that a great deal of money is loaned by the banks on elevator certificates; and if they allow a reasonable margin there it is a perfectly safe loan when that is done. But, on the other hand, if the wheat were, we will say, in the farmer's barn, it would be an entirely different proposition; the banks could not realize on it.

Senator BRISTOW. Why could they not?

Prof. JENKS. There is no bank that, as a practical matter, could go out on the farm and sell a man's wheat out of his barn. On the other hand, if the person who has given the note has his wheat in an elevator and has a receipt for it that he has assigned, that is an easy thing; and where the wheat is sold from day to day on the board of trade, it can dispose of it at any time within 24 hours.

The same thing holds on loans on farming lands. I would not say that I am positively opposed to this provision of the bill with regard to farm loans; but I should very much prefer that this provision relating to farm loans and to the savings be dropped out and provided for in other laws. There are sytems of agricultural credits to which it would apply better than it would apply in this bill. That subject I should like to see in another bill.

The chief reason for my belief that mortgage loans are not good bank loans is they are too slow, they are not realizable; they are all right as a good security.

Senator NELSON. Is not that the case with these long-time railroad bonds which are sold on the market?

Prof. JENKS. That is a different thing.

Senator NELSON. They are not matured; they are simply auctioned off.

Prof. JENKS. As I understand, those will not be accepted anyhow as a basis for circulation.

Senator NELSON. But the big New York banks have been loaning on them, and they call them their secondary reserves.

Prof. JENKS. Yes; that is call loans; and this bill will dispose of that largely, I think.

Senator NELSON. We had a banker here from Minnesota who was speaking of the panic of 1893. He had said he had real estate mortgages; and of all the securities he had in his bank—of all the commercial paper he had in his bank he found those farm mortgages the most liquid. [Laughter.]

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And he found that the life-insurance companies and other investors were ready to take them like hot cakes, that they would take them in preference to any other paper he had. And I knew of a case in that same panic where two banks in southern Minnesota stopped runs on their banks by passing out to the people who had certificates of deposit in those banks martgages which they held. They told their depositors, "We lent out that money to your neighbors on these mortgages." They passed out the mortgages to them and that stopped the run. [Laughter.]

Prof. JENKS. I hope you will grant that those are very exceptional circumstances: and the people did not get cash, though their fears were stopped by the mortgages.

Senator NELSON. Oh, no; if you lived out in a farming community such as we have in the Mississippi Valley, where there are little country banks, you would find that the universal sentiment is that the safest loans they have are those kinds of loans.

Let me also tell you this: I live in a town where we have three banks; and the trouble with our banks is that they get more money on deposit than they can loan out. They used to invest it in what they call "mill" paper and "flour" in Minneapolis for 4½ or 5 per cent. By and by they bought the notes of a big Milwaukee brokerage house and it went into bankruptcy. They lost a good deal of money. They do not know how much money that institution had out. And the banks, while they invested in that kind of paper, were paying 8 per cent dividends. Instead of that in the last two years they have invested in Dakota real estate mortgages; and they have got twice the dividend and they have never had any trouble about the currency. Now, that is the way it works and your theories do not tally with our experince in the West.

Prof. JENKS. I was going to say that the main trouble there as regards the illustration you gave was that the loan made to the mill people was made on poor security really; it went to pieces.

Senator NELSON. The security itself was good enough, but they had overloaned.

Prof. JENKS. Yes; there is the point.

Senator BRISTOW. It is commercial paper that is floating all over the country now.

Prof. JENKS. Merely because paper is commercial paper is no reason one should lend on it. You want the paper which you as a banker approve because you know the parties and the nature of the security. You do not take any commercial paper that comes in.

I must say I think there is likely to be a weakness in this system as regards the Federal reserve banks. I think that a good many of our country banks sometimes do take commercial paper that is not first class. I do not see how the Federal reserve agent is going to exercise any great intelligence in examining that; he has got to get the indorsement of the local bank.

Senator NELSON. Well, let us take this case: A railroad bond is secured by a mortgage, and that is considered good security for these call loans—liquid security.

Prof. JENKS. That is the reason——

Senator NELSON (interposing). Now, in the case of a farm loan, it is a note secured by a mortgage, but sometimes it is a bond. It is

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exactly on the same footing. And it is simply the question whether there is a market for those securities.

Prof. JENKS. That is it.

Senator NELSON. They have no stock exchange for those mortgages; but there is a constant demand for them; and the insurance companies and the savings banks in the East can see that. They prefer them to railroad bonds. There is a good market for them; and that makes them just as liquid as those securities they have on the Stock Exchange in New York. That is what you overlook.

Prof. JENKS. No. I agree with that; but I do not entirely; and the reason for that is this: With reference to those farm mortgages, it happened that the university I was connected with earlier in my experience, Cornell University, had, some years ago, some $2,000,000, if I remember rightly, in farm mortgages, and they practically did not lose one dollar.

Senator NELSON. Yes.

Prof. JENKS. And they were getting their returns in. But they did not have to realize on them on short notice. If they had been in the position of many banks here that are likely to be called on to pay out deposits in 24 hours, those loans would not have been a good kind of loan for them.

On the other hand, if they had had bonds of the New York Central Railroad they would not have paid so much interest, and would not have been any more secure—perhaps not as good security as the farm loans.

Senator NELSON. But in the midst of a panic, such as 1907, those bonds were no more salable, because the people that had made call loans could not borrow the money from another bank on them. They had to get the money, and the result was that they were sacrificed on the stock exchange.

Prof. JENKS. I was going to say, with reference to those loans, that you can sell them on the stock exchange at any time—at a price. Of course the margin on the loans—the banker is supposed to be and is pretty careful to see that the margin is big enough so that it is secure.

Senator NELSON. Mr. Vanderlip, the head of the biggest bank in the country, says he is certain that, in the case of panic or money stringency, those were the worst kind of loans, that they were anything but liquid; and he thought the great virtue of this bill was getting away from those loans altogether.

Prof. JENKS. I quite agree with that; I think this bill, if put into effect, will to a very considerable extent turn investments, not only of New York banks, but other banks, away from call loans and stock-exchange loans into commercial loans up the State and elsewhere. Not only the big banks in New York make these call loans, but the smaller banks throughout the country, not merely put their money into New York banks at 2 per cent and have them loan it out, but they will send it to New York and say:

> Loan this for me on the call market at 6 per cent or 7 per cent or 8 per cent, if money is tight.

Now, it is a bad thing for small country banks to speculate on the stock exchange on those call loans.

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Senator NELSON. The national banks are partly driven to that because they have been cut off from the very best loans—real-estate loans.

Prof. JENKS. Yes.

Senator NELSON. Now, I want to ask you on another feature of this bill, and that is the savings-bank attachment to this bill. Do you think that it is advisable, especially in reference to the smaller commercial national banks?

Prof. JENKS. I was going to say—may I just add a word more on farm loans, and then I will answer that question.

Senator NELSON. Yes.

Prof. JENKS. As regards the farm loans, I think this is rather closely connected with the savings loans in a certain way, or with the savings department. In the case of most savings deposits, you take those savings with the understanding that you are to have notice before paying, 30 or 60 days' notice—some notice.

Senator NELSON. Yes.

Prof. JENKS. Now, I should say that, as a basis for a savings department, where, when you are called upon to pay, you have a right to the 30 or 60 day notice, then this kind of security you are speaking of is all right.

Senator NELSON. Are you aware of the fact, Prof. Jenks, that the small banks of the country practically are running a savings department?

Prof. JENKS. I understood that they were.

Senator NELSON. Yes. They pay interest on time deposits.

Prof. JENKS. Yes; I understood so.

Senator NELSON. If you limited the real-estate mortgages instead of basing them on capital—if you allowed them to lend 25 per cent of their time deposits on real estate, that would make it perfectly safe.

Prof. JENKS. I was wondering why that change had been made in this bill. In the earlier form of the bill there was a provision for time deposits, that has been stricken out of this bill—I think unwisely.

Senator NELSON. I do not know how that came in. I think it is the result of the caucus in the other House. [Laughter.]

Prof. JENKS. I think, myself, in regard to time loans, that it is a different thing. I have known savings banks in Illinois, where they are not restricted as these New York savings banks are, to have a very large part of their securities in good farm mortgages.

Senator NELSON. I want to tell you, Prof. Jenks, you go back in the interior, in the Mississippi Valley, and you will find the small banks with $25,000 capital, and they have been a great blessing, and the banks with $50,000 and $100,000.

Prof. JENKS. Yes; I grant that.

Senator NELSON. You will find, on the average, that sometimes two-thirds of their deposits are time deposits—really savings deposits.

Prof. JENKS. Yes.

Senator NELSON. Why should not they, on that class of deposits, which are practically like savings-bank deposits, why should not they be allowed to lend a limited amount of their time deposits on real-estate mortgages?

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Prof. JENKS. I think they should be.

Senator NELSON. I am glad you finally agreed with me. [Laughter.]

Prof. JENKS. I not merely finally agreed; I agreed at the beginning. I had not understood we were talking about time deposits; I thought we were talking about demand deposits.

Senator NELSON. If instead of a professor you were a farmer out West, you would be better qualified to speak about that. I hope you will take that in a Christian spirit. [Laughter.]

Prof. JENKS. Certainly.

Senator POMERENE. Professor, why would it not be wise, in view of the fact there are savings deposits in the national banks now, as I understand it, not permitted, perhaps, from the legal standpoint, but conducted rather by permission of the Comptroller of the Currency than by any legislative rule—why might it not be well to provide by a section in this statute for the plan now in force and omit, if I may say, so cumbersome a purpose in this bill?

Prof. JENKS. What I have said formerly with reference to this farm loan and savings department was this: That I thought provision should be made for agricultural loans, but made elsewhere. This bill is primarily a special currency matter. Now, why is it not wise, considering the extreme difficulty of this bill, to hold to the one main purpose of the bill and get that as nearly perfect as possible and take up, when you have the time, the matter of the agricultural loans and these savings loans, too? I think that would come in more naturally than the farm loans would, but you can handle that independently. I think one of the great needs of the country is an agricultural-loan system.

Senator POMERENE. I think so, too. You made a statement a while ago that there were other farm-credit systems which were preferable. Did you have any particular system in mind?

Prof. JENKS. I have in mind the mutual cooperative loan systems they have in Europe—Germany and elsewhere. They are quite closely allied, as regards the general plan, to cooperative loan and building associations and organizations of that kind. The general idea is much the same. I do not think that belongs in this bill.

Senator HOLLIS. That is already covered in a bill introduced by Mr. Fletcher.

Senator MARTINE. We have in the Senate now what is known as the Fletcher bill, covering this whole thing.

Prof. JENKS. Exactly. Why should we put it in here? I think you are quite right on that.

Senator BRISTOW. But that deals with an entirely different kind of country.

Prof. JENKS. That is true.

Senator BRISTOW. And if the banks in the small communities must be able to acquire all the deposits that are available, both time deposits and otherwise, or you rid the small communities of the facilities which they normally have now. If the banks are permitted, as they are now and ought to be, to take in all of those securities, then, in order that that community may have all the advantages of its

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own resources in loaning to its own people for the good of its own community, they ought to have the opportunity to make this class of loans when they have the time deposits, it seems to me.

Prof. JENKS. As the Senator suggests, on the time deposits I have no objection.

Senator BRISTOW. That is all we contended for.

Prof. JENKS. You see, that provision was made in an earlier bill. There was a certain proposition for the time deposits, but that was dropped out of here. I have no objection to the time deposits.

Senator HITCHCOCK. Professor, do you think a uniform rate of interest should be established throughout the United States?

Prof. JENKS. I do not believe that is quite practicable. The conditions are quite different in different sections of the country, and I do not believe the conditions are such it would be practicable.

Senator HITCHCOCK. Do you think that one rate of interest should be charged to a reserve bank in the East and a different rate of interest should be charged to a reserve bank in the South for the use of currency?

Prof. JENKS. You remember my own preference is that the currency should be issued without any charge to either of them. But then, it seems to me, the situation is this: The rate of discount should be determined largely by the conditions of that section.

Senator HITCHCOCK. You think the directors of each Federal reserve bank should regulate the rate of interest?

Prof. JENKS. Yes. I think if you retain the bill that way it would regulate the interest, subject to the approval of the Federal reserve board. But I would let the iniative be taken by the local people, subject to the supervision of the board.

Senator HITCHCOCK. That means, practically, you would give to the Federal reserve board the power to establish one rate of interest in the East and another rate of interest in the West?

Prof. JENKS. Ultimately; but practically I should suppose the Federal reserve board, under most circumstances, would expect that the local reserve boards would handle that wisely.

Senator HITCHCOCK. Now, then, this is a Government facility we are providing: Should we charge the people in one State one price for a Government facility and the people in another State a different price?

Prof. JENKS. I do not think that is quite the right way to put it. It is this: The people in a locality are asking for an accommodation, and they pay for the accommodation the normal market rate, and the Government permits it to have the accommodation at the normal market rate. Now, if the normal market rate in Illinois is different from that in Massachusetts, well and good.

Senator HITCHCOCK. You say this is not a Government facility?

Prof. JENKS. No; I say they are going to ask for this facility, and why should not they pay for it?

Senator HITCHCOCK. Why should a man in Nebraska pay, to the same public corporation, backed by the Government, having special privileges from the Government, a higher rate for the use of the facility than the man in Massachusetts? Why should the bank in

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Nebraska pay a higher rate when it has contributed one-tenth of its capital and one-fifth of its deposits to the reserve bank, than the bank in Massachusetts, which has made the same contribution?

Prof. JENKS. I think the situation is this, that it is only in the rather exceptional cases that these Government facilities are furnished. As regards the normal course of business the rate of interest is determined largely by what can be made on the capital invested, and there can be probably more made on it there than in the East and other places, because the supply is not so great?

Senator HITCHCOCK. I would have to question that right off.

Prof. JENKS. Local conditions largely determine, I think, the rate of profit on the investment of capital.

Senator HITCHCOCK. No rate of profit has been higher than has been made by the manufacturers of the East; no bank profit has been greater than the bank profit in New York City, anywhere in the world. And, on the other hand, there are out West borrowers with just as good securities as in the East, and I can not see the reason why a bank in Nebraska should pay more for the use of the Government facility there than should be paid for postage stamps there—something provided by all the people.

Prof. JENKS. The only difficulty as I can see—as a mater of fact, the rate of interest is largely determined by the profits that are made on capital in a normal investment as compared with the supply of capital there. Now, we do find higher rates of interest in practically all of the interior and relatively speaking undeveloped sections of the country, because of that added profit and because of that added demand, as compared with the supply. Those are the conditions that fix, that will regulate the normal rate of interest. That is what all the people pay for it there. Now, under those exceptional circumstances, the people go to the bank for accommodation, and they are granted the accommodation along the lines of what they are accustomed to pay, and along the lines of what regular business pays.

Senator HITCHCOCK. Of course I would have to dispute your assumption.

Prof. JENKS. Let me add a word; if you can show that the regular business rate of interest is the same throughout the country, substantially, then I would agree with you.

Senator HITCHCOCK. What we are going to do is to unify the country, to unify the banking system, which has been diverse. I think your argument falls to the ground there. But if your argument is true, then a man with a profitable business should be charged a higher rate of interest than a man with an unprofitable business.

Prof. JENKS. No; I do not think that follows. The profit of a man's business is not dependent entirely upon local conditions; it is dependent, to a very considerable extent, upon his skill, enterprise, and knowledge of the business, and things of that kind. That is where the chief source of his individual profit comes, and that does not determine the interest rate. The idea I had in mind and what I said was that the average profit upon capital, as compared with the capital that is available, determines the usual rate of interest, ordinarily. Now, it may be that under this system the facilities will

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be improved a great deal, and if capital becomes as plentiful and profitable in the West and South as it is in the East, or substantially the same, that will of itself equalize the rate of interest. I think the bill has a tendency that way, but I do not think it will be uniform throughout the country.

Senator HITCHCOCK. Then you think a man doing business in the West who is prompt in paying his notes should be charged a higher rate of interest than a man in the East who is equally prompt in paying his notes simply because he happens to live out in the country?

Prof. JENKS. That is not all.

Senator HITCHCOCK (continuing). Where capital has been scarce, when the purpose of this bill is to unify the country and make the whole banking system into one?

Prof. JENKS. Let us put it the other way: Suppose you are a banker loaning money out in Nebraska. You find there is a demand for the capital you have there, so that you can loan it out on good security at 6 per cent right along; whereas, on equally good security, we find the supply of money in Massachusetts is such that a man is borrowing at 4 or 5 per cent. Now, you have a supply of money and you can get 6 per cent for it; you are not going to lend it at 4 or 5. When a man comes to you and asks for a loan you say, "Certainly, I will give you the loan, and I will give it to you at the normal rate. If you are not prepared to take that loan at that rate, here is Jones, next door to you, who is ready to take it." That is the way the business is done. The bank gets the current rate charged in the region where it is. It is the one that fixes that rate. Now, when it comes to get this additional help from the Government bank, why of course he applies, furnishes his security, and he gets it, and the rate of interest in the different sections of the country is determined by the local conditions largely.

Senator BRISTOW. You understand the bill, as it stands now, gives each regional bank the power to fix the rate of interest they will charge to the member bank?

Prof. JENKS. Yes.

Senator HITCHCOCK. And has to charge each member bank the same rate?

Prof. JENKS. Yes.

Senator HITCHCOCK. You also understand the bill gives the central board the power to require the reserve banks to modify that rate of interest?

Prof. JENKS. I understood so. My understanding of the bill was this, that the local reserve boards, the directors, fix the rate first, and they then have to get the approval of the Federal reserve board. Now, if they try to fix a rate higher than the Federal reserve board thinks wise, the Federal reserve board won't approve it, and it has to be put down. I think that is right.

Senator SHAFROTH. I think it has, perhaps, under this provision which says, "to supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such

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notes." That provision, evidently, implies the power to fix the rates of interest, and all that, and determine the rate of discount and the issuance of notes.

Senator HITCHCOCK. I think, virtually, the Federal reserve board has such large powers that it could influence the reserve banks by control of the public deposit of the issuance of currency, and that a hint to them to raise or lower rates would be followed.

Senator SHAFROTH. Then there is a further provision here, "to perform the duties, functions, or services specified or implied in this act."

Prof. JENKS. Yes.

Senator HITCHCOCK. Is there anything further?

Prof. JENKS. I was simply going to add a word in connection with what you just said. I think, myself, the Federal reserve board should use its influence, as far as it can do so without disturbing conditions, to make a uniform rate of interest. It does not seem to me the business conditions of the country are such that they could now make it uniform, but I think, ultimately, you may have the rate of interest the same throughout the country, and I think they should use their influence to that end.

I would just like to add one word more in connection with what I said a while ago. It will take only a minute. It is this: I was speaking, some little time ago, with reference to the Federal reserve board and its constitution. It seems to me that whatever the composition of the Federal reserve board may be, provision should be so made that you would have only one member retiring each year, so that the board would really be a continuous board; and I think the time should be long enough so that no one President can possibly appoint a majority of the board after the first one has been appointed.

Senator HITCHCOCK. What would you think of having those members subject to recall by vote of the House of Representatives?

Prof. JENKS. I should not favor that at all.

Senator HITCHCOCK. Appointed by the President, confirmed by the Senate, and subject to recall by the House of Representatives?

Prof. JENKS. I should object to the second part.

Senator HITCHCOCK. For what reason?

Prof. JENKS. I think it is extremely desirable, in the light of what we have had going on in New York for the last few weeks, to keep anything like party politics out of the currency system, and I can not help feeling that a vote of the House of Representatives on anything of that kind would be sure to be colored by party lines.

Senator HITCHCOCK. Suppose that it turned out that a member of the board was misusing his office?

Prof. JENKS. I have not the slightest objection to having a member of the board removed.

Senator HITCHCOCK. Removed by vote of the House of Representatives without impeachment?

Prof. JENKS. No; I should say removed by the President, with charges filed, giving sufficient reasons.

Senator HITCHCOCK. You would rather trust the President than the House of Representatives?

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Prof. JENKS. On anything of that kind. [Laughter.]

Senator NELSON. I have received a letter from Mr. G. D. La Bar, president of the First National Bank of Brainerd, Minn., which I desire to have go in the record.

Senator HITCHCOCK. Without objection the letter will be incorporated in the record.

(The letter referred to is as follows:)

THE FIRST NATIONAL BANK,
Brainerd, Minn., October 14, 1913.

Hon. KNUTE NELSON,
United States Senator, Washington, D. C.

MY DEAR SIR: Is the currency bill in the shape that it passed the House at all likely to go through the Senate? If so, how is a country national bank to compete with State banks? We are compelled to pay interest on time deposits—as practically all State banks do—and at the same time we are obliged to take the required amount of stock in the Federal bank, with an annual return of not to exceed 5 per cent, and also to carry the required percentage of deposits in the Federal bank as reserve, and on which balance we receive no interest whatever.

State banks would not be required to take stock in the Federal bank and receive not to exceed 5 per cent returns. Neither would they be compelled to carry a certain definite percentage of their deposits with the Federal bank as reserve and receive no interest whatever on such a balance. It is certainly a serious handicap for national banks that are compelled to qualify under the present bill.

We have heretofore been able to receive 2 per cent interest on reserve balances, which, in a measure, partially offsets the interest we have paid on deposits. We must continue to maintain some sort of balances in large cities for the purpose of drawing drafts to make the usual commercial transfers.

It seems to us that the new bill will have a tendency to contract rather than increase the loaning inclination of the country banks, particularly among conservative bankers, who dislike rediscounting paper, and having certain definite obligations maturing in large amounts at definite dates instead of the usual moderate withdrawals of deposits. I do not recall that we have rediscounted any paper in 20 years, and I am consequently very fearful of the new bill with its many peculiar and objectionable features.

The savings department plan of segregating assets does not appeal to us as practical or just.

Is it not possible to pass some bill which will enable banks to issue emergency currency with proper collateral, charging a sufficiently high tax, so that the same will be quickly retired, which, in addition to our present banking laws, would answer the requirements of the country much better than the proposed bill?

It certainly seems to us that the banks should have some voice in the matter, and that their suggestions should be given consideration and not entirely belittled and made to appear to the country at large as emanating from the big New York banks. We certainly have a few ideas of our own, and do not want to have our business endangered in the manner that it appears to us will be the case by the present Glass-Owen bill.

I have been with this bank over 30 years and have a considerable financial interest in it. We have built our bank slowly, but steadily and solidly, and we believe that we have been a factor in the upbuilding of the city, county, and even outside territory.

We trust that the provisions of whatever currency bill that is passed will not be so objectionable that it will compel us to change into the State system instead of continuing as a national bank.

Respectfully,

G. D. LA BAR,
President.

Senator HOLLIS. Mr. Chairman, I wish to put in the record a letter which I have received from Mr. Frank H. Foster, cashier of

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the Claremont National Bank, of Claremont, N. H., having special reference to the savings-bank provisions.

Senator HITCHCOCK. Without objection the letter will be incorporated in the record.

(The letter referred to is as follows:)

CLAREMONT NATIONAL BANK,
Claremont, N. H., September 13, 1913.

Hon. HENRY F. HOLLIS,
United States Senate, Washington, D. C.

MY DEAR SENATOR: I have received your kind letter of September 9 and am much interested to learn that the savings-department section of the Federal reserve act will receive careful attention by the Senate committee.

I am going to take the liberty to present a number of criticisms which occur to me on the section as it stands, which I assure you are offered in an entirely friendly spirit. It is my hope, which I am sure is shared by most national bankers in New Hampshire, that the act will be passed and in such form that it will not result in a wholesale surrender of national-bank charters. Such result would be deplorable, both from the standpoint of the general public interest and the credit of the administration. It would inevitably bring heavy financial loss to all national banks through the depreciation in the market price of the 2 per cent bonds, which would follow any general withdrawal from the national system; a loss which would fall with equal severity upon banks which remained in the system. As I understand it, any national bank surrendering its charter is obliged to deposit lawful money to the amount of its outstanding circulating notes, and the bonds would then be released to it and would, of course, come on the market. Should any considerable percentage of the $800,000,000 or so of twos now held by the banks be thrown on the market they would have to be sold practically on the basis of their investment value, and the market price, under these circumstances, might easily fall to 75 or 80.

Beginning with the phraseology of section 27: The section seems to take away with one hand what it offers with the other. First, on page 45, lines 2, 3, 4, and 5, and on page 46, lines 1 to 10, the purpose seems to be announced to exempt savings departments from restrictions existing in the present national-bank act. But there follows, on pages 46, 47, and 48, a set of new restrictions in regard to investments far more drastic than any existing in the present law.

Second, on page 45, lines 20 and 21, it seems to authorize savings departments to make loans on personal security, while the restrictive clauses, lettered A to F, on pages 46 and 47, eliminate loans on personal security altogether.

Furthermore, the language of the section is certainly ambiguous as to the status of savings departments now being operated by national banks under the present law, as it does not expressly state that such departments may not continue to be operated as at present.

Another criticism to which the section seems to me to be fairly open relates to the provisions requiring segregation of assets for savings-department business. It seems to me that segregation of assets is of little importance so long as no prior lien is created in favor of savings depositors upon assets so segregated. It is difficult to see wherein protection to depositors in savings departments would result, unless they were protected from loss made by the banks in their commercial departments. On the other hand, it is probable that the amount of capital stock segregated would in most cases constitute a smaller margin of protection to the savings depositors than they now have, where the whole capital, surplus, and undivided profits of the bank stand as a general guaranty fund for protection of all the depositors. I find that in the State of New Hampshire at the present time, as shown by the last published abstract from the comptroller's office, the national banks have in their capital, surplus, and undivided profits and stockholders' liability a guaranty fund equal to 60 per cent of their total deposits of all classes, and the percentage for the whole of New England is 52. In view of this very liberal protection to depositors, I can not see how the public interest calls for any separation of assets for the special protection of one class.

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Again, on page 49, lines 1 to 13, a requirement is inserted in regard to deposits carried in other banks, making it necessary to carry separate accounts for such funds of the savings departments as may be deposited with other banks. This seems to be unnecessarily burdensome. Again, there is the provision, in lines 11, 12, and 13, forbidding the savings departments of the national banks to keep any current funds on deposit in the commercial department of the same bank. It seems to me that is the very place where they ought to be kept—at least a portion of them. As to the clause relative to a notice of withdrawal being required of savings depositors, that would be of very doubtful value to any bank. The requiring of such notice would only be resorted to in times of stress, and would in such case be a danger signal which would seriously imperil the bank in its commercial department. We have always gone on the theory that our assets must be kept invested in such a manner that we could meet heavy withdrawals without requiring any notice, and that to require such notice would come so near to being an act of insolvency in the eyes of the public that it would be of very little value to us.

The restriction upon investments of mutual savings banks imposed by New England and New York States, where such banks have been familiar to the public for many years, have been imposed, as I view it, mainly for the reason that the depositors are the bank, and any losses sustained must fall directly upon the depositors, whereas in national banks an entirely different situation exists, the stockholders necessarily assuming all risk of loss up to the amount of their stock and 100 per cent liability in addition. It does not seem logical to apply restrictions and regulations to national banks which may be entirely wise and proper in the case of purely mutual institutions. The management of every national bank must be credited with an honest purpose to safeguard not only the money of its depositors but also the interest of the stockholders, who must stand in the breach absolutely whenever a loss occurs.

If I were to be asked to make recommendations, they would take form somewhat as follows:

(*a*) Require no segregation of capital or assets.

(*b*) Allow not exceeding 50 per cent of savings deposits to be invested in loans on real estate in the State, Territory, or district where the bank is located, such loans being limited to 60 per cent of the value of the property.

(*c*) Allow, say, 20 per cent of savings deposits to be invested, subject to the approval of the comptroller, obtained in advance of such investments, in the stocks of railroads or other public-service corporations in the United States which have regularly earned and paid dividends for five years next preceding date of such investments.

(*d*) Require 9 per cent reserve against savings deposits, one-third cash in bank, one-third with regional reserve bank, and one-third with reserve agents.

If the principle of segregation of assets and restriction of savings deposits to certain specified classes of securities is to be retained in the bill, the lines should certainly not be so drawn as to needlessly exclude from the field of investment good notes, bonds, and mortgages obtainable in the locality in which the bank is doing business. As the restrictive clauses stand a great majority of country banks would be unable to invest any considerable percentage of their savings deposits at home, as will be seen by an examination of the clauses in detail, as follows:

(*a*) Page 46, line 15. Farm mortgages having not over five years to run and not exceeding 50 per cent of the assessed valuation of the property. Savings banks in New England are allowed to make loans on any real estate without definite maturity up to 60 per cent in some States and 70 per cent in others of the value of the property, and it is left to the discretion of the bank itself to determine the value for the purpose of loaning.

(*d*) Page 47, line 6. Under this clause all municipal bonds in the States of New Hampshire and Vermont would be ruled out by the 25,000 population limitation except bonds of the cities of Burlington, Manchester, and Nashua. Whether these would come in at all under the 5 per cent debt limitation I have not ascertained. Most of the States, in defining what municipal bonds may be purchased by mutual savings banks, do not prescribe any population limit. Some of them prescribe a 5 per cent debt limit, exclusive of debt incurred for

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waterworks in the case of cities, and a 3 per cent limit exclusive of waterworks bonds in the case of towns.

(*e*) The limitations imposed in this clause seem rather unscientific for the reason that many second mortgages or general lien railroad bonds are better secured than some first-mortgage bonds, as is well known to anybody at all familiar with such securities. For instance, some railroads and public utilities are built largely out of the proceeds of their first-mortgage bonds, which might not be a desirable security for a bank under any circumstances, whereas such active bonds as American Telephone & Telegraph Co. general lien bonds, or the convertible bonds of the same company, which are not mortgage bonds at all, would be a perfectly conservative investment of bank funds, readily marketable at all times.

(*f*) Bonds of real estate corporations are not to be had in this part of the country, or at least I know of none such ever having been offered to us.

It seems to me that these proposed restrictions display the futility of attempting, by statute, to lay down rigid rules within which investments must be made governing banks all over the United States. Doubtless the purpose is a laudable one, but if the banking business of the country is to be strengthened and broadened the field for investment must not be narrowed to the vanishing point and a wide range must be left for the judgment and discretion of the officers of the bank itself, who must be credited with an honest purpose to safeguard the interests of their depositors and to loan the funds in their charge in such a way as to further the commercial interests of the communities which they are serving.

It does not strike me that it would be practicable to require that savings departments of national banks make their investments in conformity to the laws governing mutual savings banks in the States where they are located. It might work all right in New Hampshire, but mutual savings banks are little known outside the Northeastern part of the country, and the diversity and voluminous minutiae of the many State laws governing savings-bank investments, together with the practical nonexistence of mutual savings banks in some of the States, would make the administration of such a system very arduous to the authorities at Washington, and I believe unsatisfactory as well.

I wish it were possible for the new act to enlarge the powers of national banks to permit them to compete on more equal terms with trust companies—that is, to empower them, under proper regulations, to act as trustees and executors. I believe thoroughly in the proposition that a Federal bank charter should convey broad enough powers to enable the bank operating under it to transact any legitimate branch of banking, including the functions of trusteeship normally incidental thereto.

In conclusion, I feel impelled to strongly urge the elimination of the savings-department section altogether, or, if that should not meet with the approval of the committee, the substitution for it of a few short clauses reducing somewhat the reserve required against such deposits from the present 15 per cent and authorizing the investment of some portion of savings deposits in loans secured by real-estate mortgages and some reasonable percentage in approved railroad or public-service corporation stocks, leaving the existing field of investments otherwise untouched.

Thanking you for the opportunity given me to present these suggestions, I remain,

Very truly, yours, FRANK H. FOSTER, *Cashier.*

Senator HITCHCOCK. The committee will now stand adjourned until Monday at 10.30 o'clock a. m.

(Thereupon, at 5.20 o'clock p. m., the committee adjourned until Monday, October 20, 1913, at 10.30 o'clock a. m.)

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MONDAY, OCTOBER 20, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.40 o'clock a. m.

Present: Senators Hitchcock (acting chairman), O'Gorman, Reed, Pomerene, Shafroth, Hollis, Bristow, Weeks.

Senator HITCHCOCK. The committee will come to order, and we will hear this morning from Mr. Victor Morawetz.

STATEMENT OF VICTOR MORAWETZ, ESQ., OF NEW YORK, N. Y.

Senator HITCHCOCK. Will you please give your name, address, and business, Mr. Morawetz, so that we may have them in the record.

Mr. MORAWETZ. Victor Morawetz, New York.

Senator HITCHCOCK. And your occupation?

Mr. MORAWETZ. I am a lawyer.

Senator O'GORMAN. And you have, I believe, specialized in corporation and banking law?

Mr. MORAWETZ. I was for a period of 12 years chairman of the executive committee of the Atchison, Topeka & Santa Fe Railroad Co., having special charge of its financial affairs, and I am now a director of the National Bank of Commerce, of New York.

Senator HOLLIS. You might tell us what textbooks you have published and on what subjects.

Mr. MORAWETZ. I have given special attention to banking and currency questions for the last five or six years, and have published a small book and numerous pamphlets treating on this important subject.

Senator HITCHCOCK. Will you please proceed with your statement in your own way, and I would like to ask whether you care to be interrupted with questions, from time to time, or whether you prefer to finish your statement in consecutive order?

Mr. MORAWETZ. I prefer to be interrupted by questions whenever any member of the committee finds that I am not entirely clear or wishes additional information.

Gentlemen, for more than four years I have written and spoken in opposition to the central bank or Aldrich banking and currency plan. I have advocated the adoption of the regional or divisional reserve bank plan, which is, in substance, the plan embodied in the bill now before this committee. All my prejudices, therefore, are in favor of this plan. I am anxious to have the bill, now before the committee, perfected, so that it will carry into effect the plan which I have been advocating, and which I believe to be the best and most practicable plan for this country.

However, careful examination of the House bill before the committee, No. 7837, has convinced me that it contains a number of very serious defects, and that if it should become a law without amendment it would fail to carry into effect the beneficient purposes of its authors.

The first point to which I shall address myself is the issue of the notes provided for in this bill. The bill provides for an issue of notes which is to be printed by the Government and delivered to the banks,

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which subsequently are to issue these notes. The bill says that the notes are to be Government obligations. Presumably, therefore, they are to be in the form of promissory notes of the Government. But the Government is not to issue any one of these notes; they are all to be issued by the banks.

The Government is not to pay any one of these notes; they are all to be paid by the banks. It is clear, therefore, that these notes are to be entirely unlike the present issue of greenbacks, which are promissory notes issued by the Government to pay its debts, and which are to be paid by the Government out of its funds. Under existing law the Government has pledged itself to maintain a very large reserve of gold for their payment.

The proposed notes, in truth and fact, are to be bank notes, although in form they are Government notes. They are, in truth and in fact, to be like our present national-bank notes, except that they are not to be secured by a deposit of Government 2 per cent bonds, but they are to be an asset currency secured by a first lien on the assets of the banks, and with a provision that the banks are to keep a reserve of 33⅓ per cent for their payment.

The Government also is to be liable on these notes, nominally as maker, but really as guarantor. That is the honest fact concerning these notes.

Now, I have no quarrel with that arrangement except as to its form. It is artificial, and to many it is and to many it will be misleading.

Senator HITCHCOCK. Will you stop there to let us know how you think it will be misleading?

Mr. MORAWETZ. It is misleading to all those who do not study the provisions of this bill and ascertain the real facts underlying a certain amount of disguise.

The framers of this bill have been subjected to criticism, and I think very unjust criticism, within the last week on the ground that the bill provides for the issue of more greenbacks—fiat money, if you please. I say that criticism is unjust because these notes are not, in fact, to be Government notes; they are not to be issued by the Government; not one of them is issued by the Government. They are really notes of the banks, guaranteed by the Government.

Furthermore, it seems to me that this arrangement is likely to prove more or less misleading to those of our citizens who still adhere to the ideas which were prevalent 20 or 30 years ago, that it is desirable to pay the debts of the Government in its promissory notes and to have outstanding currency consisting of Government fiat money. They will not get under this bill what they may suppose they are getting.

And there is another consideration. It seems to me that a due regard for the opinion of foreign nations and of posterity is a reason for adopting a more direct method of issuing these notes. People will wonder why on earth the Congress of the United States found it necessary or desirable to resort to this indirect way of issuing what really amounted to guaranteed bank notes, and it is somewhat galling to my pride as an American citizen to think of the reasons which would have to be assigned to explain why these notes were put in this form.

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Senator O'GORMAN. Let me ask you, Mr. Morawetz, is it unusual for Governments to guarantee bank issues?

Mr. MORAWETZ. Very unusual.

Senator O'GORMAN. Do any Governments guarantee bank issues?

Mr. MORAWETZ. I do not know of any Government which, in terms, guarantees the notes of any bank, though the great foreign central banks are so closely allied to the Governments that I believe there exists a practical guaranty by the Governments for their ultimate redemption. I should not myself see any objection to the Government of the United States guaranteeing this issue of bank notes. They will be perfectly good, and personally I see no objection to placing the guaranty of the Government on them.

Senator O'GORMAN. Then, so far as the responsibility of the Government is concerned, it will make no difference whether the Government becomes the primary responsible party for the purpose of redeeming the notes or whether it is acting as a guarantor behind the bank? In either event the Government is responsible for the notes?

Mr. MORAWETZ. In either event the Government would be secondarily responsible.

Senator O'GORMAN. In one case secondarily responsible and in one case primarily responsible?

Mr. MORAWETZ. In both cases secondarily responsible, because this bill would have to be read into the notes; it would be a part of the notes, and this bill says, in so many words, that the notes are to be paid by the banks; they are to be the primary obligors, and that the notes are merely loaned by the Government to the banks as accommodation paper.

Senator O'GORMAN. Then, in either event the Government becomes responsible for the notes?

Mr. MORAWETZ. Yes, sir.

Senator O'GORMAN. And as I understand you, up to the present time you only criticize the method or the form?

Mr. MORAWETZ. Yes, sir; I criticize only the form. I think it important that the form should be right, because of the reasons I have assigned and because of the precedent it might establish in the minds of many people who would not understand the real facts of the situation.

Senator O'GORMAN. Do you see any advantage in the form proposed by the pending bill with respect to the enlarged confidence that might result from the Government apparently being the responsible party behind the notes?

Mr. MORAWETZ. None whatever. If people should attach greater faith to these notes because they are executed by the Government as principal obligor, then they would be misled, because the Government is not the principal obligor, and it will not have a dollar of money of its own for their payment. It can draw only on the banks to get the money to pay these notes if they should be presented to the Government.

Senator WEEKS. You suggested, Mr. Morawetz, that if it were necessary to explain the reason for issuing the notes in this form in the future it would be an embarrassing thing to do.

Mr. MORAWETZ. I think so.

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Senator WEEKS. What reason do you think could be assigned for issuing them in this form?

Mr. MORAWETZ. Political reasons.

Senator WEEKS. Any other?

Mr. MORAWETZ. I include in political reasons the platform of the Democratic Party.

Senator WEEKS. Then you mean party reasons?

Mr. MORAWETZ. Party reasons; yes.

Senator WEEKS. Any other reasons?

Mr. MORAWETZ. I know of none.

Senator HITCHCOCK. Suppose we assume, Mr. Morawetz, that among the 90,000,000 people in the United States there is a certain proportion, perhaps a large proportion, of people of an undiscriminating character, not able to understand the science of money, who will look upon these notes as money, and who think, primarily in their own minds, that money should be issued by the Government and that if issued by the banks, it gives the bank an unfair advantage and opens the possibility of imperilling the rights and interests of the common people, would you still say, taking that fact into account, that the Government, representing all the people, should nevertheless legislate so as to create bank notes which many of that class of people lack confidence in and which they reprehended as not desirable?

Mr. MORAWETZ. My answer, in the first place, is that the facts are not as assumed. We have to-day outstanding $720,000,000 of national-bank notes which are accepted as good as gold by the people of this country. These national-bank notes have not even on their face the guaranty of the Government, but they are indirectly guaranteed by the Government under the legislation pursuant to which they were issued. So, the assumption that it is necessary to issue these notes in the form of Government notes is entirely unfounded; but even if it were so I should not consider it justifiable to issue the notes in this form, and I should educate the people to the true situation.

Senator HITCHCOCK. It is true, as you say, that throughout the country there is this confidence in these particular bank notes, but I think it is also true that there is a very considerable sentiment among the people that the issuance of those notes constitutes a special privilege to that class of banks, out of which they have made a great deal of money, as they think, at the expense of the people. Does not that prejudice constitute, at least in part, the sentiment for the retirement of those notes? I do not share it, but that does exist, does it not?

Mr. MORAWETZ. I think, Mr. Chairman, it will be harder to defend before the people the loaning of the notes of this Government as accommodation paper to the banks than to defend the guaranty of properly constituted bank notes by the Government, because, as I have stated, this paper is simply accommodation paper which the Government is to lend to the banks.

Senator O'GORMAN. Will you pardon me right there while I ask you a question, Mr. Morawetz?

Mr. MORAWETZ. Certainly.

Senator O'GORMAN. Would your view regarding the obligation of the Government be affected at all if it appeared that the Government

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would receive a substantial consideration from the banks of the country for the assumption of this liability? For instance, I have in mind what has been suggested more than once, that the profits of the regional banks, if we have regional banks, in excess of the 5 or 6 per cent that will be returned to the member banks as a return on their capital contribution, that the excess of surplus ought to go to the Government, and it has been estimated that that would amount to many millions each year. What do you think of the proposition that in return for that affirmative benefit to the Government, the Government, to advance the system generally, should undertake to issue these notes and become primarily responsible?

Mr. MORAWETZ. I attach no importance whatever to that consideration. In the first place the Government of this country is not in the business of selling its credit. The fact that the Government may receive a profit from these regional reserve banks is no reason for the issue of the notes, or for the lending of the credit of the Government. The only reason why the Government might be warranted in lending its credit in this way is to benefit the whole country by providing it with an unquestionably sound issue of currency. Personally I hope that the regional reserve banks will be managed so that there will be no profit in them. I hope they will be managed in such a way as to keep our banking and currency system on an absolutely firm and sound basis. That is the benefit to be obtained by this scheme, and none other.

Senator WEEKS. Has it occurred to you, Mr. Morawetz, that there is a good deal of confusion in the minds of not only the average citizen but in the minds of many who have given some consideration to this subject as to the difference between money and credit instruments, and that many men who have taken the position, leaders and teachers in this subject, have believed that it was the duty of the Government to issue credit instruments as well as money?

Mr. MORAWETZ. No doubt there is that idea prevalent among many of the people, including some of the political leaders in this country, but it is not so anywhere else.

It has been asserted that the provisions of this bill for the issue of notes may lead to an inflation of the currency, with all the dangers consequent to an inflation of the currency. I do not share those fears. If we are to have in this country a flexible currency which will be subject to contraction as well as expansion, and which will adjust itself to the business needs of the country, it is absolutely necessary to place somewhere the power to control the issue of the notes, to limit their issue, to force their contraction when necessary.

Under his bill the several regional reserve banks are to have the power to issue notes subject, however, to an absolute veto power in the Federal reserve board representing the Government. This arrangement, therefore, is more conservative and safer than the Canadian plan, under which the banks have the power to issue notes without this outside check placed upon them. The only possible danger of inflation, of an excessive issue of currency under this plan, will arise from the number of regional banks. The more of these banks there are the more danger is there that they will put out more currency than the country really needs. If the number of these banks were limited to five or six, I should say that the danger of

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inflation would be removed entirely, even without the veto power of this central board.

Senator HITCHCOCK. Can you outline how you think this tendency toward inflation will occur? As it stands now——

Senator BRISTOW (interposing). If Senator Hitchcock will allow me, before you go into that matter, I would like to ask a question. I understand you feel that there should be imposed in some board the authority to say when there shall be a contraction and when there shall be an expansion?

Mr. MORAWETZ. Not to say when there shall be an expansion, but to force a contraction when the country requires it.

Senator BRISTOW. And that would be a matter of judgment?

Mr. MORAWETZ. Yes, sir.

Senator BRISTOW. How are you going to provide against the very wide diversity of opinion that prevails among men as to what would be an expansion and what would not be?

Mr. MORAWETZ. It is a banking problem which experienced bankers do not have much difficulty in dealing with. It is a question which arises wherever there is a central bank, and in Canada, where there are nearly 30 banks, 10 or 12 of them, however, being leading banks, and practically ruling the others. They have no difficulty in these cases in determining the volume of notes that is safe.

Senator BRISTOW. This Federal board is not a bankers' board. It is a political board; it is a board appointed by the President to exercise political functions. Otherwise it would not be made a Government board. Government is politics; I do not mean partisan politics, but its functions are political.

Senator SHAFROTH. A people's board, you mean?

Mr. MORAWETZ. It is a governmental board.

Senator BRISTOW. A governmental board. One political school of thought in regard to banking matters may be in control or another political school of thought may be in control. If Mr. Bryan was at the head of that board he might say the currency out was not sufficient; that we did not have enough. If Mr. Aldrich was at the head of that board he might say it was excessive, and that there ought to be contraction. The difference of opinion among men is so varied that might there not be danger of precipitating this matter into politics and making it become a political question instead of a business question?

Mr. MORAWETZ. If you please, I will take up the question of party politics entering into this plan a little later. What I wish to say now is that I do not fear that there will be inflation of the currency so long as the number of the regional banks is limited. If there were no central board of control, there would be no danger of inflation, provided that the banks are required to keep an adequate reserve for the payment of the notes on demand. I should consider that the danger of inflation would exist even if there were no veto power in the central board.

Senator HITCHCOCK. We have had discussed at these hearings this question of possible inflation, and I was going to ask you to outline briefly the processes under this bill by which inflation might result. I do not know whether you mean an inflation of bank credits or an inflation of currency, or both?

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Mr. MORAWETZ. I do not know how there could be inflation under this bill if you have a fairly intelligent management of these regional reserve banks.

Senator HITCHCOCK. I understood you to suggest there might be, under this bill.

Mr. MORAWETZ. It has been asserted. I say I do not agree with the criticism.

Senator O'GORMAN. Did you not say whether there would be inflation or not might depend upon the number of banks?

Mr. MORAWETZ. Yes; I do say that if you increase the number of these banks so largely as to prevent them from adopting a uniform policy they might put out so many of these notes unless restrained as to practically force all the gold and lawful money in circulation into the bank vaults, thereby increasing enormously the reserves and credit power of the banks.

It is this process which in Canada has resulted in this situation: The only currency in Canada which is current among the people consists of bank notes and small government notes and subsidiary coin. All the gold in Canada has been taken into the banks, which have issued their notes in exchange.

Senator O'GORMAN. Do you think there would be greater danger of inflation with 12 regional banks than with 5?

Mr. MORAWETZ. I think so. The same process has caused the national-bank notes all to be outstanding. They have displaced, taken the place of, that much lawful money, because every bank when it receives currency combs it out, keeps the lawful money, and issues its notes when currency is demanded. But to the people the notes and the lawful money and the gold are of equivalent value. When a man has more currency than he wants to carry in his pocket or keep in his till he does not pick out the national-bank notes and deposit them in the bank. He takes his currency without regard to its description and deposits it. But the bank immediately combs it out, as I have stated, and keeps the lawful money while issuing its notes whenever it can pay its debts in that way. By that process bank notes will become the circulating medium among the people as far as the people will take them and as far as the law permits them to be issued, while the gold or other lawful money will be taken into the banks.

Senator HITCHCOCK. What is the provision in Canada regarding the redemption of these bank notes? Suppose a bank receives one of its own notes, can it pay it out again?

Mr. MORAWETZ. I think not; no.

Senator HITCHCOCK. Suppose the bank receives the note of another bank?

Mr. MORAWETZ. I do not know whether they are permitted to pay it out, but I know the practice is to send them in for redemption.

Senator WEEKS. Well, they are permitted to pay it out?

Mr. MORAWETZ. They are permitted to pay it out.

Senator WEEKS. And whether they pay it out or not is dependent on whether it is profitable to put out their own notes?

Mr. MORAWETZ. Yes.

Senator WEEKS. If it is profitable to put out their own notes they do so and send the notes of the other banks in for redemption.

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Mr. MORAWETZ. But this process of substituting notes for money in circulation among the people will go on without regard to whether or not there are easy redemption opportunities. When a bank sends the notes of another bank in for redemption in lawful money, that does not put the lawful money into circulation; it merely transfers it from one bank to another bank. It is in my judgment a delusion to imagine that easy redemption opportunities will restrict this process of substituting bank notes for gold or other lawful money in circulation among the people. The only thing that will restrict that process is an absolute limit on the amount of bank notes which can be issued.

Senator HITCHCOCK. Do you think that limit should be placed within the the judgment of a supervising board?

Mr. MORAWETZ. It has to be somewhere. Now, I should be satisfied if that limit were placed in the regional reserve bank with a veto power on the part of a Government board.

In the plan which I outlined some years ago for the creation of regional reserve banks, and for the issue of bank notes by them, I contemplated that the regional reserve banks would have a central bureau consisting of representatives of these banks, who would determine what amount of notes might be issued by the banks.

As I shall point out a little later, I think some such provision would be a beneficial one in this bill—I mean the constitution of a central board to deal with the issue of notes by the regional banks, instead of having each one separately deal with the Government.

Senator HITCHCOCK. Is not the power to limit or fix the volume of the currency the power to affect prices?

Mr. MORAWETZ. I do not think so.

Senator HITCHCOCK. Can you conceive of a condition of a considerable expansion of the currency that does not advance prices and stimulate business; or can you conceive of a contraction of currency that will not force sales and reduce prices? Are those not the inevitable consequences of those conditions?

Mr. MORAWETZ. There is a good deal of loose reasoning, as it seems to me, about the functions of currency. Nothing the banks can do; nothing the Government can do will put a dollar more of currency in actual circulation among the people. The people will carry in their pockets, and in their tills whatever amount of currency they find convenient; and no matter what quantity of the currency may be printed, they will not carry any more. If there is a surplus, they will deposit in the banks.

Senator HITCHCOCK. Does not the quantity in circulation in the pockets of the people, or in the tills, depend upon the activity of business, and is not the activity of business largely affected by the ease of loans?

Mr. MORAWETZ. Now you come to the real point. Business may be affected by the credit situation in the country—the ability to borrow from the banks. And this credit situation depends, first, on the ability of the banks to grant credit; secondly, upon their willingness to grant credits; and thirdly, on the confidence of the people in the future; their willingness to take credit and to embark in enterprises.

The only way in which an increase of the currency—we will assume of course that the currency is all kept at a parity with gold—the only

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way in which an increase of the issue of bank notes can affect this situation in the least is by displacing gold, or lawful money, in circulation among the people; driving that into the bank vaults and thus increasing the reserves of the banks and their power to grant credit.

Senator HITCHCOCK. Suppose a law was passed compelling the banks to increase reserves; would not that inevitably contract the currency?

Mr. MORAWETZ. No; it would not contract the currency; it would contract their power to make loans.

Senator HITCHCOCK. Well, I mean under a note-issuing power. Suppose there was a power to issue currency, controlled as proposed in this bill, or as you suggest, by the banks; then suppose there were changes made in the law which increased the reserves from 33⅓ to 50 per cent; would not that inevitably contract the currency?

Mr. MORAWETZ. It would not contract—it depends upon what you mean by contracting the currency. It would contract the power of the banks to make loans surely.

Senator HITCHCOCK. And it would also contract their power to issue their demand obligations, and that would contract the currency, would it not?

Mr. MORAWETZ. It would not contract the amount of currency in circulation among the people.

Senator HITCHCOCK. It would contract credits, would it not?

Mr. MORAWETZ. It would contract the power of the banks to make loans; yes.

Senator O'GORMAN. Therefore, it would have a restraining influence upon the credits that the banks would extend throughout the country.

Mr. MORAWETZ. Certainly.

Senator O'GORMAN. I do not want to anticipate you, Mr. Morawetz; probably you are going to touch on it again; but in view of a remark you made a little while since, I should like to ask you a question or two. You said that the danger of inflation under a system substantially such as is proposed in the pending bill would be less with 5 or 6 regional banks than with 12; is that correct?

Mr. MORAWETZ. Yes.

Senator O'GORMAN. The danger would be still less if you had but three regional banks, would it?

Mr. MORAWETZ. I think so.

Senator O'GORMAN. Would not the danger be entirely removed, if you had but one?

Mr. MORAWETZ. No. A central bank managed unwisely could inflate currency just as much as 3 or 5 or 12 regional banks.

Senator O'GORMAN. Yes. Now, would there be less danger with a single bank than with three?

Mr. MORAWETZ. I doubt it. I think if you had a number of these banks, each watching the other, it would tend toward conservatism, rather than to the contrary.

Senator O'GORMAN. Then you think it would be better to have 12 than 5?

Mr. MORAWETZ. No. I think 12—I think it would be better to have 5 than 12, for various reasons, which I will touch on a little later.

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Senator O'GORMAN. Yes. Now, I have but one other inquiry to make at this time. You said a little while since, while discussing what you conceived to be the impropriety of the Federal Government issuing these notes, or taking primary responsibility for them, that there were certain political or party reasons which seemed to suggest this change; and I think there was some reference made, either by you or by some member of the committee, to some declaration of the Democratic Party in its last national convention on the subject. Now, was any declaration made that makes it necessary for the Democratic Party to insist upon a Government issue, rather than a bank issue?

Mr. MORAWETZ. I do not think so.

Senator O'GORMAN. Well, I have the language here. I do not find any such declaration.

Senator SHAFROTH. Will you read it into the record, Senator O'Gorman?

Senator O'GORMAN. The declaration made by the Democratic Party at the Baltimore convention last year is as follows [reading]:

We oppose the so-called Aldrich bill or the establishment of a central bank—

As I read that, the central bank referred to is the central bank in the Aldrich bill, which was a central bank to be dominated by private interests, which was the only kind of a central bank ever discussed up to that time—

And we believe the people of the country will be largely freed from panics and consequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or dominion by what is known as the Money Trust.

Banks exist for the accommodation of the public and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations, on terms of absolute security to the public, and of complete protection from the misuse of power that wealth gives to those who possess it.

We condemn the present methods of depositing Government funds in a few favored banks, largely situated in or controlled by Wall Street, in return for political favors, and we pledge our party to provide by law for their deposit by competitive bidding in the banking institutions of the country, national and State, without discrimination as to localty, upon approved securties, and subject to call by the Government.

That is the only declaration made by the party; and it does not touch upon the subject to which your attention was invited a moment ago.

Mr. MORAWETZ. I can not deny it.

Senator O'GORMAN. That is all, Mr. Morawetz, for the present.

Senator WEEKS. Then the only reason you had in mind that could be assigned for issuing notes in the manner proposed in this bill does not exist?

Mr. MORAWETZ. It seems so.

Senator WEEKS. I wanted to ask you if you recalled any instance where a central bank had been managed with such lack of wisdom that there had been an inflation in the country served by that bank?

Mr. MORAWETZ. I know of no such instance; but my information is limited to the principal commercial countries of Europe.

Senator O'GORMAN. But you never knew of an instance in the history of any of the important commercial countries of Europe, did you?

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Mr. MORAWETZ. None.

Now, gentleman, I wish to call attention to one provision of the bill relating to the issue of the notes which I regard as absolutely fatal to any sound or safe plan; and that is the provisions that the notes shall be paid or redeemed in gold or lawful money.

The objection to this provision for the payment of the notes in lawful money is not based on the ground that it would lead to inflation. There is no more danger of an undue increase of the aggregate amount of the currency if the notes are payable in lawful money than if the notes are payable in gold only.

But there is another danger. It is this: If the notes can be paid in lawful money, that is to say, in silver, or in greenbacks, the inevitable result will be to drain off from this country its gold and substitute notes in the place of the gold, without increasing the aggregate amount of the currency.

Senator O'GORMAN. I think you will find every member of the committee in perfect accord with you in that last observation.

Senator HITCHCOCK. Well, the Senator from Colorado is not in accord with that.

Senator O'GORMAN. I am not surprised.

Senator SHAFROTH. No; I can not agree to that. I do not see how you come to that conclusion, Mr. Morawetz, in view of the fact that we have had bank notes payable in lawful money to the extent of $740,000,000 and we have not had our gold leave the country.

Mr. MORAWETZ. Because of the limit of the amount of the bank notes that could be issued, due to the limited amount of Government bonds available for their issue.

Senator SHAFROTH. Well, $740,000,000 is a very large amount, considering what it was in 1900—$236,000,000.

Mr. MORAWETZ. The country has grown since then. Will you let me take this question up in due course?

Senator SHAFROTH. All right.

Mr. MORAWETZ. Any indebtedness which we have to pay to foreign nations has to be paid in gold. The balances of trade have to be settled in gold. So that it happens every year—sometimes twice a year—that gold sufficient to cover these balances has to be shipped one way or the other way.

Furthermore the different interest rates in this country and in foreign countries sometimes results in shipments of currency from the country where the interest rate is low to the country where it is high, in order to obtain the profits resulting from the higher interest rate.

Now, as long as notes and gold and lawful money are at a parity, it is wholely immaterial to us in this country whether we use gold or lawful money. Foreign nations, however, can only use the gold, and when we have to make a payment to a foreign nation, it has to be made in gold. But subsequently, if we need more currency—if we require to use again the gold which we shipped abroad, what would happen under this bill, if you can keep lawful money in the banks as a reserve for the payment of the notes? Why, notes would be issued and the gold would not be imported. The gold would go out; but it would never come back, because notes would be issued whenever in this country there is a need for the additional currency.

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Senator SHAFROTH. When balance had to be met coming to this country, would not they have to ship the gold in here?

Mr. MORAWETZ. No, sir. You could loan it out.

Senator SHAFROTH. Yes; but investments here invite capital also; and that means the shipment of gold here. We have had shipment of $5,000,000 gold, on the average, a year since 1878; the flow has been inward.

Mr. MORAWETZ. It is true, because we have sold about 6,000 millions of dollars of stocks and bonds to Europe.

Senator SHAFROTH. Well, we have had a very large export trade also.

Mr. MORAWETZ. Although, on its face, our exports of physical property exceed our imports by about $500,000,000 a year just now——

Senator POMERENE (interposing). More than that.

Mr. MORAWETZ (continuing). The true balance is heavily against us because of the enormous interest and dividend payments which we make abroad, the enormous expenditures of our people abroad, and the shipments of money by immigrants and other invisible exports.

Senator SHAFROTH. Yes; but that is a matter of guess, very largely, is it not?

Mr. MORAWETZ. I think not very largely. I think you can figure it out pretty closely.

Senator SHAFROTH. Well, I can not find statistics on it.

Mr. MORAWETZ. However, I will take that up a little later; that is a little off my question.

The point I make is that as long as these notes are payable in lawful money the tendency will be and the result will be to deplete the country of gold, to make silver and greenbacks constitute our bank reserves and leave this country in a very dangerous position in case of any contingency arising which would require a large amount of gold for shipment. If we should have a war, or if for any other reason a sudden demand should be made upon this country for a large amount of gold, we might soon find gold at a premium and our notes and silver currency at a discount.

Senator SHAFROTH. We had the Spanish War, didn't we, and gold did not go to a premium?

Mr. MORAWETZ. Oh, yes; that was a small matter——

Senator SHAFROTH (interposing). Do you anticipate we are going to have any——

Mr. MORAWETZ (continuing). And we had not these notes out.

Senator SHAFROTH. We had quite a large number of national-bank notes redeemable in lawful money.

Mr. MORAWETZ. It is a question of degree. This country to-day has vastly more uncovered paper currency than any other commercial country in the world, not absolutely, but also in proportion to the amount of gold in the country and per capita of population. There is not one of the leading countries in the world to-day which has anything like the amount of paper currency and silver that the United States has.

Senator HITCHCOCK. Do you call national-bank notes uncovered?

Mr. MORAWETZ. I do.

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Senator HITCHCOCK. Because a gold reserve is not provided against them?

Mr. MORAWETZ. Practically no reserve.

Senator HITCHCOCK. Although they are protected by national bonds?

Mr. MORAWETZ. That does not protect them.

Senator O'GORMAN. It simply gives them the credit of the Government.

Senator SHAFROTH. You admit that the Aldrich bill was generally favored by the bankers of this country?

Mr. MORAWETZ. I believe it was by the majority of the bankers; yes.

Senator SHAFROTH. Do you not recall the fact that the currency which was authorized to be issued under that bill provided that it should be payable in lawful money, and did not even mention gold?

Mr. MORAWETZ. Yes; but that does not affect me.

I want to make a confession right here. A few years ago I suggested a regional bank plan providing for an issue of notes by the regional reserve banks and I proposed that the notes should be payable in lawful money. At that time I considered only the question of inflation, and I did not consider that to make the notes payable in lawful money would cause any inflation, but I overlooked this other danger. I confess I made a mistake then and I hope that this committee will not make the same mistake in the bill which you report to the Senate.

Senator SHAFROTH. How long ago did you get that plan up?

Mr. MORAWETZ. About four and a half years ago.

Senator SHAFROTH. My view is that making this money payable in lawful money has a tendency to preserve the gold reserve and therefore to make it easier for the Government to maintain a gold standard, because you do not have such a drain on gold. If you are going to have gold in each one of these regional banks, you are going to have 12 centers competing against the United States Treasury for gold which will take three or four times as much gold, scattered around in 12 regional banks, than it would if they were redeemable in lawful money and the lawful money redeemable in gold. It is a kind of buffer which the banks put up against paying it in gold, and therefore has a tendency to maintain the gold reserve and to maintain the gold standard. My usual illustration is, if a man has $1,000 in this currency and goes to one of these regional banks and says, "I want gold," the regional bank can say, "No; it isn't convenient for me to give you gold; I will give you lawful money." Then the man sends it down to Washington, and says, "I want gold for my lawful money," and the Government says, "Yes." The regional bank locks up its $1,000 and the Treasury here locks up its $1,000.

Mr. MORAWETZ. What money will the Government have in Washington to pay for this silver in gold?

Senator SHAFROTH. Gold.

Mr. MORAWETZ. Where will it get it?

Senator SHAFROTH. It has got $150,000,000 of gold——

Mr. MORAWETZ (interposing). It has not a dollar, sir; not a dollar of that belongs to the Government.

Senator SHAFROTH. It has got $150,000,000 of gold reserve.

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Mr. MORAWETZ. That is pledged for greenbacks alone.

Senator SHAFROTH. Certainly; and this proposes that there shall be a reserve of 33⅓ per cent.

Mr. MORAWETZ. Not for the silver.

Senator SHAFROTH. No; not for the silver.

Mr. MORAWETZ. You say a man can get his gold by going to Washington and presenting his silver——

Senator SHAFROTH (interposing). I do not know whether they have ever settled that or not, because silver is a full legal tender, and it seems to be taken current no matter whether the Treasury undertakes to do it one way or the other. But he has a right to demand gold; it is legal-tender money, and he gets it, and in that way the Government can act as a double redeemer. That is, with less money I can redeem greater quantities of outstanding currency by having the reserve bank cooperate with the Government in paying off and preserving the gold standard.

Mr. MORAWETZ. I candidly confess I do not see how that would operate in that way. I know in all cases I have observed bank notes took the place of gold in circulation.

Senator SHAFROTH. Did you ever hear of a national banker that wanted to make the present national-bank notes redeemable in gold instead of in lawful money?

Mr. MORAWETZ. I do not know of any case.

Senator SHAFROTH. Isn't it because it has a tendency to preserve the gold?

Mr. MORAWETZ. I think not.

Senator SHAFROTH. There is a less quantity of gold than there is of gold and lawful money, and consequently it would be easier to maintain the gold reserve if it were redeemable in one or the other than if it were redeemable only in gold, it seems to me.

Mr. MORAWETZ. I don't think it would operate that way. I think that the trouble with this provision is that no conservatism on the part of the banks and no conservatism on the part of the Federal reserve board can prevent the substitution of notes for gold as long as the gold does not have to be kept for the redemption of the notes.

Senator SHAFROTH. You know that the Bank of France prevents a run on gold by reason of the fact that their paper money is payable in gold or silver?

Mr. MORAWETZ. No, sir; I paid a premium this summer for gold in France. When I asked Morgan, Harges & Co. for gold they said, "We will give you 500 francs," $100, "but do not ask us for more, because we have to pay a premium for gold when we ask for it at the Bank of France."

Senator SHAFROTH. What was the premium?

Mr. MORAWETZ. A very small premium.

Senator SHAFROTH. A tenth of 1 per cent?

Mr. MORAWETZ. I do not know.

Senator HITCHCOCK. Unfortunately we have a session of the Senate at 12 o'clock, and we shall have to take a recess. In order that we may be close at hand during the session, we will meet this afternoon in the Judiciary Committee room in the Capitol.

(Thereupon the committee took a recess at 11.55 a. m. until 2 p. m).

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AFTER RECESS.

Senator HITCHCOCK. Mr. Morawetz, I think you had perhaps better proceed with your statement.

STATEMENT OF VICTOR MORAWETZ, ESQ.—Resumed.

Mr. MORAWETZ. Before the adjournment of the committee I endeavored to point out that the provision in the pending bill allowing the banks to redeem the notes in lawful money inevitably would result in driving a large amount of gold out of this country and substituting notes in its place, and this result would occur without any fault or lack of conservatism on the part of the banks or of the Federal reserve board.

The bill provides that national banks which fail within a year to come in under this plan shall be dissolved. If any considerable number of the national banks should be dissolved in this way there might ensue a very disastrous result, which apears not to have been contemplated or considered by the authors of this bill; there would be an enormous contraction of the currency, because the national-bank notes of these dissolved banks would have to be taken up in lawful money. The contraction of the currency which would occur, if only a third of these banks failed to come in, in my judgment, would very likely result in a very severe money stringency and possibly a great panic. For that reason it seems to me that this provision dissolving such of the national banks as fail to come in under this plan should be stricken out of the bill.

If the plan is a good one, as I believe it is in substance, let the plan be put in operation first and at the next session of Congress, or within a year, if you please, let Congress then deal with those banks which have remained out. It would be an enormous peril, not to the banks, but to the country, to force the dissolution of any considerable number of these national banks as long as they have their present issues of bank notes outstanding. I am confident, from conversations which I have had with officers of leading national banks in New York, that all or nearly all of them will gladly join in carrying out any plan along these lines which they believe to be economically sound. I believe they will willingly make large sacrifices of profits rather than stay out of any plan which they believe sound. This threat of dissolving these banks is not really a threat of doing a great injury to the banks themselves; the pistol is not pointed at the banks, but it is pointed at the country. The effect of that provision is practically to say to the banks:

> You must come in under this plan; if you don't the country is going to suffer from a great money stringency and possibly a panic.

Now, I do not think that is permissible legislation.

Senator HITCHCOCK. May that money stringency be overcome by the issue of asset currency under this bill?

Mr. MORAWETZ. That is the very point. It can not be. If the banks stay out, the reserve banks would not be strong enough, if they can be formed at all—they won't be strong enough to issue the requisiste amount of these new notes to take the place of the national-

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bank notes which must be withdrawn, because you will observe for every one of these notes that may be issued the reserve banks must put up an equal amount of the prescribed collateral and, in addition, a reserve in lawful money equal to 33⅓ per cent of the notes. The fact ought to be recognized that the cooperation of the banks is essential in order to make this plan a success, and the banks will give their cooperation if they are given half a chance; but I think it is due to them, it is due to the country, that the Government should try to put this plan through with the cooperation of the banks and not force it upon them in the first instance. First establish these reserve banks with the cooperation of such of the banks as are willing to join, and then let Congress, which always will have the mastery, deal with such of the banks as refuse to come in.

Senator O'GORMAN. Would you permit the banks that refuse to come in to avail themselves of this rediscount privilege?

Mr. MORAWETZ. Certainly not. Only the banks which come into the plan and become members should have these privileges. I have not a doubt that practically all of them, particularly the big banks that I have come in contact with, will gladly come into this plan at considerable sacrifices, if it is made economically sound.

Senator O'GORMAN. You see it would be quite difficult to exclude nonparticipating banks from the privileges of the rediscount system, inasmuch as they could, by indirect and not entirely illegitimate methods, pass their paper on to a bank that is a member of the system and that bank would in turn enjoy the advantages of the rediscount features of this system.

Mr. MORAWETZ. It might be so if the member banks join with the banks that are not members to defeat the purpose of the bill.

Senator O'GORMAN. It is fair to say in this connection, Mr. Morawetz, that a number of bankers who have testified before you have, without any reservation, expressed the opinion that this plan, if devised, should have all the national banks in it, and they favor the compulsory feature of the proposed bill which compels them to come in or surrender their charters. It has been stated, in that same connection, that bankers are, of course, like other people and, if it is entirely optional with them to come in or stay out, they would be likely to defer their coming in at all events until some one else experiments, and that, in that way, it might be difficult to complete this system within any such period as the authors of the bill hope it would require.

Mr. MORAWETZ. I agree that all the national banks should be required to come into this plan, but I think that this requirement should not be imposed by Congress until it can be done with safety to the country. And it can not be done with safety to the country until after you have established the reserve banks and assured the success of the plan. It is possible, it is probable, that if you do not make this plan compulsory, but make it permissive merely, there will be established, at the outset, only three or four of these reserve banks. Under a permissive plan, I am confident, a strong reserve bank would be established in the eastern part of this country, New York, Boston, Philadelphia, and the neighboring cities. There would be enough banks there to form a strong regional reserve bank. I mean enough would come in.

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Senator O'GORMAN. Do you mean by that one bank in that territory?

Mr. MORAWETZ. One for that territory. I believe that another bank could be formed without the compulsory provision, in and around Chicago; another one could take care of the Central West, and another one on the Pacific coast.

Senator O'GORMAN. Well, now, are you sure as to that Pacific coast proposition?

Mr. MORAWETZ. I am not sure as to the Pacific coast proposition.

Senator O'GORMAN. Would it not meet your view, as you have indicated during the day, to start out first with the reserve board in Washington, and then three regional banks to take the place of the banks in the central reserve cities, New York, Chicago, and St. Louis, and leaving the power confided to the reserve board to provide for one, two, or three, or possibly a greater number, ultimately, of reserve banks in excess of the initial number, as the needs of the country seemed to require and as the disposition of the country banks appeared to be favorable to the plan?

Mr. MORAWETZ. I should start with authorizing the central board to organize five of these banks, one for the Northeast, one for the Central West, including Chicago, one for the Pacific coast, one with its headquarters in St. Louis for the South and Southwest, or possibly one in St. Louis for the Southwest and another one in the South for the Southern States—the old Southern States. That would be five. But I should put the plan in operation as fast as any of these five banks should be organized. If three only should be organized, let it start with three.

Senator O'GORMAN. Or if one or two?

Mr. MORAWETZ. Yes.

Senator POMERENE. Would you have those three cover the entire country or only sections of it?

Mr. MORAWETZ. Only sections of it.

Senator BRISTOW. Then would you have a double head and operate the old system in one part of the country and the new system in another?

Mr. MORAWETZ. I do not think there would be any difficulty. Simply the banks in those sections in which a regional bank had not been established would be in the position of nonassenting banks. There would be no difficulty.

Senator WEEKS. You speak with considerable confidence of what would be done in the East and the Middle West. Do you think that could be done unless changes were made in the pending bill?

Mr. MORAWETZ. Certainly not. I think changes would have to be made in the bill—changes not to benefit the banks financially, but changes which experienced bankers deem necessary to sound banking.

Senator WEEKS. That is substantially what you are pointing out, or what you are intending to point out—the changes you think necessary or desirable?

Mr. MORAWETZ. Yes, sir.

Senator WEEKS. Now, do you not think, Mr. Morawetz, we have to use the greatest care not to produce confusion and uncertainty of what is going to come from this legislation or when it is going to take effect?

Mr. MORAWETZ. Assuredly.

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Senator WEEKS. Otherwise, is there not going to be a natural contraction and hesitation and stopping of business enterprises of the country?

Mr. MORAWETZ. I believe that is going to happen no matter what legislation you pass, and I think that a great many of the voters of this country will charge the legislation which is passed, whatever it may be, with being the cause of it.

Senator WEEKS. You recognize we have a very delicate proposition.

Mr. MORAWETZ. You have a delicate proposition and you have a delicate situation to deal with.

Senator WEEKS. And we ought to be quite sure of what we are doing before we do it?

Mr. MORAWETZ. Certainly.

Senator BRISTOW. Now, Mr. Morawetz, before you leave that point: You spoke of starting with three, possibly, and adding the others later. If it will come in now as part of your remarks, just as well, what objection would you have to the Federal board which is created, having the immediate charge of the Federal bank itself?

Mr. MORAWETZ. You mean to establish a central bank which is to be managed by the Government?

Senator O'GORMAN. By the Federal board.

Senator BRISTOW. By the Federal board.

Senator O'GORMAN. Of seven commissioners.

Senator BRISTOW. Yes; of seven commissioners. This is the idea I had in mind, and that is, that this board which will not have any ex officio officers—I do not think there ought to be any Government officers on the board—but let them be in the active management of the bank itself so that they are coming in direct personal contact with the operation of the business and thus understand it. I do not say a central bank, because according to my view it would not be a central bank; it would be a Federal bank.

Senator O'GORMAN. A Federal bank of discount and reserve.

Senator BRISTOW. A bank of discount, a bank of reserve, and a bank of deposit of Government funds, and any reputable banking concern which has the proper assets could discount those assets at this bank, and let its operation be extended to the various sections of the country so as to meet the convenience of the people.

Now, what objection would you see to that?

Mr. MORAWETZ. Well, that is, in substance, the central bank or the Aldrich plan over again.

Senator BRISTOW. No. Now, I beg your pardon; you do not understand. This we will have now is the Aldrich plan with the head cut off. We have now, with the Aldrich plan, a bank managed by bankers, owned by bankers, operated by bankers—a private enterprise so far as the regional banks are concerned. Now, the central bank of the Aldrich plan has been left out, and in lieu of it a Federal reserve board of supervision has been created. Now, in substitution for that plan, I would create a bank that is not owned by the bankers, that is not operated by the bankers, but that is owned by stockholders and operated by the Federal Government for the convenience of the banking system of the country, but not controlled by the bankers at all.

Mr. MORAWETZ. I understand. It is to be a central institution or central bank, the capital of which is to be furnished by private indi-

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viduals, if you please, anybody who wants to take stock in it or will take stock.

Senator O'GORMAN. Preferably by the banks who want to come into the system.

Mr. MORAWETZ. They are not to have a vote in it, but it is to be managed by the Government itself through this board.

Senator BRISTOW. The subscriptions will be wholly voluntary. Now, it is not a central bank, and I will tell you why: A central bank is the center of a banking system, connected up, and it is the head and the center. Now, it is not proposed that this shall be the center of a banking system, but this shall be a Federal institution which will come to the relief of the banking system of the country, the democratic system which now exists, when such relief is needed.

Mr. MORAWETZ. Of course, it is all a question of definition, whether you call that a central bank or not. I should call it a central bank; it performs the functions and is very similar, in substance, to several of the great central banks in Europe which are managed by government appointees.

Senator BRISTOW. I guess there is but one, and that is the Bank of France?

Mr. MORAWETZ. The Bank of Germany.

Senator BRISTOW. The system we are now discussing is more nearly like the Bank of Germany than the one suggested by the question.

Mr. MORAWETZ. I do not think so, but that is of no consequence.

Senator BRISTOW. Is the Bank of France called a central bank? That is, the Bank of France, is it not?

Mr. MORAWETZ. It is generally called a central bank; yes.

Senator BRISTOW. I have never heard it called the central bank; I always heard it called the Bank of France.

Mr. MORAWETZ. That is a question of definition. I consider it a central bank, a large central institution which is the principal depository of the bank reserves, and whose function is not primarily to make money for its shareholders but to act as the balance wheel of the banking institutions of the country and to keep the finances of the whole country sound and safe. But that is a matter of definition. This is one of the points I expected to take up later, but I will take it up now. To my mind, the particular objection to any such scheme, which I call a central-bank scheme for the United States, is that it would inevitably result in sectional controversies and inject politics into the management of the whole system. In European countries banking and currency questions never have been considered political questions. In this country banking and currency questions have been considered as fit subjects of party politics from the beginning of the Government up to the present day. The First Bank of the United States ended in 1816 or 1817 in bitter political controversies and in the dissolution of the bank. The Second Bank of the United States ended in the so-called bank war in Jackson's time, and the bank was dissolved, not because it was inefficient or because it was not a useful institution but because the banking question was seized upon by the two political parties as a suitable political issue, and Mr. Clay and Mr. Jackson made it the principal issue of their presidential campaigns. After the war we all know that the question of the issue of our Government notes became a political question—not an

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economical question, to be dealt with on its merits. Sections of the country wanted the National Government even to pay the interest on its bonds in its own depreciated paper currency. Then for 12 years the silver question was the principal issue between the political parties—I mean the free coinage of silver at 16 to 1. After that we had the compulsory guaranty of bank deposits as the principal issue of a presidential campaign, and now this very question—this very bill we have before us—is a party measure and, possibly, will have to be forced through by party caucus.

Senator O'GORMAN. There is no substantial sentiment, of which I am aware, justifying that last conjecture of yours.

Mr. MORAWETZ. I hope it may not be so; but I was going on to say, if it should be so, I do not blame anybody; I do not think anybody here should be blamed. It is the result of the conditions which have prevailed in this country from Washington's time down. It is because the people of this country have chosen to treat banking and currency questions as fit subjects for party politics. What I am leading up to is this: The moment you have a central institution which is to dispense credit or take care of the banks throughout the country you immediately will have sectional demands made upon the central institution. At sometimes the South will want this central institution to lend credit to the banks of the South, so that they can help the planters to corner their cotton; at other times the West will want credit from this central institution to help the farmers to carry their products. And so it will be impossible, if you have a single central bank or central institution in this country, to avoid these sectional differences and sectional controversies, and the moment sectional differences and sectional controversies arise party politics will seize upon them and make them political issues.

Now that, to my mind, is the principal reason why one central bank or central institution for the whole of this country is unwise. It is wholly unnecessary. You can avoid these sectional differences by dividing the country into districts each as big as any country in Europe and quite big enough to have a central bank of its own. The central-bank system has been tried and has been found to work perfectly in every country in which it has been tried. The principle of the system unquestionably is sound. I would simply apply that principle, and you will have to apply it if you ever have sound banking in this country, but I would take each great division of this country separately and give it its own regional central bank.

Senator BRISTOW. Mr. Morawetz, suppose we do that. You have presented your views clearly, I think. Suppose we do that. Then do you favor giving the central board, which we create here in Washington the power to compel one regional bank to discount the paper of another regional bank?

Mr. MORAWETZ. I am convinced that it would not be wise to give the Federal board this power. I should give the Federal board some powers which are not given it by this bill, but I should take away that particular power to which you refer. If I believed that it was necessary to give the Federal board the power to hand over the reserves of one regional bank to another bank, I should consider the plan unsound. If these regional reserve banks are not strong enough to stand independently without giving that power to the Federal

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board I should consider that they were not adequate to serve the purposes for which they are created, and the whole plan, in my eyes, would stand condemned. But I believe that if you establish not more than five of these banks they would be strong enough, and they would serve all the purposes for which they were created without giving this power to the Federal reserve board.

Senator BRISTOW. If it is necessary to give that power to the Federal reserve board then the Federal reserve board would become the tyrant of political attacks, unless upon the request of a regional bank it would call upon some other regional bank to discount its paper. Now, the South might be in need of help.

Mr. MORAWETZ. Yes.

Senator BRISTOW. New York or Chicago might think they could not spare the help which the South wanted, and decline, because they would feel their own section of the country needed all the resources. The South would appeal to the Federal board to require them to do it, and this would at once precipitate the political controversy which you seek to avoid, it seems to me.

Mr. MORAWETZ. Exactly. And, furthermore, I think that provision would lead to unsound banking. It would be an invitation to some of these banks to rely upon the Federal board to help them with the reserves of other banks; and furthermore——

Senator SHAFROTH (interposing). Do you think they would do this, Senator Bristow, in view of the fact that each one of the reserve districts has a right to present the bank paper to the reserve bank and have money issued on it? What is the use of going to another bank?

Senator BRISTOW. But the authority is in the bill; and Mr. Vanderlip and others have said that they believed that authority was necessary.

Senator SHAFROTH. Well, it may be necessary in very extreme cases; but I do not believe it would be necessary one time in a year.

Mr. MORAWETZ. With great deference to these gentlemen, I believe it is not necessary.

Senator POMERENE. I was going to ask you a question in that connection. As I understand, your position is this: That each of these regional banks, when organized, would have sufficient strength and power of itself to meet the demands of that particular section. Now, if that be so, then what harm could come from giving the Federal reserve board the right, in the event that an emergency should arise, to transfer from one regional bank to another?

Mr. MORAWETZ. Each of these regional reserve banks, if properly managed, would be strong enough. But if you are going to start in by saying, "Go on, if your reserves fall short; if you extend yourself too much we will help you by turning over some of the reserves of the New York banks or of the Chicago banks," you are going to make unsound banking; and furthermore——

Senator POMERENE (interposing). Well, for what reason would it be unsound banking?

Mr. MORAWETZ. Because they would be too free with their discounts. They would not keep up their discount rate to the proper point to prevent overextension in their sections of the country.

Senator SHAFROTH. If there were only one central bank, however, they would practically do the same thing, would they not? They

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could take from the reserves of the central bank and say, "New Orleans needs more than this, and we will give it an undue proportion."

Mr. MORAWETZ. Yes.

Senator SHAFROTH. Or they may say, "California needs more and we will give it to them." And under one central bank it would have exactly this same power.

Mr. MORAWETZ. That would result in the sectional controversies which I want to avoid. And so this provision, I think, would lead to sectional controversies and ultimately would introduce politics into the situation.

Gentlemen, this country under its present system, without any regional banks or central bank, has prospered beyond all other nations. We have had occasional panics. Most of these panics were due to unsound currency conditions which no longer exist. Our currency to-day is all as good as gold, and there is no danger—if it is not increased—that any of it will ever become less valuable than it is.

All that is needed now, in my judgment, to prevent a recurrence of this scramble for money is to centralize to some extent—not wholly, but to centralize to some extent—the reserve money, so that it will be available when and where it is most needed. And that is the object of these regional reserve banks.

My advice would be, as I have stated, to limit the number of the banks to five; to establish them as fast as you can get them established by the voluntary action of the banks; and then, after you have your plan in working order, take up the question what shall be done with those banks which stay out. I think, ultimately, they ought to be coerced into coming in, but only after you have established a successful plan, and after this great difficulty of the present situation has been provided for—the difficulty arising from the outstanding national-bank notes. You can not dissolve any considerable number of these national banks until you have made adequate provision, through the regional banks, for the issue of currency to take the place of national-bank notes which will be redeemed.

Senator BRISTOW. Mr. Morawetz, you approve, as I understand, the appointment of this Federal board by the President, so that it is an appointive board?

Mr. MORAWETZ. I believe that if this system is adopted there should be a central board appointed by the President with the fullest supervisory powers, and also certain powers of controlling the operation of the banks. But these powers of control—these discretionary powers—should be strictly limited in such a way as to keep out sectional controversies and so as to prevent politics interfering with the operations of the board.

Senator BRISTOW. Well, if this central board is the supreme and superior authority, and if it is appointed by the President——

Mr. MORAWETZ (interposing). On certain subjects only.

Senator BRISTOW (continuing). Yes. Now, it seems to me—this is my view of it; it may be erroneous, of course, but I very firmly believe that the real authority in the management of this system—that is, the practical authority—exists in the board of management of the regional banks.

Mr. MORAWETZ. It ought to be there.

Senator BRISTOW. Now, why should not——

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Mr. MORAWETZ (interposing). You say the board of management of the regional banks. Do you mean the board of directors of each bank?

Senator BRISTOW. Yes; of each bank. That is the real governing force in this system. The other authority is off here in Washington—not in direct contact with the system. Of course, there may be complaints here and there, and it interferes with the system more or less. It might manage it wisely and it might not; but why should not the Government appoint the board of directors of the regional banks if these regional banks are to be the real controlling factor in the administration of the system?

Mr. MORAWETZ. Because I do not think that such a management by Government appointees would be a good management. There have been cases in which the Government has appointed directors of Pacific railroads. You remember there used to be Government directors of some of the Pacific railroad companies, such as the Union Pacific. But I think that all railroad men will agree that the Government directors were not helpful to the good management of those railroad companies.

Senator BRISTOW. They were political appointees, were they not?

Mr. MORAWETZ. I am simply stating a fact.

Senator BRISTOW. Well, if it is wise for the President to appoint the supreme board, with authority in theory, why should not he appoint the managers who have authority in fact?

Mr. MORAWETZ. It is all a question of fact, not of theory. Now, as a fact, there is no doubt in my mind whatsoever that the business management of these institutions should be in the business men chosen by the banks. I think you would then have a good management. But the supervision of these institutions should be in the hands of a Government board, which should consist wholly of appointees of the President, and upon which the banks should not be represented.

Senator BRISTOW. Well, that is similar to the authority which the comptroller has over the present system.

Mr. MORAWETZ. Yes; and something more.

Senator BRISTOW. Yes; and something more. That is a theoretical supervision; and where something radical goes wrong, he takes possession—but it is after it has gone wrong.

Mr. MORAWETZ. That would not happen here. The comptroller has 7,000 and odd banks under him. Here there would be five; and you would have a body of eight first-class men, I hope, who would be appointed by the President, by and with the advice and consent of the Senate; and they would be in constant direct communication with each of these institutions and would have wider powers than the comptroller has over the individual banks now.

Senator BRISTOW. Mr. Morawetz, my objection to Mr. Aldrich's plan was that it was controlled by the banks, and that the central bank, which was the central authority and for which in this plan the central board has been substituted—was chosen by the banks; and I believe that certain great interests would control this institution so as to promote their desires when occasion required it.

And I believe that the country is against the plan suggested by Mr. Aldrich, because the country believes it would be controlled by selfish interests to serve their own purposes.

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Now this system takes away the central bank and substitutes a board. But it centers the real control which the central bank under the Aldrich system had, in regional banks, and leaves the control of those regional banks exactly where Mr. Aldrich would put it in his system.

So my objection to this is that, instead of preventing the thing which the country feared would happen in Mr. Aldrich's bill, will actually happen by the control of the regional banks in this bill; and it is altogether——

Mr. MORAWETZ (interposing). I frankly must say that I think you are conjuring up a specter of the imagination.

Senator BRISTOW. Well, then, what is the objection to Mr. Aldrich's system?

Mr. MORAWETZ. I will come to that in a moment. These regional banks—what will they control? All they are there for, and all they are to accomplish is, to introduce a bond of unity among the scattered banks of the district to enable them, in a measure, to pool reserves, so that, in case of stress, or trouble, the reserves will be available to stave off a run upon individual banks, or a panic of any kind, and to furnish a general market for commercial paper, so that the banks will not be obliged to loan so much on stock-exchange collateral.

It is, to my mind, not a centralization scheme at all. It is a most democratic scheme. It is to help to strengthen the individual banks, the small banks particularly, and to make their credit—the whole of their credit—available for the commerce of this country, instead of forcing the individual banks to tie up a considerable part of their resources in railroad bonds and in stock-exchange loans.

Senator BRISTOW. Well, why could not all that you have said in behalf of these regional banks be said in behalf of Mr. Aldrich's system of organization?

Mr. MORAWETZ. It could, sir; it could. The fault of the Aldrich plan or of any central plan, as I have endeavored to point out, is that it inevitably will introduce sectional controversies and party politics into the management of the whole business.

Now, I brush aside as of minor importance in the Aldrich plan the controversy as to who shall control the board of directors of the central institution. I know that there are many who believe that some of the rich men of this country who would in some way, by hook or by crook, get control of that board of directors. I do not think so myself. I think the greater danger under the Aldrich plan was that the scattered small banks throughout the country—the country banks—would get the control of the management and that unsound banking practices—possibly inflation—might be the result under the Aldrich plan.

But, it is not a question of that; I do not care who controls the central institution. If it were controlled by individuals to-day, next year you would have the Government step in and take charge because sectional controversies would certainly arise. You never could work in this country a single central institution which would have to establish a uniform discount rate for all the country, or different rates for different sections, under any central bank, without having sectional controversies occur.

Senator BRISTOW. Well, it has been alleged, and we are urged to pass this bill because it is alleged, that it will break up what is com-

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monly termed the "Money Trust"; and that the intention of this legislation is to break up the control of credits that has been complained of, and that this legislation is intended for that purpose. Well, Mr. Bryan, the Secretary of State, in his speech which he delivered at Waterloo, Iowa, has stated, last week, that that was what this legislation was intended to do. And he intimated that those of us who were insisting upon examining the subject with some care, before we approved or disapproved the legislation, were simply the agents of Wall Street in undertaking to delay legislation, because it was legislation that would interfere with the operations of Wall Street.

Now, with such eminent authority as that making such statements as that, it seems to me that we can not ignore the fact that this legislation is primarily intended, at least, to free the country from what it is believed to be the controlling authority of certain great financial interests. Well, if that is the case and these interests are in control of the regional banks——

Senator O'GORMAN (interposing). Will you permit an interruption there, Senator Bristow?

Senator BRISTOW. Certainly.

Senator O'GORMAN. You know that the authors of this bill have never stated that that was the purpose of this legislation. They have invariably claimed, and I think correctly, that the only need of this legislation is to provide a system whereby the elasticity of our currency can be promoted and whereby the metallic reserves of the country can be concentrated—mobilized.

Senator BRISTOW. That is true. I think that is true. But this other element has been——

Senator O'GORMAN (interposing). Injected.

Senator BRISTOW (continuing). Very forcibly, in a way, injected into this question. The papers have been full of it and it leads me to inquire if that is the purpose of this legislation, then should we not undertake to provide against that evil? And I maintain that with the banks in control of the actual authority, by having control of the regional board, they are just as much in authority now—will be under this law—as they otherwise would be.

Mr. MORAWETZ. Oh, no; not at all, in my judgment. This plan makes careful provision for keeping the control of each regional reserve bank out of the hands of any clique of banks. The division of the board into three classes of directors, and the division of the banks into groups for purposes of election, would wholly eliminate any danger of that kind. The few big banks, in New York, for instance—and those are the ones which I suppose are the "niggers in the woodpile"—would have very little to say in choosing the board of directors of the regional reserve bank which is to control them.

Senator BRISTOW. Well, now, Mr. Morawetz, you are a practical man, and I try to be one. Do you not think that the influential bankers in these regions will control the election of these directors?

Mr. MORAWETZ. I do not.

Senator BRISTOW. What makes you think they will not?

Mr. MORAWETZ. Because of my general knowledge of mankind and of the conditions existing.

Senator BRISTOW. Do you not think they would like to control?

Mr. MORAWETZ. Oh, yes; anybody would.

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Senator BRISTOW. Yes; any great banker would like to have control of the management of this great institution with which he is doing business.

Mr. MORAWETZ. Yes.

Senator BRISTOW. Now, has it not been your experience that a few powerful men can carefully organize an election and control it—or a convention and control it?

Mr. MORAWETZ. Sometimes, if it is not too big.

Senator BRISTOW. Did you ever see a convention so big that a few powerful men could not control it?

Mr. MORAWETZ. Oh, yes; I have seen a good many unexpected results happen at presidential conventions. [Laughter.]

Senator BRISTOW. Yes; unexpected; that is true. But, nevertheless, the powerful men were there. It has been suggested—and I think with a good deal of practical sense and judgment—that men thoroughly familiar with our region of the country can name now the men who would control the election of the board of directors of the regional bank. I think that a few of us can tell who will be in control of the regional bank out in that section where we live.

Senator O'GORMAN. Are they good men? [Laughter.]

Senator BRISTOW. Yes; they are good men. But I think they have certain interests that they would protect first, and they would think they were doing the right thing in doing that; but it would be their interests with which they had a personal connection, which they would protect first.

Now, it is advocated by those who stand for these regional banks and their methods of electing directors, that it is a very democratic way of electing these boards of directors.

It has been my lot to attend a good many county and State conventions; and in a county or State convention every delegate has one vote, whether he comes from a township and is simply a farmer or whether he is a great lawyer living in the city; they are all on an equality; every man has one vote.

But it would be idle to say that the innocent farmer that comes up from the township has as much influence in the control of the action of that convention as the strong, aggressive man from the city.

Mr. MORAWETZ. Of course, intelligence everywhere ought to have, and does have, more influence than ignorance. This country would go to ruin in a very short time if superior ability did not give superior control, superior power. It ought to be so.

Senator BRISTOW. Now, in managing a convention—and this is a convention that is to elect the directors—intelligence plays a great part, of course, and it should do so. I do not want to discredit intelligence. But Sam Smith will say to John Jones, "You fellows down in your part of the county support our man for clerk of the court, and we will support your man for county superintendent."

And they fix up a slate the night before the convention meets; and the next morning it goes through—unless some clog gets in the wheels unexpectedly.

Senator O'GORMAN. Is that the way they do it in Kansas, Senator Bristow? [Laughter.]

Senator BRISTOW. That is the way they do it everywhere—New York, California, and Texas, and everywhere else.

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Senator SHAFROTH. They do not do it when the direct primary comes into effect.

Senator BRISTOW. Now, in order to avoid the evils which have grown up in our political life under that system, the direct primary has been injected in and made a part of our political institutions. Now, we propose here in this bill, in selecting directors of this powerful institution that is to control the currency and banking system of a vast region, the old method. There has not been a method used by a political boss for 50 years that can not be used effectively in the selection of these directors, in my opinion.

Mr. MORAWETZ. I do not agree with you as to that. I think this is a very democratic system which will work perfectly, and I think the other system of having the management appointed by the Government will be sure to inject party politics into the selection of the directors and to introduce every vice which you very justly wish to exclude. I think it would have just the effect which you wish it not to have. However, of course, that is merely a matter of judgment.

Senator BRISTOW. I do not believe I have gotten your reasons clearly as to why it is desirable to appoint the general supervising board and not to appoint the actual operating board.

Mr. MORAWETZ. Because the one is a business board having the business management of this banking business and the other is a supervisory board, with only very limited powers of direction conferred upon it for the protection of the general interests of the whole country.

Now, under this plan each reserve bank is required to pay the notes of any other reserve bank which comes to it and is to collect them from the issuing bank. There is no provision in this bill which would enable the paying bank to recover from the issuing bank the costs of exchange and the loss of interest. I think that ought to be covered. Under this plan if the New York reserve bank should issue a million dollars' worth of notes and those notes should be sent to California, the California bank would have to hand out a million dollars of its gold or lawful money and it would have to then reimburse itself by sending the notes to New York and getting its gold back, and it would have no recourse under this bill for the exchange or loss of interest. That certainly is a defect which ought to be covered.

Senator HITCHCOCK. There is a provision in the bill under which the San Francisco bank could charge those notes to the Government account.

Mr. MORAWETZ. If it has a Government deposit there, and then the Government would lose. It would stand in the breech.

Senator HITCHCOCK. The Government would then be required to demand payment of those notes from the New York bank?

Mr. MORAWETZ. Yes. But there is another provision in the bill which requires a reserve bank to receive at par as a deposit checks drawn or drafts drawn on other reserve banks. That is subject to the same criticism. It is not fair; it is not wise.

It seems to me that an essential feature of this plan is to require these reserve banks to establish a clearing house, and each reserve bank to keep a part of its reserve in that clearing house, not for banking purposes, but to settle balances that can not be cleared,

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whether they be upon notes or other claims, such balances to be charged to the several banks with proper charges for exchange. That, however, is a practical matter which the banks would easily and readily work out for themselves. All that would be required is to give them authority to do this under regulations to be approved by the central board.

Now, my judgment is that inasmuch as all these provisions relating to the note issues are very imperfect, and I think practically unworkable under the present bill, the best course would be to strike out of the present bill not only the provisions dissolving the banks which do not come in within a year, but also all the provisions relating to note issues, and to take up these subjects at the next session of Congress, or within a short time after the organization of these banks. I do not think that provision for the issue of additional notes is at all necessary. The United States has, as I pointed out this morning, a superabundance of paper currency. We have more uncovered currency, more currency which is not gold, than any other country in the world, not only absolutely but also in proportion to our supply of gold and per capita of population.

Senator POMERENE. That has probably answered the question I was going to ask you as to whether or not the ratio between the paper currency uncovered in this country and the gold was greater or less than the ratio between the paper currency and gold in the other countries.

Mr. MORAWETZ. Much greater in this country. It is about twice as big in this country as in any other great country. We have outstanding, year in and year out, more uncovered paper currency than any of the great countries of Europe when its currency is expanded to its utmost.

Senator SHAFROTH. Do not the Dominion notes of Canada have a reserve of only 25 per cent behind them?

Mr. MORAWETZ. Yes; I will take that up in a moment.

Senator POMERENE. Is not our commerce very materially different from that of the other countries, so that we really need more of the currency?

Mr. MORAWETZ. I speak of the ratio between the paper and the gold. We do not need as much currency for circulation as does France, where nearly all the debts are paid in currency, and not by check. But in England they have practically no paper currency at all. There are outstanding £18,000,000—under £18,000,000—under $90,000,000 of Bank of England notes, issued against Government deposits. Every other Bank of England note is issued against an equivalent amount of gold locked up in the vaults of the bank, and specifically set apart for its payment. So that Bank of England notes, for practical purposes, are the same as our gold certificates. Therefore in England there is gold enough to cover the currency for practical purposes. Yet England is the principal center of commercial credit for the whole world, and it is also the principal source from which the whole world draws gold when gold is needed. How do they do it? Simply because they have a proper reserve back in the Bank of England. It is not an enormous institution, but it is a properly managed reserve bank, such as we want to establish under this bill. The Bank of England is sufficient to keep financial condi-

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tions sound and strong in England, and is sufficient to enable England to maintain her supremacy in commercial credits and in money transactions throughout the entire world.

In my judgment, if this bill is right, if it is worked out correctly, conditions in this country would be perfectly safe and sound without providing for the issue of another dollar of paper currency.

However, in urging——

Senator HITCHCOCK (interposing). Will you discuss, for a moment, the paper currency of France and Germany as you have discussed that of England?

Mr. MORAWETZ. The system in France and in Germany, of course, is different. The Bank of France and the Imperial Bank of Germany have the power to issue notes, asset currency, to a limited extent; but they use that power very sparingly.

As I have stated several times before, they never, under any circumstances, have as much uncovered paper currency in those countries as we have outstanding year in and year out. Each one of these banks is managed as a reserve bank ought to be, and I hope as these banks are going to be managed. They use their power of issuing notes solely as a means of keeping the financial situation in equilibrium throughout the country.

Senator HITCHCOCK. Is there any real restraint upon the Imperial Bank of Germany in the issuing of notes except that they must always keep a reserve of 33⅓ per cent?

Mr. MORAWETZ. Thirty-three and a third per cent. When they get beyond a certain point they have to pay 5 per cent tax.

Senator HITCHCOCK. Does that not seem to be a rather moderate limitation? Is there anything very stringent there?

Mr. MORAWETZ. No; but, gentlemen, a tax is not necessary in Germany, because the management of that bank would not dream of putting out notes merely to make money, and the tax is not really necessary to deter them from putting out notes when notes ought not to be put out.

Senator HITCHCOCK. At the time that Germany had her reserve below 40 per cent, how much uncovered currency did that involve?

Mr. MORAWETZ. I do not know the figures.

Senator HITCHCOCK. You are sure it would be less than we have?

Mr. MORAWETZ. Oh, yes; much less. I have forgotten just what those figures are. I think about one-half as much as we have, per capita.

Senator HITCHCOCK. In France the limitation is a little less than 6,000,000,000 francs; a little below 6,000,000,000 francs?

Mr. MORAWETZ. Yes; but they carry an enormous reserve of coin in the Bank of France, as you know.

Senator HITCHCOCK. Our uncovered currency is about $200,000,000 of greenbacks——

Mr. MORAWETZ (interposing). $200,000,000 of greenbacks, $600,000,000 of silver, and $725,000,000 of national-bank notes.

Senator HITCHCOCK. Germany has a great deal of silver?

Mr. MORAWETZ. Not nearly so much. France has more silver in proportion than Germany.

Senator HITCHCOCK. In speaking of uncovered currency I suppose you are only referring to demand currency?

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Mr. MORAWETZ. I am speaking of all currency which has to be kept up to the gold standard. Silver, except subsidiary silver, is exactly the same, for practical purposes, as paper.

Senator POMERENE. I have been informed that the actual per capita circulation in France, and by that I mean in actual circulation, is about $40 per capita. In this country, while nominally we have about $33 or $34 per capita, as a matter of fact we have only about $17.70 per capita actual circulation. I mean that, taking the reserves from the total money of the country, which is in fact not in circulation.

Mr. MORAWETZ. About $17, I think, is right. But you understand the reason for that is that in this country we pay largely by checks. In France scarcely anything is paid by checks. Every tradesman always collects payments and makes payments in money.

Senator HITCHCOCK. You recommend that this bill be passed after striking out the clause authorizing the issuance of additional currency?

Mr. MORAWETZ. I recommend—I think really the wisest course would be to do that, with the intention of dealing with the currency question separately at the next session of Congress.

Senator HITCHCOCK. In that case the reserve banks would have nothing to loan to the member banks and nothing with which to discount the notes of member banks, except the reserve in the vaults.

Mr. MORAWETZ. Except capital and deposits.

Senator HITCHCOCK. Would there not be a tendency to produce a stringency by that process of moving these reserves from their present place to the new place and not authorizing the banks which have been created to issue currency?

Mr. MORAWETZ. I do not think so. Of course you would not do it all at once. The transfers would be made gradually.

Senator SHAFROTH. There would be no currency, in that event, to take the place of the retired national-bank notes.

Mr. MORAWETZ. There would not be any retired national-bank notes. They would remain outstanding for the present. You can not deal with the question until you have your divisional reserve banks successful and sufficiently strong to enable them to issue notes in place of such of the $700,000,000 of these notes as are retired.

Senator O'GORMAN. Where would your relief come from in a time of stress or in time of conditions such as we had in 1907?

Mr. MORAWETZ. The relief would come through the use of the reserves which have been pooled in the divisional reserve bank.

The trouble in 1907 arose from the fact that whereas there was plenty of reserve money each bank locked up its reserve and was afraid to use it to help the weak banks.

Now if this reserve money has been in a central institution, in a divisional reserve bank, it would have been available, and we would not have had the trouble. As a matter of fact, the trouble was stopped by this very process of pooling reserves through the clearing house. What you want to do is——

Senator HITCHCOCK (interposing). Was there not something more than that? Did not those clearing houses issue clearing-house currency which relieved the stringency?

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Mr. MORAWETZ. Yes; but it really was not that. The clearing house forced the banks to accept these orders upon each other, but if the currency had been in the hands of the clearing houses so that the clearing houses might have said, "We will rediscount some of your paper; here is the money," the trouble would have been avoided.

This bill, if it works at all—and it will work—will give us five banks working on the same principle as the Bank of England, and each one of these banks will have a territory five times as big as the Bank of England.

Senator POMERENE. Mr. Morawetz, I think, in answer to a question a moment ago by Senator Bristow, you made a statement that you would take from the Federal board the power to make transfers from one regional bank to another, but at the same time you would give it certain other powers, but I do not think you went into that subject.

Mr. MORAWETZ. Not yet.

Senator POMERENE. Have you that in mind?

Mr. MORAWETZ. I have it marked down, and I will discuss it a little later.

Senator POMERENE. I would like to have your suggestion.

Mr. MORAWETZ. I recognize fully—I think anyone must recognize that these regional banks will have to be under very strict governmental supervision, and that certain discretionary powers must be vested in the governmental board. I think everybody must agree also that the greatest possible pains should be taken to exclude party politics from this central board.

Now, the bill as drafted here provides that of the four appointed members not more than two shall belong to the same political party, thus recognizing the likelihood of politics entering into it. It goes on then and provides that three of the seven members shall be appointed by the administration. In fact, two of them are to be Cabinet officers. Now, it seems to me that is a most unwise provision, because inevitably the result would be to make the administration responsible in the eyes of the people for the acts of this Federal reserve board. I strongly urge that all of the seven members of this central Federal reserve board shall be appointed by the President, by and with the advice and consent of the Senate, and that all the restrictions which are imposed by the bill in the selection of the members of this board be eliminated. We must trust somebody, and I think far and away the safest plan is to trust the President and the Senate to get good men for this board.

Senator HITCHCOCK. What do you mean by "good" men? What type of men will they be? What qualifications should they have?

Mr. MORAWETZ. Men of high character, who are not in politics, and who are not in the banking business.

Senator HITCHCOCK. For instance, would you appoint a lawyer who had never had any banking experience?

Mr. MORAWETZ. There are a great many lawyers who have not had banking experience who, in my opinion, would probably fill this position better than the average banker. The fact is, gentlemen——

Senator HITCHCOCK (interposing). Would you appoint a college professor?

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Mr. MORAWETZ. Not too many of them.

Senator HITCHCOCK. Would you think there should be upon the board any men who are familiar with the workings of a bank?

Mr. MORAWETZ. Yes; I think so. I think probably one or two of them. I think it is better that they should not all be ex-bank presidents. As a matter of fact, men of the——

Senator HITCHCOCK (interposing). Why would you object to practical bankers?

Mr. MORAWETZ. I do not object to them, but I recognize the fact that the great majority of the successful bank presidents in the United States are routine men, who started in as clerks and worked their way up, and who really do not know very much about finance. They know all about discounting paper and making loans, and they know the mechanical end of banking. Some of them, of course, are very able financiers, but I am speaking of the average. I think there are many successful bank presidents who would be wholly inadequate to fill this position.

Senator SHAFROTH. You were about to comment on the qualifications of the lawyer as a member of this board, and you were stopped by a question. Will you go on with that?

Mr. MORAWETZ. I was about to say that there are a great many lawyers who have acquired a general business knowledge which would make them eminently fitted for this position.

Senator BRISTOW. What about newspaper men?

Mr. MORAWETZ. I do not know. I presume there are some newspaper men who might be fitted for the position. You can not, by any statutory definition, insure the appointment of good men to this office. You have got to rely on the President of the United States and the Senate, and there is no better reliance.

Senator HITCHCOCK. I was trying to get at your idea as to what class of men should be on this board, or what general qualifications they should have. Should they be men of experience in the financial history of the world, for instance, and familiar with the history of banks of issue; familiar with the experience of Germany and France and England and Canada, and with world commerce, or should they be men who understand the details of the banking business, or should they be college professors and theorists?

Mr. MORAWETZ. They should not be college professors or theorists.

Senator HITCHCOCK. Would a professor of political economy be qualified?

Mr. MORAWETZ. No; I do not think so. His knowledge of political economy would not disqualify him, but, I think, perhaps he would not have sufficient practical business knowledge to enable him to fill the position.

Senator HITCHCOCK. Would you object to nominating the eight men in the record here? [Laughter.]

Mr. MORAWETZ. I should object; yes, sir.

Senator SHAFROTH. You might start a boom for some of your friends. [Laughter.]

Senator O'GORMAN. Just in passing, Mr. Morawetz, so we may keep this record straight, you are a lawyer yourself?

Mr. MORAWETZ. I am a lawyer.

Senator O'GORMAN. And you know something about banking?

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Mr. MORAWETZ. A little.

Senator BRISTOW. Now, it has been the practice in the national institutions to appoint a Secretary of the Treasury who has been a banker and then let him choose his assistants from newspaper boys who have been useful about the Capitol. Do you think that would be a good plan for this board, or do you think that would likely happen in the creating of this board?

Mr. MORAWETZ. I do not think that would happen; no, sir.

Senator O'GORMAN. Not under Democratic administration.

Mr. MORAWETZ. I think everything would depend on how this system is started, and I am satisfied, under the present administration, it would be started right. The standard would be high. It has been suggested that the men on this board should be men of high standing, similar to the judges of the Supreme Court, and, I think, the Interstate Commerce Commission, likewise, has been mentioned. I believe that if the standard were set high at the beginning it would be kept up.

Senator O'GORMAN. Mr. Morawetz, I am clear in my own mind that there is no reason a Secretary of Agriculture should be a member of this reserve board. I am equally clear that the Comptroller of the Currency should not be. I am a little in doubt as to whether there may not be some special reason why the Secretary of the Treasury might not be a member of the board. What is your impression as to that?

Mr. MORAWETZ. I thought over that a good deal, and my first impression was that it was desirable the Secretary of the Treasury should be on that board. But I have reached the firm conviction that it would be better not to have him on that board at all, so that the action of this board should not be considered the action of the administration.

Senator BRISTOW. Do you think, Mr. Morawetz, there is any more reason for putting the Secretary on this board than there would be for putting the Attorney General on the Interstate Commerce Commission?

Mr. MORAWETZ. There is some difference, but the illustration is not inapt. Of course, the Secretary of the Treasury represents the financial interests of the United States, and the United States will have large dealings with the banks. Nevertheless, I think the Secretary of the Treasury should stand apart, and he should be supreme in all things within his jurisdiction. If he were on this board he would only be one-seventh of the board, and he never should be put in that position.

Senator O'GORMAN. Then, apart from that, you would suppose that the Secretary of the Treasury would have all of his time occupied with the duties of that office?

Mr. MORAWETZ. I am very sure of it.

Senator O'GORMAN. And that it would not be fair to impose additional burdens upon him?

Mr. MORAWETZ. I feel that way. That is another reason and a very strong one.

Senator HITCHCOCK. It has beeen suggested that the Secretary of the Treasury, however, should control to some extent the deposits of the Government funds and, in that way, he probably would be able to influence the system.

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Mr. MORAWETZ. That is a different matter. If the deposit of Government funds is to be discretionary, then, of course, the Secretary of the Treasury should exercise that discretion. You mean the choice of the banks?

Senator HITCHCOCK. Not altogether. A question has been raised here whether or not the bill wisely makes it absolutely obligatory upon the Secretary of the Treasury to deposit in these banks every dollar of Government funds as fast as it comes in. An emergency might arise which would make it necessary for the Secretary of the Treasury to accumulate funds or accumulate gold, or an emergency might arise in which the administration might not approve a certain policy of the board. It might feel that the policy was getting in the direction of inflation, and that the withdrawal of Government funds would tend to counteract it.

Mr. MORAWETZ. Perhaps I have a more trustful disposition than some of the gentlemen present, but I should trust the Secretary of the Treasury with a discretion in that regard, just as I would trust the managers, the boards of directors of the reserve banks, with the same measure of honesty and sense of fair dealing with which I would trust the Government officials.

Senator SHAFROTH. Is it not important that the Secretary of the Treasury should be on this board because the question as to whether Government funds shall draw interest or not is to be determined, and we have, at the present time, about $280,000,000 of money that would be Government deposits?

Senator O'GORMAN. If you are going to give the Government all the surplus profits earned by the regional banks beyond the 5 or 6 per cent that will be paid to member banks as interest on their capital contributions, what advantage is there in giving the Government interest, because you are simply making the Government pay it?

Mr. MORAWETZ. Then, there is another point——

Senator SHAFROTH. It is not the way it is now.

Senator O'GORMAN. No; of course not.

Mr. MORAWETZ. As the bill is drawn, after paying 5 per cent dividends on the stock, part of the surplus is to be given to depositors by way of interest, and the Government would share in that. I do not like the provision in the bill requiring the payment of special interest on Government deposits.

Senator POMERENE. In that connection it has been urged that the Government should not have interest unless the member banks get interest.

Senator O'GORMAN. On their deposits?

Senator POMERENE. On their deposits; but, on the other hand, the member banks, a great many of them, if not the majority of them, pay their depositors interest. This is particularly for the benefit of the banks. Now, if the depositors in the member banks are to get interest, what reason is there why the Government should not, for the same reason, get some interest on the deposits it may have?

Mr. MORAWETZ. Why, because the deposits in the member banks are used in the regular course of the banking business, whereas the deposits of these reserve banks are not there to make money, but are there for the purpose of rediscounting.

Senator POMERENE. For the banks.

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Mr. MORAWETZ. For the benefit of the banks, yes. This bill contains a provision which will make it necessary at the end of 20 years to go through all this turmoil over again, because at that time the charters of these banks are to expire. I suggest that this limitation be stricken out, the charters of these reserve banks being subject to withdrawal or dissolution at any time by Congress and the bill itself being subject to amendment, alteration, or repeal at the will of Congress. You will recall the cases of the first bank of the United States and of the second bank of the United States, which had similar provisions.

Senator POMERENE. That is, you would let power be vested in some administrative branch of the Government to renew the charters?

Mr. MORAWETZ. No, sir. I should have the charters run indefinitely until repealed. If ever there was a lesson of history which we ought to heed, it is that such banks should not be chartered for a limited period. The bill says:

> The Federal reserve bank, so incorporated, shall have succession for a period of 20 years from its organization, unless sooner dissolved by act of Congress.

Now, what I would provide is, "shall have succession until dissolved by act of Congress." At the end of the bill, furthermore, there is a provision that the right to amend, alter, or repeal this act is hereby expressly reserved. Therefore this limitation of 20 years is wholly unnecessary for the protection of the public, but it makes it necessary before the expiration of 20 years to pass a new act of Congress to keep the banks alive.

The bill does not make specific provision as to the executive management of the reserve banks. It provides that there shall be a chairman of the board of directors, who is to be appointed by the central board. But it does not indicate what his powers shall be. In my judgment, the executive management of the bank should under no circumstances be in the chairman or representative of the central board. The business management should be in a president and other officers selected by the board, all of whom should hold office at the will of the board. The chairman appointed by the central board should merely preside at the meetings of the board of directors and should perform the other functions assigned to him under this bill as representative of the Federal board of control.

In section 15 there is a provision giving to the reserve banks the power to fix their discount rates, subject to the review and determination of the Federal board. The purpose, as I understand it, of that reservation of power to the Federal board is to enable that board to compel a reserve bank to raise its discount rate, if, in the opinion of the Federal board, the bank has established too low a discount rate that is depleting its reserves too fast by making rediscounts. I think that should be amended by expressing the purpose which I understand to underly this reservation of power, namely, that the Federal reserve board shall have power to fix the minimum discount rate of a Federal reserve bank. No reserve bank can be kept safe and sound if its board of directors can be compelled by some outside authority to lend out its reserves when they think the reserve ought not to be lent out, when the bank ought to strengthen itself. The control over the discount rate should be simply to enable the Federal

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board to require the discount rate to be raised to such a point as the Federal board thinks necessary for the safety of the banks.

Senator BRISTOW. Well, now, would not that lead to one reserve bank raising, and, possibly by so doing, seek to fortify its reserve and another bank undertake to do the same thing, and so you will have a competition among the reserve banks for reserve?

Mr. MORAWETZ. I do not think so. Of course it is conceivable that the management of these five regional reserve banks, if there are five, or the management of a single reserve bank, may so manage their affairs as to harm the interests of the country. But you have to trust somebody.

I have already discussed the question as to the number of regional reserve banks. I only want to say that the whole plan is enormously weakened by having so many as 12. I do not think, myself, it will be practicable to carry out the plan at all, as under this bill they are compelled to start with 12 of them. I doubt very much whether it would be possible to establish 12 regional reserve banks at the present time with the qualifications prescribed in this bill.

Senator O'GORMAN. And, as you understand this bill, if 11 of the regional reserve banks were formed and organized and ready for business, they could not do anything until the twelfth was organized?

Mr. MORAWETZ. That is my understanding. But there is no possible advantage that I can see from having so many. The whole object, to my mind, of this plan is to have a separate reserve bank for each great subdivision of the country—I mean subdivision according to interests. The East, the South, the Central West, the Pacific States, and possibly the Southwest. Every additional reserve bank you establish will simply weaken the scheme. Now, the capital of these banks is to be subscribed by the member banks. There is a provision that each member bank shall subscribe for capital of its reserve bank an amount equal to 20 per cent of its own capital, of which 10 per cent is to be paid up and the other 10 per cent stand as an overhanging debt.

Senator O'GORMAN. It is a double liability.

Mr. MORAWETZ. It is a stock liability. Now, that provision is, to my mind, unwise. The interests of the member banks and the regional reserve banks are the same and their needs probably will come hand in hand. Whenever a regional reserve bank will want to call in the unpaid capital, the member banks will need it a great deal more than the reserve bank. Whatever capital is subscribed should be paid up promptly—that is, within six months or in installments; but it should be paid up. I should limit the subscriptions of the banks to 10 per cent of their capital, but I should authorize the regional reserve banks to obtain additional capital by issuing and selling to the public a 5 per cent cumulative preferred stock without any voting power, such stock to be free from taxation.

Senator HITCHCOCK. State taxation or national?

Mr. MORAWETZ. Both. It would be a very attractive investment. I have no doubt people would subscribe for any amount of it that would be needed, and it would greatly strengthen these banks and also interest the public in their management. I should be glad to see it arranged so that only a limited amount of this stock may be held by any one person.

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Senator HITCHCOCK. Free from taxation. Do you think it would be necessary to offer such stock on a 5 per cent basis?

Mr. MORAWETZ. No; I should say 5 per cent would be a maximum.

Senator HITCHCOCK. It seemed to me it could bear less very easily if it is free from taxation.

Mr. MORAWETZ. At the present time I do not think it should bear less than 4 per cent.

Senator HITCHCOCK. Oh, not less than 4. I thought you said 5.

Mr. MORAWETZ. I did say 5.

Senator BRISTOW. Do you think, Mr. Morawetz, the Federal Government would have any trouble in getting subscriptions to the Federal bank stock with a 4 per cent dividend free from taxation?

Mr. MORAWETZ. No. The Government, as long as it keeps up the gold standard and as long as it issues obligations strictly redeemable in gold, I think, can obtain money at a 3½ per cent basis to-day.

Senator HITCHCOCK. Mr. Morawetz, do you thoroughly believe in this system of having the banks rediscount their paper in order to increase their business? Of course it is un-American thoroughly; it is a new departure. Now, are not there some evils in that we are likely to have?

Mr. MORAWETZ. No. The rediscount rate will always be kept up so high that there will be very little, if any, profit to the bank in rediscounting. There will be no profit to them in rediscounting except as they want to replenish their reserve.

Senator HITCHCOCK. That is not the case in other countries having a rediscount system. The rediscount rate is quite low, and it is to encourage rediscounts.

Mr. MORAWETZ. They vary, of course. They are regulated according to the prevailing conditions.

Senator HITCHCOCK. Then, is it possible that the discount rate will be high in this country and low in the European countries after the banks in the United States have contributed a tenth of their capital and impounded their reserves, neither of which is required in European countries? If, then, they are to be subject to a high discount rate——

Mr. MORAWETZ. In European countries the central bank has a capital, a considerable capital, as we propose here.

Senator HITCHCOCK. But I mean none of it has been contributed by the banks. The banks of Europe are not asked to make any sacrifices at all to their central banks—none whatever.

Mr. MORAWETZ. They did that originally.

Senator HITCHCOCK. No.

Mr. MORAWETZ. They did originally, because the capital had to come from somewhere.

Senator HITCHCOCK. In the case of Germany they bought up the Bank of Prussia and there was no forced contribution from any other banks. And in the case of the Bank of France, as I recall, a new institution was established.

Mr. MORAWETZ. The capital of the bank, the money of the bank, has been taken from somewhere.

Senator HITCHCOCK. Not necessarily from the banking capital of the country.

Mr. MORAWETZ. Where would it come from?

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Senator HITCHCOCK. Why, it may come from many different sources.

Mr. MORAWETZ. What source?

Senator HITCHCOCK. Suppose it is thrown open to public subscription?

Mr. MORAWETZ. Then the people to get money to pay for their subscription will have to draw the money out of the banks.

Senator HITCHCOCK. It does not detract from the investments of the banks. Let me instance you: A bank is making 10 per cent on its capital. It is required to take out one-tenth of that and be content with 5 per cent. That is a real sacrifice. Now, shall a bank in the United States be required to make that sacrifice and then be subject to a higher discount rate than European banks are? How high a rate of discount were you estimating, in your judgment, when you thought the rate of discount would be high?

Mr. MORAWETZ. Why, the rate of discount I should say would be adjusted according to the reserves of the reserve banks.

Senator HITCHCOCK. At that ime?

Mr. MORAWETZ. For the time being.

Senator HITCHCOCK. Now, then, if it is a high rate, as you seem to think it ought to be, is not that a direct burden upon the borrowing public?

Mr. MORAWETZ. I do not think so. So far as the deposits in the reserve banks are concerned, they are the same as cash in vaults. They continue to be reserves of the banks which may be the depositors in the reserve bank.

Senator HITCHCOCK. Do you think, as the authors of this bill argue, that this will result in reducing the rate of interest to the borrowing public?

Mr. MORAWETZ. I think it will ultimately; yes. It will take time to adjust it, however.

Senator HITCHCOCK. How do you reconcile that with having a high rate of discount and make it difficult for the banks to discount?

Mr. MORAWETZ. When I say "high rate," I mean higher than a low rate. It will be a steadier rate.

Senator HITCHCOCK. Let me instance you: Suppose the rate of discount in a Western town—the bank was lending money at 6 per cent.

Mr. MORAWETZ. Yes.

Senator HITCHCOCK. What rate of discount will the bank have to pay in order to get money from the Federal reserve bank?

Mr. MORAWETZ. That, I would say, would depend on the condition of the Federal reserve bank. If the Federal reserve bank found that credits were expanded, it would make a discount rate of 7 per cent, perhaps. If, on the other hand, it found that money was accumulating, and that the rate ought to be lowered, it would make a 5 per cent rate, and that would bring down the rate of the banks. It is in that way that the Bank of England regulates the discount rate—indirectly regulates the discount rate for the whole country. The bank rate nearly always differs a little from the open-market rate—I mean the current rate.

Senator HITCHCOCK. Then, I understand you to argue that the discount privilege is not likely to be very largely used?

Mr. MORAWETZ. It will not be largely used when money is easy; it will be largely used, it will be valuable, only when money grows tight.

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Senator HITCHCOCK. Now, if these Federal banks start out with $100,000,000 capital, $400,000,000 deposits, and $150,000,000 Government deposits they would have available $100,000,000 in capital, and they would have two-thirds of $400,000,000 itself, for loans, which, we will say, is $275,000,000, and they will have available two-thirds of the Government deposits, which will be $100,000,000—or $475,000,000. Now, will there be a demand for anything like that amount from banks that are members of the organization?

Mr. MORAWETZ. I do not think there will be a demand for that amount when money is easy.

Senator HITCHCOCK. Then, how are these reserve banks going to pay expenses if they are not going to be able to loan out the cash they have, and they have these enormous running expenses to pay, because they are clearing houses for the whole country?

Mr. MORAWETZ. Well, whenever money rates go up, then the banks will avail themselves of the rediscount privilege and the central bank will make money—will make a high rate of interest.

Senator O'GORMAN. The rates will be regulated according to existing conditions?

Mr. MORAWETZ. According to the existing conditions. There will be times when the earnings of these reserve banks will be small. There is no doubt about that, when money is very easy. However, in this country money rarely is easy for a long time. When money is easy the banks will prefer not to rediscount their paper, but to keep it for themselves. I do not doubt myself that these reserve banks will be able, while keeping a large reserve, 50 per cent reserve, which they ought to keep in normal times, to make the 5 per cent dividend on their capital and something over.

Senator O'GORMAN. You do not think they will?

Mr. MORAWETZ. I think they will. I am sure they will.

Senator HITCHCOCK. Have you made any computation of the cost of clearing these checks and drafts for the whole country?

Mr. MORAWETZ. I have not. I think that this scheme would considerably reduce the cost of clearings of member banks among themselves—that is, the members of a particular reserve bank—because it would be by simply book entries and would involve no cost except a little postage. Clearings among the different reserve banks also could largely be adjusted without shipments of coin, and, so far as it should involve expense, the expense would have to be paid by the different banks. But I do not think it would amount to a very large sum.

Senator HITCHCOCK. Do you think that the rate of discount in these banks—say there are a dozen of these regional reserve banks—should be under the control of the Federal board?

Mr. MORAWETZ. No. As I stated a little while ago, I think the Federal board should have or may properly have the power to require a reserve bank to raise its rate of discount, if it is too low. But it ought not to have the power to lower a rate of discount which the board of directors think is necessary.

Senator REED. Now, Mr. Morawetz—if you will pardon me, Senator?

Senator HITCHCOCK (interposing). Go ahead.

Senator REED. One of the great reasons for undertaking to establish this system is to prevent a congestion—congestion is not the

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right term—it is to prevent a squeeze, if you please, in the money market.

Senator POMERENE. Contraction in the money market. It is to prevent the accumulation of large sums of money in given places, which may be very necessary to have in order to relieve a stringency.

Mr. MORAWETZ. Yes.

Senator REED. If you take away the power of a controlling board to reduce the rate, do you not defeat one of the principal objects of this legislation?

Mr. MORAWETZ. I do not think so. I think that the great majority of stringencies in this country invariably have resulted from too low discount rates. The cause of all money stringencies—the ultimate or original cause of all money stringencies—is interest rates so low as to invite the overexpansion which causes the trouble.

Senator REED. Well, that you maintain is the primary cause?

Mr. MORAWETZ. Yes; the primary cause.

Senator REED. Let me give you a concrete illustration—I do not mean to interrupt you. But these 12 banks, if all the banks of the country join, or the greater proportion of the banks, State and National—they are powerful institutions, they will have enormous capital. That, indeed, is the very object of the bill, to make them powerful; and most advocates of this system who have appeared here have advocated making a smaller number in order that each bank might be more powerful.

Mr. MORAWETZ. Certainly.

Senator REED. So that it may come to the aid of the country in time of distress. That thought implies that there will come a time of distress, a time when banks become somewhat frightened; when the public gets somewhat frightened.

Now, if each of these 12 banks, being great reservoirs of money and power, are run by the bankers who are the directors, of course the first thing that they will desire to do will be to protect their banks; make them safe.

Therefore, when a stringency comes on, when a shiver goes over the financial world, their disposition will be that which obtains in every bank, to conserve their resources and get ready for the evil day, and be sure they are very ready.

The very purpose of this bill is to draw on this reservoir at a time of that kind; to make it so that the small banks of the country and the banks of the cities will have a place to go that is not drawing in money at the time all the other banks are drawing in money, but stands ready to pay it out. Do you think it is wise to take away from this central board the power to say that the time has come to pay it out?

Mr. MORAWETZ. I think it very unwise to do that, because it would lead to unsound banking, and it is not right, in my judgment, to say that these banks are established to quell panics. Their purpose is to prevent the conditions which result in panics.

Senator REED. I understand that.

Mr. MORAWETZ. The main purpose of these banks is to prevent the cause of panics; and the cause of panics in almost every instance is too low discount rates, or interest rates.

Senator REED. Then you think the purpose of these banks, stating it practically, is to raise discount rates in this country?

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Mr. MORAWETZ. No; to steady the discount rates.

Senator REED. To keep them up?

Mr. MORAWETZ. To steady the discount rates; to make them sufficiently high at certain times to prevent overexpansion and to make them low, reasonably low, at other times. In France the discount rate does not vary 1 per cent year in and year out; and it is all because of this system.

Senator REED. Do you think it is safe then to vest in the board of directors of the regional banks the power to raise discount rates and to lower discount rates?

Mr. MORAWETZ. I think it is necessary and proper to give them the power to adjust the discount rate according to the banking situation.

Senator REED. Yes.

Mr. MORAWETZ. It must be—we can not have any properly managed bank unless its directors have this power. It is through the discount rate that a bank can keep itself sound and strong; and only by that means.

Senator REED. Yes. Then you think it is safe to put that power in the regional-bank directors?

Mr. MORAWETZ. Surely.

Senator REED. Of course, six of those men are elected by the banks.

Mr. MORAWETZ. Yes.

Senator REED. And will represent the banks?

Mr. MORAWETZ. Yes.

Senator REED. And they will dominate and control?

Mr. MORAWETZ. Yes.

Senator REED. Do you think those six men will be any more patriotic, any more intelligent than the seven—or nine—men that may constitute the central board?

Mr. MORAWETZ. They will be more capable of managing the affairs of their district than the seven members of the central board, assuredly.

Senator REED. Suppose there was a central bank, Mr. Morawetz, with about 12 branches—almost everybody advocates the central bank around here—not everybody; but there is a great trend that way.

Senator SHAFROTH. Mr. Morawetz says not.

Senator REED. I am not saying Mr. Morawetz does. But if there was a central bank with 12 branches, what would the directors of that central bank do? They would raise and lower discount rates, would they not? Do you think they could do that intelligently?

Mr. MORAWETZ. I do not think they could do it intelligently for the whole country. I think it is utterly impracticable that the same discount rate should be established for all the country at the same time.

Senator REED. Well, I do not mean that.

Mr. MORAWETZ. Now, under a central-bank plan, you would either have to do that, have a cast-iron rate applicable to the whole country, or you would have a varying rate. I do not think any central board could establish a varying rate; no.

Senator REED. Well, in the last analysis your position, as I take it, is this: That the regional bank directors having been elected by the banks, the regional bank would be under the control of the bankers and not under the control of the public?

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Mr. MORAWETZ. Yes.

Senator REED (continuing). Ought to be allowed to run that bank and have the full right to raise the discount rates as far as they wanted to raise them and to lower them as far as they desired to lower them—subject only to the right of the central board to require the raising of the rates?

Mr. MORAWETZ. To require a minimum rate.

Senator REED. And that is because you think, first, that a central board is not so closely in touch with the situation as the directors of the 12 banks will be; and secondly, is it not because you also think the bankers are better capable of handling this business than the public?

Mr. MORAWETZ. Yes; that is true.

Senator REED. So that what you really want is a bank-controlled system of banks?

Mr. MORAWETZ. With certain limitations.

Senator REED. Yes. And I suppose you think that the Government ought, by statute, then, provide that the Secretary of the Treasury must put all of the money the people now have, and all of the money they may hereafter get, excepting the 5 per cent reserve, in the system of banks that is to be controlled by the banks?

Mr. MORAWETZ. No, sir. As I said a little while ago——

Senator REED (interposing). I did not hear that; I was not here then.

Mr. MORAWETZ (continuing). I should leave that in the discretion of the Secretary of the Treasury.

Senator REED. From the experience of the past, the bankers having run the banking business of this country in their own way, and disaster after disaster having occurred, do you not think it is almost time that the representatives of the public should put, if not a controlling hand, at least a restraining hand, upon the banking system of the country?

Mr. MORAWETZ. No, sir. Every disaster, every financial disaster which has happened to this country, with the exception of the last, I should attribute to Congress, and not to the banks. I should attribute it to the unsound currency system which has prevailed throughout this country.

And the last trouble was due to a variety of causes. It was due to overexpansion; to the fact that the banks gave the public all the credit the public wanted, instead of holding it down; so that there was overexpansion, and a smash came. When the smash came, the leading banks in New York and the leading trust companies got together and they poured out their money and stopped it.

Senator REED. They stopped it principally with money from the Federal Treasury, did they not?

Mr. MORAWETZ. No, sir; they poured out—there was a little trust company in which I happened to be a small stockholder, and I know that word was sent to hand over $500,000 to help this situation, and they handed it over.

Senator REED. Yes. I know the banks can do that there as they do in other places.

Now, you speak of Congress being to blame for all the panics in this country. We did not have any national-bank system until the

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war, did we, and Congress did not do much legislating about the banks before then? And we had wildcat banks all over this country, did we not?

Mr. MORAWETZ. Well, Congress refused to renew the charter of the First Bank of the United States, and Congress refused to renew the charter of the Second Bank of the United States.

Senator REED. Are those two of the crimes that you attribute to Congress?

Mr. MORAWETZ. Well, when you go back so far; I will say that I was not thinking of those olden times; I was passing them over. I was only thinking of events within my own memory.

Senator REED. Let us come then to what act Congress did that brought on the panic of 1876.

Senator SHAFROTH. 1873.

Senator REED. Yes; 1873. What did Congress do along that time to bring that panic on?

Mr. MORAWETZ. Well, it had not enacted a sound currency system.

Senator REED. Well, then, you simply put it to the question of the enactment of a sound currency system—at least by Congress?

Mr. MORAWETZ. We have that now. I consider the present currency system sound. I think the present currency is all right. There would never be any trouble if you leave it alone.

Senator REED. What brought on the panic of 1893? What act of Congress brought on the panic of 1893?

Mr. MORAWETZ. Well, the silver coinage.

Senator REED. The silver coinage?

Mr. MORAWETZ. Yes; the issue of silver dollars.

Senator REED. Do you think that brought on that panic?

Mr. MORAWETZ. I do.

Senator REED. You do not think the banking situation had anything to do with it?

Mr. MORAWETZ. Yes; undoubtedly. I have been preaching always that our banking situation is defective, because we have no concentration—we have no reserve banks in this country; none at all.

Senator REED. Well, the banks have always had a chance to get up a reserve scheme of their own, and they have not done it. I do not think it is just or fair, Mr. Morawetz, for a man of your distinguished reputation as a lawyer in this country to charge if a thing does happen under a law that it is the result of a law that Congress passed; and then, if it happens that there is no law, to say that Congress is chargeable with not having passed a law; and then, in the same breath, that Congress ought not to interfere in these matters, but ought to let them run themselves.

Mr. MORAWETZ. Of course, it was not fair if construed strictly. After all, Congress only does what the people of this country want Congress to do; and the real culprit is the whole people; we did not——

Senator REED (interposing). You do believe that Congress—that the people must pass the laws which provide the currency system? You believe that that is to be done by the laws of Congress, do you not?

Mr. MORAWETZ. Certainly.

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Senator REED. That far, then, we are agreed. Then, again, you believe that Congress ought to establish a system of banks, do you not?

Mr. MORAWETZ. Of reserve banks; yes, sir.

Senator REED. And I suppose you are in accord with the establishment of the national-bank system?

Mr. MORAWETZ. Yes.

Senator REED. Well, if we are going to establish this system of banks, and if we have had all of these troubles, do you not think there ought to be checks and safeguards put into the law that will, as far as possible, make that system a safe system?

Mr. MORAWETZ. Yes; making sure that these safeguards will not introduce evils greater than those they are designed to correct.

Senator REED. Yes; of course, we had better abide a present evil rather than to experiment a while?

Mr. MORAWETZ. Or introduce a worse one.

Senator REED. Yes; I agree with you on that. Have you discussed the question of possible inflation under this bill? I came in rather late.

Mr. MORAWETZ. Yes; I have.

Senator REED. Then I will not ask you a question about that.

Mr. MORAWETZ. I will state, in just a word, that I consider that the issue of these notes is all wrong in form, but it is all right in substance. I consider that there is no danger of inflating the volume of the currency, because it can only be issued by the voluntary action of these reserve banks, subject to the veto power vested in the central board.

Senator REED. But you are going to veto their right to stop reducing rates, are you not?

Mr. MORAWETZ. I am speaking now of the issuing of notes, sir. I say the issuing of notes is safer even than the Canadian system, because there the banks issue the notes when they want to.

Senator POMERENE. Did you say it is safer "in Canada" or safer than the Canadian system?

Mr. MORAWETZ. Safer than the Canadian system, because here the banks can only issue the notes subject to a veto power vested in the central board. But I was going on to say that the provision in this bill permitting the notes to be paid and redeemed in lawful money is a fatal defect, not because it leads to an inflation of the volume of the currency but because its inevitable result will be to drive the gold out of the country and substitute these notes for it, notwithstanding the utmost conservatism on the part of the banks and of the central board.

Senator REED. Mr. Morawetz, you said a little while ago that every financial disturbance had back of it the fact that money was too cheap——

Mr. MORAWETZ (interposing). I said had been.

Senator REED (continuing). That money flowed out too easily; the rate was too cheap.

Mr. MORAWETZ. Yes.

Senator REED. Now, who has fixed the rate?

Mr. MORAWETZ. The competition of the banks.

Senator REED. Congress never fixed it, did it?

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Mr. MORAWETZ. No; the banks did.

Senator REED. The banks did?

Mr. MORAWETZ. Yes.

Senator REED. Now, you propose to leave in these Federal reserve directors the power, still, to reduce the rates?

Mr. MORAWETZ. No, sir; I say that the central board shall have the power to raise them.

Senator REED. Yes; to raise them. But you leave in the bank the power to reduce. You take away from the board up here the power to fix, and you vest in the banks the power to raise if it wants to and lower if it wants to the rate, and limit the powers of the Federal board to simply raising it?

Mr. MORAWETZ. Yes, sir.

Senator REED. You still leave in the banks that very power which has proposed, according to your theory, all the panics, do you not?

Mr. MORAWETZ. No, sir. Of course, no bank can be managed unless its board of directors can fix its discount rate.

Senator REED. Yes.

Mr. MORAWETZ. Of course, you are quite right, that the fixing of the discount rates must be left with the banks. But I see no objection to giving to the central board the power to raise the rate if it thinks that safety requires it. The trouble under the present system is that we have 25,000 banks, all competing for business.

Senator REED. That will still continue, will it not?

Mr. MORAWETZ. Yes, sir; the 25,000 will compete for business, each lending its resources up to the limit. But these reserve banks will not be managed that way.

Senator REED. Do you not think that a wise central board would never order one of these regional banks to lower its rate of discount unless it became manifest that bank was piling up money, and in some way injuring business pretty plainly?

Now, I am talking about a board that is composed of wise men, students of finance, and appointed, as such a board ought to be, of the very best talent of the country?

Mr. MORAWETZ. I do not think that it is any more practical to get high-class able men to act on this central board than it is to get them to act on the boards of directors of the reserve banks. On the contrary, I think it would be easier, much easier, to find able, conscientious, patriotic men to act as directors of these reserve banks than it will be to find such men to come here to Washington and devote their lives to sitting on that central board. That is my judgment.

Senator REED. But your wise and patriotic man who is selected here is utterly disinterested. Your wise and patriotic man who sits upon the board of directors of the regional bank is not disinterested, for two reasons: First, he is selected by an interested class; and, second, he is very likely to be financially interested in the transactions that he must handle from time to time—and any man would be influenced by that. Do you think an interested party is as likely to be as patriotic as a disinterested one?

Mr. MORAWETZ. Oh, the self-interest is far off. I can only speak of my own experience, my own observation, my own beliefs. We are now speculating on things that may happen in the future. I am satisfied that you will get as able, as patriotic, and as disinterested

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action from the directors of these reserve banks appointed by the banks as you will get from that Federal board sitting in Washington.

Senator REED. You say the interest is far off. Let us see if that will necessarily follow. If you were to put upon this board of directors of the regional banks, say, a country banker that had a bank with $50,000 of capital, his interest might not be very great. But suppose that the banks of New York City were to select as one of the directors of the regional bank there located Mr. Vanderlip, whose bank carries $250,000,000 of deposits, and suppose they were to select the next two largest bankers of New York, men who were interested not only in one bank, but in a dozen banks; men who had organized trust companies that are to control the stocks of banks, and who control the trust companies through voting trusts, and so on. So that if they could control the rate of discount in that regional bank they might be able to raise it, say, 1 per cent, whereby they would gather into their own particular banks very largely increased profits. Do you not think that would be a pretty substantial interest?

Mr. MORAWETZ. Yes, sir; I do; I do.

Senator REED. I am glad to hear you say that, because I looked for you to be just that frank.

Senator HITCHCOCK. How would you avoid that danger; that evil? That is a new thought which Senator Reed develops. Here are these big banks in the city interested in maintaining a higher rate of interest, possibly. If represented on the board they might use their influence to fix such a rate of interest for the reserve bank as would enable them to continue to get the maximum rates on their customers?

Mr. MORAWETZ. I think all bankers of experience will agree that the interest of the banks is not to have tight money or a very high interest rate; but it is to have a fair, steady interest rate without pressure, and that they will always try to obtain. They do not make money when the interest rate is very low, and they do not prosper when the interest rate is very high and their deposits are drawn out.

Of course, we will never make much progress by assertions of what people will do, because you never can prove it. But I should suggest that a proper course would be to enact this bill with the fewest limitations upon the action of the bankers—of the banks, or interferences by this central board with the action of the banks—as possible. Then, if you find on trial that changes in the bill, restrictions upon the board of directors of the reserve banks, or an extension of the power of the central board is advisable, why, Congress will so enact.

Senator HITCHCOCK. Do you think that the same rate of discount should prevail all over the country?

Mr. MORAWETZ. No, sir; I think it would be utterly impracticable.

Senator HITCHCOCK. Well, is it right for Congress to create a great public facility of this sort, a utility, and then make it possible to charge people in one part of the country a higher rate for its use than the people in another part?

Mr. MORAWETZ. You speak of Congress creating a public utility. Congress is merely enabling the banks of each district to serve their constituents.

Senator HITCHCOCK. Now, let me take that up a little. It is supposed to put $150,000,000 in the banks to be loaned out.

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Mr. MORAWETZ. On the terms proposed I should prefer to have the Government keep this money.

Senator HITCHCOCK. I am talking about the bill as it is. It puts $150,000,000 in the banks.

Mr. MORAWETZ. Presumably the Secretary of the Treasury will put the money in those banks which he thinks deserve to have it the most.

Senator HITCHCOCK. In addition to that, it is loaning its credit on the notes?

Mr. MORAWETZ. I do not think the banks want it. I do not think so. I do not think it is necessary.

Senator HITCHCOCK. I am talking about the bill as it is. As a matter of fact, the Government's credit is being loaned to the banks, and the money is being used for the supposed purpose of standardizing and reducing the rate of interest to the people and making the banks safe for depositors. Now, then, is it proper to make such a public utility by using what belongs to all the people, namely, the Government's balance and the Government's credit, and then permitting them to charge the people in one part of the country a higher rate of interest than is charged to the people in another part of the country for its use?

Mr. MORAWETZ. I grant you that the money or the credit furnished by all the people should not be furnished to some of the people on better terms than to others. But what is proposed here is to take the money from some of the people and give it to other people.

Senator HITCHCOCK. Now, let us see what is proposed here. There are to be 12 regional banks, we will assume, and each of those represents a certain district. It holds the reserves of that particular district. Each of those reserve banks, in addition, has the right to apply to the Government for currency upon the segregation of a certain class of paper. Now, that currency is Government currency. Is it right to have one rate of interest charged for the use of the Government's credit to one section of the country at a higher rate charged to the people in another part of the country?

Mr. MORAWETZ. The Government should charge the same.

Senator HITCHCOCK. We are agreed upon that point. Now, do you think the reserve banks should be required to charge the same rate to each one of their member banks?

Mr. MORAWETZ. For the same kind of paper, most assuredly.

Senator HITCHCOCK. The same rate should prevail over any given area covered by any given bank. Do you not think, in addition to that, that the Federal board should have the power to equalize the rates charged by the different reserve banks?

Mr. MORAWETZ. I do not.

Senator REED. Then we would have the spectacle of a bank, say, in Minnesota, being compelled to pay and discount, possibly, at the rate of, say, 7 per cent, and a bank down in Virginia having a rate of, say, 5 per cent, and of course that would mean that the borrowing community in Virginia would be getting its money at a lower rate of interest than the borrowing community in Minnesota would be getting its money, although the people in Minnesota have contributed just as large a proportion of their means and resources to the institution as the people in Virginia have.

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Mr. MORAWETZ. Why is the rate higher in Minnesota than in Virginia?

Senator HITCHCOCK. I do not think it should be. I think that we are undertaking to unify this system, or ought to unify it.

Mr. MORAWETZ. There is a reason for it. It is a question of supply and demand, is it not?

Senator HITCHCOCK. Yes.

Mr. MORAWETZ. The rate in Minnesota is high because Minnesota has not the same capital or because there is greater speculation going on in Minnesota.

Senator HITCHCOCK. You are taking just as large a proportion of the capital of Minnesota as you are taking of that of Virginia.

Mr. MORAWETZ. I know; but the interest rate is due to the supply and demand of all the capital within the district.

Senator HITCHCOCK. And yet you are agreed that the currency which you sent to Minnesota should bear the same rate of interest as the currency which is sent to Virginia?

Mr. MORAWETZ. I do not see how it can be avoided.

Senator HITCHCOCK. But that the regional bank which gets the currency should not be required to put it out on the same basis?

Mr. MORAWETZ. The regional bank fixes its rate of discount according to the necessities of its situation. It puts it up if it finds that its reserves are running out. It has to do that as a matter of protection.

Senator HITCHCOCK. In Minnesota the regional bank pays nothing for its reserves. In Virginia it pays no interest upon its reserves. It receives its reserves on the same basis. Its operating expenses are no larger in Minnesota than they are in Virginia. Why, then, should the regional reserve bank be permitted to charge its member banks higher rates of interest in one place than another?

Mr. MORAWETZ. Because it has only a certain amount of reserve money, and it is bound to hold on to a very large amount of that in order to meet the situation of its constituents.

Senator HITCHCOCK. But this currency furnished by the Treasury Department is supposed to supply whatever lack there may be.

Mr. MORAWETZ. That is a delusion, I think. I do not think it will. The currency furnished by the Government of the United States is not going to give credit power to the banks. All it possibly can do will be to save the banks from the necessity of paying out reserve money.

Senator HITCHCOCK. You are speaking now of the reserve banks?

Mr. MORAWETZ. The reserve banks; yes. What can a reserve bank do with this currency? It can not loan on it. It can not rediscount on it, and the bank which wants to replenish its reserves—a local bank which wants to replenish its reserves—will not find any consolation if the reserve bank offers it some of these notes which are no good as reserves.

Senator HITCHCOCK. That is very true. But the reserve bank is constantly receiving funds for deposits, every day?

Mr. MORAWETZ. Yes.

Senator HITCHCOCK. If it can hold the gold which comes in and the legal tender which comes in, and loan out instead, on application, the currency it receives from the Government, it seems to me it is expanding its means and serving its customers.

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Mr. MORAWETZ. All that these note issues will amount to and all that they are good for is to take care of the fluctuations in the amount of currency used in circulation by the country, the hand-to-hand circulation. It will not give credit to the banks, and what the people want is credit.

Senator HITCHCOCK. At certain seasons of the year heavy withdrawals are made from the banks by depositors that these notes will take care of.

Mr. MORAWETZ. During the crop-moving season more money is used, more hand-to-hand circulation, and these notes will supply that. But the high interest rate is due to a demand for bank credit, because the banks are loaned up to the limit, and then they charge a very high rate. The issue of notes will not help that.

Senator HITCHCOCK. It seems to me that as long as the reserve banks can keep a 33⅓ per cent reserve it can continue to procure currency from the Government and advance it to its member banks, and that the member banks can use that currency to meet the demands of the depositors.

Mr. MORAWETZ. To the extent that they want circulating currency, and there is a fluctuation of, perhaps, $200,000,000 a year. You can not make people take more than that.

Senator HITCHCOCK. You think the elastic character of currency should be only to the extent of $200,000,000 a year?

Mr. MORAWETZ. That would be about enough.

Senator HITCHCOCK. Do you not think, in view of that fact, that it is foolish to tear up this $700,000,000 of national-bank notes when this system is thoroughly established and satisfactory?

Mr. MORAWETZ. I think there is no hurry about it. I should like to see this matter postponed until the next session of Congress. I do not think it is necessary to settle this matter at present.

Senator HITCHCOCK. We have interrupted you a great deal and would be glad to have you continue now.

Mr. MORAWETZ. I will enumerate a few more points that I would like to call to your attention. Under this bill the reserve banks are given power to invest in Government, State, and municipal bonds. I think that is all wrong. They should no more have power to invest their reserves in Government, State, or municipal bonds than in railroad bonds. No part of the reserves of these banks should be tied up in anything except business paper. They should, however, be authorized to buy short Treasury warrants or obligations of the Government, obligations having no more than six months to run.

Senator HITCHCOCK. What would you think of having the 2 per cent bonds converted into bonds which should be at pleasure convertible into currency and having the reserve banks buy those bonds?

Mr. MORAWETZ. If I understand you, the reserve banks are to buy the 2 per cents and the Government is to convert them into noninterest-bearing notes?

Senator HITCHCOCK. On demand, and convert them back into bonds on presentation. Have the Treasury stand ready at any time when 2 per cent bonds are presented to issue currency to the same amount, and when the currency is presented issue bonds, so that when the demand for currency ceased it would stop interest on the bonds, and when the demand for currency subsided it would be returned to the Treasury and the investor would get his 2 per cent investment.

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Mr. MORAWETZ. The Government notes are promises to pay gold on demand. Suppose they are presented and payment is asked for in gold, how is the Government going to pay them?

Senator HITCHCOCK. They would be made only payable in 10 years, so that they would be 10-year bonds and meanwhile at any time payable in currency certificates or bond certificates which would pass as currency.

Mr. MORAWETZ. Yes; but who is going to redeem those certificates if they are presented? They are payable on demand.

Senator HITCHCOCK. The certificates are payable in bonds.

Mr. MORAWETZ. You mean it is a kind of fiat money?

Senator HITCHCOCK. No; it is a currency payable in bonds, and the bonds payable in currency, interchangeably, and good for reserves in reserve banks.

Mr. MORAWETZ. Then it is an irredeemable Government note.

Senator HITCHCOCK. No; at the end of 10 years it is payable in gold.

Mr. MORAWETZ. It is a Government note redeemable at the end of 10 years.

Senator HITCHCOCK. The bond would be a Government note payable in 10 years in gold; the currency would be payable in the bond.

Mr. MORAWETZ. But it is, as I say, simply a note of the Government in 10 years.

Senator HITCHCOCK. Yes; that is what it is now, but it is payable in 30 years.

Mr. MORAWETZ. No; it is not currency at all now. It is supposed to be an investment. You want to have this pass from hand to hand and make it a legal tender?

Senator HITCHCOCK. No; it has been proposed that these are to be used by the banks for reserves.

Mr. MORAWETZ. But, sir, a reserve——

Senator HITCHCOCK (interposing). Either in the form of a bond——

Mr. MORAWETZ (interposing). A reserve is not a reserve unless it is gold. It would be a sham reserve. It would not be real money. Supposing a man wanted to cash in his bank notes. Suppose he wanted to send gold abroad or pay a debt in gold—for many debts are payable in gold. They would be of no earthly use to him, would they?

Senator HITCHCOCK. Yes; they could be made redeemable in gold at the banks, just as the other currency is made redeemable in gold. They would be just as available to the banks as gold.

Mr. MORAWETZ. If I understand you, then, the banks would become obligated to pay in gold the $700,000,000 of 10-year notes?

Senator HITCHCOCK. The plan suggested to the committee through Senator Thomas was that $75,000,000 of the 2 per cent bonds should be retired every six months, and in lieu of them should be issued 10-year Government bonds, payable in gold, bearing 2 per cent interest. Those bonds should be available by the banks—by the reserve banks—for reserve purposes, and in case they needed currency to meet obligations they could turn the bonds into the Treasury instantly and get currency, and when the bonds were in the Treasury they would cease to bear interest. When the demand for currency sub-

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sided the currency would be returned to the Treasury and the bonds would be returned to the banks and resume bearing interest.

Mr. MORAWETZ. If I understand that, sir, it seems to be utterly unsound.

Senator HITCHCOCK. We thought it was rather peculiar. We would like to have you point out the defects in it.

Mr. MORAWETZ. In the first place, the 10-year bonds are no more reserves than are 1,000-year bonds. Reserve money must be gold or legal tender; it must be real money. Now, these bonds, when converted into Government notes, would not be money, if I understand the matter. If I understand you correctly, they would be the promissory notes of the Government to pay money in 10 years.

Senator HITCHCOCK. As I recall the proposition, the reserve banks would be under obligations to redeem them in gold on presentation.

Mr. MORAWETZ. Redeem the Government notes?

Senator HITCHCOCK. Yes; just as they are required to do under this bill.

Mr. MORAWETZ. Oh, well, then, the scheme, if I understand it, amounts to this, that the banks are to buy these Government bonds and are to have the option, instead of holding the 2 per cent bonds as an investment, they are to have the option to issue in exchange therefor their own notes payable in gold. Is that right?

Senator BRISTOW. Yes; whenever it was more profitable to take out currency and currency was needed, they could take it out and retire the bonds; and then when the currency was not more profitable and the bonds were more profitable they would take out the bonds and retire the currency.

Mr. MORAWETZ. I presume that the United States ultimately would expect to pay those 2 per cents; that is, if a bank should take back its currency, it could go to the Treasury and get back its bonds?

Senator HITCHCOCK. Yes.

Mr. MORAWETZ. The scheme would be unsound, for the reason that the banks would be issuing their promises to pay in gold without having any reserve for the payment of those notes in gold.

Senator HITCHCOCK. They could afford to keep a reserve against those notes just as well as the notes provided for in this bill. They would have currency when there was a strong demand for currency, and they would have a 2 per cent investment when the demand was slack.

Mr. MORAWETZ. Well, if the banks are strong enough; that is, if they have the gold reserve, I do not see any objection to it, if I understand it correctly.

Senator WEEKS. How are the banks to be reimbursed for retiring Government indebtedness?

Mr. MORAWETZ. If I understand the statement of Senator Hitchcock, at the end of 10 years the Government is going to pay them in gold.

Senator WEEKS. That is the proposition, yes. But suppose, at the end of one year the notes are presented at the bank and the bank retired them?

Senator HITCHCOCK. These notes then are in the vaults of the bank, and as soon as it has a sufficient number of notes it presents them to the Government and gets back its bonds and the bonds bear 2 per cent interest.

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Mr. MORAWETZ. It really, sir, appears to be a substitution of new bond-secured notes for the present national-bank notes.

Senator BRISTOW. And gives it flexibility?

Mr. MORAWETZ. Only there is a flexibility about it, and there will be an adequate reserve for these notes. It seems to me that limited to the present issue of national-bank notes, it is all right.

Senator HITCHCOCK. Do you suppose these 10-year bonds would be salable abroad?

Mr. MORAWETZ. No; I do not think they would be salable now at an acceptable price.

Senator HITCHCOCK. It has been suggested, Mr. Morawetz, that in order to allow you to keep your engagement to-morrow morning, you might return to-morrow afternoon and Mr. Gilbert might go on in the morning.

Mr. MORAWETZ. I would rather come at half past 10 o'clock, morning, if it suits the committee.

Senator HITCHCOCK. Very well. If there are no further questions at this time——

Senator REED (interposing). I wanted to ask Mr. Morawetz one question on the theme that we were talking about a while ago, and which I have not quite finished.

I want to return to the proposition in regard to the control of a regional bank in New York City. I suggested to you, Mr. Morawetz, that if, for instance, Mr. Vanderlip should be a director—I do not know which of the banks in New York City are next largest to the bank of which he is president.

Mr. MORAWETZ. The Bank of Commerce is the largest, and the First National Bank is next after that.

Senator REED. Now, if the presidents of those banks, or men selected by them, were selected, you agreed with me that they might have a substantial interest in the question of the rate of discount, because it would affect their bank. I want to proceed one step farther than that and ask you if it is not a pretty well known fact that a considerable number of banks in New York, generally known by the name of Morgan group, while they have independent directors, at the present time, nevertheless, they have a trustee arrangement by which the directors of those banks are controlled through this voting trust.

Mr. MORAWETZ. A voting trust?

Senator REED. I will put in plain, blunt, speech.

Mr. MORAWETZ. Yes; so I will understand it.

Senator REED. I am not vouching for the accuracy of this, but I am asking you thinking you may know: It has been stated to me that there are a considerable number of banks in New York City, all of them having their separate directors, and yet having an agreement by which three men name the board of directors of all of these banks, and that one of these men is Mr. Daniel Reed. Do you know anything about that?

Mr. MORAWETZ. I never heard anything of that kind before; no, sir. But if you ask me whether I believe it to be a fact, I should say no, I do not. It is something entirely new to me.

Senator REED. You do know, do you not, there is a system of interlocking directorates there, of course? There are a good many banks who have upon their boards of directors a number of men who are

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on the boards of other banks, so that there is an interlocking in that way. I do not think, of course, that is the result of accident, do you? That means that there is some plan back of that condition—some reason for it.

Mr. MORAWETZ. Yes; of course there is some reason. But may I explain?

Senator REED. Certainly. I am not insinuating that it may be a malicious and bad reason, but there is some reason. Now, do you know what that reason is? And you can make any explanation, of course, Mr. Morawetz, you desire to. We are asking your advice here.

Mr. MORAWETZ. Let me explain. In the management of a big bank you have a board of directors, generally a large board, of men prominent in affairs who might once a month, rarely oftener, have read to them a report in general terms of how many millions were loaned each week on call and how many on time, etc., and a statement of the condition of the bank. Then they ratify the action of the executive committee of the bank, the executive committee of the bank having met sufficiently often to pass on the discounts. The board of directors at their meetings, no matter how able, how wise, how acute they might be, could not possibly pass on the active business of the bank. That is managed by the executive committee and the president.

Senator REED. Yes.

Mr. MORAWETZ. Now, these large banks like to have prominent names on their boards of directors, and occasionally—very rarely, however—some great question may come up upon which the opinion of the full board is desired.

Senator REED. But this board of directors does something else than that, does it not?

Mr. MORAWETZ. The board of directors choose the president and it chooses the executive committee.

Senator REED. Exactly. The man, then, that controls the board of directors controls that bank, does he not?

Mr. MORAWETZ. Yes; ultimately.

Senator REED. And the man who influences potentially the board of directors potentially influences the bank?

Mr. MORAWETZ. The management of the bank.

Senator REED. Now, don't you think, Mr. Morawetz, that there is a reason for this interlocking directorate system that has been so extensively followed, outside of any mere desire of the bank to have prominent names?

Mr. MORAWETZ. Unquestionably if a man owns a large amount of the stock of a bank he chooses the people whom he trusts, whom he believes in, to act as directors.

Senator REED. Yes.

Mr. MORAWETZ. And the people who are chosen by him would realize or recognize that fact. But in the vast majority of cases I am sure that the directors of these large banks, even when they hold a small amount of stock, would act according to their best judgment without any regard to the control of the stock of the bank.

Senator REED. I am not challenging motives; that is, I am not attributing unnecessarily any sinister or bad motives.

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Mr. MORAWETZ. Yes.

Senator REED. But I am trying to get at this thought, whether there is not a reason for that system, and whether, if I may suggest, the banks have not practiced this for the purpose of a unification of interest.

Mr. MORAWETZ. I do not think so; no.

Senator REED. Let me see if I can not cite you something that may have a bearing on it. You know, do you not, that Mr. Vanderlip's bank created a trust company with $10,000,000 of capital, and that it created every dollar of that capital by declaring a dividend to its stockholders out of the city bank?

Mr. MORAWETZ. Surplus.

Senator REED. And transferred that over to the coffers of the trust company. You also know, do you not, that provision was made and written upon every share of stock of that trust company that it should be voted for a long period of years by three trustees, and that those three trustees were officers of the city bank?

Mr. MORAWETZ. It was really a part of the city bank. It was intended to continue part of the city bank.

Senator REED. Now, you know, do you not, that that trust company immediately embarked in the enterprise of acquiring the stock of other banks, and that the larger portion of its assets were speedily invested in the stock of other banks, so that, among other things, it absolutely owned all of the stock of the Butchers' Bank—the Butchers' and something else. Now, does not that look a little as though there was an attempt at unification of interest and control of the banks as a whole, as a system?

Mr. MORAWETZ. Obviously, to that extent.

Senator REED. Now, adding to that fact, you find the same system of banks that have been largely supposed to be dominated by one great controlling interest, and you find the directors of each of these banks interlocking with the directors of other banks or being a part of the directors of other banks. Taking into consideration the fact that the whole trend of modern business is toward consolidation and against active and keen competition, and adding to all that that they got up a clearing-house association in the city of New York which transacts some very important business and has very large deposits on hand—I am just asking you to take all that into consideration as a sort of a hypothetical statement—and then I want to ask you this question: If you do not think that these same great interests, through a joint-stock ownership in a reserve bank established in New York City, with full power of control in the board of directors, elected by these banks, would be able to pretty thoroughly dominate the New York financial market, and if they will not make that the very medium of control—if there is not a danger there, now. I am asking you as a patriotic citizen if there is not a danger there. I am not using this as an attack on New York; I am just talking about the condition.

Mr. MORAWETZ. Well, I will answer you frankly. If I thought that the results would be as you say, I should think there was a danger. But I am perfectly convinced that there is not any danger whatsoever. In the first place, I do not think that this unification of interest is carried nearly as far as you have, apparently, in mind. In the second place, I do not think that these large institutions in New York,

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under this arrangement here, would get the control of the reserve bank.

Senator REED. Of the regional bank in New York.

Mr. MORAWETZ. The regional bank in New York.

Senator REED. Now, why would they not inevitably control it?

Mr. MORAWETZ. I do not think they would have the voting power in the selection of the directors here. Every country bank—this regional bank in New York would include Pennsylvania, and, I suppose, all of the States north of the Pennsylvania line.

Senator REED. What division of it would have to be made? If you go according to capital, I think there would be a regional bank in New York City alone.

Mr. MORAWETZ. I do not think that there ought to be. I should have one for all the Northeastern States, including New York—well, all the States north of Maryland and east of Ohio.

Senator REED. That would, of course, make the bank very large—the largest bank in the country.

Mr. MORAWETZ. It would; yes.

Senator REED. And very much the more powerful.

Mr. MORAWETZ. It would be; yes.

Senator REED. And the talk that has been had here of deconcentrating—if I may use that term—the congestion of money in New York and sending it elsewhere would at once be defeated, because you would create a regional bank there that would have a tendency to secure further increases.

Mr. MORAWETZ. I do not see how it would draw from the other parts of the country.

Senator REED. It will draw from all this territory you propose to add to New York.

Mr. MORAWETZ. It would strengthen the banks there. I do not see how it would diminish their credit power in the slightest.

Senator REED. You then do not think it would be wise to establish a regional bank in New York City? You would want to take in some country territory as a kind of a safeguard?

Mr. MORAWETZ. No, sir; not on that ground. I would take it in because I think the number of these regional reserve banks should be limited to five. I see absolutely nothing to gain by multiplying the number of these banks, and I see a great deal to lose.

Senator REED. Is there anything to be gained in having more than one?

Mr. MORAWETZ. Yes.

Senator REED. What is the gain? If 12 is too many and 1 is too little, you must have in mind, of course, some reason why there should be a definite number. Perhaps you have gone into that, and if you have I will not detain you, because I will read your evidence.

Mr. MORAWETZ. I have gone into it quite fully. But to tell, in a few words, my reason, it is this: One of the important things to avoid is the injecting into the management of the banks sectional controversies and party politics, because if you do that you will not only ruin the business interests of the country but you will bring ruin, frequently, on a political party which does not deserve ruin. If you have the management of these banks an issue of party politics, the party to which the administration for the time being belongs will inevitably

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be held responsible by a large number of the voters of this country for the management of the banks, and when times of business depression, of unemployment and distress, come, such as I believe there will be before long, the party which established these banks or has control of them will be held responsible—unjustly so, but it will be held responsible. Therefore I think it is in the interest of sound business, and it is in the interest of good government, at any rate in this country, that sectional controversies and party politics be kept out of the management of the banks. If you have one bank representing the whole country, you are bound to have sectional controversies and party politics. Therefore the only safe course, in my judgment, is to have a separate reserve bank for each of the great sections of the country—one for the East, one for the South, one for the Central West, one for the Pacific coast, and perhaps one also for the Southwest.

Senator REED. Then, that would argue you perhaps ought to have more than 12, because then you could so distribute them that the whole question of sectionalism would be avoided.

Mr. MORAWETZ. Then you won't have any reserve banks, you know. That would defeat the plan. There would not be the concentration of money which was necessary to any safe plan.

Senator REED. If you had $100,000,000—it is a very pleasant suggestion I am making now——

Mr. MORAWETZ. I am smiling.

Senator REED (continuing). Which I hope will produce a favorable reply—and you had it all in one place, do you think it would be much more powerful than if you had it in 12 places and you could instantly reach the 12 places?

Mr. MORAWETZ. Well, I could only answer that by quoting Lord Bacon. One of his aphorisms was, "Generalities are barren." I think that is one of those general statements.

Senator REED. I am going to apply my general statement. Suppose there was, in the 12 regional banks, a given amount of money?

Mr. MORAWETZ. Yes.

Senator REED. It is one-twelfth of the whole amount in the banks. But there is a central power that can use each of the 12 parts instantly. Do you think that system is much weaker than if you had it all piled up in one treasury dominated by the same controlling power?

Mr. MORAWETZ. It is practically the same thing.

Senator REED. Exactly. That is the way I understand this system.

Mr. MORAWETZ. And if you are going to have the Federal reserve board have this power you will have the pricipal vice of the Aldrich plan back again.

Senator REED. Only this, that this is controlled by the people of the United States, while he proposed to have it controlled by the banks of the United States.

Mr. MORAWETZ. Well, by the representatives of the people—that is, by the political party in control of the Government for the time being.

Senator REED. I hardly think so under this system, because this board is, in effect, a permanent board.

Mr. MORAWWETZ. Well, they would be held responsible, sir.

Senator REED. Oh, yes.

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Mr. MORAWETZ. It would have the evil effect of——

Senator REED (interposing). Well, we must choose between bank control and Government control, in the last analysis, must we not, Mr. Morawetz? We can not get away from one or the other; and each of them will have their defects.

Mr. MORAWETZ. I think there is a middle course, and that is bank control, subject to supervision by the Government, and subject to limitations in special matters.

Senator HITCHCOCK. It is now half-past 5 o'clock, and the committee will adjourn until to-morrow morning at half-past 10, to meet in the regular committee room of the Committee on Banking and Currency.

(Thereupon, at 5.30 o'clock p. m., the committee adjourned until to-morrow (Tuesday) October 21, 1913, at 10.30 o'clock a. m.)

TUESDAY, OCTOBER 21, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.40 o'clock a. m.

Present: Senators Hitchcock (acting chairman), O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

Senator HITCHCOCK. Mr. Morawetz, will you resume where you left off yesterday, as nearly as you can? I will say that we have a session of the Senate at 12 o'clock.

STATEMENT OF VICTOR MORAWETZ, ESQ., OF NEW YORK, N. Y.—Resumed.

Mr. MORAWETZ. The bill before the committee provides that each reserve bank may establish a limited number of branches within its district, and it may be held that it does not permit a reserve bank to establish any other branch offices or agencies.

I think this power should be broadened and each regional reserve bank should have power to establish branches, offices, or agencies for the transaction of any of its authorized business anywhere within its district or outside of its district, in its discretion. I think the broadest power should be given to these banks to carry on their legitimate business wherever it is found advisable; and in particular I think the broadest power should be given to each of these banks to deal with other reserve banks throughout the country.

Senator HITCHCOCK. What phraseology would you suggest as to the establishment of branch banks by reserve banks?

Mr. MORAWETZ. I should provide that each reserve bank may establish branches or agencies wherever its board of directors may deem advisable, within or without its district.

Senator HITCHCOCK. Would there be any occasion to establish them outside of the United States?

Mr. MORAWETZ. No; probably not. It might be limited to the United States.

Senator NELSON. Would you have those branches outside of the district of the bank?

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Mr. MORAWETZ. Yes, sir.

Senator NELSON. Would there not be a conflict, then, between those regional banks and other regional banks? Would there not be competition, then, between the different regional banks in their respective territories?

Mr. MORAWETZ. I do not mean to give to the reserve banks power to carry on their operations at will outside of their districts. But whatever proper and legitimate business a bank may have occasion to carry on outside of its district it should be enabled to carry on through an agency established for that purpose.

Senator NELSON. Well, would you allow it to do a deposit and discount business outside of its district?

Mr. MORAWETZ. I should not. But each reserve bank should have authority to employ another reserve bank or any agency to take care of the redemption and collection of its notes and to do whatever the statute permits the reserve bank to do outside of its district.

Senator HITCHCOCK. Well, the power might be, then, to establish branches within its district or to locate agencies outside of its district for the transaction of legitimate business.

Mr. MORAWETZ. I think that should be the provision, exactly.

Senator HITCHCOCK. There is a difference between a branch and an agency of a bank?

Mr. MORAWETZ. Yes, sir. I do not mean to broaden the authorized operations of the reserve banks by this provision which I am suggesting.

Senator HITCHCOCK. Yes; I see. Will you proceed?

Mr. MORAWETZ. As I stated yesterday, I think that the reserve banks should be empowered—I think they might be required to establish a central clearing house to clear the debts, including notes, among the various reserve banks.

Senator NELSON. By the term "notes," do you refer to the ordinary promissory notes?

Mr. MORAWETZ. I refer to the proposed currency notes.

Senator NELSON. The currency notes; yes.

Mr. MORAWETZ. The success of this plan depends upon securing an adequate concentration of reserve money in the regional reserve banks. I think that under this bill the desired result would not be attained, and that for two reasons.

One reason is that the number of reserve banks is too large. It should be limited to five or six at the most.

The other reason arises from the provisions of section 20 of the bill, relating to the disposition of the reserves of the member banks.

Senator WEEKS. Do you think that your testimony given here before the committee yesterday will clearly set forth your reasons why you think a number of reserve banks are preferable to one? I did not hear all of it, so that I am not sure whether it did.

Mr. MORAWETZ. I have endeavored to cover that point. My principal reasons for preferring the regional reserve-bank plan to the central-bank plan are that any plan providing for a centralization of all the reserves of the country in one bank, or any plan subjecting control of the reserves of all the banks to one central body, would inevitably result in sectional controversies, and would inevitably inject party politics into the control of the banking situation of this country. That, to my mind, would be absolutely fatal.

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Senator NELSON. But do you not think that this system of regional banks would be entirely ineffective if you did not compel one regional bank, willingly or unwillingly, to discount the paper of another regional bank?

Mr. MORAWETZ. I do not, sir. I dealt with that point yesterday.

Senator NELSON. You think they could do business without that provision in the bill?

Mr. MORAWETZ. I do. I think that provision in the bill would be a source of weakness rather than a source of strength. If this plan is worth anything, each regional reserve bank would be strong enough to stand independently. If this plan is worth anything, each regional reserve bank would be ample to enable the banks within its district to serve the public adequately.

Senator NELSON. Your theory, then, is that these regional banks should be conducted as though they were the only bank for that particular region?

Mr. MORAWETZ. Yes.

Senator NELSON. And as though that region, in respect to the bank, was a country by itself?

Mr. MORAWETZ. I think that each of these regional banks should be conducted as a reserve bank for the banks located within its district. If the number of these banks were limited to five or six, each having a territory larger than Germany or France, and nearly all of them being very powerful institutions, I think that the centralization of reserve money would be adequate.

Senator NELSON. Suppose a regional bank, during the seasonal demand at New Orleans, should be short of funds, and suppose at that same time a regional bank at Chicago should have an abundance of loanable funds, you would not have anything in the law, then, compelling the regional bank at Chicago to help out the regional bank at New Orleans?

Mr. MORAWETZ. I should not. I should trust the business sense of the banks; and I should leave to the Government, through the Secretary of the Treasury, the power to dispose of the Government deposits.

Senator NELSON. Yes.

Mr. MORAWETZ. At his discretion; and, also, I should leave to the central board the power to permit particular banks to issue notes—to permit notes to be issued by anyone of the regional reserve banks which it thinks is in need of currency.

Senator NELSON. Yes; but it could not do that without an application from the regional bank and the tender of securities by it.

Mr. MORAWETZ. Exactly.

Senator NELSON. The tender of commercial paper.

Mr. MORAWETZ. Exactly.

Senator NELSON. The move would have to come from below, not from above.

Mr. MORAWETZ. In the case you mentioned, the regional bank at New Orleans would apply for notes, and probably it would apply also for the deposit of more Government funds, and the Secretary or the central board would then pass upon the propriety of the application.

Senator NELSON. Well, would not that embarrass the administration, if they should use the Government funds in favor of one par-

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ticular reserve bank as against another; dump them all into New Orleans, instead of putting them into other places; would not that lead to friction and embarrassment?

Mr. MORAWETZ. I think not. That is being done now; and I think public opinion——

Senator NELSON (interposing). Well, is that not one of the criticisms of the system now in vogue?

Mr. MORAWETZ. It is the subject of some criticism; but I do not think it is a severe criticism. I think if you had the five regional banks established, and had also this power in the Secretary of the Treasury, each would operate as a check upon the other.

Senator NELSON. Yes.

Mr. MORAWETZ. And I think there will be less criticism than there is at the present day.

Senator NELSON. Then, the long and short of it is that you believe that this provision in the bill compelling one regional bank to discount and help out another regional bank, whether it was willing to do so or not, on the mandate of the Federal reserve board, is unnecessary and ought to be eliminated?

Mr. MORAWETZ. I think it is unnecessary, and I think it is bad in its results, for several reasons, one being that it will inevitably result in sectional demands and sectional controversies and in party politics entering into the question of controlling the action of the central board.

In the second place, it may lead to unsound banking, because in some instances it may cause the weaker regional banks to discount notes when they ought to hoard their resources.

And, thirdly, it will prevent any of the regional banks from being managed safely, because no bank can be managed with safety if the disposition of its reserves is in the hands of an outside body. The only way in which a bank can be kept sound is by the control of its reserves, and no board of directors can manage the bank properly unless it has that control.

Senator NELSON. But are you not doing violence in your theory to the fundamental principles? The fundamental principles, as I understand them, are, first, to provide an elastic currency based upon commercial paper. The other is to mobilize the reserves and make them available in case of an emergency.

Now, in the case I put to you of the New Orleans bank, you said relief would come from two sources. One was from the Government deposits and the other was from the issue of these new bank notes upon application of the bank.

So, in that matter, instead of relying upon two of the main features of the bill, you took one principle of the bill and then that collateral matter; the one principle of the bill you took was the right to issue asset currency, and the other—a sort of collateral issue—was the right to handle Government deposits. And you overlooked the other fundamental principle of the bill and would not apply that, or did not apply it, in respect to the mobilization of the reserves. In other words, when it came to that feature of the bill, you would confine that to the operation of the bank at New Orleans. Do you not see that that is where your doctrine leads you to?

Mr. MORAWETZ. I stated that if this plan is worth anything, if these regional banks are strong enough to serve their purpose, it will

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not be necessary to take away the reserve from other sections and transfer them in the way proposed. This bill, if it gives this power to the central board, practically is the central-bank plan shorn of a good many of its advantages. Instead of having——

Senator NELSON (interposing). No doubt it is the central-bank plan, as it is in the bill.

Mr. MORAWETZ. It has the vice of the central-bank plan without its advantages. It practically—instead of having a properly organized banking institution having control of all of the reserves of the country—splits them up under the management of separate boards of directors and then puts the control in the hands of an outside board sitting in Washington. It is the Aldrich plan, or the central-bank plan, in a disguised form, shorn of many of its business advantages.

Senator NELSON. Well, is not the radical difference between that and what you call the Aldrich plan the fact that, under his plan, the banks were to control, while under this plan the control is absolutely in the hands of the Government, through a board appointed by the President?

Mr. MORAWETZ. Yes, sir; it is an artificial, badly constructed central bank, with a board of directors appointed by the Government and sitting in Washington.

Senator NELSON. Yes. It is, then, in essence a central bank as the bill is framed.

Mr. MORAWETZ. I think so.

Senator NELSON. Yes.

Senator WEEKS. Well, does it not provide for as great concentration of power in its final analysis as most central banks?

Mr. MORAWETZ. Very nearly it does. It introduces the principal vice of the central-bank system, namely, that it will inject sectional controversies and party politics into the management of the banks throughout the country.

Senator WEEKS. It does not seem to me that I am able to follow you, Mr. Morawetz, as to the question of sectional influence or sectional policies, if we have more than one bank. It seems to me that if, as you suggest, we have five banks representing five different sections of the country, that in itself is going to create a sectional policy.

Mr. MORAWETZ. The reason it seemed to be advisable to have in this country what practically amounts to five central banks or reserve banks, which is the same thing, is that in this way you are able to avoid the conflict which arises from the great difference in the requirements of the different sections of the country for credits and for currency. It enables you to establish a bank for each of the principal sections of the country; and if you keep down the number sufficiently, these banks will work in harmony with each other voluntarily, not under compulsion.

You have in Europe, and Europe is not larger than the United States, territorially, you have 15, I think, central banks. They do not fight each other, but they work harmoniously with each other, each country having its own bank and looking out specially for its own interests; but in large matters the banks act in harmony.

Senator HITCHCOCK. Mr. Morawetz, that is a question that I am greatly interested in. Can you detail briefly how these central banks of Europe operate together? Do they buy and sell paper of each other?

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Mr. MORAWETZ. Not under ordinary circumstances.

Senator O'GORMAN. Do they under any circumstances buy and sell paper of one another?

Mr. MORAWETZ. Well, whether they buy paper or not, I do not know. They lend gold to each other.

Senator O'GORMAN. They lend paper to each other?

Mr. MORAWETZ. They lend gold to each other.

Senator O'Gorman. They lend gold?

Mr. MORAWETZ. Yes; they lend gold to each other.

Senator HITCHCOCK. Now, in the case of a loan of gold, is that a loan or is that a transfer by the purchase of commercial paper or national obligations?

Mr. MORAWETZ. My understanding is that it is by way of loan.

Senator HITCHCOCK. A direct loan or a deposit at interest?

Mr. MORAWETZ. I regret that I can not give you definite and reliable information on that point.

Senator NELSON. Is it not a fact——

Mr. MORAWETZ (interposing). My understanding is that on occasions—for instance, the Bank of France has loaned large sums of gold to the Bank of England, which, after some months, was returned.

Senator HITCHCOCK. Well, is that not due to the fact that all of these central banks are interested in stable conditions in Europe?

Mr. MORAWETZ. Yes, sir; it is.

Senator HITCHCOCK. So that if conditions result in a stringency in one country it is to the interest of the other, if it has a surplus, to relieve it?

Mr. MORAWETZ. Yes. But I think the cooperation of the central banks in Europe is more in the form of adjustment of the bank rates than by the actual transfer of gold. Each one of these institutions keeps itself informed as to conditions in the other countries, and of the central banks of these other countries. And then there is a mutual adjustment of the bank rate, so as to allow the gold to flow where it is needed the most.

Senator HITCHCOCK. Well, in this country, for instance, if one of these reserve banks had a slack demand for advances, or for loans, and another bank had a strong demand in its district, the one having the surplus of cash could readily buy paper of the other one; that would relieve the necessity of having that other one apply for currency.

Mr. MORAWETZ. Exactly. And I will strongly urge, as I have said before, that power be given to these reserve banks to deal freely with each other. In the present bill it is only after obtaining permission from the central board that a reserve bank can rediscount paper or otherwise deal with another reserve bank.

Senator HITCHCOCK. Now, there is no reason why these reserve banks should not buy and sell exchange of each other, very much as a bank in New York buys and sells European exchange.

Mr. MORAWETZ. Most assuredly.

Senator HITCHCOCK. In fact, it is necessary for the equalizing of conditions in the country that they should do that very thing, is it not?

Mr. MORAWETZ. Assuredly. I think the correct policy in the drafting of this bill is to give the broadest power to these banks to deal with each other and see how they exercise those powers. Congress

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will be sitting here every year, and if the practices developed by these banks should not be satisfactory, Congress can easily remedy the situation by additional legislation. It is true that a power for good may be abused and become a power for evil. But you can not have a good bank and make these institutions beneficial to the country unless you give broad, discretionary powers of management to their boards of directors.

Senator WEEKS. It does not seem to me, Mr. Morawetz, that your territorial theory has any bearing on this case at all; but it is simply a question of a political unit. If it had any bearing in Europe they would have half a dozen regional banks in Russia, for instance, because the territory of Russia is 20 times as large as the territory of the Netherlands—or perhaps 30 times; I do not know how many times. If territory has any bearing, I should think that that condition would prevail in Europe. But the central banks of Europe are established in each country, because it is a political unit, and the citizens of that country want to have their own bank, and not be obliged to go to the bank of some other country for their rediscounts and their accommodations.

Mr. MORAWETZ. I grant that it is not merely a matter of territorial expanse. It is a matter of sectional interest and of traditions of the country. In no country of Europe are banking and currency questions considered fit questions for party politics; and in no country of Europe do the people of the various sections of the country attempt to regulate the banking policy of the country.

In the United States, on the other hand, banking and currency have, from the very beginning of the Government to the present day, been considered particularly attractive subjects for party politics.

Senator WEEKS. You know that is all over now, do you not? [Laughter.]

Mr. MORAWETZ. I do not, sir. I see it going on at the present day, in connection with this very bill which you have before this committee.

Senator O'GORMAN. Where do you observe evidences of that?

Mr. MORAWETZ. In the newspapers—not among members of the committee. [Laughter.]

Senator O'GORMAN. Well, I think it is fair to say that in my own opinion—and I would almost venture to speak for all my colleagues on this committee here—there is less reason to suspect that partisan considerations have anything to do with the national banking and currency system at this time than at any previous time of the history of the Government.

Mr. MORAWETZ. I hope that that is true, sir.

Senator NELSON. You need not hope about it; it is really true. [Laughter.]

Mr. MORAWETZ. I am sure it is true in this committee. But whether it is true throughout the country is another matter.

Senator NELSON. Oh, well, the country has a great faith in this committee. [Laughter.]

Senator O'GORMAN. And I think that opinion very generally prevails among public men in Washington that the time has passed, not to return, when political or partisan considerations will have anything to do with banking and currency legislation in this country.

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Mr. MORAWETZ. I sincerely hope so.

Senator POMERENE. There is not any doubt about it.

Mr. MORAWETZ. I was going on to say——

Senator HITCHCOCK (interposing). Well, I would like to ask the Senator from New York a question: Whether he thinks it would be possible to incorporate in this bill a system of note issue not in accord with the Democratic platform?

Senator O'GORMAN. The Democratic platform of 1912, which is the only party declaration now recognized by members of the Democratic Party, has nothing to say on the subject alluded to by the chairman. It makes no reference whatever to note issues.

Senator HITCHCOCK. Well, I had in mind the Democratic platform of 1908, which did cover that point.

Senator O'GORMAN. Well, I think it would be assumed that the party creed now influential with followers of the Democratic Party is to be found in the national platform of 1912, and in no other platform.

Senator WEEKS. I suppose, Senator O'Gorman, that your conclusion would be that the Democratic Party had been progressive in that respect?

Senator O'GORMAN. Yes; it has been progressive. This is a progressive age. The Republican Party has progressed so far that it has lost a very respectable part of its former following. [Laughter.] Now, I think we may return to the bill. [Laughter.]

Mr. MORAWETZ. I was going on to say that the provisions of this bill would prevent adequate concentration of the reserve money in these reserve banks for two reasons: One being the large number of banks required to be formed; and the other, the provisions of section 20 of the bill, relating to the reserves of the individual member banks.

These provisions, in my judgment, should be altered; instead of compelling each individual bank to keep locked up in its own vaults a certain specified percentage of its required reserve, it should merely permit them to keep a specified percentage locked up and compel them to deposit all the rest in the reserve banks.

It may be that it is expedient to have 6 per cent of the reserves—6 per cent of the 15 per cent of the reserves of the country banks locked up in their vaults, because some of the country banks may be at some distance from a reserve center where they can obtain currency when needed.

But there is certainly no reason why city banks should be required to retain, locked up in their vaults, more than the country banks, because they will have within reach at any time the reserves of the Federal reserve bank of their district or some branch of this reserve bank.

Senator O'GORMAN. In other words, the city banks will have greater facilities for procuring aid when needed?

Mr. MORAWETZ. Yes; when needed.

Senator REED. Greater than the country banks?

Mr. MORAWETZ. Yes, sir; they need less cash in their vaults than the country banks.

Senator REED. Do you think there ought to be any system established that would discriminate in favor of city banks as against the country banks?

Mr. MORAWETZ. No, sir.

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Senator O'GORMAN. That is the discrimination that he wants to avoid. If the country bank may contend that 6 per cent of its reserves locked up in its vaults is enough, there is no reason why the city bank should be required to keep a larger amount.

Mr. MORAWETZ. The city banks will be in a better position to obtain currency from the reserve banks.

Senator REED. That is just what I asked: Do you think there ought to be a system established that would give the city banks a facility that was not extended to the country banks?

Mr. MORAWETZ. No, sir.

Senator NELSON. Now, can you see any occasion, Mr. Morawetz, in view of the tenor of this bill and of the plan proposed—can you see any occasion for keeping up the distinction between country banks, banks of reserve cities, and banks of central reserve cities; could we not now, under this system, adopt one uniform plan as to reserves for all three classes of banks?

Mr. MORAWETZ. I think so. I think you are probably right in that regard.

The only reason why the reserve city bank, or central reserve city bank, should be required to hold larger cash reserves than the country banks, is that those reserve city banks and central reserve city banks hold the reserves of other banks. But if the——

Senator NELSON (interposing). But they will cease to do it now under this bill.

Mr. MORAWETZ. They will cease to do it under this bill.

Senator HITCHCOCK. Well, now, will they?

Mr. MORAWETZ. They ought to.

Senator HITCHCOCK. Well, as a matter of fact, will they, under this bill? Suppose half the banks of the country do not come in under this system; they must still have their city reserve agents.

And suppose also the banks that come into the system desire to keep a part of their balances with city banks—as they undoubtedly will, according to all the testimony here—those balances will be subject to seasonal withdrawal, often quite sudden.

Should the city bank be permitted to run so low on the reserves that whenever the country banks begin to draw out their balances the city bank must rush to the reserve banks for assistance? Would not that be apt to put a sudden strain upon the reserve banks?

Mr. MORAWETZ. I think you are right. But I hope that ultimately it will be provided that no bank shall keep any part of its reserve as a deposit in any bank except a reserve bank.

Senator HITCHCOCK. Well, of course, we can not legislate for State banks, which constitute two-thirds of the banks of the United States; and if, after this bill is passed, a large number of country national banks denationalize themselves, they are not permitted to keep their reserves in the reserve banks; and they must necessarily keep them in the city banks.

Mr. MORAWETZ. Then the subject might be covered by providing that any bank which holds reserves of other banks shall itself keep up a larger reserve, and that the banks which do not hold reserves of other banks shall be required only to keep up the smaller reserve required for the country banks.

Senator HITCHCOCK. I think some distinction of that sort is imperative, because the situation will not be the same in this country

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as it is in Europe. The European private bank or the incorporated bank is able to do with a very small reserve for the very reason that it has no country-bank balances.

Mr. MORAWETZ. I fully agree with that policy.

Senator NELSON. Have you looked into this question: Does this section 20, providing for this new system of reserves of national banks, operate to repeal the existing system of reserves, or is that wiped out by this——

Mr. MORAWETZ (interposing). It is, as I understand it, wiped out by this as to member banks.

Senator NELSON. Repealed by implication? There is no express repeal of that part of the law; there is not in this section at all events.

Mr. MORAWETZ. This section relates only to member banks.

Senator NELSON. Yes; but I mean while this provides the reserves of member banks shall be kept in their own vaults and in the regional banks, does it do away with the other system?

Mr. MORAWETZ. Of those banks which are not member banks?

Senator NELSON. No. Does it do away with the system as it now exists—depositing in reserve cities and central reserve cities? Does this become a complete substitute for the present system?

Mr. MORAWETZ. As I understand it; yes, sir.

Senator NELSON. Well, it is only by implication; it does not directly repeal the other system.

Mr. MORAWETZ. It begins by stating:

> That from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal reserve bank has been established in any designated district, every banking association within said district which shall have subscribed for stock in such Federal reserve bank shall be required to establish and maintain reserves as follows:

I think that, in connection with the remaining language of this section——

Senator NELSON (interposing). It repeals it because it is inconsistent with the other provisions.

Mr. MORAWETZ. Yes, sir.

Senator NELSON. It is repealed by implication.

Mr. MORAWETZ. By implication——

Senator NELSON (interposing). Arising from inconsistency.

Mr. MORAWETZ. Yes, sir; if you like.

Senator WEEKS. As a practical proposition is there any reason why a bank in a city where a reserve bank is located, or a branch of a reserve bank, should keep any of its reserve in its own vaults? Why should it not keep all its reserves with the reserve bank?

Mr. MORAWETZ. I think it should keep all of its reserve with the reserve bank, except a small amount convenient for the use of the day.

Senator WEEKS. That is exactly what it would do unless the law prevents it.

Mr. MORAWETZ. Exactly; but the proposed bill prevents it, and it ought to be changed in that regard. I suggest that this provision be amended by requiring each bank to deposit in a reserve bank or banks the whole of its lawful money reserves except such portion, not exceeding in any event 5 per cent, as it may carry in its own

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vaults. I should be willing to give all the banks coming in under this plan, city banks and country banks, the privilege of keeping in their vaults 5 per cent out of the prescribed percentage required, but compel them to deposit in the reserve banks the balance.

Senator WEEKS. I think you would make a mistake to do that, because the reserve which the country bank must maintain depends very largely on the location of the bank. It may be removed from any other bank such a distance that its requirements would compel it to carry a larger amount of cash than a bank located in the same town with other banks or in a community near other banks. I think the bank itself has got to determine the amount of cash it shall carry, and that must be determined by the experience it has had with its customers.

Senator POMERENE. You would leave that optional with each bank?

Senator WEEKS. To some degree, I think, it has to be.

Mr. MORAWETZ. I fully agree with you, Senator, in that regard, but certainly no bank should be required to lock up in its vaults more reserve than the bank itself thinks necessary.

Senator WEEKS. No; I do not think so either.

Senator REED. Now let me ask just one question about this matter. I am going to ask it in the form of a statement. It seems to me that the reserves of banks were ultimately intended as a security to depositors. Therefore, if the bank has that reserve where it is absolutely certain to be ultimately and within a reasonably short time at the disposal of the depositors, it seems to me the purpose of the measure is met. It seems to me utterly immaterial therefore whether a country bank has 1 per cent reserve or no reserve or 20 per cent reserve in its own vaults, provided it has the full reserve in the vaults of the regional bank, because it is there and can be obtained.

Senator NELSON. How can it be obtained from the regional bank? Suppose a local bank is in an emergency, a run is made on it. How can it get those reserves?

Senator REED. For the mere matter of meeting a run the reserve does not do any good. You are not allowed to impair it except under these penalties. Then it is rarely the case that a country bank is so far from another country bank that it can not get help from there on the instant, and any country bank would advance the ten, twenty, or thirty, or even one hundred thousand dollars if it absolutely knew that the bank asking the accommodation had that amount of money with the regional bank subject to its call. So that if a few hours' time were necessary they could get help in that way. Now, does not that affect this question of reserves all the way through?

Mr. MORAWETZ. It is a practical question. Each case depends upon the circumstances. The principle, however, is that no bank should lock up in its vaults more money than is reasonably necessary to meet its immediate requirements.

Senator REED. I agree with that.

Mr. MORAWETZ. Under this bill a bank can only deposit its reserve in its own regional reserve bank. I think that is a mistake. In effect it will force the country banks throughout the United States, and the reserve city banks, to keep separate bank deposits in other cities for the purpose of transacting their necessary banking business in those cities.

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Senator HITCHCOCK. That has been my judgment, but that objection has been answered by stating that drafts of a member bank on a reserve bank will pass at par under the terms of this bill anywhere in the United States, and, therefore, a member bank will have no need for a New York correspondent, even though its reserve bank is located in New Orleans, because the draft on New Orleans will be accepted by the regional bank in New York at par.

Mr. MORAWETZ. I don't think that is a sound way of meeting the difficulty. I think a better plan is to permit a member bank to keep part of its reserve in any other of the reserve banks in the country.

Senator NELSON. Do you see where that leads to, Mr. Morawetz? Your doctrine that you stated a moment ago was that each regional bank should be, as it were, a law unto itself; that it should conduct its business independently of other regional reserve banks, especially as to reserves. Now, if you make these territorial reserve banks and allow the member banks in that territory to put their reserves in other districts you can cripple a local regional bank. Suppose the member banks in the regional bank at New Orleans, instead of depositing their reserves with that bank, could deposit them all in New York and Chicago. Would you not cripple the New Orleans regional bank? Would you not deprive it of a part of its reserve that is supposed to be a help for it in time of need?

Senator POMERENE. Except that under this plan the Federal reserve board could require a transfer.

Senator NELSON. Yes; but he is opposed to that; he says that ought not to be. He says that the provision of the bill never ought to be in here; that they do not need that. That is why I am asking this question. Would not that cripple the regional reserve bank at New Orleans, if the member banks in that territory could keep their reserves in the regional bank at Chicago or New York?

Mr. MORAWETZ. If the member banks in New Orleans should make a practice of keeping their reserves, or most of their reserves, outside of their district, it would undoubtedly weaken the local bank. But the member banks are not there for the benefit of the reserve bank. The reserve bank is established to benefit the member banks. The member banks would keep in the New Orleans bank so much of their reserves as business conditions indicate ought to be kept in New Orleans, and they would keep——

Senator NELSON (interposing). Mr. Morawetz, can you not see that the application of your doctrine would pile up the reserves in great centers like New York and Chicago; that if it were optional with the member banks where to put their reserves they could all be piled up in New York and Chicago?

Mr. MORAWETZ. They would not be any more than they are to-day. The piling up of money in New York to-day is due partly to the fact that all these banks throughout the country have to keep some money available in New York for their legitimate business, and that should be continued, and it must be continued under any plan which you adopt. Largely, however, this concentration of money in New York is due to the fact that the money can be loaned out on call in New York on stock-exchange collateral, and the banks holding this money pay interest on the deposit. Now, under this plan the money is not available for those purposes. If you do not allow the banks through-

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out the country to keep a sufficient amount of their money deposited in the reserve banks of Chicago and of New York to transact their legitimate business in those cities you simply force them to keep that amount of money deposited in ordinary commercial banks in those centers, and that is a thing to be avoided, because no commercial bank should act as a depository of the reserves of other banks. You do not avoid the thing which you wish to prevent by providing that the banks of each district must keep all their reserves in their own reserve bank. You simply force them, in addition, to keep adequate deposits in those money centers where they have to transact business for their customers.

Senator REED. Now, Mr. Morawetz, what business is there that can not be transacted through the regional bank under this plan? Suppose that a bank in Omaha, Nebr., has a large amount of business to transact in New York regularly—large numbers of drafts that it must draw from day to day. Why can not those drafts be put through the regional bank of New York?

Mr. MORAWETZ. In the case you mention I understand that the Omaha bank would have payments to make and payments to receive in New York.

Senator REED. Yes.

Mr. MORAWETZ. If that be so, the business ought to be transacted in New York—must be transacted in New York—and can best be transacted by a bank in New York.

Senator REED. Well, we are assuming we will have a regional bank in New York. Now, the merchant in Omaha wants to pay a bill to an importer in New York.

Mr. MORAWETZ. He draws on his deposit in New York.

Senator REED. He makes his draft——

Senator NELSON (interposing). No; he draws on his deposit at St. Louis. Call that the regional bank. That is the way you want to put it.

Senator REED. Well, I do not know that that would follow. He wants to pay this man in New York, and he goes down to his bank, and he gets a draft on that bank. He sends that draft to the merchant in New York, and the merchant in New York puts it through his bank, gets credit for it, and that bank puts all the drafts through the regional bank, and the balance is effected there. Why is not that entirely practicable?

Mr. MORAWETZ. It means that the Omaha merchant is going to pay the importer by giving him in effect the money in Omaha.

Senator REED. No; it gives him the money in New York, and the balances are arranged between the regional bank that is located in Omaha and the bank there.

Mr. MORAWETZ. It could be done in that roundabout way, undoubtedly.

Senator REED. How is it done now? They send it on to their correspondent in New York, where they have some money, and it is paid.

Mr. MORAWETZ. Paid there?

Senator REED. Paid there. And this provides that all this paper shall be par, and therefore when the merchant in New York goes with a draft drawn by a member bank in Omaha he gets his money.

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Mr. MORAWETZ. It ought not to be par. It is all wrong, according to my view, that the exchange and loss of interest through exchange should be suffered by——

Senator REED (interposing). I think what you say there is worthy of favorable consideration, but let us say that it is not par, and that their rate of exchange is fixed and is a reasonable rate of exchange. That would have to be paid, of course, to any bank in New York where you kept the money, or else you would have to keep enough money there to offset the accommodation. First or last, these things have to be paid off.

Mr. MORAWETZ. The suggestion I made is not vital, I agree. It could be worked out without this privilege given to member banks to keep part of their reserves outside of their district. I think it would be an advantage.

Senator REED. Now, I want to spend a moment with you on that reserve question. You are anxious to get away?

Mr. MORAWETZ. I understand the committee will rise at 12.

Senator REED. I shall be through in a moment with this one question. I understand one of the great evils of our present system is this: We have what we call a reserve. We keep part of it in the vaults of the member banks, and that is a reserve. We deposit the balance in other banks, and they redeposit it and loan it out, so that the reserve practically ceases to exist as a real reserve in case of emergency. Now, that is the evil we are trying to get rid of. What is the use of perpetuating that evil by providing that a part of the reserves shall be kept in other banks? That is only clinging on to the evils of the present system. Why not put the reserves down to the lowest point they can safely be maintained at, and require an actual bona fide reserve at that point—a real reserve that can not be impaired except under penalties? Then, having reduced that reserve as low as it can safely be reduced, let the banks deposit their other moneys wherever they please. not calling them reserves when they are not reserves, but calling them what they are, deposits of money with other banks. Why not do this thing directly, and not have a reserve that is not a reserve?

Mr. MORAWETZ. I think the bill does do so, only it does not go far enough in requiring the reserves to be concentrated in these reserve banks. The deposit by one bank in another commercial bank, which is not conducted in the way in which a reserve bank must be conducted to be safe, is a possible danger which I think ought to be avoided.

Senator REED. Let me ask you one further question. Do you not think that the great element of danger, or one great element of danger, is in the fact that money is deposited from one bank to another, and then perhaps to still a third or fourth, so that when the money is tied up by any one of this chain of banks it ties up that amount of money in all of them? Is not that one of our dangers to-day?

Mr. MORAWETZ. I think it is.

Senator REED. Now, why would it not be proper to require a bank receiving the deposits of another bank to keep a larger reserve as against the deposits of that other bank than it is required to keep where it simply receives a deposit from an ordinary customer?

Mr. MORAWETZ. That suggestion, I think, is entirely sound. I published it myself some years ago.

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Senator REED. I have not seen it. I am glad you did.

Senator POMERENE. Was not that thought borne in mind when you said a moment ago a large reserve was required in reserve and central reserve cities——

Senator NELSON (interposing). Will you excuse me a minute, Senator?

Senator POMERENE. Surely.

Senator NELSON. Now, the reserves outside of the vaults of the bank are to be put in the regional reserve bank; is not that so?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. And does not the bill contemplate that the regional bank shall have a reserve of 33 per cent?

Mr. MORAWETZ. As a minimum.

Senator NELSON. As a minimum against deposits as well as currency?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. So that under the law, as I understand it—and I wanted to get his views on it—these regional banks are required to keep a reserve of 33⅓ per cent on their deposits?

Senator REED. I understand that, Senator.

Mr. MORAWETZ. It ought to be larger.

Senator REED. And I recognize the value of that, but I am dealing with a little different question.

Senator NELSON. I see.

Senator REED. Assume, now, that a bank has its reserves in the regional banks, but now it is required for purposes of business to deposit a large sum of money in another bank outside of the reserve, and that bank then takes it and redeposits part of it, so that you have a lot of money now that is not called a reserve but which, nevertheless, is money which must be used by the bank in case of emergency, and which is liable to be tied up by the same processes through which the reserves have heretofore been tied up.

I am directing my inquiry to this proposition, whether it would not be wise to provide that ordinary commercial banks, where they receive the deposits of other banks, shall hold a larger reserve in their vaults against those deposits than they are required to hold as against the deposits of the ordinary customer, so that not so much of this money will be loaned two or three times?

Mr. MORAWETZ. I cordially agree with the Senator's suggestion. It is economically sound.

I shall say little on the subject of loans on farm lands. I think everybody agrees that making nine months' loans on farm land is not sound banking.

Senator NELSON. Oh, no; we do not agree about that at all. What we disagree about is that nine months is of no account. It ought to be five years.

Mr. MORAWETZ. Then, I should say, it is not banking at all.

Senator NELSON. What about your railroad bonds that are due in 20 to 30 years? Loans are made with those bonds as security, and the railroad bond is secured by a mortgage.

Mr. MORAWETZ. The loans are not made for five years, sir. The only kind of loans which a properly managed bank ought to make are a short-time loan on business paper.

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Senator NELSON. Not on stock collateral?

Mr. MORAWETZ. Any collateral. The collateral is not the point. The objection is not to the security. I am not objecting to the security in this case. Farm lands may be perfectly good security, but it is the character of the loan—nine months and probably not payable then.

Senator REED. Do I understand you to mean this, that I am a member bank and Senator Pomerene comes in to me with a farm mortgage payable in five years and borrows from me $100,000 and puts up a farm mortgage as collateral. He puts up his note with that collateral attached to it. His note is carried by me to you as a regional bank. Do you mean that is a perfectly good transaction because I put the money out on 30 days or 60 days?

Mr. MORAWETZ. There is no insuperable objection to that, but it is another proposition.

Senator REED. That would put us on the same basis as though we had attached a railroad bond secured by a mortgage due in 50 years as collateral.

Mr. MORAWETZ. There is no material difference between those two cases; but that is not the point I am discussing. I am discussing——

Senator REED (interposing). That is the one I am discussing now, because I am glad to find some man that agrees with me that a farm mortgage as collateral is just as good as a railroad bond as collateral.

Mr. MORAWETZ. I think it is, or it may be.

Senator REED. It is the character of the maturity of the paper and not the maturity——

Mr. MORAWETZ (interposing). Of the collateral.

Senator REED. Yes; of the collateral.

Mr. MORAWETZ. I think everybody agrees to that; it is the character of the loan itself. But the point I am referring to is that contained in section 26 of this bill, which provides that a national banking association not situated in a reserve city or central reserve city may loan not only its part of its surplus but part of its capital on nine months' paper secured by a farm mortgage. I say that is not sound banking. The only thing that can be said in mitigation of this section of the bill is that the baby is not going to be a very large one by reason of the limitations placed by this section upon the exercise of the power.

Senator NELSON. Instead of a percentage of the capital and surplus, suppose you took a certain percentage of the time deposits of the bank, as distinguished from the check deposits?

Mr. MORAWETZ. Well, I do not think that would make any difference, because time deposits are not for nine months or anything like nine months.

Senator NELSON. Oh, yes; any amount of deposits are for six months, nine months, and a year.

Mr. MORAWETZ. It is very rare, however.

Senator NELSON. No. You are not acquainted out West, evidently.

Mr. MORAWETZ. I stand corrected, then.

Senator POMERENE. In the Western States, even in Ohio, there is a very large amount of bank deposits there made for a year, and certificates of deposit are taken.

Mr. MORAWETZ. I supposed they were all payable upon 30 days' notice.

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Senator POMERENE. Oh, no. They issue certificates of deposit.

Mr. MORAWETZ. Then I stand corrected.

Senator NELSON. Drawing interest.

Mr. MORAWETZ. I acknowledge that the nine-month loans on farm mortgages are not really more objectionable than the loans which I believe are made in certain sections of the country for a shorter period with a perfect understanding they are not going to be paid at maturity. I should like to see this subject also dealt with in the bill so as to prevent that practice, which I believe is quite common in certain sections of the United States.

The bill provides for savings departments in the national banks, and it contains a very strict provision that if a bank establishes a savings department the securities or the assets in such department shall be physically separated from the assets of the commercial department. Now, we all recognize that it is of the utmost importance that savings banks should be kept absolutely safe and sound. A default of a savings bank is, to my mind, a very much more serious thing than the default of an ordinary commercial bank. For that reason I trust that this committee will not listen to any suggestions that would tend to a weakening of the security of the depositors in the savings departments of the banks which may be established under this clause. But in particular I hope the committee will not listen to the suggestion which I believe has been made that the banks be permitted to establish these savings departments and to commingle the assets of the two departments and to carry them on as one bank.

Senator POMERENE. You think they ought to be entirely separated?

Mr. MORAWETZ. I think the bill is right—they ought to be separated.

Senator POMERENE. With separate books, etc.?

Mr. MORAWETZ. Yes, sir.

Senator POMERENE. Well, you would be practically doubling the expense in these smaller banks; for instance in the West where they have $15,000, $25,000, or $50,000 capital stock.

Mr. MORAWETZ. I do not think that would be the result. Whatever system may be adopted it certainly will be necessary to keep the books, whether in separate volumes or different portions of the same books, in such a manner as to indicate the liabilities and the assets of the savings departments.

Senator REED. How will you get the banks in then, Mr. Morawetz? At the present time it appears that nearly every national bank in the country is engaged in doing what is here termed a savings-bank business. It receives time deposits and it receives time deposits to an enormous amount.

Senator NELSON. And pays interest on them.

Senator REED. And pays interest upon those deposits. Now, when this bill is prepared I can not see where a national bank has a substantial right that every State bank does not possess. And if we make the restrictions in this bill hard there will be nothing to keep the national banks from denationalizing and going into the State systems where they are permitted to mix their funds and permitted, in addition to that, to do many things a national bank can not do. Now, how are you going to keep them in? That is one of the hardest problems this committee has to solve.

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Mr. MORAWETZ. It should not keep them in by enabling them to do their business in an unsound and unsafe way. Time deposits I do not consider savings deposits. They are two distinct things.

Senator REED. Well, if you draw that line and say that a bank may, notwithstanding any inhibition of this bill, receive money on time deposits, that would, of course, meet many difficulties that have been raised. But throughout these hearings all bankers have insisted that a time deposit is merely a savings-bank arrangement.

Mr. MORAWETZ. I do not think that is correct. Savings deposits are deposits which are to be invested in securities and which are to be repaid only on a substantial notice.

Senator HITCHCOCK. Twelve o'clock has now arrived, and the Senate meets at 12. If there is no objection the committee will take a recess until 2 o'clock.

Senator REED. Does Mr. Morawetz have to leave now?

Mr. MORAWETZ. I have an appointment at 3 o'clock in one of the Government offices which I must keep.

Senator REED. Will it take you the rest of the afternoon?

Mr. MORAWETZ. That I do not know.

Senator HITCHCOCK. Then Mr. Gilbert has been here for two days. This is the second day. Mr. Gilbert is president of the Market & Fulton National Bank of New York City.

Senator REED. Mr. Chairman, I make this suggestion, that any of the members of the committee who feel it is necessary to go over to the Senate will go and the rest will remain. We get this notice to go there, for every Democrat to be in his seat, and so forth, and then we get notice we must get this bill out very quickly, and it is difficult to do both. I would be content to sit here until 1 o'clock unless we get notice. We might send a guard over there to see they do not make any mistakes in our absence.

Senator HITCHCOCK. I will ask Senator Reed to take the chair as I am going over. There are several papers here which probably ought to be printed in the record.

Senator REED. You can all read Mr. Morawetz's testimony.

Senator HITCHCOCK. Without objection the communication from Mr. Scudder of the Richmond Trust & Savings Co., will be printed in the record as an addition to his testimony heretofore given. Also the communication from Mr. Sereno S. Pratt, secretary of the Chamber of Commerce of the State of New York, transmitting a report of that body on the Federal reserve act. Both of these, I think, should be printed in the record and also a supplemental communication from Mr. Flannagan, who testified before us, and who asked for the privilege, as I recall, of submitting a supplemental communication.

(The papers referred to will be found at the conclusion of Mr. Morawetz's testimony.)

Senator REED. The matter is before you. Are there any further questions you desire to ask?

Senator NELSON. I want to call your attention, Mr. Morawetz, to this fact. A practice has grown up among the national banks of the West and I do not know how far east it extends (I mean the great agricultural States of the Mississippi Valley, the upper valley), of national banks doing practically a savings-bank business. That is, they receive time deposits agreeing to pay interest on them, usually

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in the form of deposit, which generally run from four months to a year. They hardly ever pay interest unless they are kept at least four months. And their rates vary. If they are certificates of deposit for one year they pay a greater rate of interest than they do for four months or six months. Now, that business has grown up there, and the banks, especially in the agricultural communities, that is the small banks with $25,000 capital, have over half of their deposits of that kind. In many instances two-thirds of their deposits are time deposits. Now, that practice has grown up and it has worked satisfactorily in those communities, but they require the same reserves for that kind of deposit as for the other. The proceeds of that money are used like the other proceeds in a bank for commercial purposes. It has worked well. Now, Whithers, in his book on money, describes something analogous in the English system. He says the banks there have two forms of deposits, one he calls "current deposits," subject to check, and the other is a deposit account which requires notice before they can withdraw it and on which they pay interest. That is, the joint stock banks in England have two accounts with their customers, one they call a current account subject to check, on which no interest is paid, and the other is a deposit account requiring 20 days' notice, or 30 days', I do not know which, on which they pay interest.

Mr. MORAWETZ. That is correct.

Senator NELSON. Now, that is analogous to the system our banks out West have been operating; and the banks doing that kind of business see no occasion for establishing a separate savings bank department as contemplated in this bill. That would be deterring in the case of the country banks and would be tying up over half of the deposits of those banks for purely permanent investments such as contemplated by a pure savings bank, instead of making them available for commercial purposes. Now, can you see any harm in that system which has prevailed in these country banks?

Mr. MORAWETZ. I see no harm in that system.

Senator NELSON. And is not that better than requiring these small banks to have an independent savings department and keep their funds, as you said a moment ago, physically separate?

Mr. MORAWETZ. I agree with all the Senator has said. And if I supposed this provision of the bill relating to savings departments applied to time deposits such as the Senator has subscribed, I should unhesitatingly agree that it ought to be amended. I think there is no need, either, of keeping as large a reserve for such time deposits as for demand deposits. But the time deposits should fall into the category of demand deposits within a certain number of days before they mature.

Senator NELSON. You must never lose sight of the fact, Mr. Morawetz, that while in a big city you can have three branches—you can have a commercial department; you can have a savings department; and you can have a loan and trust company—in the small country town of 2,000 or 3,000 people it is utterly impossible to have those three institutions. They can not live. A bank there must do all of those kinds of business, and must do it in order to make it pay for the bank, and must do it to accommodate the public.

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Mr. MORAWETZ. I agree to that. In a pamphlet which I published several years ago I urged that power to establish savings departments should be given to the national banks. I agree, further, as I have stated, that the reserves for these savings deposits should be materially less than for the demand deposits.

Senator NELSON. Well, that should not be the case where the moneys derived from the deposits are mingled together and kept as one fund for commercial purposes, should it?

Mr. MORAWETZ. I think so.

Senator NELSON. Our banks, while they carry on this savings business that I have described, when it comes to loaning their money they mix all these deposits, both savings and the other deposits—they mix them all. It is a common fund, and out of that common fund they supply the wants of the community.

Mr. MORAWETZ. I appreciate that, but reserves are kept to secure the immediate payment of the deposits. They are not to make good the loans. Therefore, if a bank has large demand liabilities in the form of deposits, it should keep large reserves. If it has large obligations that mature at some future time, there is no need why it should keep equivalent reserves on hand until about the time when these time deposits are going to mature.

Senator NELSON. Now, what other parts of the bill here—I was not here yesterday, and I regret very much I could not be here—what other parts of the bill which you have not referred to would you like to refer to and take up and discuss with us now?

Mr. MORAWETZ. Well, I have gone over—I think there are more than 20 different provisions in the bill which I discussed.

Senator NELSON. I shall read what you said yesterday.

Mr. MORAWETZ. If I may be permitted, in closing my testimony, I will state a few of the provisions of this bill which I think it is vital to amend.

Senator NELSON. Yes; I will be very glad to have you recapitulate in brief.

Mr. MORAWETZ. First, the proposed notes to be issued under this bill should be payable in gold.

Senator NELSON. Nothing else?

Mr. MORAWETZ. Nothing else. Second, great care should be taken to eliminate from this bill all provisions which are likely to result in sectional differences and controversies, because sectional differences and controversies will bring politics ultimately to bear upon the control and management of the banking system. The Federal board of control should be a body entirely separate from the administration for the time being. No Cabinet officer or officers, subject to appointment and removal by the President, should be a member of the Federal board of control. In my judgment, also, no banker or appointee of bankers should be on that board. It should be made up of seven high-class men appointed by the President, by and with the advice and consent of the Senate.

All those provisions giving to this central board discretionary power to interfere with the management of the regional reserve banks where sectional interest or sectional demands are likely to arise should be eliminated. The Federal board of control should not have power to hand over the funds of one reserve bank to another. It should not have power to fix the discount rate of any one

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reserve bank, but it may have power to fix a minimum discount rate for any separate district.

Third, the provision of the bill dissolving all such national banks as fail to come into the plan within a year should be stricken out—not out of consideration for the banks. The banks have no constitutional or moral right to continue in existence and to do business under the existing laws if the welfare of the country requires that the law be changed. It is the right of Congress, in fact it is the duty of Congress, to change the laws governing national banks whenever and to the extent that Congress deems changes necessary for the welfare of this country.

Senator NELSON. Even to legislate them directly out of existence.

Mr. MORAWETZ. Yes; even to legislate them directly out of existence.

Senator NELSON. Suppose we have no new currency law, but simply pass a bill, make a bill providing for the immediate dissolution of all national banks.

Mr. MORAWETZ. If it were for the welfare of the country, you would have a right to do it, and I think it would be your duty to do it. But, sir, the objection to this provision is that under existing conditions it would be fatal to this country to destroy the national banks. It would be fatal in its result. If this bill were passed in its present form and any considerable number of the banks went out of existence, it would be fatal for the reason that the result would be such a contraction of the currency of this country as would almost certainly precipitate a panic.

Senator REED. Suppose they do not come into the system?

Mr. MORAWETZ. If they do not come into the system, after you have gotton these reserve banks established and after you have made provision for the issue of a safe currency to take the place of the outstanding national-bank notes, then pass an act compelling them to come in or go out of existence.

Senator REED. But if they do not come into the system, perhaps we will not have any power to establish these banks. The establishment of this system presupposes that the national banks or some banks will come in enough to create regional banks with sufficient power so that they amount to something.

Mr. MORAWETZ. Mr. Chairman (Senator Reed), it seems to me that it is necessary to face the fact you can not carry out this plan or any other plan without the cooperation of a large part of the banks.

Senator REED. I agree to that, but the point that is troubling me now is this: You say we shall not compel the banks to come in, because if we should pass the law in that way and a large part of them should disorganize there would be universal ruin following. That is not your expression, but that covers it. Now, let us grant that is true.

Senator O'GORMAN. It is not universal, it would be national ruin.

Senator NELSON. Yes; that expresses it.

Senator REED. National ruin. I mean universal as applied to our conditions in this country.

Senator NELSON. It might reach into the Philippines.

Senator O'GORMAN. Or Porto Rico.

Senator NELSON. Yes; or Porto Rico.

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Senator REED. Accepting the correction: Now, if the banks were so averse to this bill that they would lay down their charters and cease to do business rather than come in, does it not almost necessarily follow that they would not voluntarily come in, and if they do not voluntarily come in, we would have nothing with which to establish these banks. Therefore, the suggestion you make that after the system is established we might apply coercive measures if we desire, seems to me to have the fallacy in it that we can not establish the system unless the banks do come in.

Mr. MORAWETZ. I see no fallacy. I have stated that you must face the fact that you can not carry out this plan unless a large proportion of the banks come in. Not all need come in, but a considerable proportion of the banks. After you have established the reserve banks with such of the banks as come in, then you will be in a position to put pressure to bear upon those who remain out.

Senator NELSON. But what Senator Reed means, and you overlook, is: Suppose you leave it entirely optional with all national banks whether they will come in or not, under this bill, and do not provide in the first instance that if they fail to come in they shall be subject to forfeiture or loss of their charters as national banks. Would there then be a sufficient number of national banks coming into this voluntarily to establish these regional reserve banks? Have you any idea they will be sufficient, if you leave the matter wholly voluntary?

Mr. MORAWETZ. I am confident that if this bill should be amended in the few particulars, all of which, according to my view, are necessary to make the scheme economically sound and safe, a considerable majority of the banks in the East will come in.

Senator WEEKS. What makes you confident of that?

Mr. MORAWETZ. My conversations with financial men in New York.

Senator REED. Mr. Morawetz, what would you say of applying the power of Congress under its interstate-commerce rights to this situation so that the banks would find it very unprofitable to stay out?

Mr. MORAWETZ. You mean all of the banks?

Senator REED. Yes; the banks doing an interstate business; that is, sending checks and drafts from one city to another.

Mr. MORAWETZ. I am very strongly opposed, on principle, and also as a matter of policy, to legislation by indirection. I think a much better and a wiser course would be to make this bill acceptable not to all banks but to fair-minded bankers, such as I believe a majority of the bankers to be.

Senator WEEKS. Is not this true, as a practical proposition: It is necessary to start the system and it must be started fairly promptly, or else we are likely to have chaos in our banking and industrial affairs.

Mr. MORAWETZ. Yes.

Senator WEEKS. Now, unless we compel banks to come in, are we not likely to see all banks hesitate and want to see what develops, what the experience of the others who have gone in is or has been, a generally conservative desire to take advantage of the experience of those who have tried the experiment? That is exactly what happened when we passed the Aldrich-Vreeland bill, which you and I agree was not a great measure, but might be a very useful one. We provided that associations should be formed, and the associations were not

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formed until pressure was brought by the Treasury Department on groups of banks to form the associations as provided by the bill. Now, will not exactly that thing happen in this case, unless we compel national banks to join, and join without any considerable delay?

Mr. MORAWETZ. Well, my objections to the clause of the bill which we are discussing are not founded on consideration for the banks. I should be willing to put pressure upon them, but I urge that you can not put the pressure upon them in that way. You must find some other way of bringing pressure to bear upon the banks to come into this plan. You can not, with safety to the country, adopt the method which is provided in this bill.

Senator REED. How would this do, Mr. Morawetz: If I understand, the kernel of the objection to compulsory measures, in your mind, lies in the fact that if we provide in the bill a hard and fast rule by which, at the end of a given time, banks not coming in will cease to exist, and therefore, as they are the sources of the bank currency, whenever they would go out of business that currency would be contracted and a sudden contraction would bring panicky conditions. I understand that to be the kernel of your thought. That is your thought?

Mr. MORAWETZ. Yes, sir.

Senator REED. Now, how would it be, instead of providing a hard and fast rule that at the end of 12 months those not coming in should be forced out of existence, to provide that this board, this central board, should have the right, or the Secretary of the Treasury should have the right, to arrest the charter of such bank or banks as he saw fit, so that he might apply this pressure or might not; he might apply it to all banks at once, or he might apply it to part of them.

Mr. MORAWETZ. I do not think that would be any better than the provision now in the bill. I should urge that the proper course would be to make the provisions of this bill in such form as to be acceptable to a majority of the banks for, after all, their cooperation is essential. It would be a sound policy to work in consultation with the banks in preparing a bill which a majority of them will be willing to accept and work under. And then, after you have succeeded in organizing some of these Federal reserve banks, pass a law compelling the remaining banks to come in. But I should like to see the compulsion extend a great deal further than this bill provides. I should like to compel the State banks as well as the national banks all to come in.

Senator REED. How could we do that, because the interstate commerce powers of the Government have already been stretched to a point that sometimes I think is alarming.

Mr. MORAWETZ. I am inclined to think it could be done.

Senator REED. I wish you would suggest how. I have very great regard for your opinion as a lawyer.

Senator NELSON. I would suggest to him that we ought to have done it in the income-tax law requiring State banks to take out a license before doing business as State banks, and then put in the conditions. Perhaps we could have reached it in that way.

Senator REED. That would be exercising the taxing power.

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Senator NELSON. How is that?

Senator REED. That would be applying the taxing power.

Senator NELSON. Yes.

Mr. MORAWETZ. I am utterly opposed to the exercise of the taxing power to nullify the Constitution by indirection. I do believe, however, that sound banks, organized and conducted according to a uniform system, are as necessary to the transaction of interstate commerce as are railways and highways, and therefore I do believe that Congress has a broad power of regulating the banking business throughout the country.

Senator REED. Under the interstate-commerce provision?

Mr. MORAWETZ. Yes.

Senator REED. That is what I suggested. Now, can you give us a method of practically applying that? By what means? Just by a general law that all banks engaged in interstate commerce must become members of this system? That is compulsion with a vengeance.

Mr. MORAWETZ. I should like to consider that question further before answering.

Senator REED. I wish you would.

Mr. MORAWETZ. I wish to state, however, Senator, that I have given very careful consideration to the constitutional powers of Congress to regulate corporations engaged in banking or interstate business of any kind, and I published an article in which I discussed that matter in the June, 1913, number of the Harvard Law Review.

Senator REED. I am sure I speak for the other members of the committee, both present and absent, when I say that we would like very much if you would file with us your views as to the method of applying this principle, and we will have the clerk of the committee get your article, unless you desire to rewrite it, applying it to this proposition. That is a matter which has not been much discussed, and I am glad to find a lawyer of your eminence agreeing that we have that power.

Now, I want to ask you this, as a practical proposition, aside, and in asking this question, I do not mean that I am committing myself to it. It is a mere suggestion: How would it do as a matter of inducement to banks to come into this system if we were to provide a very low rate of exchange, or an absolute parity, as is in this bill, for member banks, with a higher rate of exchange for business done by other banks passing through, and permit all business of other banks to pass through, under some regulation, making a discrimination in favor of the member banks? That is, by way of inducement, rather than compulsion.

Mr. MORAWETZ. I should be disposed to doubt the efficacy of the plan just suggested. I think that the way of accomplishing the desired result would be to make a few changes in the bill to meet the ideas of the leading bankers as to what sound banking demands.

Senator REED. But, Mr. Morawetz, we can not, in order to get the banks in, permit the bankers to write this bill for the country.

Mr. MORAWETZ. I do not mean that, sir.

Senator REED. I know you do not mean that.

Mr. MORAWETZ. I did not mean that. You need not see them again. You probably know, from the testimony before this com-

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mittee, what will be needed to satisfy the leading bankers; and as the leading bankers go the great majority of the bankers will go.

Senator REED. I mean more than that. We can not afford to write a bill for the whole country which gives to the banks any advantage they ought not to possess. Neither do I think, under the same construction, that we can afford to deny to the bankers those rights which are necessary to the maintenance of a banking system; but we might make this bill so attractive to the bankers that it would be so unattractive to everybody else that it would not live long.

Mr. MORAWETZ. Sir, I believe that a great many of the leading bankers of this country are patriotic men, who will come into this plan even at a great loss to their own banks.

Senator REED. I am glad to hear you say that. Let me ask you one question which is aside from that. This bill, in the contribution to the capital of the regional banks, proposes to require a contribution of a certain amount of capital. Now, many banks in the country have a very small capital in proportion to their real assets; I mean their real net assets. They have a very large surplus, and they have other funds. Do you not think that the contribution ought to be, not upon the basis of capital but upon the basis of capital and surplus, whatever the percentage might be?

Mr. MORAWETZ. I do not think so.

Senator REED. Let me see. I think there is a bank in New York—I have forgotten which one——

Mr. MORAWETZ (interposing). You are probably thinking of the Chemical National Bank, which had a surplus perhaps 40 times the amount of its capital.

Senator REED. Yes.

Mr. MORAWETZ. But that has all been changed. The Chemical National Bank increased its capital stock enormously and changed surplus into capital.

Senator REED. But now, as banks are ordinarily organized to-day, right in the inception of the organization most of them provide capital stock and at the same time provide surplus, and start with a surplus. Now, the surplus in some banks is very large; and then they have undivided profits, which is also a very large sum sometimes. Is the amount of the capital stock the real starting point?

Mr. MORAWETZ. It is. The capital is fixed and can not be impaired. The surplus is a fluctuating thing, which can be paid out as dividends, and which changes from year to year and from month to month.

If thought advisable, there would be no objection, to my mind, in requiring a corporation to take stock in its reserve bank equal to 10 per cent of its capital and surplus at the time of its formation.

Senator REED. That is what I meant.

Mr. MORAWETZ. But I do not think it would serve any useful purpose, and it would introduce uncertainty in the plan, because the surplus is not a matter of record. It is subject to constant change. The bank could increase the surplus the day after its subscription to 100 per cent. And it could pay out its surplus to its stockholders.

Senator REED. I do not refer to what would happen hereafter, but I meant in the primary subscription of the bank.

Mr. MORAWETZ. Suppose a bank, then, reduces its surplus. What then?

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Senator REED. If it does that——

Mr. MORAWETZ (interposing). It gets part of its subscription back.

Senator REED. It has increased its assets, and it would have a larger contribution to the central bank than it would then need to maintain——

Mr. MORAWETZ (interposing). Than it would be allowed to have under the bill?

Senator REED. Yes; than it would be allowed to have under the bill.

Mr. MORAWETZ. I really think the advantage is so very trifling that it is entirely outweighed by the manifest inconveniences which would arise if the right or the obligation to subscribe were fixed by the surplus, which is not a matter of record, and which is subject to daily fluctuation, and which is wholly within the control of the bank. I do think, however, and I urge the committee to consider my suggestion carefully, that it would be advisable to require member banks to invest 10 per cent of their capital in the stock of their reserve bank, to be paid up within six months and subject to no further liability to contribute an additional per cent, as provided in this bill, but to authorize the reserve banks, under the supervision and control of the Federal board, to offer for public subscription a preferred stock without voting power, entitling the holders to cumulative dividends when earned at a rate not exceeding 5 per cent. It is very desirable to strengthen the capital of these reserve banks as much as possible, so that they will not be so largely dependent on the deposits of other banks for their power to help the banking situation in time of need.

Senator REED. You would have that preferred stock paid this 5 per cent dividend before the banks received any profits?

Mr. MORAWETZ. Surely.

Senator NELSON. Mr. Morawetz, do you not think that if we here in the Senate should have gone to work and passed this bill just as it came to us from the House that it would have wrought a great deal of financial and commercial disturbance in this country and proved a detriment to the country?

Mr. MORAWETZ. I think it would have resulted in a catastrophe.

Senator NELSON. You think this committee, then, is fully justified in deliberating and carefully considering this bill, in order to improve it?

Mr. MORAWETZ. I think it is more than justified, sir, in doing that.

Senator NELSON. And to get all the light we can from experienced men like yourself and others?

Mr. MORAWETZ. I do not like to include myself.

Senator NELSON. Well, I think you have given us a good deal of valuable information.

Mr. MORAWETZ. But I cordially agree with the view that this bill needs a careful overhauling.

Senator NELSON. And ought we not, in a matter of such supreme importance to the welfare of the country, proceed with caution and deliberation?

Mr. MORAWETZ. Surely.

Senator NELSON. And is it not a further fact, Mr. Morawetz, that this fall we are in a fairly good condition; crops are moving; there seems to be plenty of money in the country to handle the crops;

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there seems to be no immediate urgency for making a running pace. Is that not so?

Mr. MORAWETZ. That is true.

Senator NELSON. I want to call your attention to the fact that a short time ago the Secretary of the Treasury proposed to distribute $50,000,000 to move the crops throughout the country. He could only succeed in disposing of half of that. He offered $3,000,000 to our banks in Minnesota to move the crops. You know we are a great wheat State. Of the $3,000,000 he offered a million and a half, I think, to Minneapolis, which is a great grain center, and half a million to St. Paul and half a million to Duluth, and Duluth took a half a million, but Minneapolis and St. Paul did not need it.

Mr. MORAWETZ. They are very prosperous cities.

Senator NELSON. Do you not think under those circumstances we should take time to act with deliberation and caution and judgment?

Mr. MORAWETZ. I feel that of all legislation none requires more care and deliberation than banking and currency legislation, and it would be a fatal thing to this country if this banking and currency bill were passed in as incomplete and unfinished and imperfect a condition as was the income-tax bill.

But, on the other hand, I think it is very desirable that banking and currency legislation subjects be disposed of with all practicable speed. It has been hanging over the country now for years, and it is in itself a disturbing element. While all time should be taken to make the bill as perfect as it can be made, no time should be wasted.

Senator NELSON. You must remember one thing, that while we may be able to pass fairly good laws, we can not manufacture good bankers.

Mr. MORAWETZ. That is true.

Senator NELSON. And do you not recognize the fact that the bankers' panic in New York in 1907 came rather from bad banking than from bad laws?

Mr. MORAWETZ. I think it came, sir, from a bad system, a system under which there existed 25,000 individual banks scattered over this country with no means of obtaining cooperation or unity of action with regard to the use of the reserve, the aggregate amount of which was quite adequate.

Senator NELSON. The trouble was, Mr. Morawetz, the little country banks in the interior, like rivulets, had all been pouring their streams into the big central reserve cities, especially New York and Chicago. They had been pouring it in freely, gathering it up from their country merchants and farmers and sending in their money to those cities, and when the emergency arose they found a good deal of it tied up in call loans on stock collaterals, and they could not get it. Is not that a fact?

Mr. MORAWETZ. It is a fact, as I stated a little while ago, that the underlying trouble was that there was no way of using the reserve money in the aggregate when and where it was needed, and that situation was due to the fact that the deposits of the country banks of their reserves with reserve city banks and the central reserve city banks were of no use as reserves.

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Senator NELSON. Do you not consider the fact—now to begin with, a national bank, in the ordinary sense, is supposed to be a commercial bank, is it not?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. Now, do you not think it is diverting the business of that bank from its legitimate commercial purposes to invest the moneys of such a bank in call loans on stock collaterals, for the purpose of carrying what they call margins.

Mr. MORAWETZ. I do.

Senator NELSON. Is it not a diversion of the business of such a bank from its commercial purposes, for which it was designed, into channels it ought not to go into?

Mr. MORAWETZ. To that I agree.

Senator NELSON. That is a thing that has grown up, not because the law directed it, but because the banks have been guilty of that. That is what the banks have been guilty of, is it not?

Mr. MORAWETZ. That practice has grown up because of the absence of any reserve banks which would furnish a market for the rediscounting of paper held by the banks.

Senator NELSON. The law did not plan that system. That is a system—this system of loaning on call loans is a system which has been created and built up by the banks, it is not?

Mr. MORAWETZ. It is because of the defective nature of the system. Inasmuch as under this system there is no rediscount market for commercial paper, it is not a liquid asset. Each bank feels that it must keep part of its assets so that it can get reserve money when it needs it. That is the reason why the banks make these call loans.

Senator NELSON. Do you not know that in the case of a bank these stock collateral loans are anything but liquid loans?

Mr. MORAWETZ. Yes.

Senator NELSON. They are not liquid.

Mr. MORAWETZ. Each bank looks no farther than its own situation. Each bank says, "We will keep part of our assets in the form of these call loans on stock exchange collateral, so that when we want the money we can demand it," but it does not consider the fact that every other bank is in the same position, and that when one bank calls a loan to replenish its reserves the money must come out of some other bank, so that the gain of the one bank is the loss of the other.

Senator NELSON. Yes. Is it not a fact, Mr. Morawetz, that in the midst of a panic or stringency such as we had in 1907, that really the only liquid loans are bills of exchange, accompanied by bills of lading for the necessaries of life, like cotton, wheat, flour, and such products? Those are really the only liquid loans. Was it not by means of such bills that we secured upward of $100,000,000 of gold in the panic of 1907? Some people called them documentary bills; some people called them commercial bills. Was that not what brought nearly $100,000,000 of gold into the country? It was not brought here on finance bills.

Mr. MORAWETZ. That, and to sales of commodities and bonds and stocks.

Senator NELSON. My information was, and I got it from no less an authority than Mr. Vanderlip—I have his letter written some time ago—and he said that the 95 million odd of gold were obtained upon

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commercial bills of exchange drawn against wheat, flour, and cotton, and not through what they call finance bills. You know the distinction between a commercial and a finance bill?

Mr. MORAWETZ. Perfectly. I think, Senator, this gold was obtained in part also by sales of securities and out-and-out sales of commodities, and probably——

Senator NELSON (interposing). Mr. Vanderlip, and I have his letter for it, says not.

Senator REED. It would be strange if there was not something of that kind done.

Mr. MORAWETZ. I think a great deal of it came in that way. The foreigners undoubtedly bought more wheat than usual, and more cotton than usual, but not such a vast amount more than usual. A great deal of it was——

Senator NELSON (interposing). You recall that during that fall the crop of wheat in the world was not very large, and there was a great demand for it; there happened to be, fortunately, a great demand abroad for wheat that fall. There was not such a surplus at this time, so that, Mr. Morawetz, when you study it you will find that the banks, by the stock loans, loans on stock collateral for the purpose of carrying margins, have built up a system that has proved in times of stress their own ruin. Is that not a fact, to some extent?

Mr. MORAWETZ. To some extent, it is quite true; yes, sir.

I want to add that I have no sympathy with the argument which has often been advanced by the bankers and officers of trust companies that the investment of these institutions of large sums in bonds and stocks, principally bonds, makes a kind of secondary reserve in times of stress.

Senator NELSON. But not in times of panic?

Mr. MORAWETZ. I say I do not sympathize with that view. Such investments are less excusable than the collateral loans. It is undoubtedly true that the call loans are a very convenient way of using part of the credit power of the banks.

Senator NELSON. In normal times that may be so. What we should legislate against is a hurricane and a storm.

Mr. MORAWETZ. What you want to legislate for is not to create a cyclone-proof cellar to protect people in case of a hurricane, but what you want to obtain is a system which will prevent a hurricane from ever striking this country again. You want to prevent the recurrence of panics and not merely mitigate these dangers after they have occurred.

Senator NELSON. You see, in piping times of peace, we get along fairly well with our present national banking system. We have at all events had a sound currency if it has not been elastic.

I am old enough to have had a little experience with our old State banks' paper currency. I knew what that meant. We have had a good currency, and a safe currency. It may not have been as elastic as it might have been. But outside of that currency this system has brought on the catastrophes in New York time and again, and did not grow from that currency system. It grew out of a vicious system of banking.

Mr. MORAWETZ. The panics in Cleveland's time were due to the currency.

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Senator NELSON. No.

Mr. MORAWETZ. The currency to-day I regard as sound. There is not the slightest danger.

Senator NELSON. You are mistaken. In Cleveland's time the country was in a state of stagnation, and then we had injected a good deal of silver into our currency, but in 1907 the country was in a prosperous condition, and economically sound. There was no occasion for that panic, and to show you that I will state that out in the West there were a good many places, small country towns, where they kept open shop and paid out money and took in money, just as though there had been no panic in New York at all.

Mr. MORAWETZ. The currency in this country——

Senator REED (interposing). Had you anything else to say, Mr. Morawetz?

Mr. MORAWETZ. I was going to reply to Senator Nelson's question.

Senator REED. I beg your pardon. Go right ahead.

Mr. MORAWETZ. The currency of this country, in my opinion, is perfectly safe and sound at this day. The issue of silver dollars worth 50 cents, intrinsically, to the dollar has been stopped. The issue of greenbacks has been stopped and the Government has pledged itself to pay those outstanding on demand in gold, and to maintain an adequate reserve in gold; and the issue of bank notes has been stopped by the exhaustion of the Government bonds.

Senator REED. Mr. Morawetz, I think I am warranted in thanking you, sir, on behalf of the committee, and I only wish you might continue your talk indefinitely.

At 2 o'clock Mr. Gilbert will begin at once. Unless we are forced to remain in the Senate, we will reconvene at 2 o'clock this afternoon.

(The papers referred to by Senator Hitchcock are as follows:)

RICHMOND TRUST & SAVINGS CO.,
Richmond, Va., October 20, 1913.

HON. ROBERT L. OWEN,
Chairman Senate Committee on Banking and Currency,
Washington, D. C.

DEAR SIR: Pursuant to the committee's request of last week I now beg to submit my suggestions in writing for the consideration of your committee, viz:

(1) *Federal reserve districts* (sec. 2).—Reduce the number of Federal reserve banks to seven and name the points to wit: New York, Boston, Washington, New Orleans, Chicago, Denver, San Francisco. The headquarters of this Federal reserve board to be established at Washington, but with a clause authorizing removal to any other "Federal reserve bank point" (for instance, in time of national danger); i. e., by and with the consent of Congress.

The capital to be supplied on a basis of 6 per cent of the member banks' capital, surplus, and undivided profits as of July 1, 1913; one-half payable at once, one-fourth in 60 days, and the remainder in 120 days. (It must be obvious that the only fair computation is on surplus as well as capital.)

(2) *Division of earnings* (sec. 7).—Six per cent instead of 5 per cent.

(3) *Federal reserve board* (secs. 11 and 13).—Abolish the "Federal advisory council" by entirely eliminating section 13. Increase the Federal reserve board to 11, so that one appointment can be made by the President from each of the seven sections or districts having in it a Federal reserve bank, the eighth member to be chosen by vote of a majority of the banks belonging to the entire system. Make the term for life, subject to good behavior, just like the Supreme Court judges, and, in order to get good men, place the salary at $12,000 per annum.

(4) *Rediscounts* (sec. 14).—Amend line 1, page 26, to read: "Any member bank" instead of "Any national bank."

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I think it important to prohibit Federal reserve banks lending either on their own stock or on the stock of any other Federal reserve bank, directly or indirectly.

(5) *Open-market operations* (sec. 15).—Place a conservative "limit" on these transactions.

(6) *Note issues* (sec. 17).—On page 33 amend by erasing in lines 14 and 15 the words "at par and without charge for exchange or collection," and insert instead, after line 19, these words, "in accordance with the rules and regulations to be prescribed from time to time by the Federal reserve board." Erase lines 20, 21, 22, and the word "patrons" in line 23, and insert the following words instead: "Member banks shall make such charges to their patrons for collecting checks and drafts as shall be prescribed by the rules and regulations issued from time to time by the Federal board."

(7) *Savings department* (sec. 27).—The conditions regarding "savings" being entirely different in some sections of the country from the conditions prevailing in other parts of the United States, I suggest that this entire clause be simplified as follows:[1]

"That the Federal reserve board shall be, and is hereby, authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kind of business laid down in the national banking act. And it shall be the duty of said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by the savings departments of every member bank under this act."

But if the committee insists on inserting in this section all that the Federal reserve board shall do, then I call attention to the fact that they should amend the eighth line, page 48, by inserting, after the words "savings department," these words: "As well as the method and form of withdrawal."

(This is important because in many localities pass-book withdrawals have degenerated into wholesale checking accounts; to the great danger of the community, by thus destroying the only known safeguard on "savings deposits.")

(8) *Foreign branches* (sec. 28).—Amend line 16, page 49, to read that any "member bank" instead of any "national banking association"; and wherever this same error in phraseology occurs, in the entire bill, amend accordingly.

(9) *Change of numbers.*—Amend sections 29 and 30, numbering them instead respectively 30 and 31.

(10) *Agricultural credit banks.*—Add section No. 29, as follows:

"The Federal reserve board shall have the power to consider applications for the establishment of, and to establish throughout the country agricultural credit banks under such rules and regulations as it shall formulate and promulgate from time to time; but in no event shall any Federal reserve bank subscribe exceeding 5 per cent of its capital stock toward the capital stock of an agricultural credit bank, and then only when such agricultural credit bank is located in the district covered by the said Federal reserve bank. No "branch" of a Federal reserve bank and no member bank under this act shall subscribe to the capital stock of such an agricultural credit bank, nor lend directly or indirectly upon the stock of such agricultural credit bank."

Yours, very truly,

S. D. SCUDDER,
Vice President and Treasurer.

CHAMBER OF COMMERCE OF THE STATE OF NEW YORK.

NEW YORK, N. Y., *October 20, 1913.*

Hon. ROBERT L. OWEN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SIR: I am directed to send to you the inclosed printed copy of a report adopted to-day by the New York Chamber of Commerce on the Federal reserve act and to call your earnest attention to it.

This report was adopted on recommendation of a committee, 11 of whom are prominent merchants and 6 are leading bankers of this city. A copy of the report and also a copy of the Federal reserve act, as it passed the House of Representatives, were sent to each of the 1,600 members of the chamber in advance of the special meeting of October 20, to consider the same.

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[1] Note carefully.

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Every effort was made to obtain a full and free expression of opinion by the membership of the chamber; and its adoption at the special meeting is therefore proof that it represents the sentiment of New York on this great measure. As will be seen from the language of the report the desire is to cooperate with Congress in perfecting this most important legislation.

Yours, very respectfully,

SERENO S. PRATT, *Secretary.*

[Inclosure.]

Chamber of Commerce of the State of New York.

At a special meeting of the Chamber of Commerce of the State of New York, held October 20, 1913, the following report, presented by the committee on finance and currency, was unanimously adopted. The committee was enlarged by the addition of 11 merchants, and the report and a copy of the proposed act were sent to every member of the chamber in advance of the meeting.

JOHN CLAFLIN, *President.*

Attest:

SERENO S. PRATT, *Secretary.*

REPORT ON THE FEDERAL RESERVE ACT.

NEW YORK, N. Y., *October 16, 1913.*

To the Chamber of Commerce:

Your standing committee on finance and currency, composed of 7 bankers, having been enlarged by the addition of 11 merchants for the purpose of the consideration and report upon the Federal reserve act (H. R. 7837), now pending in the United States Senate, has made a careful study of this important bill and now respectfully submits its report. This report was first adopted by a subcommittee of 5 merchants and later by the full committee of 18. Its conclusions are based upon an independent study of the provisions of the bill, which study was illumined by the instructive discussion of the measure at the recent conference conducted by the Academy of Political Science. The two sessions of the conference, held in the hall of the chamber, were attended by hundreds of the members of the chamber, who listened with the deepest interest to the statements of Chairman Owen, of the Senate Committee on Banking and Currency, and Representative Bulkley, of the House Committee on Banking and Currency, and the debate which followed. In order that our membership might be further prepared to act intelligently upon this measure, a copy of the Federal reserve act was mailed to each member, and, moreover, a copy of this report has been sent to the members in advance of the special meeting called to pass upon it.

Your committee believes that experience is the greatest asset as it is also the surest guide to wisdom and the best preventive of errors in judgment in professional, political, commercial, and industrial life.

If there is one phase of the complex conditions of modern business in which more than another the wisdom gained by experience should obtain and be expressed it is in the currency and banking system of any great nation and in its administration.

For reasons which it is not necessary to discuss or review here the United States has long rested under a system unscientific, if not, indeed, unsound, which has proven inadequate to stand the strain of stressful times; and with many serious restraints and setbacks has achieved its material progress in spite of rather than because of the structure of its financial system.

Yet all the while we have had the example of other great nations pursuing their way through wars and pestilence, through fire and floods, through collapse of unwise speculation and shrinkage of security values with no disastrous disturbance or serious interruption to the progress of their productive energies and the interchange of commodities.

Experience, therefore, lies ready at our hand. Shall we avail ourselves of it; and, grasping the fundamental principles which underlie all successful systems, differing only in details, apply them to our own needs and conditions with equally beneficent results,

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It is the conviction of your committee that such has been the intention of the Federal Congress and administration; and if we differ with them in our views as to the methods to be employed, it is because we believe that some of the provisions of the present bill will not permit of the free play and influence of some of those pronciples which it has attempted to recognize and which experience has proved are fundamentally necessary to security, flexibility, and fluidity of credit and exchange.

We should be untrue to ourselves and to the record of this chamber on the banking and currency question if we failed to point out what we believe to be the ideal solution, and frankly recognizing that, because of the complex conditions in our country, the ideal may be unattainable at this time, to suggest such changes in the present bill as we believe of vital importance to accomplish the ends which the needs of our commerce demand and which the security and advancement of our industrial and financial existence require.

The ideal solution, in our judgment, would be one central reserve association, dealing only with member banks and the Government; issuing currency against commercial notes having a definite and limited maturity, redeemable in gold and protected by an adequate gold reserve, this currency to be the obligation of the central reserve association issuing it and not involving the credit of the Government for its guarantee or redemption; other outstanding forms of currency to be gradually retired; the Government to use the reserve association as its depository and fiscal agent and to be adequately represented on its board of management; its operation generally to be under Government supervision, but not under absolute political control.

If this solution is not attainable at this time, recognizing that the present bill contains some features greatly superior to the existing system, your committee urges amendments to the proposed act in the following particulars:

1. The reduction in the number of Federal reserve banks to not exceeding four, with powers to operate branches within their own Federal reserve district.

NOTE.—If the desired strength resulting from the concentration of reserves is really to be obtained, and if in times of emergency there is to be a greater strength by unity of action of the reserve banks, with a small number of Federal reserve banks, cooperation tending to approximate the advantages of a single reserve reservoir might be possible. With 12 or more we believe that would be difficult and improbable and that there would in emergencies be likely to develop the same individual struggle for reserves that we have seen cause disaster before. The fewer their number the greater their strength would be in proportion, and the greater therefore the sense of security in the minds of all the people in their respective districts, a factor which must not be overlooked, for timidity and fear breed panics.

With too many districts it is entirely possible that in some of the large centers there would be a number of joint-stock banks and possibly even of private banks of greater financial power than the Federal reserve bank of that district, which in itself would deprive the latter of much of its expected influence, and of the confidence of the people. Four reserve banks as the maximum, suggested by your committee, would amply permit, North, South, East, and West to be fully embraced.

2. That membership in the Federal reserve banks be made of such importance to the national banks that it need not be made compulsory.

3. The retirement as promptly as possible of existing national-bank notes by the purchase by the Government at par of the outstanding 2 per cent bonds, or by some equitable arrangement by which the Federal reserve banks would take over these bonds from the national banks.

NOTE.—This country has long since passed the point where it needs to sustain a market for its bonds by an arbitrary and artificial means, which operates to the disadvantage of its commerce and of its citizens by maintaining an inflexible currency.

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On the other hand it is unjust that banks which have invested their funds in Government bonds which did not return in interest and profits on circulation a sufficient sum out of which to create a sinking fund, should have to suffer loss by the withdrawal of the privilege or the substitution of a bond unmarketable at par.

4. That of the seven members of the Federal reserve board, not more than five should be appointed by the President, none of whom should hold other executive office, and not fewer than two should be elected by the member banks of the regional reserve banks, and that the compensation of the members of the Federal reserve board should be not less than $25,000 per annum each.

NOTE.—The present provision in the bill designates three of the seven constituting the Federal reserve board from executive members of the Government charged with a multiplicity of duties in administration which must inevitably absorb so much of their time and thought that it is not apparent to your committee how they could possibly also exercise the important and responsible functions entailed upon members of the Federal reserve board.

In urging as strongly as we know how that at least two members of this board should be elected by the member banks of the Federal reserve banks, your committee again refers to the opening paragraphs in this report, pointing out that experience in administration is, in its opinion, of vast importance, and while this proposal would preserve a majority and control for the Government representatives this plan would assure beyond peradventure a minority of men trained and experienced in such special functions.

Private capital, and particularly banking capital, has been charged with being grasping and with the desire to take to itself great earnings, but even if this is true private capital has shown great care in the selection and liberality in the compensation of men to place at the head of its banking institutions, and stockholders in banks of even moderate size have always been ready to pay to a talented man several times the salary provided for the members of the Federal reserve board in the present bill. If private capital has indeed been grasping, it has been willing to pay large remuneration, because it believed that thereby it could secure high talent, and your committee believes that it will not be possible to secure the talent, experience, and judgment requisite to administer the broad powers and responsibilities of the Federal reserve board at the compensation proposed in the present bill.

5. That the rate of dividend to be allowed to member banks on their proportionate shares of the capital of their regional reserve bank should be 6 per cent instead of 5, and that all further profits of the regional reserve banks should be paid over to the Government of the United States.

NOTE.—If the Federal reserve banks are to be in fact public-utility institutions, chiefly if not solely for the safeguarding of the commerce, industry, and financial operations of the country, they should be operated primarily for that purpose and not for profit beyond a reasonable return upon the necessary capital contributed, and member banks should be free from the influences or temptations to govern their relations with regional banks by expected further profits, which the present provisions in the bill might tend to create.

6. That the Federal reserve notes be issued by the Federal reserve banks without guaranty by the Government.

NOTE.—It is questionable whether in the proposal to make these notes the obligations of the United States the question has been considered from an international viewpoint as thoroughly as from a purely national one. Whether it desires to be so or not the United States is about as much affected by international monetary conditions as any of the foreign nations. Already the great nations of western Europe as well as India in the East are engaged in an extraordinary struggle for the accumulation of increased gold reserves. Conceive of the conditions which might be caused by a great European conflagration of war intensifying this struggle for gold to titanic proportions. Possibly the citizens of the United States, no matter what domestic financial conditions

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arrive, may not create embarrassment by wholesale demands for redemption in gold; but rich as the United States is it is still an immensely debtor nation and must continue to be so for many years, while there remain many natural resources to be developed and new industrial activities to be provided with capital, and moreover there remain enormous quantities of our securities held for investment abroad.

A European conflagration, and it has been perilously near at least twice within the past three years on the admission of the leading statesmen of Europe. would certainly result in an enormous foreign demand for gold, and the liquidation of our securities would dominate our international exchange market.

Conceivably, conditions might thus arise which would create such an ebb tide of gold that even the Federal reserve banks, if they were the issuers of the currency, could not stem or stop it, and in such an event the Government might have to come forward with its power and credit for the preservation of our domestic interests, but in that case the Government would be entering the lists with undiminished power on behalf of others and for the sustaining of other's credit and not entering the contest as a suppliant on its own behalf and for the preservation of its own credit, an immensely different position in strength and effectiveness than would exist if the Government itself had issued the notes.

Having these various considerations in view, your committee proposes the adoption by the chamber of the following preamble and resolution:

Whereas we are keenly alive to the defects of our present banking system and to the great advantages to commerce and industry that will certainly follow the enactment of a law recognizing the correct principles governing a centralization of banking reserves and the creation of an elastic bank-note currency; and

Whereas we believe that the measure which has passed the House of Representatives and is now pending in the Senate of the United States embraces in a considerable degree the recognition of those principles, and with necessary amendments may, if enacted into law, be of untold value to the commerce and industry of America; and we are in strong sympathy with the desire of the administration for the enactment of an adequate law: Therefore be it

Resolved, That the Chamber of Commerce of the State of New York recommends the enactment of the present measure after such changes have been made as banking and commercial experience may indicate to be necessary for the practical working of the law, and that this body specifically recommends:

(1) The reduction of the number of Federal reserve banks to not more than four;

(2) That a strong effort be made to save the national banking system from a loss in numbers through national banks taking out State charters, by making the provisions of the measure sufficiently satisfactory to banks to obtain their cooperation, and, if possible, to secure the accession of State banks and trust companies to the Federal reserve organization, so that the measure will tend to unify our banking system;

(3) That provision be made for a speedier retirement of the present bond-secured national bank note circulation by the redemption of Government bonds now securing circulation, in order as promptly as possible to make room for a sufficient amount of the new notes to give true elasticity to the currency;

(4) That at least two members of the Federal reserve board shall be elected by the member banks of the Federal reserve banks, and that the members to be appointed by the President shall not hold other executive offices;

(5) That after paying 6 per cent dividend on the capital of the Federal reserve banks that any further profits shall be paid into the Treasury of the United States Government;

(6) That the proposed note issue be the obligations of the Federal reserve banks issuing the notes and not of the United States: And be it further

Resolved, That if the pending measure be amended so as to conform in fundamental principles and administration to the approved practices of world banking in security and flexibility, we urge upon the management of national banks a broad and unselfish view and a hearty cooperation, believing that any temporary inconvenience arising from changed methods will be far more than compensated

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by advantages which will flow from a sound banking and currency system that will benefit the commerce of the whole country.

Respectfully submitted.

Cornelius N. Bliss, jr.; John Claflin, president; Ralph L. Cutter; Otto L. Dommerich; Samuel W. Fairchild; Alexander J. Hemphill; Francis L. Hine; Augustus D. Juilliard; Joseph B. Martindale; Eugenius H. Outerbridge; William Jay Schieffelin; Mortimer L. Schiff; William Sloane; James Talcott; Frank A. Vanderlip, chairman; Clarence Whitman; Albert H. Wiggin; of the committee on finance and currency and members of the chamber associated therewith for the consideration of this subject.

NEW YORK, *October 16, 1913.*

ADDITIONAL STATEMENT BY WILLIAM W. FLANNAGAN, OF MONTCLAIR, N. J.

On reading pages 1650 to 1656 of the record of the committee, it seems that the questions and answers lead to the conclusion, that in order to prevent an over-issue of circulating notes by the Federal reserve banks, it will be necessary or desirable to regulate the interest rate by the time for which the discount is made; the examination concludes by the witness saying: "There should be some slight excess of the rate from month to month," the questioning Senator conceding "that is of course reasonable."

Now, we know that this is entirely impracticable, and that if such a provision was put into the bill it would raise "a howl" from one end of the country to the other as being an effort to uproot the business usage of the country. How could you defend the assertion that this was putting a penalty upon the extension of reasonable credit in accordance with usual trade requirements and was encouraging, in addition to interest charges, the demand for the payment of a useless premium for the nearest approach to cash transactions?

I believe this wrong conclusion is based upon the false premises assumed, as shown in the examination of the witness, to wit:

(1) "That a discount by the reserve bank is a loan of money."

(2) "That the issuance of circulating notes is measured by the volume of discounts made."

Banks don't lend money. They lend a substitute for money. I know this assertion will be called by some, uselessly drawing a technical difference "spliting hairs," "a distinction without a difference," all of which I deny. On the contrary, the fact is fundamental; it is the statement of a distinction which must be drawn in order to understand the mechanism of banking, especially by our legislators, if they would save themselves from wrong conclusions and the people from the result of grave errors occasioned thereby.

The common belief, exemplified in the expression that banks receive money from one class and lend it to another class is entirely erroneous. They do nothing of the kind. If it were true, then the total amount of the loans by the banks would be the volume of money in circulation or less, which we know is not so. The loans and discounts by the national banks alone are more than double the total "money" of the country, including as "money" all the coin and all the paper substitutes in circulation, whether issued by the Government or by the banks, and all held in their vaults.

I said the banks lend a "substitute for money"—it is usually called "credit"—and this term is apt to produce confusion of thought from the various meanings in which the word "credit" is used.

It is "credit" that is loaned or given, but only in the sense of a book credit made by the bank, as an acknowledgment of a debt; it is not "credit" in the usual sense of confidence nor of belief in future compliance with a promise. This latter "credit" is what the bank's customer extends to the bank when he accepts the book credit. This book credit made by the bank is the debt of the bank; it is called in banking parlance a deposit; it is the "substitute for money" which the bank lends, and it is used as such substitute by the borrower by means of a check.

At a risk of being prolix I would say that the mechanism of banking consists of the exchange of bank debts for other debts or for money. In the case of exercising the function of discount or loan, the bank exchanges its promise to pay on demand for the customer's promise to pay in the future. Because the fulfillment of the bank's promise is occasionally immediately required it does not change the nature of the transaction. This requirement, as a matter

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of practice is usually, if not invariably, a separate transaction by means of a check—either the customer's or the bank cashier's check.

In the case of exercising the function of deposit the bank exchanges with the customer its promise to pay on demand for some other promise to pay when the deposit is in the form of a check or currency (paper money), or gives such promise to pay in exchange for coin when the deposit is made in coin; the latter does not constitute 1 per cent of the deposits made.

The remaining function of banking is called circulation or note issue; it is properly only a change in the form of the bank's debt and should be exercised only for the convenience of the depositor and not for the profit of the bank. We have been erroneously taught through the national-bank act to look upon the bank function of note issue as a source of profit. This profit was the great inducement held out by the framers of that act, for it allowed the drawing of interest from the Government on the bonds deposited and at the same time the earning of interest from the public on the circulating notes issued—i. e., double interest on the same capital invested. But this act was adopted primarily to provide a market for the Government bonds, not for the purpose of providing a uniform currency. The former destroyed the true bank function of note issue, from the evils of which destruction we now seek relief, while the latter is the unexpected benefit which we must retain.

The only difference between the debt of the bank represented by the circulating note and the debt represented by the deposit is that the first named is a debt to the public—i. e., an unknown creditor—and the last named is a debt to the depositor, a known creditor. A circulating note can not properly come into existence except in discharge of a preexisting debt by the bank, either in the form of a deposit created by the exchange for other debts or coin, or as the proceeds of a loan or discount; and hence it follows this form of bank debt should be created only at the creditor's option.

To illustrate the mechanism of banking with a concrete case, and in order to emphasize what I have said, let us take the example of a bank with a paid-up capital of $100,000, and say that on the first day it opened it received current deposits of $100.000 from many customers, of which $50,000 was in checks on other banks, $40,000 in currency, and $10,000 in coin. At the close of business that day the statement of condition would show as follows:

Assets:		
Cash for capital paid in		$100,000
Due from other banks		50,000
Cash—		
Currency	$40,000	
Specie	10,000	
		50,000
Total		200,000
Liabilities:		
Capital stock		$100,000
Deposits		100,000
Total		200,000

We will suppose that within a week the bank has made discounts at 6 per cent to the full amount of its capital and to the extent of one-half the first day's deposits at an average time of, say, 60 days; supposing, also, that the checks paid and the deposits received during the week have left the net deposits from customers (other than discounts) the same as on the opening day. Then the statement of condition will show as follows:

Assets:		
Bills and notes discounted		$150,000
Due from other banks		50,000
Cash—		
Capital paid in	$100,000	
Currency	40,000	
Specie	10,000	
		150,000
Total		350,000

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Liabilities:	
Capital stock	$100,000
Discount and interest	1,500
Deposits	248,500
Total	350,000

The statement shows a much stronger position than prudence requires or banking practice ever demands, the bank having a reserve in quick assets of 80 per cent of its liabilities. But the statement shows also that the bank has loaned $150,000 and has added $148,500 to the circulating medium of the country, at a profit of $1,500, and still has $200,000 in available cash assets, being double the amount of the capital with which it started.

This looks on its face as a case of "having your pie and eating it, too," but the truth is that this and many other transactions in banking are exemplifications of this supposed impossibilty.

The reson of this and the solution of the paradox is that the banks create a debt which the public—i. e., the banks' customers—accept as a substitute for coin. The promise of payment or debt, as evidenced by the credit on the bank's books, is accepted by the customer in lieu of payment, and this credit—or deposit—is transferred by the customer by means of an order—or check—which is used by the customer to discharge other debts created in the daily interchange of commodities and service by the people, called the requirements of trade.

Now, these deposits or debts of the bankers are as much a part of the circulating medium of the country as if they were coin or bank notes: indeed, they constitute more than 95 per cent of this circulating medium, and are used to perform all the functions of money except the final cancellation and extinction of debt, which can be done only with coin.

To the extent that this substitution of bank debts for coin can be safely made both the people and the banks benefit. It has become a necessity for all civilized peoples and is the essence of banking everywhere.

All banking and currency legislation in every country are but variations or restrictions under which this substitution may be made, in order to accord wth the habits, customs, and development of the people, all such laws being only different methods of securing safety in this substitution from the people's standpoint.

The banker's problem is to have the people substitute his demand debt for coin, to the fullest extent consistent with safety, which safety, from his standpoint, consists in being in the position at all times to discharge this debt whenever demanded. Experience has demonstrated that the law of average applies to these demand debts in a similar manner as it does to the business of life insurance. Men don't die all at one time, nor do they demand payment of their deposits at any one time.

Epidemics do sometimes come, and we provide against them as best we may by sanitary laws and quarantine. Financial panics also sometimes sweep over the land, and against these you are now seeking to provide as a part of the beneficial legislation you are considering.

The Federal reserve banks are intended to do for the member banks what the member and other banks do for the people. They are to furnish a debt, which can and will at all times be accepted as a substitute for coin, irrespective of commercial crises and financial panics. This debt, unless our whole business methods are revolutionized and entirely changed (which does not appear likely and certainly is not desirable), will be in the form of deposits to be transferred and used as a circulating medium, as now, by means of checks.

The member bank, when it asks for a rediscount from the Federal reserve bank, will have the proceeds placed to its credit and will use these proceeds in its regular operations by means of checks, or drafts as they are usually called, when made by a bank. It should not be presumed that these proceeds will be asked to be remitted in circulating notes any more than is done now. There appears to be no reason why such would be the case.

At some seasons of the year these notes will be required, but only because the member bank needs them for its customers, it being wisely provided that these notes can not be counted as reserve money by the member banks.

The measure and limit of discounts by the reserve banks will be the demand by the member banks, restricted to commercial paper as defined by the act, and further restricted by the required gold reserve to be held by the reserve bank against deposits as well as note issues. The volume of notes which may

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be issued has no relation whatever to the amount of discounts which may be asked by the member banks.

The reserve banks will grant discounts as the business requirements of the member banks demand, limited by the reserve requirements of the law. The issuance of notes is entirely a different function and will be exercised in response to an entirely different requirement.

ADDRESS BY RAYMOND B. COX, ASSISTANT CASHIER FOURTH NATIONAL BANK OF THE CITY OF NEW YORK, BEFORE THE CLEARING HOUSE SECTION OF THE AMERICAN BANKERS' ASSOCIATION, THIRTY-NINTH ANNUAL CONVENTION, AT BOSTON, OCTOBER, 1913.

"NEEDED REFORMS IN CHECK-COLLECTION LAWS AND METHODS."

The history of banking is the history of note issue. Note issue, in a broad sense, may be defined as the process through which the individual exchanges his credit, which has only a local value, with the credit of the bank, which has a general value. While the granting of credit may be said to be the foundation on which commercial banking rests, the effective use of credit through credit instruments is the test by which a banking system is measured to determine its success or failure. Note issue has been declared to be a lost art in American banking, a statement that is not without same basis of fact when we consider that the system provided by the national-bank act fails almost entirely to properly perform those functions for which a bank-note issue is especially intended.

It is an economic truth that commerce and trade depending for its existence upon exchange will find a medium of exchange whether or not one is provided by the Government under which the exchange of commodities is effected. Thus we find shells and beads performing the functions of a medium among primitive peoples. In colonial days, when there had been little specie imported to the newly discovered country, skins of animals, tobacco, and other forms of wealth supplied the deficiency, not through any legislative statute, but in obedience to natural law which knows no rule save the law of necessity.

The operation of this law of economic necessity is well illustrated in the evolution of our chief circulating medium during the period between 1865 and 1875. When the national-bank act put an end to the issue of notes by individual banks we were left without a medium that would respond readily to the demands of trade. Obedient to the economic law of necessity something else was substituted that performed the functions of the more elastic State bank notes which had been discontinued. The instrument employed was the bank check, not new in itself, but new in the sense that it took on an increased importance from that day, an importance that has steadily increased to the present time, until now more than 90 per cent of payments are made by check.

This development has been due not only to the need of some such medium as has been suggested, but also to the fact that the check is superior in many ways to the true bank note which it so closely resembles in use. It is better adapted to the service of the people and to our independent system of more than 25,000 banks. People are encouraged to open bank accounts and make use of checks who would never carry such accounts otherwise. Thrift is thus encouraged and millions of dollars are turned into productive channels instead of being allowed to lie idle. We have educated the people to carry check books rather than wallets. While the amount of profit resulting to the banks is not entirely tangible, it can be appreciated even by the most shallow observer of financial conditions. It is hard to see how the business public could very well get along without the check, and bankers of to-day would not think of doing otherwise than encouraging the use of checks to the fullest possible extent.

But while the check is like the bank note, both in function and principle, in form it is like the bill of exchange, and hence we find that it is governed by the law applying to bills of exchange. It is drawn upon a bank as drawee, to the order of a payee, and is signed by the drawer. It is for a definite amount payable at a certain place on demand. Hence it seems only natural that the laws of the bill of exchange should govern the use of the check. Yet this is only relatively true. The bill of exchange is a commercial commodity to be bought and sold, but the check must be considered from the side of the function it is intended to perform. A check is primarily for the payment of debt, and is

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seldom intended to be used for any other purpose. In this it enjoys an advantage over the bank note in that it can be made to fit the debt, whereas the note is ready made. It is for the exact amount of the debt and can be negotiated only by the payee. Title does not always pass by delivery, as is the case of the bank note, but usually by indorsement. Hence the check for many purposes is as superior to the bank note as the clearing-house currency certificate is superior to actual gold for the payment of clearing-house balances.

Unfortunately, however, in the rapid development of the check system, banks have utilized the check to a gradually increasing extent for their own advantage, so that now its original function has disappeared from the minds of bankers and they consider only its collection, and this as a means of enlarging their business or of enhancing their profits. This perversion of the true purpose of the check has been further augmented and complicated by the lack of definite and uniform State or National laws governing its increasing use in this country. In other words, both practice and law operate to hamper its rapid passage from payee to paying bank. As result of this hopelessly confused condition bankers are confronted with the problem of first reorganizing their own practice and of then securing from the courts a code of statute laws which will be specifically drawn for the check and which will similarly apply thereto throughout the Nation, as checks are sent from every State into every other State.

It is not the purpose at this time to state definitely the changes which should be made in our customs and laws, but to analyze the present status of the bank check and to suggest the nature of changes which are necessary before our banking system can ever be considered economic and scientific, for checks are just as important a part of the system as are note system and reserves.

As previously stated, checks are created generally for the sole purpose of satisfying an existing debt. The drawer of a legitimate trade check never contemplates that his instrument is to be used for any other purpose, and it is a function of the bank to use its facilities for the consummation of this purpose and for no other. The extent to which they do otherwise is a clog in the wheels of commerce and a tax on other business industries. However, banks, in the mad rush for deposit balances and profits, seem to have disregarded this fundamental business principle. It must be admitted in the first consideration of this subject, however, that all of these errors are the outcome, directly or indirectly, of what is known in this country as the collection-exchange charge. Original offenders are the banks which charge more than expenses for payment of their own checks presented through the mails. Rarely does a bank ever charge even expenses for payment of checks presented in person at its own window. On the other hand, rarely do they neglect to charge a distant holder, who has not the opportunity of objecting. This is the practice followed or encouraged by nearly all banks, which has created a system in this country which must be called at least inconsistent and unscientific. It is to avoid this charge upon these checks which can not be collected by the receiving bank's own messengers that they are sent here, there, and everywhere, apparently irrespective of their place of payment, and in being so sent are used for additional incidental purposes both by the sender and by the receiver. The sender not only adopts the group system to reduce expenses, but also to use these checks for creating balances in desired cities, a purpose most certainly not contemplated by the makers.

If this sender is also one of those banks which charges more than expenses in remitting for its own checks, it is therefore guilty of excessive tax, delayed presentation, and perverted use of checks. Further, if this same bank solicits from other banks, as do most city institutions, large volumes of checks payable outside of its own city, it does so mainly to secure the balance which it may require for such collection service. Having secured these balances and the volume of business, the bank sees another opportunity to secure an additional balance from these same checks, and for this purpose it proposes to pay a subagent for collecting a portion of the business in return for a commensurate balance. Such are the ramifications through which probably 50 per cent of the checks pass before they are finally presented for payment. Necessarily, such a system extremely hampers and retards the free circulation and rapid redemption of checks, which is demanded by the best interest of commerce and industry. Not only would a remedy of this situation be a benefit to business generally, but also it would be a boon to the banks themselves, if they would realize it, and as a unit cooperate to that end. There is no aggregate profit in such business, for what one makes another loses, and as has been aptly said, no industry as such can tax itself rich. To eliminate this confusion would be

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to dispense with many of the present-day unprofitable bickerings and to place the banking business on a more scientific basis.

The problem has been partly solved in some sections of the country through the operations of what is known as the country clearing house. The entire solution of the problem and its complete elimination from American banking is now offered to the public in paragraph 6, section 17, of the proposed Federal reserve act. The very fact that such a paragraph has been introduced into the bill indicates that the situation has become so serious that Federal legislation seems necessary. While comparatively insignificant, this is undoubtedly one of the most important and most carefully constructed sections of the bill. Its author was evidently thoroughly familiar with existing conditions, and he has in a few brilliantly conceived sentences proposed to reform through the new system the great practical weakness and difficulty in our present banking methods. Its influence will be far-reaching and be equally beneficial to the banks and to the business public, for whom alone the banks are organized. If enacted and operated as at present outlined, checks will assume their proper place in the transactions of the Nation's business. They will serve the purpose for which they are created by business men, and when this is done they will be immediately redeemed and disappear instead of being used in many subsidiary ways incidental to the business public, yet expensive to them and confusing to the banking system. Banks will then be as they should—purely institutions of discount, deposit, and issue, and will conduct their business accordingly without having to assume the rôle which they do. Pyramided bank balances will disappear and deposit balances will represent the true funds or credits which their figures indicate.

That such a condition should have become part of our system is no discredit to the American banker. Our present system, the amalgamation or adoptions from many heterogeneous systems, has been in a continual process of development and has been forced to serve many varying conditions of war and peace, of trade activity and inactivity. Throughout our history the entire banking effort has been to provide funds and credit to build up our industries, with little time to consider perfection of the machinery used for the purpose. The condition is peculiar to this country, for the European systems of banking were thoroughly established before the advantages of checks were realized, and it was an easy matter for them to adjust their check system to the banking system, which they did. The crossed-check system and the London Country Clearing House, organized in 1858, or 175 years after the establishment of the Bank of England, regulates such matters in that country. Likewise does the Giro Conto serve the business public of Germany.

This, however, is but one phase of the question, the practical phase. The legal status of the check is equally confused and undetermined, not only here, but also in England and wherever used. While this subject has not received much consideration in America, it has been conspicuously before foreign bankers, and for many years they have been endeavoring through local and international conferences to adopt a code which, while establishing the necessary laws to regulate checks, would permit them to facilitate commercial transactions, for which they exist, in a manner free and unhampered by legal uncertainties or differences.

Now that there is proposed a remedy for the existing wrong check-collection methods, it would be most opportune to join with other countries and consider at this time the revision and unification of check-collecting laws. While the uniform negotiable-instrument law is generally in force in this country, yet this statute is designed primarily for bills of exchange, and, as has been said, the check is but one form of a bill of exchange and is so different from all others and plays such an important part in the commerce of the country—90 per cent of the transactions being effected by it—that a uniform check law would not only be justified, but has become almost a necessity. Such a reform would be entirely within the province of the American Bankers' Association, and for this purpose no other organization or body of men are so well equipped.

Reviewing the present legal status of the check of the United States we find that its free circulation and redemption are hampered by certain legal encumbrances—variances between statute laws of States and differences of prominent judicial decisions in similar cases. Conspicuous among these handicaps and differences may be noted the following:

The permission under the negotiable-instrument law to indorse checks as bills of exchange, qualified and conditionally, thus subjecting them to the complications of law possible in such cases and imposing a burdensome duty on the

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paying bank. Legal indorsements on checks should be simplified to include only those which are necessary to complete the transactions for which the check was issued.

Indefiniteness and length of time which may elapse after delivery before a check is presented for payment.

Lack of definiteness in the prescribed form of drawing a check.

The wide differences among statutes and decisions regarding the relations between banks and depositors and banks and correspondents.

It is a universal practice among banks to receive checks from depositors and give them immediate credit for the same. Despite this common custom, the courts differ as to who is the real owner of the checks in question and what liability the banks assume in their actions. This should undoubtedly be definitely established by uniform statute, as should the relation between banks which send miscellaneous checks to each other. All goes well until the check is lost or some bank interested in its collection fails, when there is a needless confusion. The courts seem to disregard the present-day customs and intent of parties and base their decisions on rulings passed many years ago under very different conditions. A code of laws definitely regulating these matters would eliminate many disputes and difficulties occurring daily in banks all over the country. Likewise there should be a uniform statute relieving banks of responsibility for sending checks direct to the paying bank for redemption.

These are but a few of the local problems in the check-collecting laws which should be regulated, yet even these few are of sufficient importance to justify this body in giving serious consideration to the subject.

In Europe international conferences have been held at The Hague to draw up a uniform bill of exchange act. The International Law Association has held in all about 30 conferences, with the result that not only are the laws of shipping and carriage by sea fast approaching unification, but the laws governing the bill of exchange have narrowed down from a dozen or more conflicting codes to practically two, the law of Continental Europe and that of England and America, which are nearly identical. It is a significant fact that these many conferences have developed the thought that there should also be a uniform international check law. The efforts in this direction have disclosed that nearly all the important nations abroad recognize that checks should be subject to laws of their own, paralleling yet distinct from the bills of exchange laws.

We need not concern ourselves in this paper with international check law, except to make the broad statement that in any legal remedies proposed we should consider the future possibilities of the use of the bank check as a medium for making international payments. It is universally admitted that there are many matters concerning checks which must be adjusted to conform to local customs and practices. It is with this phase of check legislation that we are interested, especially since American laws in this respect seem to be far behind those in force in other nations. It is not within the possibilities of a paper of this length to note all the very interesting laws that are in force abroad pertaining to the collection of checks. It is enough to draw the contrast that there are such laws where we have none. For example, in nearly every country except England and America there is a law requiring checks to be presented for payment within a definite time. In Belgium the period between date and presentment is 3 to 6 days; France and Switzerland, 5 to 8 days; Germany, 10 days; and so on. Even Japan has a limit of 7 days. The need of such a law has not been so apparent in England, probably because since 1858 country checks have been collected through the London Clearing House. That there should be a law of this nature in our country, based, of course, on distances, is not an extravagant proposition in any sense.

Another custom prevailing abroad that is worthy of note is the practice of "crossing" checks. By drawing parallel lines across the face of a check the maker gives notice that the check may be negotiated only between banks, and it is therefore useless between individuals or subsequent indorsers. Protection is thus afforded the banks against items that may be lost or get into the hands of improper parties who could get value by forging an indorsement. The custom of "crossing" checks is spreading from England to France and Germany. Is it too bold a statement to suggest that a better plan in this country to protect both banks and the public would be to limit the number of indorsements? Such a precedent is already established by the Government in connection with post-office money orders, which might otherwise be used as a circulating medium instead of being sent for prompt redemption.

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Generally speaking, the foreign banker enjoys a much more certain ground than his American confrère in making payment of checks sent for collection. As a German writer has well put it:

"In the mighty rush of daily business the clerk to whom the settling of these instruments is trusted ought only to look at the balance of the customer and his signature, and not ponder over any judicial questions and possible discrepancies of check laws."

Summing up the various conditions that operate against the proper use of the bank check as a convenient and satisfactory debt-paying credit instrument, it has been shown that they classify themselves into two groups: Those which may be termed unscientific, if not actually improper banking practices on the one hand, and legal obstacles and differences on the other. There is every evidence that the first difficulty is already in process of correction, and whether it shall be left to organization of banks, such as this body or clearing houses or individual banks, or whether, as seems probable, the solution will come through new currency legislation, the effect will be the same.

On the other hand, the legal phase of the check-collecting subject seems to hinge upon the following points, which can only be cleared up by legislation similar to the uniform negotiable instrument act:

(1) A separate code should be enacted covering bank checks.

(2) The relationship between the depositor and the bank must be definitely fixed as regards the deposit of checks for collection when credit is given at the time the deposit of checks is made.

(3) The relations between banks handling such items for collection must be established.

In adjusting these problems several important details are involved, such as the intent of indorsement stamps, fixing of the time between the date of delivery of a check and the date of presentation, the liability of banks in choosing proper agents, and the rights of both the banks and depositors when checks are unpaid.

These reforms can not be accomplished without considerable study and much discussion. It is apparent, however, that they must be provided for if we really wish to adjust our banking system to the best interest of the Nation's commerce and industry. Now that banking reform is at such a critical stage, it would be well for the American bankers to begin at once a serious and active consideration of our check-collecting laws and methods.

(Thereupon, at 1 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

Senator REED. Mr. Gilbert, will you please state for the benefit of the record your name, place of residence, and your business?

STATEMENT OF ALEXANDER GILBERT, PRESIDENT OF THE MARKET & FULTON NATIONAL BANK, OF NEW YORK.

Mr. GILBERT. My name is Alexander Gilbert; I reside in Plainfield, N. J. I am president of the Market & Fulton National Bank, of New York.

Senator NELSON. Of what bank?

Mr. GILBERT. Of the Market & Fulton National Bank, of New York.

Senator REED. How long have you been in the banking business?

Mr. GILBERT. I am almost ashamed to answer that question. I have been in the banking business over 50 years.

Senator REED. And what is the capital of your bank and its surplus?

Mr. GILBERT. The capital is $1,000,000 and the surplus is $1,900,000.

Senator REED. How long have you been president of that bank?

Mr. GILBERT. I have been president for 17 years.

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Senator POMERENE. What deposits have you in that bank?

Mr. GILBERT. Our deposits are about $10,000,000.

Senator REED. Can you tell us, in the rough, what proportion of your deposits are the deposits of other banks?

Mr. GILBERT. About $2,500,000.

Senator REED. Have you been, at any time, the representative of other banks, or of other banking associations, such as clearing houses, etc.?

Mr. GILBERT. I was president of the New York Clearing House during the panic years of 1907 and 1908.

Senator REED. Had you, prior to 1907, been the president of the clearing house?

Mr. GILBERT. No; I had been a member of the clearing-house committee, but prior to 1907 I was not president of the association.

Senator REED. Were you president at the time the panic came on, or did you come into office after that?

Mr. GILBERT. No. I was president before the panic.

Senator REED. How long before the panic?

Mr. GILBERT. I think I was elected in October, 1907. The panic broke out very shortly after that.

Senator NELSON. On the 21st.

Senator REED. And, prior to that, you had been a member of what board of the clearing house?

Mr. GILBERT. The clearing-house committee.

Senator REED. Well, the clearing house of New York is composed of what?

Mr. GILBERT. It is composed of 31 national banks, 17 State banks, and 15 trust companies.

Senator REED. Do you know what the aggregate capital of the members of the clearing house is?

Mr. GILBERT. The banks have a capitalization of about $119,000,000, I think.

Senator REED. You say "the banks." Does that include the trust companies?

Mr. GILBERT. That does not include the trust companies. I could not say definitely just what the capital of the trust companies is.

Senator REED. This clearing-house association, does it have any fund that it carries for any purpose?

Mr. GILBERT. No. It has no funds outside of its yearly income, which is all used up for administrative purposes every year.

Senator REED. I had in mind——

Mr. GILBERT (interposing). Except that it owns its own real estate.

Senator REED. What I had in mind was a fund for the purpose of clearing, that was kept in some form.

Senator POMERENE. That is, do the banks keep a fund in the clearing house?

Senator REED. Yes; do they keep a fund in the clearing house?

Mr. GILBERT. Practically, yes; and practically, no. The banks deposit gold in the clearing house and take out clearing-house certificates, which they use in settlement of their daily balances. That is simply in order to protect the banks against loss—from carrying their cash settlements through the streets.

Senator REED. It is a sort of guaranty fund?

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Mr. GILBERT. Well, the certificate is substituted for the gold.

Senator REED. And the clearing house is the custodian of that gold?

Mr. GILBERT. Yes.

Senator REED. Do you know about how much of that there was in 1907; about what that fund was?

Mr. GILBERT. No; I do not. I think it very seldom amounts to more than $50,000,000 or $60,000,000. It varies with the amount of cash. When I say "cash," I mean the clearings of cash, lawful money, gold, and legal-tender notes, which, from time to time, accumulate in the banks. Of course, when the banks get a larger amount than they want to carry in their own vaults they send it down to the clearing house and take out clearing-house certificates, because those clearing-house certificates are always available for settlement of our daily balances.

Senator REED. And when the bank comes and gets clearing-house certificates they are charged against this gold; is that it?

Mr. GILBERT. Yes; on the books of the clearing house.

Senator REED. Well, why do they keep gold instead of lawful money?

Mr. GILBERT. Well, they keep a certain amount of both. The New York bankers, the clearing-house bankers, are, and always have been, a very conservative body of men. I do not think it would be possible to find a more conservative body of men in the world than the bankers of the New York Clearing House; and they always aim to develop and maintain the highest degree of conservatism among their member banks and are very strict and rigid in their examinations from time to time.

Senator NELSON. This money, or this gold, is deposited there by the brokers——

Mr. GILBERT (interposing). Brokers have nothing to do with it.

Senator NELSON. I mean the banks deposit it.

Mr. GILBERT. The banks deposit the gold in the clearing house.

Senator NELSON. The banks deposit the gold in the clearing house; and is the gold actually kept in the vaults of the clearing house?

Mr. GILBERT. Oh, yes.

Senator NELSON. You have a sort of bank, then, for that business?

Mr. GILBERT. The clearing house has its own vaults.

Senator NELSON. Yes; and the gold is deposited there, and you issue these clearing-house certificates?

Mr. GILBERT. Yes.

Senator NELSON. And that is used in liquidating the balances?

Mr. GILBERT. Yes.

Senator POMERENE. And for no other purpose?

Mr. GILBERT. And for no other purpose.

Senator NELSON. And it is to save the lugging around of the gold or the money, is it not?

Mr. GILBERT. Yes. And in answer to Senator Reed's question as to why they keep gold instead of lawful money, they realize it is a good policy to establish and to carry from time to time a good gold reserve.

Senator REED. That is a good way to keep it in one place.

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Mr. GILBERT. Yes. I want to emphasize just one thing, and that is these clearing-house certificates differ from the clearing-house certificates which we issued during the panic in this respect only, that in the panic in order to protect our lawful money reserves, we issued these clearing-house certificates against the assets of the member banks—that is, commercial paper and such other bond securities or stock securities as they might have—and those certificates were not used outside of the clearing house; they never circulated as money.

Senator REED. What certificates do you mean?

Mr. GILBERT. The ones that were issued during the panic.

Senator SHAFROTH. The clearing-house certificates?

Mr. GILBERT. The clearing-house certificates.

Senator NELSON. But let me ask you this question: Those certificates were certificates held by the individual banks, were they not?

Mr. GILBERT. By the individual members.

Senator NELSON. They did not do as was done in the panic of 1873, make them a joint liability of the clearing house?

Mr. GILBERT. Oh, yes; the joint liability of all the banks who were members of the clearing house.

Senator NELSON. Yes.

Mr. GILBERT. But they were not used outside of the clearing house association; they were only used for the purpose of settlement of balances from day to day.

Senator NELSON. They took the place of those other gold certificates that you had?

Senator REED. You did not pay them out over your counter?

Mr. GILBERT. No; we did not pay them out over our counters; and they did not go out of our possession; and there was a penalty against using them outside the clearing house. I want to again emphasize that, because there is a wrong impression which has gotten abroad about these certificates.

Senator REED. They used them generally in my district as currency.

Mr. GILBERT. During the earlier panic, in 1873 and 1893, before their use extended itself to other clearing houses of the country, they were not used outside of the clearing houses; and New York has never departed from that custom. It was simply an agreement among the member banks with each other, in which they practically said, "You have not the money to pay us in gold; we will lend you this money; you owe it to us." And we owed one another; that is all; and these certificates were simply due bills which represented the debts one bank owed another in the clearing house; they never went outside the clearing house.

Senator NELSON. But these due bills were the joint due bills, then, of the entire association, were they not?

Mr. GILBERT. Yes.

Senator NELSON. But they were delivered to the banks which had an account to settle; and if that bank used when to settle its balances, they were a debt from it to the clearing house, were they not?

Mr. GILBERT. When a bank found its lawful reserves were getting low it would take security to the clearing house committee and say, "I would like to take out a certain amount of clearing-house certificates to settle balances," and the clearing-house certificates were

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issued on the deposit of securities with a margin of 25 per cent over and above the amount of certificates issued.

Senator NELSON. Yes.

Senator POMERENE. The collateral consisted of approved bonds, did it?

Mr. GILBERT. Approved bonds and commercial paper.

Senator POMERENE. And stocks?

Mr. GILBERT. Yes; stocks that were approved by the committee.

Senator REED. Can you tell us, in the aggregate, how much of that was done; what was the aggregate of the certificates?

Mr. GILBERT. That were issued during the panic?

Senator REED. Yes.

Mr. GILBERT. I think the maximum issue was something over $90,000,000.

Senator REED. At one time?

Mr. GILBERT. At one time; and those certificates bore 6 per cent interest.

Senator POMERENE. That is $90,000,000 in addition to the gold certificates which were out?

Mr. GILBERT. Yes; $90,000,000 of clearing-house certificates.

Senator NELSON. I suppose, for the time being, they took the place of the other certificates?

Mr. GILBERT. Yes; for the time being they were used for that.

Senator NELSON. In lieu of those you issued on the gold?

Senator REED. You held your gold intact, did you not?

Mr. GILBERT. Now, gentlemen, in connection with that, let us discuss this feature—section 17 of this bill.

Senator REED. May I interrupt you, Mr. Gilbert, to ask one question?

Mr. GILBERT. Yes; certainly.

Senator REED. You were charged 6 per cent on those certificates during the panic?

Mr. GILBERT. Yes.

Senator REED. Why?

Mr. GILBERT. So that a member of the clearing house would not keep them out one day longer than was absolutely necessary.

Senator REED. You bankers, dealing among yourselves, thought it was a proper and necessary thing to put that sort of a check on the issue of those certificates, did you?

Mr. GILBERT. Exactly; that was it, I think. And it served its purpose, because just the moment a bank found that it was in a position to pay off those clearing-house certificates, or a portion of them, they were paid off or reduced.

Senator WEEKS. How long did they remain outstanding?

Mr. GILBERT. Why, I think that they were all retired within four months; that is my impression; four or five months.

Senator WEEKS. And most of them within 60 days?

Mr. GILBERT. Most of them within 90 days; I would not say 60 days.

Senator WEEKS. Your rate of interest was lower than the rate on clearing-house certificates that was charged in some cities.

Mr. GILBERT. Our rate was never higher than 6 per cent.

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Senator WEEKS. In Boston the rate was 7.2 per cent.

Mr. GILBERT. Our rate was never higher than 6 per cent.

Senator NELSON. Those other certificates that you spoke of first—they do not draw interest, do they?

Mr. GILBERT. No; those certificates are simply substituted for gold.

Senator NELSON. Yes; they are like our gold certificates here?

Mr. GILBERT. Now, section 17 of the new bill. I would like to call your attention to this while we are on that subject.

Senator REED. What page is that on?

Senator POMERENE. It begins on page 29, I think.

Mr. GILBERT. I was looking for the section. I thought it was section 17 which provides that.

Senator SHAFROTH. Section 17 is the section about the note issue.

Senator NELSON. It is the discount provision that I think you are after.

Mr. GILBERT. It refers to the prohibition against the issue of clearing-house certificates hereafter.

Senator POMERENE. Oh, I did not know that was what you were after.

Mr. GILBERT. I thought it was section 17. Well, I can not find it just for the moment; but the bill provides, in substance, that hereafter no——

Senator REED (interposing). Here it is.

Mr. GILBERT. Will you read it, please?

Senator NELSON. What page?

Senator REED. I found it on page 36—beginning at the bottom of page 35. [Reading:]

Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of 2 per cent bonds or of any other bonds bearing the circulation privilege——

Mr. GILBERT. That is it.

Senator REED. [Reading:]

But no national bank shall be permitted to issue other circulating notes, except such as are secured as in this section provided, or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

Mr. GILBERT. That is it, exactly. Now, you will notice the language there:

But no national bank shall be permitted to issue other circulating notes, except such as are secured as in this section provided, or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

What I want to call your attention to is, that the clearing-house certificates as issued by the New York Clearing House under panic conditions never were issued as a substitute for circulating notes. So that this prohibition does not apply to those clearing-house certificates that were issued, for they never were used as circulating notes. Do you get my idea?

Senator REED. Yes; I get your idea.

Senator POMERENE. Well, were they so used among the members of the clearing house; if so, they served the same function, did they not?

Mr. GILBERT. They never were circulated outside the clearing house, or served any other purpose than to settle the balances between the members.

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Senator REED. Well, what would you say as to this provision, is it not broad enough to cover it.

But no national bank shall be permitted to issue other circulating notes, except such as are secured as in this section provided, or to issue or to make use of any substitute——

Mr. GILBERT. Where is that, Senator Reed?

Senator REED. That follows right on.

Mr. GILBERT. In section 20?

Senator REED. No; in section 19.

Or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

Mr. GILBERT. Well, the point I make is that they never were used as a substitute for circulating notes, any more than cashier's checks as generally issued are so used.

Senator SHAFROTH. Well, in case they were used as currency it would apply.

Mr. GILBERT. Yes; it would apply to them then.

Senator REED. Well, do you think this language ought to be broadened so as to stop the thing that occurred in New York during the panic?

Mr. GILBERT. I do not think it should. I think the time may come when the use of clearing-house certificates for the purpose for which the New York Clearing House uses them might be very advantageous.

Senator REED. Between the banks?

Mr. GILBERT. Yes; between the banks.

Senator REED. For use between the banks?

Mr. GILBERT. Yes, sir.

Senator REED. You would not want a section put in the bill that would bar the banks of New York from the privilege of taking, say, $50,000,000 of gold to a common center and putting it into the custody of some man or institution and then issuing a certificate to each bank for its proportion of that gold, so that it might exchange those certificates for liquidated balances? You would not think that ought to be done?

Mr. GILBERT. Oh, no.

Senator NELSON. Well, what about the other certificates, such as you issued during the panic?

Mr. GILBERT. Well, I was going to say that you can not appreciate without having had practical experience the great advantage to the business interests of the country that arises from the fact that the New York banks can maintain the settlement of exchanges through the New York Clearing House, through which checks, drafts, and other items to the extent of $200,000,000 or $300,000,000 are passing for redemption every day, and are redeemed by the use of those clearing-house certificates between its members.

Senator REED. That is, the gold certificates?

Mr. GILBERT. No. That is the clearing-house certificates which we issue in times of panic against securities held by the banks.

Senator REED. Well, I wanted to be sure.

Mr. GILBERT. Of course there could be no objection against the gold certificates, because they are simply certificates issued against the deposit of gold.

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Senator NELSON. I suppose you think this language, "loan certificates," leaves the certificates that you issued during the panic outside—not covered by the bill?

Mr. GILBERT. Well, I think it could be so interpreted. I hope it could be so interpreted, because I think it very essential that they should not be prohibited.

Senator REED. Well, would that be so necessary if you could take collateral directly over to the regional reserve bank and get the money?

Mr. GILBERT. No; if the regional reserve bank maintains its character at all times as a reserve association and does not dwindle into an ordinary, commonplace bank, through its desire to do a large business. I can foresee the possibility of one of the regional reserve banks loaning its assets to such an extent that it would not be able to afford any relief in time of panic.

Senator SHAFROTH. The power to issue money, however, would be there.

Mr. GILBERT. The power to issue circulating notes.

Senator SHAFROTH. Upon collateral.

Mr. GILBERT. Upon 33⅓ per cent gold reserve.

Senator SHAFROTH. Yes.

Mr. GILBERT. Which ought to be 50 per cent. But even that power may be exhausted if we should pass through a period of inflation to which the regional reserve banks would give way.

Senator NELSON. It would be contingent on whether the banks had the commercial paper to deposit with their reserve bank, would it not?

Mr. GILBERT. It would be contingent upon their ability to loan any further.

Senator NELSON. Yes.

Mr. GILBERT. They may have exhausted their loaning power.

Senator REED. You think, Mr. Gilbert, that we might confront a condition sometime when, if you needed $100,000,000 in a great emergency, the $50,000,000 in gold could not be produced—if we had a 50 per cent reserve—or the $33,000,000 under the present provision—could not be produced?

Mr. GILBERT. I think it is possible.

Senator REED. And right at the very crucial hour we would have to stop.

Mr. GILBERT. Yes; why not?

Senator REED. And you think there ought to be a saving clause of some kind in the bill to cover that situation?

Mr. GILBERT. Why, in our own clearing-house banks we are obliged to carry a 25 per cent reserve, and when the indication of an approaching panic is most seriously felt it is indicated by our reserve, which has got down to a limit which makes it necessary for us to stop the loaning, because we have exhausted our loaning limit.

Then the demand is for banking credit. It is not for currency; currency would do us no good, because currency does not count in our "lawful-money" reserve. And very few people are able to differentiate, really, in discussing this question, lawful-money reserve, banking credit, and currency. And almost every man who—I will not say almost every man, but a very large number of magazine writers who write on banking reforms—seem to think that the bank

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note is the most important factor in the problem, the great cure-all for panics and money crises.

Senator REED. What do you think about it?

Mr. GILBERT. The fact is that banking credit is the thing; 95 per cent of the business of the country is done on credit, and when a merchant goes into a bank, in times of great stringency, and says, "I want you to loan me $10,000, or $15,000, or $20,000 to meet notes I have coming due," he does not want bank notes, he wants the bank to put $10,000, or $15,000, or $20,000 to his credit.

Senator NELSON. So that he can check against it.

Mr. GILBERT. So that he can check against it. And the bank says: "Why, I can not do that; if I do that, I have got to increase my lawful money reserve. I am below my reserve now; I can not loan any more." Bank notes would not do the bank any good.

Senator NELSON. And that very loan would make you put up a bigger reserve?

Mr. GILBERT. Exactly.

Senator REED. Well, if these notes are received as a reserve only requiring 33⅓ per cent to be kept against them in the regional reserve bank, then he could get $3 for $1. That is, he could take $100,000 of gold to the regional bank—I mean a bank can do this—and they can get $300,000 of paper. Now, they could use that paper in their own reserves.

Mr. GILBERT. No; he could not do that.

Senator REED. Under this bill?

Mr. GILBERT. No; he could not do that.

Senator NELSON. No; they can not issue currency on the deposit of gold, can they?

Mr. GILBERT. No.

Senator SHAFROTH. It must be additional——

Senator REED (interposing). Of course, I implied that they carry over paper that this man who desires to borrow $300,000 would give to the bank—his paper for $300,000. They would have that. They would have to carry that over to the regional bank, and they would have to carry over $100,000 of gold, and then they could get $300,000 of paper.

Mr. GILBERT. Do you not see that if they had $100,000 of gold they could increase their own loans on the basis of that $100,000 of gold?

Senator REED. They could increase their own loans on that basis, but they could increase them more with the currency, could they not?

Mr. GILBERT. No; they could not, because $100,000 of gold in a national bank will carry an expansion of $400,000 of loans.

Senator REED. Of loans? But $300,000 of this paper money would carry $1,200,000——

Mr. GILBERT (interposing). Will you please let me explain?

Senator REED. Yes; that is what I want.

Mr. GILBERT. A merchant comes in and says to the bank: "I want to make a loan of $400,000 and I want you to put it to my credit." Now, if they had that $100,000 free——

Senator NELSON. In gold.

Mr. GILBERT. In gold. That $100,000 would be sufficient reserve to carry against that $400,000 loan.

Senator NELSON. Under existing law?

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Mr. GILBERT. Yes; under existing law.

Senator REED. Yes; I understand. But suppose that you had your $100,000 of gold, and you get your $400,000 of paper from your merchant, and you take the $100,000 in gold and your merchant's paper and go to the Federal reserve bank, and they issue $300,000 of this money, which you carry over and put in your vaults—and which is a full legal tender—a reserve now is held against that money, and there is held in the regional bank the gold reserves.

Mr. GILBERT. You are reasoning on the theory that the notes of the Federal reserve bank will be not only a legal tender but "lawful-money" reserve in a member bank, and that will not be the case.

Senator REED. Well, let us leave the question out, for the moment, of the lawful-money reserve.

Mr. GILBERT. But it could not be left out.

Senator REED. You think that you could not use them for reserves—you would have to go and get 25 per cent of gold to put up in your own vaults—do you?

Mr. GILBERT. I mean to say that they could not make the loan unless they had the reserve there.

Senator REED. Of gold?

Mr. GILBERT. Yes; the reserve of gold.

Senator REED. Then it is necessary to make these notes available as reserves or you destroy their utility?

Mr. GILBERT. You destroy the elasticity of the bank notes by making them available for reserve purposes.

Senator NELSON. It would make them inelastic if they are used as reserves?

Mr. GILBERT. Yes, sir.

Senator REED. Yes. But if Mr. Gilbert is correct, and I understand him, the sum of his reasoning is that there could be no possible benefit coming from this bill.

Mr. GILBERT. I do not say that. I have not said that.

Senator REED. But if you said that a bank having enough money to put up with the reserve bank in gold, and putting it up and getting this money, and carrying it back in the proportion of 3 to 1 and putting it into its vaults, is no better off——

Mr. GILBERT (interposing). No; you misunderstand me.

Senator REED (continuing). And can not loan any more money than it could before——

Mr. GILBERT (interposing). You misunderstand what I say.

Senator REED. I evidently do.

Mr. GILBERT. If I wanted to use the Federal reserve bank to increase my reserve I would simply send over the bills receivable to the Federal reserve bank and tell them to put those to my credit. And that balance in the Federal reserve bank would be additional reserve for me, because my balance in the Federal reserve bank counts as part of my reserves.

Senator REED. Yes.

Mr. GILBERT. It would not be necessary for me to take the gold out of the Federal reserve bank.

Senator REED. I understand that.

Mr. GILBERT. And then there might possibly be this condition, which frequently happens in the ordinary everyday banks—in the

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large banks—there might be this condition in the Federal reserve bank, that they had all loaned up to the full capacity of their reserves.

Senator REED. Their gold?

Mr. GILBERT. Their gold; and they would not be able lawfully to increase their loans. I only instance the fact of the New York banks to show that it is possible for the reserve banks in the course of time to be placed exactly in the same condition that the present commercial banks of New York are frequently placed in.

Senator REED. Well, do you think that the remedy for that is to continue—or provide that banks still can get together and, among themselves, circulate their own obligations?

Mr. GILBERT. No; I do not. But I mean to say that, when conditions arise in New York and a panic is about to ensue, the use of the clearing-house certificate as it has been used by the New York banks in the time of panics simply between the members, not as circulating notes but simply between the members for the settlement of balances, confers very, very great advantages on the business interests of the country, for the reason that if the daily settlements at the New York Clearing House should become paralyzed so that they could not settle their daily exchanges, you can not foretell what might happen.

Senator REED. Then you would want to add to this bill a clause something like this:

Provided, however, That nothing herein contained shall prohibit banks which are members of clearing houses from arranging betwee nthemselves a method for clearing their balances through clearing-house certificates.

Mr. GILBERT. In times of extreme emergency.

Senator REED. Yes; in times of extreme emergency.

Senator NELSON. How would it be, Mr. Gilbert, to put in a proviso that you should have authority with the consent of the Federal reserve board?

Mr. GILBERT. Well, I think in a case of that kind I would be perfectly willing to leave that in the hands of the board, because I think any board composed of intelligent men would see how necessary it would be.

Senator WEEKS. The present law provides sufficient means to prevent issuing clearing-house certificates and putting them into circulation, does it not?

Mr. GILBERT. I think that they have been issued by various clearing houses in the country and circulated.

Senator WEEKS. A great many clearing houses issued them and put them in circulation.

Mr. GILBERT. I think that ought to be stopped.

Senator WEEKS. Well, if you apply the 10 per cent tax on State circulation, that would stop their circulating, would it not?

Mr. GILBERT. Yes; that tax would stop it.

Senator REED. Mr. Gilbert, a suggestion comes from Senator Bristow, which is that when you have concluded your statement, in order that the statement may be in concrete form—either to-day or within two or three days—you take one of these bills and prepare your suggestions as amendments and attach them right to the bill.

Mr. GILBERT. Yes.

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Senator REED. And then we will have them in a form in which we can use them.

Mr. GILBERT. Yes.

Senator REED. That has been done by one or two others. Now, Mr. Gilbert, is there anything else along this line of which you wish to speak?

Senator POMERENE. Before Mr. Gilbert leaves this question in reference to certificates, I want to call your attention to this language. This inhibition here applies to national banks alone: "But no national bank shall be permitted to issue," and so forth.

Mr. GILBERT. Yes.

Senator POMERENE. It seems to me, from my reading of this, that in view of the fact that State institutions and trust companies are permitted to come in under the bill, whatever this inhibition is, it ought to apply to all of them, as well as to national banks. What is your thought about that?

Mr. GILBERT. Well, of course it would not apply to any other than national banks.

Senator POMERENE. Not as it stands?

Mr. GILBERT. No.

Senator NELSON. The clearing house is not a national bank; it is an association of national and State banks?

Mr. GILBERT. Yes.

Senator NELSON. And these certificates are the notes of that concern?

Mr. GILBERT. This inhibition applies to the clearing houses.

Senator POMERENE. But this says: "No national bank shall be permitted to issue," etc.

Mr. GILBERT. Yes.

Senator REED. And it is not broad enough to cover the clearing houses now. It should be "no national bank, member bank, clearing house, or other association." And that language will have to be broadened not only to cover the member banks but the association formed by banks.

Senator POMERENE. Clearing-house associations.

Senator REED. And then, should this bill not contain an absolute prohibition against any bank that is not a member bank, or a tax for engaging in this business?

Senator POMERENE. That may be so, too.

Senator NELSON. You could add a proviso there, after the word "obligation."

Provided, however, That such loan certificates may be issued in times of financial stringency with the consent of the national board.

Senator POMERENE. The Federal reserve board?

Senator NELSON. Yes; with the approval of the Federal reserve board; that is, if you get their approval, then you can issue such certificates as you did in the panic.

Mr. GILBERT. Yes.

Senator NELSON. As I understand it, you simply believe that the privilege should exist in case of an emergency or financial stringency; you do not want it for any other purpose, and you want it on that account, that you fear that these regional banks may not always be in

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a position to bridge you over in such emergency, and you want this place of safety left open for you?

Mr. GILBERT. The question would then arise as to whether the relation of the Federal reserve board to the clearing houses of the country would be such that they could exercise any power in that direction. Their control is simply over the regional reserve banks.

Senator NELSON. Yes. But suppose we put in a condition that you could not use those clearing-house certificates without their consent and gave the board jurisdiction to that extent?

Mr. GILBERT. Yes. That is something that would have to be thought over very carefully.

Senator REED. I want to make this suggestion in that connection: That that power can be exercised through a taxing power to provide that such certificates when issued should bear some tax burden which would stop it.

Mr. GILBERT. Yes.

Senator REED. And I want to suggest and impress on the committee the propriety of considering whether the system ought not to be so drawn that the nonmember institution could not avail itself of these benefits, offering an additional inducement for the banks to come in.

Are there any other questions on this branch? Mr. Gilbert, you may proceed with your suggestions.

Mr. GILBERT. You have no other questions?

Senator REED. No.

Mr. GILBERT. I have given a good deal of thought to the question of how many regional reserve banks ought to be organized under this bill, and I was asked to write a paper upon that subject, and if you have patience enough to listen to it I will read it to you.

Senator NELSON. I would be very glad to hear it.

Senator SHAFROTH. All right; we would like to hear it.

Mr. GILBERT. In studying carefully the provisions of the "Act to provide for the establishment of Federal reserve banks" I am persuaded that inasmuch as the Federal reserve banks are authorized to establish branches it would be unwise to provide for more than six reserve banks at the outset, for the reason that the proposed system is theoretical and experimental and should be started from a lower level and developed with the business requirements of the country.

The establishment of 12 reserve banks with an aggregate capitalization of $100,000,000 is illogical, and I fear would prove disappointing for the reason that the capital of a majority of them would be too small to give them much importance or usefulness as reserve associations. And again, it is doubtful if divided into small units they could be made to pay dividends promised the member banks on the capital invested. The dealings of the Federal banks are restricted to the member banks and the Government. Their principal source of income will be derived from rediscounting commercial paper for member banks. Outside of this they are restricted to investments in United States, State, and municipal bonds, gold and foreign exchange. They can also in the open market buy and sell prime bankers' bills—domestic and foreign. If their transactions are largely confined to rediscounting for member banks they would fulfill their most important function and prove their right to exist; but it does not ap-

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pear that they could earn dividends. The last report of the Comptroller of the Currency shows that borrowing and rediscounts by all the national banks of the country at the present time amount to about $108,000,000, which divided between 12 regional banks would hardly pay running expenses, and this in a year of exceptional strenuous money conditions.

Senator REED. Will you kindly read that last paragraph again?

Mr. GILBERT. The last report of the Comptroller of the Currency shows that borrowing and rediscounts by all the national banks of the country at the present time amount to about $108,000,000, which divided between 12 regional banks would hardly pay running expenses, and this in a year of exceptional strenuous money conditions. I do not mean the principal, of $108,000,000, divided up, but the interest.

When conditions are normal the demand for rediscounts is not nearly as large. Possibly the facility for obtaining rediscounts offered by the Federal reserve banks might awaken the spirit of speculation and tempt the member banks into new fields of investment, and thus increase the demand for rediscounts. Or they could go into the bond market and purchase such bonds as the law permits, and thus increase their earning capacity, but they could not do this to any great extent without impairing their usefulness as reserve associations. Their power to buy prime bankers' bills of the kinds made eligible for rediscount in the open market would avail them little until an open money market is fully developed, which is not probable in the near future. Banks are not selling paper in the open market, neither are they accepting paper for their customers—I mean by that, accepting drafts—although it is within the range of possibility that the open market may be more quickly developed under the operations of the act than is now anticipated. Investing in prime sterling bills would be a safe and conservative investment, and probably a wise one, for the reason that it would give them command of gold to the extent of the investment when wanted; but the rate of interest on this investment would not be very high. It would be much easier for 6 reserve banks to earn dividends than for 12. The running expenses would be largely reduced and their usefulness would be increased in proportion to their increased strength. The Comptroller of the Currency in his reports divides the national banks of the country into six groups, viz: New England, Eastern, Southern, Middle West, Western, and Pacific States. If one Federal reserve bank could be allotted to each group, it would, in my judgment, better conform to the present geographical and business requirements of the country than to have 12; and each reserve bank would by reason of its greater strength in capital and deposits exert greater influence in time of need. Under such a distribution the following statements will show, in round numbers, the aggregate capital, deposits, and borrowings of the respective groups as shown in the comptroller's report of August 9, 1913. Now, here I have divided the banks of the country into these groups, as shown——

Senator NELSON (interposing). Have you followed the grouping of the comptroller?

Mr. GILBERT. Yes; I have followed the grouping of the comptroller. I will show how much capital each group would have under

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present conditions, and then I have made another statement showing what the strength of the reserve banks in these groups would be.

Senator POMERENE. Are you limiting your figures to national banks?

Mr. GILBERT. Yes; limited to national banks.

Senator POMERENE. Alone?

Mr. GILBERT. Yes, sir; the national banks.

Senator REED. Assuming they all come in?

Mr. GILBERT. Assuming they all come in.

Senator REED. And assuming they all borrow from these regional banks, whereas they might borrow from other banks.

Mr. GILBERT. Exactly.

Senator NELSON. What is the capitalization of the several groups?

Mr. GILBERT. The present capital of the several groups is:

New England States: Capital, $101,000,000; deposits, $598,000,000; rediscounts and bills payable, $4,300,000.

The Eastern States——

Senator POMERENE. No; $4,000,000,000, you mean, do you not?

Mr. GILBERT. $4,000,000.

Senator NELSON. Discounts?

Mr. GILBERT. That is the discounts—their borrowings.

Senator POMERENE. Oh, I misunderstood you.

Senator BRISTOW. Do I understand the total amount of the borrowings is only $4,000,000?

Mr. GILBERT. The total of the New England group, as shown by the comptroller's report, was only $4,300,000, which shows how little they borrow.

Senator NELSON. You mean the rediscounts of the banks?

Mr. GILBERT. Yes; the rediscounts of the banks.

Senator NELSON. The amounts borrowed by the banks?

Mr. GILBERT. The amounts borrowed by the different banks of the whole group. And you want to bear in mind a very small portion of that is rediscounts. By far the larger proportion is on what they call bills payable, that would not be eligible for rediscount.

The Eastern States—that means New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia. The present capital of the national banks in the group amounts to $336,000,000; the deposits, $3,145,000,000; rediscounts and bills payable, $18,600,000.

Senator BRISTOW. $18,000,000?

Mr. GILBERT. $18,600,000.

Senator REED. I am going to suggest that when you prepare this for print you name the States—the New England States, such and such, etc.

Senator SHAFROTH. You can do it by initials—"N. Y.," etc.

Mr. GILBERT. Yes; I can prepare that very easily.

Senator NELSON. He has followed the grouping of the Comptroller of the Currency.

Senator REED. Yes; but there is nothing in this paper that would indicate to a Member of Congress just what the groups were, and he would have to go and look it up.

Senator BRISTOW. Mr. Gilbert, let me get that clear in my mind. the deposits were $3,145,000,000?

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Mr. GILBERT. Yes.

Senator BRISTOW. And the rediscounts only $18,000,000?

Mr. GILBERT. Rediscounts and borrowings.

Senator NELSON. What the banks borrowed; not what they loaned out?

Mr. GILBERT. Yes; $18,600,000.

Southern States: Capital, $173,000,000; deposits, $796,000,000; rediscounts and bills payable, $63,000,000.

Senator NELSON. Larger in proportion than anywhere else.

Mr. GILBERT. The South is a larger borrower than any other group. They borrow three-fifths of all that is borrowed.

Senator WEEKS. That is due, first, to insufficient capital; second, to the cotton crop maturing at practically the same time, and, third, to the fact that the South is developing very rapidly now.

Mr. GILBERT. Middle West: Capital, $283,000,000; deposits, $2,293,000,000; rediscounts and bills payable, $11,000,000.

Senator BRISTOW. What States does that take in?

Mr. GILBERT. Well, the Middle West takes in——

Senator BRISTOW (interposing). Illinois, Michigan, Wisconsin, Indiana——

Mr. GILBERT. I have it here.

Senator NELSON. It is in the comptroller's report.

Mr. GILBERT. It takes in Illinois, Ohio——

Senator REED. He can get those States, and he will give them in his table.

Mr. GILBERT. Western States: Capital, $72,000,000; deposits, $539,000,000; rediscounts and bills payable, $4,400,000.

Senator SHAFROTH. If you could follow up your statement with just naming those States and leaving out these interruptions in relation to the States, I think it would make it more intelligible.

Senator NELSON. I think this statement I have here will show it.

Mr. GILBERT. That will show it—the grouping.

Senator NELSON. The New England States are Maine, New Hamshire, Vermont, Massachusetts, Rhode Island, and Connecticut; the Eastern States, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia; the Southern States, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee; Middle Western States are Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri; the Western States are North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma; and the Pacific States are Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska.

(The figures given above by Mr. Gilbert are as follows:)

New England States (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut):	
Capital	$101,000,000
Deposits	598,000,000
Rediscounts and bills payable	4,300,000
Eastern States (New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia):	
Capital	336,000,000
Deposits	3,145,000,000
Rediscounts and bills payable	18,600,000

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Southern States (Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee):	
Capital	$173,000,000
Deposits	796,000,000
Rediscounts and bills payable	63,000,000
Middle West (Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri):	
Capital	283,000,000
Deposits	2,293,000,000
Rediscounts and bills payable	11,000,000
Western States (North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma):	
Capital	72,000,000
Deposits	539,000,000
Rediscounts and bills payable	4,400,000
Pacific States (Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska):	
Capital	89,000,000
Deposits	566,000,000
Rediscounts and bills payable	7,500,000

Mr. GILBERT. Then I have made another table which shows the statement of Federal reserve banks of above groups, showing capital, deposits, cash, and amount of rediscounts for member banks at beginning of business if all of the national banks of the country immediately subscribe and pay for stock and transfer that portion of its reserve which the law requires after 14 months.

Senator NELSON. The 5 per cent?

Mr. GILBERT. Yes. In the New England group the capital of the regional reserve bank would be $10,000,000, deposits $30,000,000.

Senator NELSON. That would give it $40,000,000?

Mr. GILBERT. That would give them cash $35,700,000; bills discounted, $4,300,000.

Senator BRISTOW. Now, there are a number of banks, are there not, that are that strong in New England?

Mr. GILBERT. That would be the Federal reserve bank—$10,000,000.

Senator BRISTOW. I mean there are a number of banks there now that would have larger deposits than it would?

Mr. GILBERT. Not many. I doubt if there are more than one or two banks. Senator Weeks probably would know. What is the largest bank in Boston, Senator Weeks?

Senator WEEKS. The National Shawmut.

Mr. GILBERT. What is its capital?

Senator WEEKS. $10,000,000.

Mr. GILBERT. And deposits?

Senator WEEKS. Deposits of about $85,000,000.

Senator REED. Now, there is one misleading statement in your phraseology, and that was the amount of rediscounts. The amount of rediscounts which you have figured there is the amount of rediscounts that they now use in New England?

Mr. GILBERT. I mean to say, the Federal reserve bank would have all that borrowing if they borrowed the same amount. They would borrow it from the Federal reserve bank. They borrow $4,300,000.

Senator REED. I understand; it is plain now, and I knew what you meant.

Mr. GILBERT. In the Eastern group, that is, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Co-

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lumbia, the capital of the bank would be $33,600,000; deposits $160,000,000, and they would have cash on hand $175,000,000 and bills discounted $18,600,000.

Senator POMERENE. If it will not interrupt you, you would expect, of course, under the new system that the rediscounting would be very materially increased, would you not?

Mr. GILBERT. Well, I would think this, that possibly the facility with which rediscounting could be obtained might stimulate the banks of the different groups to enlarge their business—to go into new fields and make new investments—and consequently require larger rediscounts.

Senator POMERENE. Well, it would be practically introducing into this country the rediscount system which prevails in Europe.

Mr. GILBERT. Much of which is done in the open market.

Senator POMERENE. Yes. That might be done here too, but have you taken into consideration this fact; for instance, in the group of New England States, where your figures were capital and deposits of about $40.000,000. Now, you are taking away from the banking capital of the New England States $40,000,000, which you are segregating in the regional bank, and there being that much under the control of the regional bank, it must necessarily follow, it would seem to me, that the rediscount privilege would have to be very greatly increased in order that the New England States might have the same banking capital that they had prior to the adoption of the system.

Mr. GILBERT. They will have the same banking capital. The member banks will continue doing business. The only question is how much the member banks will borrow.

Senator POMERENE. Yes; but they have $40,000,000 now that are in the ordinary course of trade now segregated and put into the regional bank.

Mr. GILBERT. It is part of their reserve, which they have been carrying, and will not be required to carry, that is put into the Federal reserve bank. There is no decrease of banking capital at all.

Now, the Southern group, would have a capital of $17,000,000; deposits, $40,000,000; bills discounted, $63,000,000. They would be required to issue notes, because their cash would be overdrawn.

Senator REED. They would start out borrowers.

Mr. GILBERT. They would start out in debt; yes.

Senator REED. Instead of being a reserve, there would be a deficit there.

Mr. GILBERT. In the Middle West the capital would be $28,000,000; deposits, $115,000,000; bills discounted, $11,000,000; and cash, $132,000,000.

Senator NELSON. What do you base that cash on?

Mr. GILBERT. That is the cash that is transferred to them by the member banks as reserve.

Senator NELSON. You count that as cash?

Mr. GILBERT. I am giving a table of Federal reserve banks as they would stand if all of the reserve of member banks was transferred.

Senator NELSON. You count the part of the reserve transferred as cash?

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Mr. GILBERT. In the western group the capital would be $7,200,000; deposits, $27,000,000. Of course in this table I have not made any allowance for United States deposits, because I do not know how that would be distributed. Bills discounted would be $4,400,000 and cash $29,800,000.

Now, as to the size of these various regional banks: There would be one bank with $7,200,000. The next smallest would be $10,000,000, the next $17,000,000, the next $28,000,000, and the next $33,000,000. New York would be the largest, the Middle West would be the next, and the South would be the next.

Senator BRISTOW. You did not read the Pacific coast division.

Mr. GILBERT. No; I will give you that now.

The Pacific slope group capital would be $8,900,000; deposits, $28,300,000; bills discounted, $7,500,000; and cash, $29,700,000.

Senator REED. That is the smallest bank, then?

Mr. GILBERT. No; the Middle West—the western group.

Senator NELSON. The western group is the smallest.

Senator POMERENE. What was the Pacific coast capital?

Mr. GILBERT. $8,900,000, and their borrowing $7,500,000.

Senator NELSON. To make that come up to the others those two divisions ought to be grouped in order to make them have a capital commensurate with the others.

Mr. GILBERT. I have only introduced this to give you gentlemen an intelligent idea of how it would be possible to group those banks.

Senator BRISTOW. If we made 12 of them, we would have a lot of trouble, would we not?

Mr. GILBERT. I think you would.

(The figures above given are as follows:)

New England States (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut):	
Capital	$10,000,000
Deposits	30,000,000
Cash	35,700,000
Bills discounted	4,300,000
Eastern States (New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia):	
Capital	33,600,000
Deposits	160,000,000
Cash	175,000,000
Bills discounted	18,600,000
Southern States (Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee):	
Capital	17,000,000
Deposits	40,000,000
Bills discounted	63,000,000
Cash	Overdrawn.
Middle Western States (Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri):	
Capital	28,000,000
Deposits	115,000,000
Bills discounted	11,000,000
Cash	132,000,000
Western States (North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma):	
Capital	7,200,000
Deposits	27,000,000
Bills discounted	4,400,000
Cash	29,800,000

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Pacific States (Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska):

Capital	$8,900,000
Deposits	28,300,000
Bills discounted	7,500,000
Cash	29,700,000

Mr. GILBERT. An analysis of these statements shows that more than three-fifths of the borrowing and rediscounting was for the southern group and that the Federal reserve bank of that group is the only one that would show a paying business for 1913. A careful investigation of the comptroller's figures convinces me that the business of the country does not require at the present time 12 Federal reserve banks; it does not require 6, but 6 would be better than 12, and if the proposed system is to become a law I should favor the division of the country into reserve districts to correspond with the grouping of the comptroller in his reports, viz., one each for New England, Eastern States, Southern States, Middle West, Western States, and the Pacific States.

It should be borne in mind that the object of banking reform is not to increase banking facilities but to remedy existing defects in our present system and make it conform to the requirements of modern business conditions. It would appear that the framers of the proposed Federal reserve bill have failed to differentiate these two objects and that the proposed 12 Federal reserve banks will if organized never attain to the dignity and prestige that should characterize Federal reserve banks. We hear much about the influence to result from these new banks in stimulating business, lowering the rates of interest, and giving to banks facilities they never before enjoyed. But herein lies one great danger which if not properly guarded against may lead to dangerous expansion of credit. It is important that the Federal reserve bank or banks, whether there is one or more, should not lose the character of a reserve bank, but always be in condition to weather the severest storm that it may be called upon to pass through. In this respect I believe 1 bank would be better than 12—would be stronger, could be administered more economically and would not necessitate a close investment of its funds to make dividends for its stockholders. The reserve bank or banks should never in normal times carry less than 50 per cent reserve against liabilities in order to be ever ready for the unexpected.

Senator REED. Now, that is very interesting, and it seems to me that you have argued the impracticability of establishing six banks with the country divided as it is divided, into these particular six groups, that it would be necessary to modify that grouping, even if we had six banks, so that the southern bank would be stronger.

Mr. GILBERT. That is what I remarked a moment ago. I only put in these tables from the comptroller's figures in order to present the idea. I did not mean to give the idea that it would be wise to follow.

Senator SHAFROTH. You would require a new grouping?

Mr. GILBERT. It might possibly, yes. But, inasmuch as the grouping was there in that form, I thought it would show not only the banking capital of the different sections of the country, but the borrowing capacity of the different sections of the country, which was the important thing I had in mind.

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Senator REED. Now, of course if all the national banks did not come in just in proportion as they stayed out this whole system is weakened?

Mr. GILBERT. Yes, sir.

Senator REED. Just in proportion as the State banks and trust companies might come in, in addition to the national banks, it would be strengthened.

Mr. GILBERT. Exactly.

Senator REED. And the whole question of how many will come in, of State banks at least, and trust companies, is problematical. The amount of rediscounts that banks might indulge in is problematical; the effect of the withdrawing of deposits of the reserves from the places they now are and the placing of them over into this reserve system is also problematical, is it not?

Mr. GILBERT. Yes.

Senator REED. And does not all that indicate that in starting this system it would be well to start gradually?

Mr. GILBERT. That is what I recommend, that the system should be developed and built up as the business of the country requires; that you do not want at the outset to build up an entirely new system and substitute it for the present system.

Senator REED. Will you kindly refer to your figures of the New York bank? I will assume that one of these regional banks in that group would be located in New York.

Mr. GILBERT. Yes.

Senator REED. I would like to have you kindly tell me what its capital would be.

Mr. GILBERT. $33,000,000.

Senator REED. It would be a little larger, then, than the largest bank of New York?

Mr. GILBERT. Yes; it would be $33,600,000; deposits, $160,000,000.

Senator REED. And its deposits would be less than the deposits of the City Bank now?

Mr. GILBERT. Yes.

Senator BRISTOW. Is there any other bank in New York that would have more than that?

Mr. GILBERT. No. I think the City Bank has a surplus of $10,000,000.

Senator WEEKS. It would not have as large resources as the National City Bank?

Mr. GILBERT. No; but that would be in its favor, really.

Senator REED. You say the City Bank has a surplus of $10,000,000?

Mr. GILBERT. I think it has a surplus of $10,000,000.

Senator REED. So that it would then be, counting its surplus, a little larger than the capital of this bank?

Mr. GILBERT. Yes.

Senator REED. And its present deposits would exceed the deposits of this particular bank?

Mr. GILBERT. Yes. This bank would come next to the City Bank.

Senator REED. Let me ask, do you think there ought to be a limit on the amount of capital any one bank could have—private bank?

Mr. GILBERT. No; I do not.

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Senator REED. Do you think there ought to be any limit on the amount of deposits a bank should have in proportion to its capital?

Mr. GILBERT. Well, I never have thought so. I have thought this, along that line, applying simply my thought to my own bank, that about as large a business as we ought to do, to do it safely and conservatively, ought not to exceed six or seven times our capital and surplus. That is what I have thought with regard to our own business.

Senator WEEKS. Mr. Gilbert, if you will let me correct your statement about the City Bank, it has $25,000,000 capital and $25,000,000 surplus and $4,500,000 undivided profits.

Mr. GILBERT. And how much is the Commerce?

Senator WEEKS. The Commerce has $25,000,000 with $10,000,000 surplus.

Senator REED. So there would be two banks there with a greater capital than this bank?

Mr. GILBERT. How is the First National?

Senator WEEKS. Ten, fifteen, and six?

Mr. GILBERT. Yes.

Senator REED. I wish, Senator Weeks, that right in this connection and at this point you would put in the capital and surplus and undivided profits and deposits of the larger of the New York banks, so that they might appear in the record.

Senator WEEKS. The banks which have the largest capital and surplus are the National City Bank, the National Bank of Commerce, the First National Bank, the National Park Bank. the Hanover National Bank, the Chase National Bank, and the Mechanics and Metal National Bank.

The capital, surplus, and undivided profits of these banks are as follows:

Name.	Capital.	Surplus.	Undivided profits.
National City Bank	$25,000,000	$25,000,000	$4,500,000
National Bank of Commerce	25,000,000	10,000,000	6,000,000
First National Bank	10,000,000	15,000,000	6,500,000
Hanover National Bank	3,000,000	13,000,000	.....
Chase National Bank	5,000,000	5,000,000	5,000,000
National Park Bank	5,000,000	10,000,000	5,000,000
Mechanics & Metals National Bank	6,000,000	6,000,000	2,500,000

Senator BRISTOW. I want to ask you a few more questions, Mr. Gilbert. You stated in your paper that you think one Federal reserve bank would be better than any number. What would you think of one Federal reserve bank, managed by this Federal reserve board, which is designed to have supervision over the 12, and let it have the active——

Mr. GILBERT (interposing). I do not think the Federal reserve board would be necessary then. As I understand the new bill, the Federal reserve board is provided to tie, as it were, the regional banks together, to give them that same degree of unity which a Federal bank with branches would have. A Federal bank with branches could, of course, transfer its money to any section of the country where there might be branches. As I understand the idea

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underlying the proposed bill, it is that the regional reserve banks may have the same facilities; that what one section lacks or what one reserve bank lacks another may be authorized to make up.

Senator BRISTOW. I understand that. That is the theory. Now, you said that this Federal reserve board would then not be necessary. That would then leave the control of the central bank in the hands of the bankers?

Mr. GILBERT. Unless you made other provisions——

Senator BRISTOW (interposing). Yes.

Mr. GILBERT. Of course, I can see a possibility of your surrounding a central bank with the same safeguards and restrictions that you throw around this regional reserve system. You could give it the same safeguards and might not require the central reserve board.

Senator BRISTOW. I think there were a number of features—at least, I believe that the proper thing in order to accomplish the purpose which this bill intends would be to have a Federal bank with branches, but I would not consent, so far as my vote goes, that there should be one bank as powerful and commanding as it would be if it were controlled by the bankers themselves. I would want that controlled by the Government, with the Federal bank giving all the facilities to the banks that their own bank would give, so far as the rediscounting of paper or the issuing of currency was concerned; and, of course, it would be a place of deposit?

Mr. GILBERT. Yes.

Senator BRISTOW. It would not be run for profit, except to make a fair and reasonable return to the stockholders.

Mr. GILBERT. That is my idea of a Federal reserve bank—that it should not be run for profit.

Senator BRISTOW. It should not be run for profit, but run to supplement and strengthen the present banking system as it is?

Mr. GILBERT. Exactly.

Senator BRISTOW. To do that I think it ought to be independent from the control of any element of the banking system, or all elements of the banking system, and ought to have the same rights and the same opportunities, absolutely free. I think—I may be wrong, but I very firmly believe that the only way to do that and to satisfy the country that it is done is to have this Federal bank governed by a board appointed by the President and confirmed by the Senate. I would have the stock subscription voluntary—not compel anybody to come, but invite them to come in and make it so useful that no bank could afford not to come in.

Mr. GILBERT. I think that is feasible and wise. I think in the case of one bank it could be done, because the capital would be forthcoming in the case of one bank. It might be more or less, but it would be sufficient to meet the requirements of a central bank. I say central bank; it would not be a central bank along the lines of the European central banks, because it would be confined to member banks alone, and would deal only with banks and the Government.

Senator REED. Be a Government bank?

Mr. GILBERT. Yes. You can call it by any name you please—Federal reserve bank, central bank, or central reserve bank; anything you please.

Senator REED. Just so you do not call it the Bank of the United States?

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Mr. GILBERT. Yes. I think in that case the capital would be forthcoming and it would not be necessary to make it compusory, and for that reason it would be much less objectionable, and I think, if it was not made compulsory the objection to Federal control would entirely disappear. I think there would be no objection at all. I think a good deal of the objection to Government control as provided in the present bill arises from the fact that the banks are compelled to subscribe to capital and to furnish 75 per cent, more or less, of the three-fourths of the deposits and are denied representation. They practically own the Federal reserve banks. They have two-thirds or three-fourths of the deposits, and are denied representation. They do not ask for control. They never have asked for control, but they ask for proper representation on that board of control, in order that they may inject into it a healthy amount of banking knowledge and banking capacity and banking conservatism.

Senator O'GORMAN. Would that not be supplied by the advisory council named by the bankers?

Mr. GILBERT. The advisory council is entirely without power. It would meet four times a year.

Senator O'GORMAN. If the bankers had a minority representation——

Mr. GILBERT (interposing). But the advisory council——

Senator O'GORMAN (interposing). They would not be in control; the majority would control. The only advantage of having a minority representation of the banks would be that they would be enabled to intelligently advise the entire board what to do and how to manage the business. That same advice would be given by the advisory council named by the banks.

Mr. GILBERT. It would, with this exception, Senator. As I understand the composition of the advisory council, the members are without a vote. Take three bankers on a Federal board of control comprised of nine; while they would not control, they would have a vote, and if they were voting in favor of a correct policy, and two or three members were in unison with them, they could prevent the adoption of any unwise policy.

Senator O'GORMAN. Not any more than the protest of the advisory council. Public opinion has much to do in the regulation of governmental affairs, and it is difficult to conceive of a reserve board consisting of seven citizens doing anything with respect to the business aspect of it which would invite the condemnation and criticism of the other men constituting the bankers' advisory council.

Mr. GILBERT. Now, admitting all that as true, let us look at it from another standpoint. There is great opposition on the part of the bankers to that feature of the bill simply because they feel, as I said a moment ago, that they own all the capital and two-thirds of the deposits, and they ought to have representation. Why not give it to them? They do not control; they can not control. Why not remove that opposition? It will go a long way toward inducing the banks to come in.

Senator REED. How do you think the banks would feel if we would apply that at the other end? If we gave the banks a minority representation on the central board, and the Government took a further representation in the regional banks?

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Senator O'GORMAN. In other words, what would the banks do if they had a minority representation on the reserve board and a minority representation in the regional bank?

Mr. GILBERT. Well, of course, the Federal board of control is the board that will shape the policy of the regional banks, and while they nominally have the election of six directors in the regional reserve banks, they feel they have not control after all.

Senator REED. How do you think it would suit them if we gave them, say, one-third at both places?

Mr. GILBERT. I have felt this way about it myself, as I said awhile ago: Why not give them three members on the Federal reserve board? What harm can come from that?

Senator NELSON. Would not two do? Give them two out of seven.

Mr. GILBERT. You have nine——

Senator NELSON (interposing). No; seven on the Federal reserve board, is it not?

Senator O'GORMAN. Seven.

Senator NELSON. If you gave the banks two out of seven they ought to be satisfied with that.

Mr. GILBERT. I think very likely they would be.

Senator REED. Do you think they would be satisfied, then, if they had three out of the nine directors of the regional banks?

Mr. GILBERT. Why should they be?

Senator REED. I understood you to say a moment ago that it was a question of representation rather than control, and I thought perhaps we could make a swap.

Mr. GILBERT. Why would you want to make a swap? That would only open another door for opposition. I would not do that.

Senator REED. Of course, we can wipe out all opposition to this bill among the banks very readily, but we might get into some difficulty with the people of the country.

Mr. GILBERT. I do not think so. I do not think the people of the country are so anxious to have this—that is to say, I do not think the people of the country understand and interpret the bankers of the country as our legislators in Washington do, or a great many of them do. I think that the bankers, especially the bankers of the East, and more especially the bankers of New York, are misunderstood and misinterpreted at Washington to a very, very much greater extent than they are throughout the country at large.

Senator REED. You do not live out in the country at large, and I do, and I say frankly I think there is a great deal of prejudice which is unjust against banks—absolutely unjust prejudice—and there is also some prejudice among the bankers against the people at Washington just as unjust. I think there is some right and wrong, but I think this, since we are discussing this matter in this desultory way: That the people in this country would never tolerate the creation of a great central bank controlled by bankers, nor the creation of a system over which they did not exercise a supreme control as to its broad and general policies. Now, I think that is the sentiment. I know it is the sentiment of the part of the country in which I live.

Mr. GILBERT. I think the bankers would be perfectly willing to concede all that.

Senator REED. I said the other day to some gentleman that I get letters every few days attacking all the bankers, which I think are

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very intolerant. Yet I think that when bankers get the notion that there is somebody here at Washington wanting to wipe out the banking system, they are equally intolerant and less excusable, because they ought to know better. We want to make the banking system of this country strong; we do not want to destroy the banks; we want to make a strong banking system, and that is the purpose of this bill.

If you are through with that branch of the subject, there is one thing I want to ask before you leave the stand.

Senator BRISTOW. If you will pardon me a moment, Senator Reed, there is one question I would like to ask him before he leaves that.

Senator REED. Certainly.

Senator BRISTOW. Mr. Gilbert, speaking of the control of these regional reserve banks, I am frank to say that I am opposed to the present system of control of the regional reserve banks. I do not believe in the control of the regional reserve bank as is provided in this bill, and I am going to do what I can to have that phase of the bill amended. There may not be many members of the committee who agree with me, but I do not mind saying what my views are. If we are to have a Federal system, I want a Federal system open and frank and let the Federal Government take the responsibility for it. I do not want any hybrid. Which do you think would be the best—I want your judgment—to have a Federal reserve bank organized, as I suggested a while ago, governed by a Federal board similar to the one proposed in this bill, except that I would not have any ex officio members on it, with sufficient branches in the reserve cities of the country to handle the business, governed by a Federal board absolutely, with voluntary subscriptions to the stock, and let it perform all the functions which are needed in order to control the situation, as has been outlined. Would that be, in your judgment, a better system than the one we are undertaking to provide here, even with the reduced number of regional banks?

Mr. GILBERT. I think that it would.

Senator BRISTOW. I believe that the banking business of the country, so far as the credits that go to a large enterprise which comes in competition with such institutions as the Steel Corporation and some of the great railroads are concerned, have been controlled, so that the amount of money necessary to build a railroad, if it is in competition with some of the powerful lines, could not be obtained, and they would be strong enough with the banking institutions of the Nation to prevent it, and this does not break up that control.

I do not believe it does. I am asking you frankly, because I want your judgment on that. From your point of view, would this Federal bank—could it not be made absolutely independent of such selfish control?

Mr. GILBERT. I think it could.

Senator BRISTOW. And could not that be done without endangering any legitimate commercial or financial enterprise which any bank might want to promote?

Mr. GILBERT. I think it could.

Senator BRISTOW. Is that not all you want to do when you have provided for any emergency system? Is not our banking system good enough for any nation on earth?

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Mr. GILBERT. I think it is. Let me say in that connection just this: I have been officially connected with the New York Clearing House for 50 years. I have passed through every panic since the Civil War. And I think I can say conscientiously that I never have seen a panic that, in its incipiency, could not have been arrested and held in check if we had had one bank of reserve, a Federal bank of reserve, a central bank of reserve, or a Government bank of reserve; if we had had one bank of reserve to which the banks of the central reserve cities could have taken their short-time commercial paper and had it converted into cash in order to have held their reserves together.

Senator REED. You have led up to the very question I wanted to ask you about. You have been the president of the New York Clearing House and have had a long experience. I would like to back up on this question of panics, beginning with the latest. I wish you would tell this committee, in as succinct a way as possible, what brought about the panic of 1907, and what signals of warning, if any, the banks had, and give us your views on it.

Mr. GILBERT. Now, gentlemen, in order to do that I would have to go back to about 1900 or 1901.

Senator REED. Very well. Begin at whatever place is most logical with you.

Mr. GILBERT. At the time the United States Steel Corporation was formed, that was the beginning of the era of big corporations in this country. The successful launching of the United States Steel Corporation and the large amount of money that was made out of it stimulated the formation of these big corporations throughout the country.

Senator REED. What we commonly call trusts?

Mr. GILBERT. Trusts; yes. One after another was formed until the country was flooded with syndicates seeking to merge big business enterprises and form big corporations.

Senator REED. Issuing a lot of watered stock?

Mr. GILBERT. That always follows, of course.

Senator NELSON. That always follows in those cases.

Mr. GILBERT. And that was followed by the formation of large trust companies throughout the country to finance the securities of these big corporations. That stimulated every kind of business enterprise. The result was excessive expansion of business and excessive speculation during all the years between 1901 and 1907.

Senator O'GORMAN. Would you call those boom years?

Mr. GILBERT. I would call them years of great business inflation—boom years; yes—1907 saw the culmination. It was something that had to come. It grew out of what had been taking place for four or five years before. It was like the thunder shower that comes to clear up the atmosphere. And it did clear it up. Nothing else would have cleared it up.

I do not have any sympathy whatever, gentlemen, with the theory that it was bad business management or the bad business operations of the banks of the East that precipitated the panic of 1907. The business inflation and the speculation which grew out of it was country-wide. It was all over the country. It came from every section of the country.

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Senator O'GORMAN. What was the immediate cause of the panic?

Mr. GILBERT. I think the immediate cause, as I recall it, was the failure of the Knickerbocker Trust Co.

Senator O'GORMAN. What could have saved that situation?

Mr. GILBERT. A bank of rediscount.

Senator O'GORMAN. Then there was a scarcity of currency at that particular time?

Mr. GILBERT. A scarcity, not of currency, but of banking credit.

Senator O'GORMAN. Credit?

Mr. GILBERT. Yes; banking credit. The credit of the country had become so strained that merchants could not get the accommodation which they required of their banks to meet their maturing obligations, and when that condition ensues it is only a step from that to distrust, apprehension, fear——

Senator REED (interposing). Panic.

Mr. GILBERT (continuing). Rising interest rates, the dropping of securities, panic, and a crash. Every panic comes the same way.

Senator REED. Reduced to a sentence, the organization and overcapitalization of the big industrial combinations brought on the panic of 1907?

Mr. GILBERT. Well, I would not put it in that shape, exactly.

Senator O'GORMAN. Overexpansion of business activities for six years?

Mr. GILBERT. That is it, exactly.

Senator REED. I will add to my previous statement that the multiplication or increase of business incident to that overcapitalization and speculation; would that be about it?

Mr. GILBERT. Well, I would prefer——

Senator REED (interposing). To let your statement stand?

Mr. GILBERT. Yes; to let my statement stand as it is.

Senator NELSON. The first place in New York where trouble broke out was in the Mercantile Bank?

Mr. GILBERT. Yes; I think, very likely.

Senator NELSON. I think that was the first.

Mr. GILBERT. The Heinze Bank.

Senator NELSON. Yes; the Heinze Bank, and then the two trust companies?

Mr. GILBERT. Yes.

Senator NELSON. And it was like a prairie fire; it got away from you up there?

Mr. GILBERT. Yes.

Senator REED. I wanted to ask you a few more questions. You have been dealing with generalizations; you have been saying that there was overstimulation of business; the merchant could not renew his loans or get his accommodation as he had expected, and that introduces an element of distrust, etc. Now, that was country-wide.

Did that result in a drain of money from New York and the other central reserve cities, or did the New York and the other central reserve city banks have more money? Did they draw money to themselves or was the money drawn away from them before the panic actually came?

Mr. GILBERT. No; the demand for money became so great that credit facilities were strained, and the New York banks commenced to lose their lawful money reserves.

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Senator REED. Now, did they lose through other banks withdrawing; through country banks withdrawing?

Mr. GILBERT. Through withdrawals by interior banks. Of course, the very approach of a panic stimulated the fears of the interior banks, and they, actuated by a desire to strengthen their lawful money reserves, drew on New York very heavily.

Senator REED. So that New York had a drain upon it instead of New York drawing upon the country for money and locking it up?

Mr. GILBERT. Oh, indeed, yes; New York ran largely below its reserves. I can not give you the figures now. I wrote an article for one of the New York magazines which gave a concise statement of the condition of things at that time.

Senator O'GORMAN. When were the first symptoms of the approaching panic in 1907 observed?

Senator NELSON. The 19th of October.

Mr. GILBERT. I was going to say about the 20th to the 25th of October.

Senator O'GORMAN. Were those the first symptoms?

Mr. GILBERT. Those were the first symptoms—or, at least, the first acute symptoms.

Senator O'GORMAN. I ask that because I have a recollection of meeting a gentleman in July who had large business interests in New York, who spoke of the probable approach of the panic which culminated in October afterwards. In July that was.

Senator NELSON. Yes.

Mr. GILBERT. Well, of course, the bankers themselves, for two or three months prior to the outbreak of the panic, realized that there was great danger of inflation and speculation being carried to such a point that it would get beyond control. And they felt a misgiving as to the actual condition of things as early as July and August. There is no question about that.

Senator REED. You have spoken about the reserves in New York being lower in the banks. But that is a little different proposition from the one which I have put—your reserves might have been lowered by loans made in New York?

Mr. GILBERT. No; they were not.

Senator REED. Were your reserves lowered through the withdrawal of balances, or parts of the balances, of the banks outside of New York?

Mr. GILBERT. They were lowered by actual shipments of money.

Senator NELSON. Mr. Gilbert, one witness here stated that on the first Sunday of the panic a committee of the clearing house met and decided that they would not extend any help to that Heinze bank or to the Morse bank, unless they would remove Morse and Heinze from the control of those institutions. That is true, is it not?

Mr. GILBERT. That is practically true.

Senator NELSON. Yes. And this witness also claimed that that very fact, that that committee of the clearing house took that action on Sunday and it became known the next morning—that was one of the things that bred the want of confidence in your money institutions of New York.

Mr. GILBERT. No; that is not correct. I have a very clear recollection of that, for I was one of the committee of three that went to

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the Mercantile Bank on that Sunday morning, and I was the spokesman for the three.

Senator REED. What did you go there for?

Mr. GILBERT. We went there because, I think, through an examination made by our own clearing-house examining force, we discovered that the Mercantile Bank was in a strained condition and it had applied to the clearing house for help.

Senator REED. Oh, they had applied for help, and you went there to see whether you ought to give it to them?

Mr. GILBERT. Well, they had applied for help——

Senator NELSON (interposing). And you decided that you would not give it unless they removed Heinze; is that not correct?

Mr. GILBERT. Let me give the story as I remember it—and I think my memory is very clear on that point. They had applied to the clearing house for help. The clearing house, before deciding, sent their examining committee to look over the affairs of the bank and see how they stood. The committee reported that, through mismanagement, the bank was in a bad condition—that is, they were not insolvent; they had assets enough to pay their liabilities; but they had made unwise loans and had mismanaged in a way that made it desirable for a change of administration——

Senator REED (interposing). What was the character of that mismanagement? Were these loans made to themselves to promote their own enterprises?

Mr. GILBERT. You see, gentlemen, I am speaking entirely from memory.

Senator REED. Yes.

Mr. GILBERT. And I do not wish to go into details for fear I may make some misstatement. If I had my memoranda before me, I would be perfectly willing to give it to the committee.

Senator REED. I wish we had it, because it refers to a point which has been much disputed in the hearings before this committee.

Mr. GILBERT. In a general way I will tell you what happened.

We went there Sunday morning. First, we had a meeting at the clearing house and we resolved that before extending any help we would call for the resignation of all the directors, in order that the bank might be put into new hands. And we went there. We were all gathered around the directors' table, as we are now, and I arose and stated what the decision of the clearing house was. I said:

> Gentlemen, we are willing to help you. We are anxious to help you. Your bank has a long and honorable record; but there is only one condition upon which we will help you, and that is that the directors hand in their resignations to us and allow us to put the bank into new hands.

Senator REED. Well, was it to be put in particular hands?

Mr. GILBERT. Our policy was to obtain the resignation of certain ones of the old directors, and in order to accomplish this to get the resignations of all——

Senator O'GORMAN (interposing). That is, you wanted the resignations of some of them?

Mr. GILBERT. We wanted the resignations of some of them; we wanted some to resign. This was accomplished; the ones objected to resigned, the others remained, and they chose their own president. They had one or two men in view. So far as that is concerned, the

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thing was done in a businesslike way and there was no clearing-house pressure in the direction of the management of the bank at all.

Senator REED. They actually did it?

Mr. GILBERT. They actually did it.

Senator O'GORMAN. And they all handed in their resignations, did they not?

Mr. GILBERT. They all handed in their resignations.

Senator REED. That was what bank?

Mr. GILBERT. The Mercantile National Bank.

Senator REED. And who was president?

Mr. GILBERT. Mr. Heinze.

Senator O'GORMAN. Was it Heinze or Miles O'Brien?

Mr. GILBERT. I think Miles O'Brien was vice president.

Senator NELSON. Heinze was president.

Senator O'GORMAN. Miles O'Brien was the active officer.

Senator NELSON. What steps did you take with Morse's bank? Did you take similar steps with his bank?

Mr. GILBERT. Morse's bank—let me recall. Morse was the president of the Bank of North America.

Senator WEEKS. Morse was not the president, was he? Was not Curtis the president?

Mr. GILBERT. Yes; Curtis was the president. I think Morse was vice president.

Senator WEEKS. I think so.

Mr. GILBERT. Yes; I think Morse was vice president.

Senator NELSON. Well, tell us what you did with Morse and his bank.

Mr. GILBERT. Well, I am trying to recall now just how the thing occurred with the Bank of North America.

Senator O'GORMAN. That was a very large bank, was it not?

Mr. GILBERT. Yes; it was a large bank—a good-sized bank.

Senator O'GORMAN. With approximately what deposits?

Mr. GILBERT. Oh, I think they had about $30,000,000 of deposits. It was not one of the largest banks, but it was a large bank.

Senator O'GORMAN. Well, to refresh your recollection there, was there not some statement at that time that Morse was using the credit of his own bank to promote some of his industrial enterprises?

Mr. GILBERT. There was that statement; yes. I think the resignation of Morse was brought about through a meeting of some members of the clearing-house committee, with some of the directors of the Bank of North America, which resulted in their obtaining Morse's resignation and Curtis's resignation, and making Mr. Havermeyer president of the bank. That is my recollection, but just exactly the details of the thing I do not remember.

Senator O'GORMAN. Well, a practical question: Did the clearing house give all the assistance to the Heinze and the Morse bank that they needed at the time?

Mr. GILBERT. Yes; we issued clearing-house certificates to them and gave them what help they asked for.

Senator NELSON. That is after they had purged themselves in the manner you have indicated?

Mr. GILBERT. Yes.

Senator NELSON. Well, do you not think that that action—I am not criticizing the action of itself; it may have been warranted; but do

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you not think if the public found out the action you had taken on that Sunday with Heinze's bank and Morse's bank, that tended to breed a want of confidence?

Mr. GILBERT. I do not think so.

Senator NELSON. Did it not aggravate it; was it not worse after that?

Mr. GILBERT. I do not think so. I think the public were highly satisfied with our elimination of the objectionable element.

Senator NELSON. But did you not follow that up immediately with suspension?

Mr. GILBERT. Not for several months afterwards.

Senator NELSON. Why, the banks closed?

Mr. GILBERT. No. The Mercantile Bank——

Senator NELSON (interposing). I do not mean suspension of the bank; I mean suspension of payments.

Mr. GILBERT. Oh, no.

Senator NELSON. Oh, yes. They closed within a week after that.

Mr. GILBERT. Oh, no; the Mercantile Bank did not close.

Senator NELSON. I do not mean the bank suspended and went into liquidation; but I mean your banks there stopped paying cash, as you say, promptly.

Mr. GILBERT. We issued clearing-house certificates.

Senator NELSON. That is what I mean. Immediately the following Monday or Tuesday after this Sunday?

Mr. GILBERT. I can not tell you whether our dealings with the Mercantile Bank were before the issuance of clearing-house certificates or afterwards. But I think that——

Senator O'GORMAN (interposing). Now, Mr. Gilbert, will you get down to the panic preceding that—the panic of 1893?

Senator REED. I would like to ask this question before you leave this subject: Do you know anything about a meeting at Mr. Morgan's house at which it was decided to refuse to return to the banks of the interior the money that was in the New York banks?

Mr. GILBERT. Never heard of such a thing.

Senator REED. Would you have been likely to know of it if it was true?

Mr. GILBERT. I very likely should.

Senator REED. Before I leave the question, if Senator O'Gorman will pardon me one further inquiry—you spoke about being unable to give details because you did not have your memoranda, and said if you did have it you could probably give the details. I am very greatly interested myself in clearing up this much-disputed question, because it has been contended in said quarters, and believed by some people, that the banks of New York for certain reasons desired to eliminate Mr. Heinze and Mr. Morse, and that they started with the purpose of eliminating them, and that the result was a distrust which finally came mighty near eliminating all of them for the time being.

Now, it would therefore be interesting, and I think very valuable, to have at first hand from a man who was on the ground the details and the reasons—the exact reasons. I think it would be of value to the banks—of value in the matter of advising the public.

And if you have no objection, I would thank you very much if you would procure that memoranda and give us a statement of it, either personally or in writing.

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Mr. GILBERT. I would be only too happy to help clear it up. I would be only too glad to go home and refresh my memory and come back and tell you all about it.

Senator O'GORMAN. You probably would not have to come back if you would just dictate the statement to your stenographer and send it to the chairman of the committee, giving your recollection of the incidents connected with the panic of 1907.

Mr. GILBERT. I would rather come back, because I want to put it in right.

Senator REED. I should be very glad to have you do so.

Mr. GILBERT. I do not want to make a bald statement which might be misinterpreted.

Senator BRISTOW. Yes; it would be more satisfactory to have you return and give it to us personally.

Senator O'GORMAN. Going back to the panic of 1893, what were the features of that, and the conditions that led up to it?

Mr. GILBERT. The 1893 panic?

Senator O'GORMAN. Yes.

Mr. GILBERT. I think that grew out of the Treasury conditions, did it not

Senator O'GORMAN. Well, your recollection is not clear on that?

Mr. GILBERT. No.

Senator O'GORMAN. What was the cause of the 1873 panic?

Mr. GILBERT. General expansion and speculation.

Senator NELSON. The Jay Cooke failure.

Senator O'GORMAN. The general inflation?

Mr. GILBERT. Yes.

Senator O'GORMAN. That explains everything, does it not?

Mr. GILBERT. Yes; excessive speculation, general inflation of business, too much railroad construction after the war. This reached its culmination in 1873.

Senator NELSON. With the Jay Cooke failure also.

Mr. GILBERT. Yes.

Senator NELSON. But do you not remember this, Mr. Gilbert, that after the panic of 1873 you appointed a committee of the clearing house to investigate that panic and to make a report, and that committee reported unanimously to the clearing house of New York that the one bad feature that brought about the situation there was the fact that they were paying interest on the deposits of banks?

Mr. GILBERT. Yes; I remember that.

Senator NELSON. And that the board unanimously recommended that the banks cease paying interest on bank deposits?

Mr. GILBERT. I recall that; yes, sir.

Senator NELSON. Yes. And that you attempted to enforce it, but there was a small minority of the banks that would not agree to it. Is that not true?

Mr. GILBERT. Yes; quite a large number would not agree to it.

Senator NELSON. Well, do you not think, still, that that has been a vice of the present reserve system—the drawing of funds of the country banks to the cities and paying them interest on them; that that has been one of the things that has piled up money in New York and led the banks to protect themselves, or to recoup themselves from paying that interest on bank deposits to loan out their money on call loans with stock collaterals?

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Mr. GILBERT. Well, I do not think they did it for that purpose—to loan out the money on call loans—because they never get a very high rate of interest on their call loans.

Senator NELSON. Well, they get more than 2 per cent—a little.

Mr. GILBERT. Not much; not enough to justify them in doing that.

Senator NELSON. Well, they save themselves.

Mr. GILBERT. Oh, this much I will agree to in your statement: That it would be better for New York if so large an amount of money did not concentrate there.

Senator NELSON. In dull times.

Mr. GILBERT. Yes.

Senator O'GORMAN. Why would it be better?

Mr. GILBERT. Simply because in times of panic the withdrawal of that money, or the danger of withdrawal, is one of the things that we have to look out for; and if it was not there, the interior banks could not make such heavy drafts upon us.

Senator NELSON. And the payment of interest attracts the money there, does it not?

Mr. GILBERT. Yes; the payment of the interest. The interior banks send it to New York because they get the interest on it, of course.

Senator REED. To what extent did the loaning of money on call in New York upon stock-exchange securities contribute to the panic of 1907?

Mr. GILBERT. Well, that is hard for me to answer; that is a situation that is hard for me to diagnose. There is one thing you want to bear in mind, and that is to differentiate what I would call legitimate, nonspeculative Wall Street loans from what you would call speculative Wall Street loans.

Senator NELSON. Marginal loans.

Mr. GILBERT. Well, I would not say marginal loans, because the marginal principle is connected with every branch of business that is carried on in this country. Tobacco is bought on margin; wheat is bought and sold on margin; corn is bought and sold on margin; everything is bought and sold on margin.

Senator O'GORMAN. And the business man nine times out of ten is carrying on his business on a margin.

Mr. GILBERT. Exactly; and a very large proportion of the business of this country is carried on without any margin at all. It is carried on open accounts on the books of the merchant, and 95 per cent of the business of the country is done on credits.

But I want to fix your thought on this Wall Street business, which seems to be somewhat misunderstood and exaggerated in your minds. There is a large amount of that Wall Street business that is just as legitimate and nonspeculative as any business in the world.

Senator NELSON. But look here, Mr. Gilbert—excuse me if you have not finished.

Mr. GILBERT. Yes; let me finish, please. There are a large number of large, respectable banking houses in New York that have to borrow large sums of money to carry the securities of the country that are placed in their hands for sale and distribution, without which the country could not get along. Those houses and those loans are just as important to the business enterprise of the country as any other business.

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Take our large transportation companies and all our large industrial enterprises that are issuing bonds and stocks and other securities. They could not get along were it not for the facilities that are offered by these big houses to furnish money as they require it.

New York—Wall Street, the stock exchange of Wall Street—that is the largest and quickest open market in the world for the sale of securities. It is the quickest call-loan money market in the world. And we can not get along without it. Under all the restrictions and safeguards you may throw around it you can not lessen the amount of money that Wall Street in its legitimate business requires to borrow from the banks of New York.

Senator NELSON. I know; but is not that diverting the liquid assets or money from the channels of commerce and manufacturing industries into quasi-permanent investments? Is that not drawing it out from our every-day trade and commerce that should be supported—the traffic of the country—and is it not investing it in something of a more permanent character? Is it not more of the permanent investment and diversion of funds from purely commercial purposes?

Mr. GILBERT. No: it is not a permanent investment at all.

Senator NELSON. No; it may not be in the sense that it is perpetual; but, still, it is more of a long-time investment than commercial paper, ordinarily.

Mr. GILBERT. The banks of New York carry a certain amount of their money in call loans to have what you would call a secondary reserve—to adjust the fluctuation of their lawful money reserves. And it is always quick and responsive, except——

Senator NELSON (interposing). But not in times of panics?

Mr. GILBERT. Not so much so; but it does not entirely lose its responsive character in times of panic. It may with some houses; but there are always a large number of houses that are able to respond.

Senator NELSON. Now, I want to ask you a question, and I am very anxious to get to the bottom of it. My recollection is that during the panic somewhere about $95,000,000 of gold was imported, mainly on commercial bills. The bank circulation was increased, in round numbers, about $50,000,000 during that period, and the Government deposited mainly in the New York banks and mainly in two or three banks between $30,000,000 and $40,000,000.

So that during the panic—I mean during the panic when you were living on clearing-house certificates there—there was injected $95,000,000 of gold, $50,000,000 of additional bank-note circulation, and Government deposits to the extent of—my recollection is somewhere around $40,000,000.

Now, where did that money go to during that period? Was it used to stop the panic on the stock exchange?

Mr. GILBERT. No; it was not used to stop a panic on the stock exchange.

Senator NELSON. Where did it go? Most of the money—the Government deposits—went to New York at that time, nearly all of it.

Mr. GILBERT. In 1908 I appeared before the House committee or the Senate committee—I think both—and I was asked this question: "Is it true that you are loaning money at this time to stock-exchange houses for purposes of speculation?" I said: "It is not true." "But

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are you not loaning money to stock-exchange houses at this time?" "We are."

Senator NELSON. Yes.

Mr. GILBERT. "We are loaning money and trying to protect every weak spot that legitimately needs protection in order to stay the panic."

Senator NELSON. Yes.

Mr. GILBERT. "And if it is a responsible Wall Street house that needs protection or a responsible dry goods establishment or industrial corporation, we loan the one as quickly as the other."

Senator NELSON. What about these stock brokers who deal in call loans and put up securities? What about them?

Mr. GILBERT. Well, it is necessary that you should understand this connection with the stock brokers: There are a large number of first-class, strong stock brokerage houses——

Senator NELSON. Yes.

Mr. GILBERT (continuing). Who keep large accounts with certain of the New York banks and do a legitimate business.

Senator NELSON. Yes; I am not criticizing. I am not saying it is illegitimate, but my idea is that it is a business that is of a speculative character.

Senator O'GORMAN. Mr. Gilbert—are you through, Senator Nelson?

Senator NELSON. No; just a moment. But I will stop if you want to go on now, Senator O'Gorman.

Senator O'GORMAN. No. I only wanted to ask a question suggested by a remark which you made, Senator Nelson. Is it not a fact that when New York received about $170,000,000 or $175,000,000, in the manner indicated by Senator Nelson, inclusive of the money that was furnished by the United States Government and sent over to Wall Street, a large part of that money was used by the New York bankers to accommodate the country bankers throughout the country during that time, Mr. Gilbert?

Mr. GILBERT. To accommodate the country bankers?

Senator O'GORMAN. Yes; to make loans. We have had country bankers testify here before this committee that right in the midst of the panic they went to New York and got their money. I received a letter to-day from a country bankers to the same effect, that during the height of the panic he received from the New York bankers at 6 per cent.

Mr. GILBERT. Yes; we were sending them money all the time; just as we could afford to spare it.

Gentlemen, I try to make every word express conscientiously what I have to say upon this subject, but I want to say to you that although I was close to the command of the ship during the whole panic of 1907, I never really became aware of anything in our business transactions, either with Wall Street houses or the bankers of the country or the merchants of the country, that I would be ashamed to tell in the utmost detail.

I have seen statements made from time to time about the New York banks dealing with Wall Street that were not only very much exaggerated but which were untrue. They simply showed that the people who made those statements—and they were made in high political quarters—did not really understand the transaction of busi-

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ness between the banks of New York and Wall Street or the necessity for their making advances here, there, and in other places.

But during the panic of 1907 the bankers of New York—the clearing-house bankers—worked as conscientiously as they possibly could to help every legitimate business man who needed it, if he had an account with them.

Senator O'GORMAN. Mr. Gilbert, will you allow me to ask you another question here?

Mr. GILBERT. Certainly.

Senator O'GORMAN. It has been suggested that there is an inducement to the country banker to send part of his reserves to New York because he is able to secure 2 per cent of interest; and that to the extent that he is induced to send his money to New York local legitimate demands in his own locality are neglected.

Is it not a fact that every country banker who sends his money to New York does it more because he wants to be in a position to get accommodation from city banks than because he gets a nominal return of 2 per cent interest on deposits?

Mr. GILBERT. There are two or three things which influence the country banker to keep his account in New York. In the first place, he wants to be able to draw against the New York bank for New York exchange. He wants interest on his money. It constitutes a part of his reserve. The law requires him to carry a reserve, and he can get interest on that portion he keeps in New York, and he can get rediscounts from his bankers. If he did not have a balance there, of course he would not have any claim on his bank and would not ask accommodation.

Senator NELSON. Do you not think this bill is much better as to the reserve than the existing system?

Mr. GILBERT. Yes. I really think it will be to my interest to say so. I think it favors the banks.

Senator NELSON. In one respect we have carried out the report of your clearing-house committee in 1873; that is, to not pay interest on balances.

Mr. GILBERT. Now, gentlemen, while we are talking about this clearing-house business, here is a thing I would like for you to know.

Senator NELSON. I am afraid I am diverting you.

Mr. GILBERT. No; that is all right.

Senator BRISTOW. You started out, originally, when Senator Nelson began interrogating you, and stated there were two kinds of business in Wall Street, and the Senator did not allow you to finish, and you have never stated what the two kinds of business are that are done on Wall Street. Now, what is the difference in those two?

Mr. GILBERT. Well, the difference, I tried to explain, was what I would call a legitimate, nonspeculative Wall Street business which the New York banks have to handle, is the business of those large concerns who negotiate loans and securities for the large corporations of the country. Take our transportation lines and our industrial lines that are issuing securities all the time, and which need to be distributed, and they need advances on those securities before they are distributed.

Senator BRISTOW. That is, if the Santa Fe Railroad concluded to extend its lines somewhere or double its track, and wanted to issue

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bonds to get the money to do it, there is a banking house on Wall Street that takes and floats that security on commission?

Mr. GILBERT. There are banking houses, there are large banking houses of New York or in the near adjacent large cities that are always willing to undertake the sale and distribution of those securities.

Senator BRISTOW. You would call that legitimate banking business?

Mr. GILBERT. I think it is not only legitimate, but I think it is a highly important business.

Senator NELSON. If you will allow me, I would like to have you explain to the committee how they go to work—what is the plan on which they float those securities and what is the bonus or compensation?

Mr. GILBERT. I could not go into that, because I do not belong to the inner circle.

Senator REED. You still have not given us the speculative. You have told us about the legitimate things but you have not told us about the speculative business.

Mr. GILBERT. The speculative business is what you call the marginal business. It is the purchase and sale of stock on the stock exchange, which is carried on margin.

Senator REED. Now, was there, during this panic of 1907, a lot of capital used for the purpose of enabling certain institutions or men to control that market?

Mr. GILBERT. So far as my knowledge goes, I should say no; I never heard of it.

Senator O'GORMAN. You mean to steady the market, Senator?

Senator REED. Suppose I am a speculator on Wall Street. I am not a speculator, I am a broker; and I have been doing business for a lot of speculators by buying and selling simply on margin for what they can make from day to day. Now, the Santa Fe Railroad Co. finds its securities are tumbling, and they give me a lot of money to go in and steady the market with. Was a lot of that done?

Mr. GILBERT. Not done through the clearing house.

Senator REED. By the banks?

Mr. GILBERT. Not to my knowledge.

Senator REED. Now, let me ask you another question. Do you know anything about any refusal to advance money to any large institutions so that they were forced into liquidation or forced to sell just prior to that panic?

Mr. GILBERT. No, I do not.

Senator REED. Not during the panic?

Mr. GILBERT. No; I do not.

Senator REED. I refer, now, to be specific, to the Tennessee Coal & Iron Co. It has been claimed here that it was a perfectly solvent concern, and that their credit was shut off at the bank, and they were forced to sell.

Mr. GILBERT. I do not know anything personally about the Tennessee Coal & Iron Co. I was not present at the meeting at Mr. Morgan's house.

Senator O'GORMAN. Or the subsequent meeting at the White House?

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Mr. GILBERT. No; I was not.

Senator NELSON. I happened to be at the White House that very night, about an hour before.

Mr. GILBERT. But I can easily understand they could have applied for loans and were not able to get them.

Senator REED. I understand that could happen to anybody. But it would be a mighty different thing if it happened to a legitimate enterprise, when the banks were in cash and it is a part of the business of the banks, as you have stated, to take care of these large industrial concerns—to float their loans for them. Now, that being the case, it is quite one thing to have denied an institution credit which was tottering on the verge of bankruptcy, and was about to fall, and to have denied credit to an institution that was entitled to credit for the ultimate purpose of forcing that institution either into bankruptcy or into a sale they did not desire to make. That is what I am talking about.

Mr. GILBERT. Of course. I know what you are after; but, at the same time, as I say, I am not familiar with the inside history of that. I was not at the meeting, and I never learned the details.

Senator NELSON. You suffered from that panic through a scarcity of currency?

Mr. GILBERT. We always do in time of panic.

Senator NELSON. The newspapers sent out a report that Mr. Morgan had stopped the panic and relieved the financial situation and broken the back of the panic by absorbing the Tennessee Coal & Iron Co. Now, what he did—he did not put any money into it—he exchanged the 4 per cent bonds of the Steel Trust for the stock of the Tennessee Coal & Iron Co. Can you explain how that made currency more plentiful in New York City?

Mr. GILBERT. No; I can not. I would not undertake to do that. But I do not think the Tennessee Coal & Iron Co. had any relation whatever to the currency. When currency became scarce, when the speculators in currency saw that it was getting scarce—they always, in times of panic, know that currency will probably get scarce—they commenced to hoard it for speculative purposes.

Senator NELSON. Then Mr. Morgan did not really relieve the panic by effecting that exchange of securities?

Mr. GILBERT. No; not at all.

Senator NELSON. It had no effect on it at all?

Mr. GILBERT. It had no relation to it.

Senator NELSON. How do you account for the fact that the papers heralded it—what a great thing he had done?

Mr. GILBERT. I would hardly be responsible for what the newspapers said.

Senator NELSON. You remember the papers said so?

Mr. GILBERT. I can not say I do.

Senator POMERENE. You remember at that very time there were $27,000,000 in Government funds deposited in banks in New York?

Mr. GILBERT. There was $25,000,000.

Senator O'GORMAN. I do not know that we are making much progress, Mr. Chairman, with our bill. This, of course, is all very interesting. Is there anything else you want to say, Mr. Gilbert?

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Mr. GILBERT. While we are on that Wall Street theory I want to say this——

Senator REED. I want you to discuss, if you kindly will, this provision of the bill which undertakes to limit the loaning of money on speculative collateral.

Mr. GILBERT. Yes. You will allow me to introduce this?

Senator REED. Oh, certainly.

Mr. GILBERT (continuing). Because I think it has some bearing on the subject, and I think it possibly may correct a wrong impression which prevails in Congress in regard to the relation of New York banks and Wall Street to other sections of the country.

Senator O'GORMAN. Mr. Gilbert, you will not find that impression prevailing in this committee, except on the part of those gentlemen from the West.

Senator NELSON. Oh, I want to disabuse the Senator's mind. Mr. Gilbert, while I have asked many questions, I have no prejudice whatever against the banks; not at all. I am only, in these questions, voicing the sentiment of the Mississippi Valley, of our people out there; that is all. [Laughter.]

Mr. GILBERT. This is a statement that was made up at the close of business on September 24, which showed——

Senator O'GORMAN (interposing). This year?

Mr. GILBERT. Yes; September 24 of this year. It shows the distribution of loans and discounts made by 30 of the largest banks and trust companies in New York, each having approximately $20,000,000 or more of loans and discounts, and aggregate loans and discounts of $1,226,974,500. I present this to show one thing, that the statement made here by one of your body—one of the Senators—that the banks of the South failed to get accommodations from New York because New York was investing its money in Wall Street, was not correct.

Senator O'GORMAN. That has been contradicted by other southern bankers during this hearing.

Mr. GILBERT. I would like to read this to you just to show you how far from the truth that is. The loans made to Wall Street brokers for banks outside of the city of New York; that is, through their New York correspondents on September 24——

Senator REED (interposing). What year?

Mr. GILBERT (continuing). This year—was $174,945,900. That is, loans made to Wall Street brokers for banks outside the city of New York.

Loans made to Wall Street brokers for banks' own account; that is, by the New York banks, $264,383,800.

Senator BRISTOW. One was $179,000,000?

Mr. GILBERT. $174,000,000 loans made to Wall Street brokers for banks outside of the city of New York; that is, the interior banks.

Senator BRISTOW. The other was $264,000,000?

Mr. GILBERT. The other was $264,383,800.

Other loans, discounts, and advances of every nature, distributed geographically as follows:

Northern States: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut. Eastern States: New York, Pennsylvania, New Jersey, Maryland, District of Columbia, and Delaware, $617,830,800.

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Southern States: Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Kentucky, Tennessee, Texas, and Arkansas, $174,140,500.

The Middle Western States: Ohio, Illinois, Indiana, Michigan, Wisconsin, Minnesota, Iowa, and Missouri. Western States: North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, Oklahoma, and New Mexico. And Pacific States: Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona, $167,720,600.

Foreign (Canada, etc.), $2,898,800.

Making a total, altogether, of $1,226,974,500, out of which $264,000,000 was made by New York banks to Wall Street. So there is nearly one thousand millions of dollars loaned outside.

Senator O'GORMAN. That is, made by New York City for the rest of the country?

Mr. GILBERT. Yes; made by New York for the rest of the country.

Senator NELSON. It was investments made by the brokers for country banks, was it not? Loans?

Mr. GILBERT. No; you do not understand; $174,000,000 was sent to New York banks by their interior correspondents—the country banks.

Senator NELSON. Yes; for investment.

Mr. GILBERT. For investment? To loan on call, so that they could have it as a secondary reserve. Some of these large interior banks carry a secondary reserve in New York all the time, so that they can get it on demand.

Senator O'GORMAN. $175,000,000 came from interior banks to New York?

Mr. GILBERT. Yes.

Senator O'GORMAN. Now, during the same period, how much money went out of New York City to the various sections of the United States?

Mr. GILBERT. At the same time New York banks were loaning for their own account $264,383,000 to Wall Street, and to all other sections of the country, including that $264,000,000, $1,226,974,500.

Senator O'GORMAN. Then approximately, in rough figures, Mr. Gilbert, while $174,000,000 or $175,000,000 came from the interior banks for investment or deposit in New York——

Mr. GILBERT (interposing). No; not for deposit in New York. It was not sent for that purpose.

Senator O'GORMAN. For investment in New York call loans, New York was sending out almost a billion dollars through the country?

Mr. GILBERT. That is it exactly.

Senator NELSON. And New York had a little over $200,000,000 in call loans?

Senator REED. But while New York was sending this money out for loan over the country, it ought to be stated how much New York had of the moneys of the country banks deposited in her banks.

Mr. GILBERT. Well, they had due national banks outside $330,000,000.

Senator REED. So that New York was not furnishing money to the country, but New York was receiving from the country something like $100,000,000 more than it loaned back. Am I not correct?

Mr. GILBERT. Oh, no. We were loaning a billion dollars.

Senator REED. Oh, I understand.

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The figures above given by Mr. Gilbert are, in tabulated form, as follows:)

Distribution of loans and discounts made by 30 of the largest banks and trust companies in New York City, each having approximately $20,000,000 or more of loans and discounts, and aggregate loans and discounts of $1,226,974,500 at close of business September 24, 1913.

First, loans made to Wall Street brokers for banks outside of the city of New York	$174,945,900
Second, loans made to Wall Street brokers for banks' own account	264,383,800
Third, other loans, discounts, and advances of every nature distributed geographically as below:	
Total Eastern States: Northeastern States—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; Eastern States—New York State, Pennsylvania, New Jersey, Maryland, District of Columbia, and Delaware	617,830,800
Total Southern States: Southern States—Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Kentucky, Tennessee, Texas, and Arkansas	174,140,500
Total Western States: Middle Western States—Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri; Western States—North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, Oklahoma, and New Mexico; Pacific States—Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona	167,720,600
Foreign: Canada, etc	2,898,800
Total banks' own loans	1,226,974,500

Senator POMERENE. Let me understand what is the nature of those loans. With money from the outside you say there is more than a billion dollars loaned out. What is the nature of those loans?

Mr. GILBERT. It is paper discounted and loans in various ways.

Senator POMERENE. Does it include bond issues and matters of that sort?

Mr. GILBERT. Yes, to some extent; seven-eighths of the amount would be probably commercial paper and loans on securities.

Senator REED. How much of that money loaned to the country was insurance money that had been collected from the country?

Mr. GILBERT. I do not know what you refer to by "insurance money."

Senator REED. Insurance premiums collected over the country and brought into the insurance coffers and put into the banks.

Mr. GILBERT. That has never exerted an important enough influence to be spoken about to any extent. I never heard anything about it.

Senator REED. Is it not something like $300,000,000?

Mr. GILBERT. I could not tell you that. Of course the insurance companies in New York keep their bank accounts in New York.

Senator REED. What I was interested in was a question Senator O'Gorman apparently had in his mind—he was never quite able to bring it out—was that New York not only financed itself, but the business of the rest of the country, and I am trying to disabuse his mind. [Laughter.]

Senator O'GORMAN. But you see that, for a given year, 1913, while $175,000,000 has come into New York from interior banks, New York sends out over a billion dollars.

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Senator NELSON. As I understand your figures, Mr. Gilbert, see if I get the right idea: One hundred and seventy-five million dollars has been sent in by country banks for investment in call loans.

Mr. GILBERT. Yes.

Senator NELSON. But during that same period New York banks have invested something over $200,000,000 in the same kind of loans.

Mr. GILBERT. $264,000,000.

Senator NELSON. And about 1,000 millions in commercial loans through the country.

Mr. GILBERT. That is it exactly.

Senator REED. The country banks have deposited $300,000,000.

Mr. GILBERT. $331,000,000.

Senator O'GORMAN. In addition to the $175,000,000?

Mr. GILBERT. That is the amount of reserve money that they carried, due other national banks.

Senator BRISTOW. That was national banks only?

Mr. GILBERT. Yes.

Senator BRISTOW. What about State banks and trust companies?

Mr. GILBERT. It is not a large amount. I should say, in round figures, about $150,000,000. But I can tell you accurately just what it is. [After a pause.] No; I can not, either.

Senator REED. Was that money sent to the country banks, or was it in the shape of bank credits—that 1,000 millions of dollars?

Mr. GILBERT. Why, it was discounting commercial paper and extending accommodations of all kinds, asked for by merchants, manufacturers, and banks of the country.

Senator BRISTOW. Of course, New York is not a commercial center, and this 1,000 millions that you sent out, of course, you got from the country in the processes of business. It did not originate—there is nothing in New York that is created there? It is simply a mart of trade, is it not?

Mr. GILBERT. Oh, my dear fellow, nothing in New York that is created there.

Senator BRISTOW. What do you create in New York?

Senator O'GORMAN. Will you allow me to interpose? Our manufacturing interests in the City of New York exceed in volume all the manufacturing interests of all the New England States, including the great manufacturing State of Massachusetts.

Senator BRISTOW. In the City of New York?

Senator O'GORMAN. In the City of New York. It is the greatest manufacturing city in all the world.

Senator NELSON. They make all the clothing there for America. [Laughter.]

Senator O'GORMAN. Am I right, Senator Weeks?

Senator WEEKS. I think you are substantially right, but that is not disparaging New England.

Senator O'GORMAN. Not at all.

Senator NELSON. I think from your total, Mr. Gilbert, from the 1,000 millions your banks advanced for commercial purposes to the outside country, you should deduct the $200,000,000 of country deposits you have, reserve money. Give them credit.

Senator BRISTOW. That was $331,000,000.

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Mr. GILBERT. Why not deduct all the deposits we receive from all of our customers?

Senator NELSON. No; I refer to bank deposits.

Senator REED. Why not deduct them all?

Mr. GILBERT. Yes; why not deduct them all?

Senator NELSON. So you can not claim you are loaning out your own money, altogether.

Mr. GILBERT. We have nothing but our capital and surplus. All the rest belongs to our depositors.

Senator NELSON. And the bulk of your deposits, a large share of them, are country bank deposits?

Mr. GILBERT. Oh, no.

Senator POMERENE. A great many manufacturing concerns are in the West.

Mr. GILBERT. The deposits in the clearing-house banks amount to about $1,350,000,000.

Senator NELSON. How much of that is represented by New York discounts?

Mr. GILBERT. A large portion of it. That is the fund we use for discounting purposes.

Senator NELSON. Your deposits, you know, are to a large extent bank credits that you give for your discounts.

Mr. GILBERT. Yes.

Senator NELSON. Now, a merchant comes in there and gives his note for $10,000. You hold his note and give him credit for $10,000 on the books and call that part of your deposits.

Mr. GILBERT. We do, of course, because we loan out our depositors' money.

Senator NELSON. Yes. And, deducting your discounts to New York people from your deposits, what is the net amount?

Mr. GILBERT. That I could not tell without going into a very close calculation. The deposits from customers amount to 200 or 300 millions daily, principally in New York City. That is actual deposits.

Senator NELSON. How much do your discounts average?

Mr. GILBERT. I could not tell that.

Senator NELSON. They constitute the bulk of your deposits?

Mr. GILBERT. What I am speaking about now is the actual deposits.

Senator POMERENE. Mr. Gilbert, let me suggest in that connection: You have a large number of manufacturing establishments and mercantile establishments in the Western States that carry accounts in your New York banks?

Mr. GILBERT. Yes.

Senator POMERENE. Large manufacturing establishments will get lines of credit of your banks?

Mr. GILBERT. Yes.

Senator POMERENE. And they carry heavy accounts in your banks?

Mr. GILBERT. Yes.

Senator POMERENE. So that while there is a large amount of paper discounted, there is a large amount of deposits also made over your counter by western concerns. That is correct, is it not?

Mr. GILBERT. Yes.

Senator POMERENE. Can you state the amount?

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Mr. GILBERT. Well, I would not try to. It would be simply straining my memory.

Senator O'GORMAN. The particular item he is interested in is, Can you give an idea of the amount of Ohio money coming into New York City? [Laughter.]

Senator REED. I am interested in this question, as to how much of the deposits of this money that New York sent out to the country was actual money belonging to the citizens of New York and how much of it was money that belonged outside of New York. Could you tell us that?

Mr. GILBERT. Well, it would be rather difficult to differentiate. I would like to express it on the general principle that the business of the New York banks is to receive deposits from their customers and to loan out the deposits of their customers after keeping a lawful reserve against it in their vaults.

Senator REED. And their customers are not limited to New York, but extend over the country?

Mr. GILBERT. That is it exactly.

Senator REED. So that there is a large-sized hole——

Mr. GILBERT. We do not differentiate as to whom we loan or where we loan it. We have our own clientele and the interests of the bank is to accommodate its customers, if it can do it with safety.

Senator REED. I was only discussing Senator O'Gorman's——

Mr. GILBERT (continuing). And it always tries to do it. It does not discriminate between the man who lives out of New York and the man who lives in New York.

Senator O'GORMAN. Your bank would take Kansas City money just as readily?

Mr. GILBERT. Yes; it would take Kansas City money just as readily.

Senator REED. But just as soon as it takes that Kansas City money Senator O'Gorman says it is New York money. [Laughter.]

Senator NELSON. Now, Mr. Gilbert, are there other portions of the bill you want to discuss?

Mr. GILBERT. After listening to Mr. Morawetz with a great deal of interest last night, I went home and wrote this off before I went to bed:

Whatever view is expressed as to the practical working of the proposed currency bill must be on the assumption that all of the national banks will enter the new system. If we could definitely determine this point we could accurately determine the changes that would follow the introduction of the measure. If perchance it should happen that a large number of banks should decline to make the change, it would imperil the success of the bill at the start. The advantages which this bill offers would seem to outweigh the disadvantages, and yet there are some features which serve to keep alive a good deal of opposition to the measure, and which can be removed without any sacrifice of principle. The most prominent of these is the refusal to give the banks a proper representation on the board of control. They are to become the owners of all the stock and about two-thirds of the deposits, and be without voice in the management. They do not ask for control, but simply for a healthy leaven of banking knowledge, banking capacity, and banking conservatism. Why not concede this? The request is reasonable and logical and would be justified by all business practice.

The compulsory features of the bill compelling subscription to capital and deposit of reserves seem very obnoxious, but it must be admitted they are vital to the working out of the plan as laid out.

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They would not seem so obnoxious if the member banks should be given proper representation on the board of control, but to be threatened with dissolution on refusal to accept the plan creates an opposition that otherwise might not exist. And if the penalty should have to be enforced to any great extent the result would be disastrous for a time to the business interests of the country.

While it may be that all national banks will within a reasonable time enter the system, it would not be wise to rely entirely on compulsion to get them in.

Senator O'GORMAN. Does that conclude your views?

Mr. GILBERT. Unless you want to talk to me on some other point.

Senator REED. I want to ask you a question: If this bill is put into effect, of course the money that goes into those regional banks must come from some place. I take it that a large amount of the money will be withdrawn from central reserve cities in order to transfer it into the regional bank?

Mr. GILBERT. Yes.

Senator REED. And, of course, from the reserve cities there will be money drawn from, strictly speaking, the country banks?

Mr. GILBERT. Yes.

Senator REED. Now, during that transition period, will that involve any considerable contraction?

Mr. GILBERT. Well, I have some figures here which bear on that point. I will give it to you in gross.

Senator REED. Have you written an article upon it?

Mr. GILBERT. No; but I have a calculation that was made by a personal friend of mine, a banker, which he gave me to look over. I do not feel at liberty to present it, but it contains the information you would like to have. From this analysis of the best working of the proposed bill it would appear that at once after the law goes into effect the banks in New York City may be called upon to pay out the amount of $85,000,000 of the present deposits from national banks, which, after allowing for the 20 per cent reserve released thereon, would mean a contraction of loans to the amount of $68,000,000, all of which, it would seem, would have to be provided for from their own resources, because their deposit of 3 per cent of their reserve with the Federal reserve bank is not called for until after 60 days, and they probably would have no claim upon said bank for discount accommodations until deposit had been made. In addition to the contraction of the amount named above would be the amount required to meet two of the 4½ per cent that the reserve city banks could draw out after 60 days, which would amount to $34,468,263, and the 10 per cent payment on account of the capital of the Federal reserve bank, which would amount to $11,970,000, thus producing a total contraction in the loans of the New York City national banks, after allowing for the 18 per cent reserve released on deposits withdrawn, of $40,000,000 at the expiration of 60 days after the act goes into effect; showing that in 60 days after the act becomes operative the withdrawal of deposits of national banks in the city of New York would amount to $120,000,000, and the loans of such national banks of the city of New York would be contracted $108,000,000.

Senator REED. That is the application of this to the city of New York?

Mr. GILBERT. Yes, sir; to the clearing-house banks of the city of New York.

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Senator REED. Now, if that is true, and assuming we want to create this system and that it is a desirable thing, what suggestion have you to make as to a method by which the system could be created without suddenly withdrawing that money and so doing the work of creating the system as not to give the financial situation a violent and sudden lurch or jar?

Senator O'GORMAN. Suppose that provision were made to have the 20 per cent payment made in five different installments of 4 per cent each——

Senator NELSON (interposing). They will be in two payments; the other is only subject to call.

Senator O'GORMAN. I understand that. My question will only relate to the first payment of 10 per cent. I am making that in five payments, extending over a period of 18 months. Would that lessen the contraction?

Mr. GILBERT. That is only a matter of $11.000,000.

Senator NELSON. Senator, will you kindly allow me to suggest another thought in connection with yours, and that is, if we adopted Mr. Gilbert's plan of one central bank, or reduced the number to four or five we could reduce the corporation to half the amount and get enough capital for this central bank to start on.

Mr. GILBERT. Yes; if it were one central bank $20,000,000 would be ample to start with.

Senator O'GORMAN. Suppose you make the actual cash contribution 5 per cent, in 5 payments extending over a period of 18 months.

Mr. GILBERT. I do not think, so far as the capital payments are concerned, it would cut very much of a figure.

Senator O'GORMAN. Suppose the same idea were carried out with reference to the deposits; instead of requiring the deposit of 5 per cent of the reserves——

Mr. GILBERT (interposing). That would make a very good deal of difference.

Senator O'GORMAN (continuing). Have that in 5 equal payments, covering a period of a year or more. Would not that minimize the disturbance necessarily incident to such a change?

Mr. GILBERT. Yes; it would, of course. But it would also lessen the ability of the Federal reserve banks to discount, because they would rely on the transfers of reserves.

Senator O'GORMAN. But the development of the bank would in that way be gradual.

Mr. GILBERT. You could easily see, though, from the statement I have furnished here, that the borrowing by the banks of the country is not heavy, and they probably would have ample resources to accommodate all legitimate borrowing.

Senator REED. Besides that the banks would not need to borrow a large amount if they were required to transfer only a small amount.

Mr. GILBERT. No; they would not.

Senator BRISTOW. If we followed out the idea of the Federal reserve bank, of one Federal reserve bank, this transfer could be made with very much less disturbance, could it not, to the whole banking and financial system of the country?

Mr. GILBERT. Yes; it could be. It would not require as much capital to commence with, and the transference of the reserves to the central bank could be made in several installments.

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Senator BRISTOW. If experience demonstrated that we needed more; if we found that, because of the peculiar conditions in our country, additional banks should be created, that could be done as experience pointed out the way?

Senator O'GORMAN. The power could be confided to the reserve board from time to time to create additional banks, indicating the limit to which the board might go.

Senator BRISTOW. Yes; that might be done. It would simplify it very much.

Mr. GILBERT. I think it would; yes.

Senator O'GORMAN. Let me ask you another question right there. Do you think, Mr. Gilbert, that a Government board of seven members, such as is proposed in this bill, constituting the reserve board, could dispose of the applications for rediscount from the member banks as intelligently as the members of the regional banks as constituted by this bill?

Mr. GILBERT. I do not.

Senator O'GORMAN. You would have more confidence in the personnel of the regional banks——

Mr. GILBERT (interposing). The administration of the regional bank alone is competent to decide the question, it seems to me.

Senator O'GORMAN. As to rediscount?

Mr. GILBERT. As to rediscount.

Senator O'GORMAN. You do not think this reserve board could take up that work?

Mr. GILBERT. I should not think it ought to do it.

Senator O'GORMAN. It would have to do it if we had but a single bank.

Mr. GILBERT. No; the administrative officers of the bank could do it. The Federal board would simply supervise.

Senator NELSON. Suppose, Mr. Gilbert, you had, under the Federal board for this central bank, a discount committee of nine.

Mr. GILBERT. Every well-regulated bank of any size has an executive committee. Now, the bank officers are the ones that are familiar with the standing of their customers. The administrative officers of a regional reserve bank would know the banks of their district. It would be their duty to become familiar with their habits.

Senator O'GORMAN. You evidently look upon that as one of the advantages of the regional bank system, do you?

Mr. GILBERT. It is an advantage; yes. At the same time the central bank should distribute its branches throughout the country and the branches would come in close and intimate contact——

Senator O'GORMAN (interposing). And perform that same function?

Mr. GILBERT. Yes.

Senator POMERENE. I think that Mr. Gilbert, among other things, was going to discuss before us the question of foreign exchange, and I was anxious to hear him.

Mr. GILBERT. I do not want to go into that now, but perhaps the next time I come I shall do so. However, here are one or two things that I jotted down last night, and that I should like to emphasize.

Much stress is being laid on the industrial expansion that will result from the establishment of the Federal reserve bank owing to their capacity to expand credit. It must not be overlooked, however,

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that there is a limit to their power to expand credit, and when that limit has been reached they will be simply ordinary banks in competition with each other with no reserve power to meet unexpected crises. The reserve bank should not seek to build up a big business, to expand credit, or to make profit. Its prime object should be to maintain its reserve power and be always ready to perform its proper function in a money crisis. If it can not do this and earn dividends it would be better to dispense with the dividends. Under normal business conditions it should not carry less than 50 per cent reserve against all its liabilities, otherwise it will not be ready for a crisis when it comes. Under normal conditions it is doubtful if all of the reserve banks can pay dividends to stockholders; certainly not for several years.

The bank-note issue should not be guaranteed by the United States Government nor made payable at the United States Treasury. This would be a mistake that would prove embarrassing to the Government in a panic. We have only to go back to the panic of 1907 to find a parallel case in the volume of national-bank notes that were presented for redemption.

I was in Washington in 1908 and I called on Secretary Cortelyou, to talk over the Aldrich-Vreeland bill, which was then before Congress. He told me at that time that the Treasury Department was very much embarrassed by the large volume of national-bank notes that were being presented for redemption; that it had almost exhausted his cash balances; and that his force was not large enough to send the notes that were presented for redemption home to the banks of issue, and he was waiting for an appropriation to enlarge his force to do that. After talking with him, I suggested that he use his influence with Congress to omit from the face of the notes issued under the Aldrich-Vreeland bill, if the bill became a law, the words "Payable by the Treasury of the United States in lawful money," and I think it was done. I know that he and I both communicated with several of the influential members of both Houses at that time, and I think when that bill passed it was omitted. I think it is very necessary you should consider that, because it is not necessary that these bills should be payable at the Treasury of the United States.

Senator WEEKS. If you will allow me to interrupt you, you will find that the bills that have been printed since have all been alike, and they have had these words on them: "Secured by a deposit of United States bonds or other securities," instead of "Secured by deposit of United States bonds" as heretofore. That, I think, was the only change made in the bill.

Mr. GILBERT. But, under the national-bank act, the old bills were stamped on their face, "Payable at the Treasury of the United States."

Senator WEEKS. I have not one of the bills in my pocket, but if that were true I think that has been left off.

Mr. GILBERT. I think it has been left off, and I think it was left off as a result of that experience in 1907. Don't you remember?

Senator WEEKS. Yes; I remember very well. But even now in normal times the Treasury has redeemed more national-bank bills than the 5 per cent fund amounts to. There is an actual debit there to-day against the banks.

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Mr. GILBERT. The volume was very, very large, indeed, and it embarrassed the Treasury Department very much.

Senator REED. What is the limit, Senator?

Senator WEEKS. There is no limit.

Senator NELSON. You believe, of course, that these notes should be redeemable in gold only?

Mr. GILBERT. I do. Let me continue.

Let these be the notes of the Federal reserve banks protected by a 50 per cent gold reserve, a first lien upon the assets, and payable on presentation in gold at any Federal reserve bank. They would be amply secured by the 50 per cent reserve and the commercial paper behind them, and the fact that they were not guaranteed by the Government might possibly add to their elasticity by causing them to be presented for redemption more quickly than otherwise would be the case.

Federal reserve banks should pay out their own notes only. Notes of other Federal reserve banks when received should be sent home for redemption. If not guaranteed by the Government, they would be less likely to be carried in reserves of State banks and trust companies, nonmembers.

Senator O'GORMAN. Do you see any advantage at all in having the notes Government notes?

Mr. GILBERT. No; I do not.

Senator O'GORMAN. Do you know why it is proposed that they be Government notes rather than bank notes?

Mr. GILBERT. I do not. Since I became familiar with the bill I have formed the impression that there is an influence in the Cabinet which is in favor of having the Government issue its own notes, instead of allowing the banks to issue notes.

Senator O'GORMAN. That is the only explanation you can think of?

Mr. GILBERT. That is the only explanation.

Senator O'GORMAN. You do not approve of it?

Mr. GILBERT. I do not.

Senator O'GORMAN. You think it is not sound?

Mr. GILBERT. I do not think it is sound. My own view is that I would as much as possible divorce the Government from——

Senator REED (interposing). Do you think that the 50 per cent reserve under this bill against notes issued by these Federal reserve banks would be perfectly sound?

Mr. GILBERT. I do.

Senator REED. Do you think they should always be redeemable in gold?

Mr. GILBERT. Yes; I think so.

Senator REED. If that is true, if you have a system that provides that the notes shall always be redeemed in gold at the till of the bank, a system which is safe and sound, how can a run upon the Treasury be effected, and why should it ever be effected? The minute you say that currency is absolutely safe you take out all danger to the indorser.

Mr. GILBERT. There never was any question about the national-bank notes, but they were turned home in such large volume for payment to the Treasury of the United States.

Senator REED. That is because there was a raid on the gold; they were raiding for gold, were they not?

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Mr. GILBERT. They were payable in lawful money.

Senator NELSON. Ought not the burden of gold redemption to be put entirely on the regional banks instead of the Government?

Mr. GILBERT. I think we should do everything we can to concentrate in these regional reserve banks a large gold fund.

Senator REED. And make them keep it?

Mr. GILBERT. And make them keep it.

Senator NELSON. And call upon the Government to supply the gold.

Mr. GILBERT. In fact, I sometimes think that, being regional reserve banks, they ought to be a higher order of bank than the ordinary commercial bank of the country, especially as we have between 700 and 800 million of national-bank currency outstanding, and that it will be a good many years before it is largely reduced, and that, in order to make these regional reserve banks extra conservative, we should compel them to carry a much larger gold reserve.

Senator O'GORMAN. Why do you urge a 50 per cent gold reserve instead of the 33⅓ per cent proposed in the bill?

Mr. GILBERT. Because I think it would be safer.

Senator O'GORMAN. Would not 33⅓ per cent be safe?

Mr. GILBERT. I do not say I do not think 33⅓ per cent reserve would be good, conservative management—using care to discount short-time commercial paper—but a reserve bank should only discount short-time commercial paper; it should be maturing all the time.

Take the Bank of France. Under the First Empire, when Napoleon became Emperor he felt that he wanted a bank that would have a little more banking power than the Bank of France, as it existed at that time, had. So he said to his finance minister, "I have drawn up a scheme for a bank; I want to read it to you." And he read it over to him. It was a scheme which provided for making advances on short-time commercial paper, with three good names, and a very small gold reserve, but a gold reserve large enough to meet any demands that might be made for the redemption of the notes. He said to him, "I want you to take that to the corps legislatif and present it as your own bill, because if they know it is my bill they won't pass it. If you present it as your own bill they will give it more consideration." That bill was introduced and eventually became the system under which the Bank of France was organized and operated.

I only mention that to show he had the right idea there, that a reasonable gold reserve and short-time commercial paper amply secured, which would be redeeming itself all the time, would keep that bank amply supplied with gold to meet its notes as they became due.

Senator O'GORMAN. You now touch upon an objection which has been strenuously urged on behalf of the country bankers. It is this: In various sections of the country the country bankers do not deal in the commercial paper with which the banks in large cities are familiar—the paper running for 30, 60, or 90 days. They deal largely in what is called "seasonal paper," very frequently running from six to nine months. It is claimed on their behalf that they can not avail themselves of the rediscount privileges of this bill, or, if they do enjoy the privilege at all, they can only enjoy it in a modified way. Of course, it is suggested that even with six months

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paper it is available for discount during the second half of that period; so also with the nine months' paper. But it has appeared before this committee that under the plan proposed in this bill country banks will only have a modified use of this privilege. How can you remedy that?

Mr. GILBERT. Unfortunately that is an obstacle.

Senator O'GORMAN. Do you think it possible that the reserve board might, under rules and regulations, permit a certain percentage of the rediscounts in certain regions to be used for paper maturing longer than 90 days?

Mr. GILBERT. I do not think the correct working of the system ought to admit of the rediscounting of——

Senator O'GORMAN (interposing). You think any maturity longer than 90 days is not a liquid asset?

Mr. GILBERT. I do for a reserve bank.

Senator NELSON. I think there is an avenue out of the difficulty, and that is this: The large commercial banks would always have an abundance of such paper to discount, and they could supply the smaller banks. The smaller banks could obtain their discounts from the larger banks.

Senator O'GORMAN. That is true——

Mr. GILBERT. They could supply the currency.

Senator NELSON. Yes.

Senator O'GORMAN. The fact would still remain that the country bank is not permitted to enjoy the rediscount privileges of this bill——

Senator NELSON (interposing). That is true.

Senator O'GORMAN. To the same extent as the large city bank.

Mr. GILBERT. That is right.

Senator POMERENE. I was about to suggest this thought with regard to that matter: Assuming you are right as to the 90-day provision, here is a farmer who wants $1,000, and he gives his season note for it. He expects to pay that out of his wheat crop or out of the sale, it may be, of stock which he has fatted. Assuming that his credit is the same as that of the merchant who has commercial paper within the contemplation of this statute, why should he not be given the same right? Why should not that paper be given the same right of discount at the bank as the merchant's note that is given for merchandise? Why is it not one and the same thing?

Senator O'GORMAN. They are maturing at different periods.

Senator POMERENE. I am waiving that, for the time being. If a note of that character is to mature within 90 days, why should it not have the privilege of discount just the same as the merchant's note?

Mr. GILBERT. The only reply I could make to that would be this: I understand the character of the farmer's paper very well, and I know it is difficult for the farmer to borrow money on the same terms as a merchant can borrow money. Of course, the farmer borrows from his own bank, and the amount of paper that is received from farmers must be a very small portion of the amount of paper that the bank would discount.

Senator POMERENE. That depends. If you go into the agricultural regions—for instance, in Minnesota, Kansas, or Nebraska,

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where the industries are almost entirely agricultural or closely allied thereto—I suspect a goodly part of their paper would be farmers' paper.

Mr. GILBERT. They would have to have a sufficient amount of good commercial paper, eligible for discount, to supply their needs, I should think, in case they wanted rediscount.

Senator REED. That is what we are told by these gentlemen from the small banks that are really farmers' banks; that is, banks of which the farmers are the principal supporters or shareholders.

Senator POMERENE. And that is true in a good many of the rural districts.

Mr. GILBERT. Exception might be made in favor of the paper in the agricultural districts, up to a certain percentage. I can not see any other solution.

Senator POMERENE. Would there be any objection to it from an economic standpoint?

Senator O'GORMAN. If you will pardon me, Senator, it occurs to me there might be this objection: The success of this proposed system depends upon several requirements, an important one being that the assets of these regional banks shall always be liquid; and, in the estimation of bankers, an asset can not be considered liquid that takes more than 90 days to mature.

Senator POMERENE. Here is a farmer that wants $1,000, which he expects to pay as soon as his wheat crop is harvested and marketed. When he borrows it it may be 6 months' paper, but when it is within 90 days of maturity——

Senator O'GORMAN (interposing). He can use it under this bill. He may have a 1-year note, but during the last 90 days he can discount it.

Senator POMERENE. That is just one of the difficulties here. It is said by some of the witnesses that that is not really commercial paper, within the contemplation of the act.

Mr. GILBERT. I should say so, too.

Senator O'GORMAN. That it is not commercial paper?

Senator POMERENE. What is there inherently different between the merchant's paper maturing within 90 days and the farmer's paper which is maturing within 90 days? I am assuming, of course, that they are men of equal credit and standing in the community.

Mr. GILBERT. Is it not true that the farmers as a class rely upon their banks to carry them until their crops are marketed?

Senator REED. But he has drawn the note——

Senator POMERENE (interposing). He has drawn the note so the note has to mature, and its collection is enforcible just the same as the collection of the merchant's paper is enforcible.

Senator REED. It is a 9 months' note, due in the month of August, and he intends to pay it out of his wheat crop, and by that time his wheat crop is harvested, thrashed, and marketed. Now, it is not put up with the bank until the 1st day of July. It is then due, we will say, the 15th day of August.

Mr. GILBERT. If his crop did not turn out well, it would have to be carried another year.

Senator BRISTOW. What about the merchant? If the crop did not turn out well——

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Mr. GILBERT (interposing). He is provided with the merchandise to pay his note.

Senator POMERENE. The farmer has the same credit, even if his crop is a failure. He expected to take care of it in the same way.

Mr. GILBERT. Of course, we draw our conclusions from experience. We find that, as a rule, the commercial paper we get from business men is very largely paid at maturity, and our experience with eastern farmers—of course, we have had no experience with western farmers—is that a note payable in even three, six, or nine months is really payable at the farmer's convenience.

Senator POMERENE. I suspect we have got to recognize this as a fact: That when any paper is rediscounted the regional bank is going to depend largely upon the indorsement of the member bank.

Mr. GILBERT. Yes.

Senator POMERENE. And if the member bank is willing to take the paper of the farmer and to rediscount it, he would understand whether or not it was probably going to be paid when it matured.

Mr. GILBERT. Here is one question I would like to submit to you gentlemen. I read the remarks made by Senator Owen last night at some gathering of bankers in this city. The remarks appeared in the papers this morning, and the question arose as to the banks' ability to buy paper in the open market, and the Senator is quoted as having said that one of the powers of the regional reserve bank would be to enter the market and buy commercial paper. Some banker present raised the query as to whether or not that would not be competing with other banks. It occurred to me——

Senator O'GORMAN (interposing). That is only for the purpose of regulating the interest and discount rate.

Mr. GILBERT. It occurred to me that under the law as I understand it the regional bank can only enter the open market to buy commercial paper that is eligible for rediscount, and only paper that has the indorsement of a member bank is eligible for rediscount.

Senator NELSON. You are right about that, I think.

Mr. GILBERT. And there will be no paper in the market that is indorsed by member banks until an open money market is created. Is that not correct?

Senator REED. I think you are right on that.

Senator NELSON. It seems to me you are right about it. I think your deduction is correct.

Senator REED. Unless the bill is amended.

Senator NELSON. There is one question more I would like to ask you, Mr. Gilbert, and that is do you not think that the extensive discount privileges are the discount privileges extended here to the regional banks and the privilege that the member banks have to discount may lead to the inflation of credit?

Mr. GILBERT. It can very easily do that.

Senator NELSON. And be very general?

Mr. GILBERT. Yes, sir.

Senator NELSON. And there may be a danger in it?

Mr. GILBERT. I think so.

Senator NELSON. Can you suggest any limitation that we ought to put into the bill?

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Senator REED. I do not think that construction follows—that construction which has been made here. I do not think that construction necessarily follows.

Mr. GILBERT. What is that?

Senator REED. That they could not buy anything unless it was paper indorsed by another bank.

Senator NELSON. It must be paper eligible for rediscount.

Senator REED. Of course, in construing any act you must take into consideration all of its language.

Section 15 says:

That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks——

Mr. GILBERT. "From or to."

Senator REED (reading):

From or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills——

Mr. GILBERT. "Prime bankers' bills."

Senator REED. Yes. [Reading:]

And bills of exchange of the kinds and maturities by this act made eligible for rediscount and cable transfers.

Now, I think the construction that would necessarily be put on that would be——

Mr. GILBERT (interposing). What would you call "prime bankers' bills" and "bills of exchange"?

Senator REED. What are prime bills or bills of exchange? I have contended all along we have no rule to go by. But, waiving that, I am simply discussing the question whether a bank would have to indorse them. I think this section certainly would be susceptible of the construction and would probably be construed to mean this: That the words "bills of exchange and the kinds and maturities by this act made eligible for rediscount," that that would mean that they must be promissory notes or bills of exchange maturing within 30 days and signed in the manner in which a note must be signed if it passes through a bank and is indorsed and by it rediscounted, but that the indorsement of a member bank—I hardly think that would be necessary under that language.

Mr. GILBERT. I am sorry if that is the proper construction.

Senator BRISTOW. I think that is undoubtedly a good construction.

Now, Mr. Gilbert, do you find anything in the bill as to the difference in the paper that can be used as the basis for currency or which the bank will rediscount? Could the bank rediscount paper that could not be used as a basis for currency by the regional bank?

Mr. GILBERT. As I interpret the bill, you can only rediscount commercial paper of certain maturities.

Senator BRISTOW. Any paper that it can rediscount can be used as the basis for currency, as I understand it.

Mr. GILBERT. Well, it will be used, of course.

Senator NELSON. That is the way the bill reads.

Senator O'GORMAN. It is contemplated that the paper must be of a character upon which currency can be issued by the Government?

Senator NELSON. There is no doubt about that.

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Senator WEEKS. If we had a strictly correct system, when that rediscount was made it would be put to the credit of the bank making the application, and it would not make any difference to the reserve bank whether it gave the discounting bank currency or a credit on its books or a check.

Mr. GILBERT. None at all.

Senator WEEKS. It would be the same thing.

Senator REED. I believe that is all at this time, Mr. Gilbert. If you can come back, say, on Friday, and give us the additional information which was asked for, I think we can near you on that day.

Mr. GILBERT. I can return on Friday.

Senator REED. I have here a letter which was handed me by Senator Martine for insertion in the record, and, if there is no objection, the letter will be placed in the record at this point.

(The letter referred to is as follows:)

FIRST NATIONAL BANK,
Plainfield, N. J., October 14, 1913.

Hon. JAMES E. MARTINE,
Washington, D. C.

DEAR SIR: We feel constrained to call upon you to use your utmost endeavors to defeat the passage of the present currency bill. Among the features particularly objectionable to us are the segregation of savings and commercial funds. If the proposed bill becomes law, we will be forced to call in loans aggregating over $1,000,000, and you can readily imagine what that would mean to merchants of Plainfield, or, as an alternative, we must surrender our national charter and throw our Government bonds on a sagging market which at to-day's prices would mean a loss of from $12,000 to $15,000. It would seem that if banks situated as we are are to be forced out of the national banking system a method should be provided by which the Government twos should be paid off immediately at par.

We have been 10 years building up our savings department business, and this segregation of assets plan would be the destruction of it, as we can not pay 4 per cent interest, as we are now doing and are forced to do by the trust-company competition, and loan the money at a profit on the securities to which it is proposed to restrict the investment of such funds. The proposed plan is not only bad for the banks, but bad for the community at large, as it curtails our loans to our home people who need the money and forces investment in outside securities. Moreover, it would immediately create a situation whereby we would have a surplus of funds in our savings department and an extreme shortage in our commercial department. The act proposes to prohibit one department using the surplus funds of the other, or, in other words, we must let our savings-department money lay idle or invest it out of town and borrow money to supply the needs of our customers, or else refuse to loan them their reasonable requirements. We believe the strict enforcement of the proposed law will put the country in such a state of chaos that business men will not know what to do.

We urge you to give this matter most careful consideration, and would greatly appreciate a favorable reply from you.

Very truly, yours,

J. A. HUBBARD.
C. FRANK FRENCH.
B. FRANK CORIELL.
D. M. RUNYON.
E. H. BIRD.
W. R. CODINGTON.
J. A. SMITH,
A. J. BRUNSON.
P. Z. ZEIGLIO.

(The following are inserted at the request of the chairman of the committee:)

Statement showing clearings for 1912, from Jan. 1 to Dec. 28.

New York City	$100,111,150,886
Outside of New York City	73,609,760,971
Total	173,720,911,857

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[From the Financial Age, Nov. 30, 1912.]

REPORT OF THE COMMITTEE ON INLAND EXCHANGE TO THE NEW YORK CLEARING HOUSE COMMITTEE.

The subcommittee on inland exchange which was appointed by the clearing-house committee last April to investigate the subject of exchange charges on inland checks after months of constant activity made its report last Monday.

After quoting the resolution under which the committee was appointed, the following results of the investigations are set forth:

Your committee approached this investigation with an entirely unprejudiced mind and has maintained an attitude of strict impartialty throughout. It has given careful consideration to the facts it has gathered and feels that it is now in a position to report its conclusions and the findings upon which these conclusions are based.

Under its direction two forms were prepared. A copy of one of these forms was sent to each bank and trust company member of the New York Clearing House Association, the purpose being to place the committee in possession of information with respect to what, if any, changes they felt should be made in our existing rules and regulations affecting the collection of country checks.

In furtherance of your committee's desire to receive as many different points of view as possible on this most important subject it met frequently at the clearing house during the spring and summer months for the purpose of discussing it in a frank and unbiased way with the president or such officer as he elected to represent him of each clearing-house institution.

The second form prepared under the committee's supervision was designed for use in conveying to it certain information for statistical purposes in respect of the amount, source of receipt, disposition, and cost of collection, as well as time consumed in collecting foreign items received by each individual institution during the month of May, 1912. A copy of this form was handed to each member's representative at the time he appeared before the committee, with a careful explanation of its purpose and confidential nature.

The figures compiled from the data contained in these reports indicate that the gross income of the members of the clearing-house association from collection exchange during the year 1911 was—

Collection exchange during 1911		$2,139,551.00
Exchange cost	$1,176,162.00	
Proportionate share postage, rent, stationery, and salaries for 1911	569,461.78	
Estimated loss of interest on interest-bearing accounts where immediate credit is given for foreign checks, based upon figures submitted by eight of the largest institutions in the clearing house	296,460.00	
		2,042,083.78
New income		97,467.22

It should be borne in mind that this net income is the result of handling a volume of business, based on the figures gathered for the year 1911, of, approximately, $4,859,187,900, and when distributed between the 64 active members of the clearing-house association represents an annual increment of income to each of only about $1,500.

The figures gathered by your committee for the month of May, 1912, show: Daily average of foreign checks received, $16,284,346.

As to discretionary and charge points this volume was distributed as follows:

Discretionary points	$11,404,363
One-tenth points	3,938,198
One-fourth points	865,785

It will be observed from these figures that of our daily volume of out-of-town business for May, 1912, 71 per cent was on the discretionary points, 24 per cent was on the one-tenth points, and only 5 per cent was on the one-fourth points.

The daily average amount of cash items outstanding during the same period was $68,215,328, indicating that the average time consumed in the collection of our country checks was 4.19 days.

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Your committee also procured from the members of the clearing-house association the data with reference to the average daily outstandings of cash items during the year 1911, which amounted to $67,866,658. Considerable labor was involved to the banks in providing this information, but as a medium for comparison with the same figures for May, 1912, which, as previously stated, totaled $68,215,328, the committee was enabled to confirm its impressions that the month of May, upon which its principal figures were based, was an excellent average month.

The succeeding table shows the average daily amount, the average time consumed, and the average cost of collecting checks on the discretionary points, and also on a number of other more important nondiscretionary cities of the United States:

City.	Average.		
	Amount.	Days.	Cost.
Philadelphia	$4,174,177	3.514	2 banks, $0.340 per M (49 par, 13 not reporting).
Boston	2,874,831	3.523	4 banks, $0.069 per M (47 par, 13 not reporting).
Baltimore	958,796	3.243	21 banks, $0.36 per M (28 par, 15 not reporting).
Newark	943,321	4.047	1 bank, $0.29 per M (48 par, 15 not reporting).
Albany	889,410	4.117	2 banks, $0.208 per M (47 par, 15 not reporting).
Providence	351,282	4.188	3 banks, $0.156 per M (46 par, 15 not reporting).
Troy	110,280	3.935	5 banks, $0.363 per M (39 par, 20 not reporting).
Jersey City	370,781	3.657	2 banks, $0.18 per M (46 par, 16 not reporting).
Hoboken	134,240	3.63	1 bank, $0.01 per M (46 par, 17 not reporting).
New York	1,068,025	3.885	No cost (42 par, 22 not reporting).
Greater New York	847,883	4.053	2 banks, $0.107 per M (40 par, 22 not reporting).
Chicago	417,320	4.739	34 banks, $0.54 per M (13 par, 17 not reporting).
Pittsburgh	132,797	3.95	24 banks, $0.768 per M (22 par, 18 not reporting).
Cleveland	135,622	4.341	37 banks, $0.618 per M (9 par, 18 not reporting).
St. Louis	109,470	4.787	38 banks, $0.788 per M (8 par, 18 not reporting).
Buffalo	96,850	4.143	20 banks, $0.616 per M (23 par, 21 not reporting).
Cincinnati	79,588	4.178	41 banks, $0.631 per M (6 par, 17 not reporting).
Washington	71,374	2.95	37 banks, $0.60 per M (9 par, 18 not reporting).
Hartford	57,872	4.705	15 banks, $0.62 per M (32 par, 17 not reporting).
Kansas City	42,719	5.31	38 banks, $0.91 per M (6 par, 20 not reporting).
Minneapolis	30,861	5.02	40 banks, $1.14 per M (5 par, 19 not reporting).
St. Paul	23,615	4.923	39 banks, $1.18 per M (5 par, 20 not reporting).
Atlanta	25,229	5.196	37 banks, $1.06 per M (6 par, 21 not reporting).
New Orleans	20,838	6.941	32 banks, $1.16 per M (12 par, 20 not reporting).
Omaha	19,309	5.787	39 banks, $1.11 per M (6 par, 19 not reporting).
Denver	19,786	6.47	41 banks, $1.15 per M (4 par, 19 not reporting).
Seattle	34,095	8.928	40 banks, $1.36 per M (4 par, 20 not reporting).
San Francisco	50,745	9.404	39 banks, $0.87 per M (6 par, 19 not reporting).
Los Angeles	27,967	8.937	40 banks, $1.10 per M (4 par, 20 not reporting).
One-tenth points	.....	4.177	44 banks, $0.609 per M (20 banks not reporting).
One-fourth points	.....	7.000	44 banks, $1.40 per M (1 par, 19 not reporting).

Subsequent to the appointment of this committee on inland exchange by the clearing-house committee of the New York Clearing House Association the bankers' association of New York, New Jersey, Connecticut, and Massachusetts took similar action. These committees in due course communicated to your committee their desire to discuss this subject fully with it. Their requests were gladly granted, and at appointed times your committee has had the pleasure of entertaining the representatives of each of these associations.

In view of the foregoing résumé of the scope and detail of the work of your committee and of the facts thus ascertained, and because your committee is convinced that the operation of the present rules and regulations of the New York Clearing House Association in respect of charge on inland exchange results in barely making good to the banks and trust companies making their exchanges through the clearing house their actual outlay in handling such business, including the amounts of exchange charged on or deducted from return remittances, without substantial return for the enormous volume of the business thus undertaken and its risks, your committee feels itself compelled, in the interest of the conservative business methods which are required in good banking, respectfully to recommend that the main body of the existing rules and regulations of the New York Clearing House Association regarding collections outside of the city of New York shall remain unchanged.

In the judgment of your committee, however, within certain restricted territories, and for reasons which are in each instance peculiar to the areas in-

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volved, the rules should be modified with advantage alike to ourselves and to the inland banks and business interests affected by them.

After a careful consideration of all the questions involved it furthermore respectfully recommends that all banks and trust companies in the States of Massachusetts, Rhode Island, Connecticut, New Jersey, and New York which will engage themselves in writing to the manager of the New York Clearing House over the signature of the president, cashier, or treasurer to remit to the members of the New York Clearing House Association at par in New York funds on the day of receipt the charge shall in all cases be discretionary with the collecting bank.

It is not proposed that the foregoing recommendations shall in any way disturb the relations now existing between our members and the banks located in the present discretionary cities.

In the opinion of your committee this proposed modification of the rule respecting discretionary places, so as to include the entire region mentioned, provided the local banks themselves in any community wish it, rather than extending the privilege to a few specially designated cities or towns in that territory, will, if adopted, do much toward relieving the irritation and dissatisfaction which have heretofore existed among many near-by banks not situated in a discretionary city. This proposal affords opportunity to the banks in each locality to determine for themselves and for their customers whether or not they wish to enjoy the benefits and share the burdens of a discretionary or free collection point.

All of which is respectfully submitted.

JAMES G. CANNON,
WALTER E. FREW,
JOSEPH T. TALBERT,
EDWARD TOWNSEND,
JOHN W. PLATTEN,
Committee on Inland Exchange.

The report will be considered by the clearing-house committee and its recommendation acted upon by the full membership at a meeting to be held in the clearing house on December 4 at 2 p. m.

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA.

RIGGS BUILDING,
Washington, D. C., October 18, 1913.

Hon. ROBERT L. OWEN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SENATOR OWEN: Pursuant to my promise I herewith submit for the record a complete tabulation of the referendum vote of this chamber upon the report of its committee on currency and banking relative to the Owen-Glass currency bill.

* * * * * * *

Very sincerely, yours,

ELLIOT F. GOODWIN, *Secretary.*

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REFERENDUM No. 4.

Statement of vote on the question of approval of the report of the standing committee on currency and banking of the Chamber of Commerce of the United States of America upon the Owen-Glass currency bill (S. 2639, H. R. 6454, Sixty-third Congress, first session).

[Question submitted Aug. 26, 1913; vote closed Oct. 10, 1913.]

Name of organization.	Report.		A.		B.		C.		D. a and c.		D. b.		E.		F.		G.	
	Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.	
	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.
Arizona:																		
Phoenix, Board of Trade	3		3		3		3		3		3		3		3		3	
Arkansas:																		
Little Rock, Chamber of Commerce				4		4		4	4		4			4		4	4	
Pine Bluff, Chamber of Commerce		2		2		2		2		2		2		2		2		2
Texarkana, Board of Trade		1		1		1		1		1		1		1		1		1
California:																		
Los Angeles, Chamber of Commerce				10		10	10		10		10			10	10		10	
San Diego, Chamber of Commerce	7			7		7	7		7		7		7		7		7	
Connecticut:																		
Derby, State Business Men's Association of Connecticut	1		1		1		1		1		1		1		1		1	
Hartford, Chamber of Commerce	1		1		1		1		1		1		1		1		1	
Delaware:																		
Wilmington, Chamber of Commerce	2		2		2		2		2		2		2		2		2	
District of Columbia:																		
Washington, Chamber of Commerce			3			3	3		3			3		3	3		3	
Illinois:																		
Alton, Board of Trade	2		2		2		2		2		2		2		2		2	
Champaign, Chamber of Commerce	2		2		2			2	2			2	2		2		2	
Chicago—																		
Association of Commerce	10		10		10		10		10			10	10		10		10	
Board of Trade	9		9		9		9		9		9		9		9		9	
Bureau of Barley & Malt Statistics	1		1		1		1		1		1		1		1		1	
Central Supply Association	1		1		1		1		1		1		1		1		1	
Garment Manufacturers' Association	1		1		1		1		1		1		1		1		1	

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REFERENDUM No. 4—Continued.

Statement of vote on the question of approval of the report of the standing committee on currency and banking of the Chamber of Commerce of the United States of America upon the Owen-Glass Currency bill (S. 2639, H. R. 6454, Sixty-third Congress, first session)—Continued.

Name of organization.	Report.		A.		B.		C.		D.				E.		F.		G.	
									a and c.		b.							
	Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.	
	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.
Massachusetts:																		
Boston—																		
Chamber of Commerce	10		10		10			10	10		10			10	10		10	
New England Shoe & Leather Association				2		2		2	2		2		2		2		2	
Everett, Board of Trade	2		2		2		2		2		2		2		2		2	
Fall River, Chamber of Commerce				3		3		3	3		3		3			3	3	
Farmingham, Board of Trade	2			2	2		2		2		2		2		2		2	
Malden, Board of Trade	2		2		2		2		2		2		2		2		2	
New Bedford, Board of Trade		1		1		1		1		1		1		1		1		1
Springfield, Board of Trade	5		5		5		5		5		5		5		5		5	
Worcester—																		
Board of Trade				5		5	5		5		5		5		5		5	
New England Builders' Supply Association	1		1		1		1		1		1		1		1		1	
Minnesota:																		
Duluth—																		
Board of Trade				1		1		1	1			1	1			1	1	
Commercial Club				6	6		6		6		6		6			6	6	
Minneapolis—																		
Chamber of Cmomerce	3		3		3		3		3		3		3		3		3	
Civic and Commerce Association	10		10		10		10		10		10		10		10		10	
Minneapolis, Federation of Commercial Clubs	1		1				1						1		1		1	
St. Paul, Association of Commerce	5		5		5		5		5		5		5		5		5	
Winona, Association of Commerce (Inc.)	4		4		4		4		4		4		4		4		4	

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Mississippi:																
Greenwood, Business League	1		1		1		1		1		1		1		1	
Missouri:																
Kansas City, Southwestern Interstate Coal Operators' Association	1		1		1		1		1		1		1		1	
St. Louis—																
Merchants' Exchange	6		6		6		6		6		6		6		6	
National Leather & Shoe Finders' Association	2		2		2		2		2		2		2		2	
Montana:																
Fromberg, Commercial Club	1		1		1		1		1		1		1		1	
New Jersey:																
Passaic, Board of Trade	2		2		2		2		2		2		2		2	
Plainfield, Chamber of Commerce	1		1		1		1		1		1		1		1	
Rahway, Board of Trade	1		1		1		1		1		1		1		1	
Trenton, Chamber of Commerce	2		2		2		2		2		2		2		2	
New York:																
Buffalo, Chamber of Commerce	10		10		10		10		10		10		10		0	
Canajoharie, Board of Trade		1		1		1		1		1		1		1		1
New Rochelle, Merchants' Exchange	1		1		1		1		1		1		1		1	
New York—																
American Hardware Manufacturers' Association			2		2		2		2		2		2		2	2
American Paper & Pulp Association		2		2		2		2		2		2		2		2
Eastern Supply Association	1		1		1		1		1		1		1		1	
Merchants' Association	10		10		10		10		10		10		10		10	
National Association of Manufacturers	10		10		10		10		10		10		10		10	
National Paint, Oil & Varnish Association	4		4		4		4		4		4		4		4	
National Wholesale Lumber Dealers' Association	2		2		2		2		2		2		2		2	
Natural Ice Association of America		2		2	2			2	2		2			2		2
Railway Business Association	2		2		2		2		2		2		2		2	
United States Brewers' Association			4		4			4	4		4			4		4
United States Trade Mark Association	3		3		3		3		3		3		3		3	
Poughkeepsie, Chamber of Commerce	3		3		3		3		3		3		3		3	
Rochester, National Boot & Shoe Manufacturers' Association of United States	1		1		1		1		1		1		1		1	
Syracuse, Chamber of Commerce			5		5		5		5				5		5	
Utica, Knit Goods Manufacturers' Association			1		1			1	1		1		1		1	
North Carolina:																
Washington, Chamber of Commerce			1		1		1						1		1	
North Dakota:																
Devils Lake, Commercial Club	1		1		1		1		1		1		1		1	
Fargo, Commercial Club				2	2			2	2		2		2		2	
Grand Forks, Commercial Club	3		3		3		3		3		3		3		3	
Ohio:																
Cincinnati, Chamber of Commerce and Merchants' Exchange	10		10		10		10		10		10		10		10	

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REFERENDUM No. 4—Continued.

Statement of vote on the question of approval of the report of the standing committee on currency and banking of the Chamber of Commerce of the United States of America upon the Owen-Glass Currency bill (S. 2639, H. R. 6454, Sixty-third Congress, first session)—Continued.

Name of organization.	Report.		A.		B.		C.		D. a and c.		D. b.		E.		F.		G.	
	Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.		Number of votes.	
	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.	In favor.	Opposed.
Ohio—Continued.																		
Cleveland—																		
National Cloak, Suit & Skirt Manufacturers' Association	1		1		1		1		1		1		1		1		1	
National Machine Tool Builders' Association	1		1		1		1		1		1		1		1		1	
National Petroleum Association	1		1		1		1		1		1		1		1		1	
Hamilton, Chamber of Commerce	3		3		3		3		3		3		3		3		3	
Lima, Progressive Association	1		1		1		1		1		1		1		1		1	
Steubenville, Chamber of Commerce	2		2		2		2		2		2			2	2		2	
Toledo, Commerce Club			8		8			8	8		8		8		8		8	
Oklahoma:																		
Muskogee, Commercial Club			3		3		3			3		3	3		3		3	
Oregon:																		
Portland, Chamber of Commerce	5		5		5		5		5		5		5		5		5	
Pennsylvania:																		
Beaver Falls—																		
Manufacturers' Association of Beaver County	1		1		1		1		1		1		1		1		1	
Tile Manufacturers' Credit Association	1		1		1		1		1		1		1		1		1	
Philadelphia, National Manufacturers of Soda Water Flavors			1			1	1			1		1	1		1			1
Pittsburgh—																		
American Warehousemen's Association	1		1		1		1		1		1		1		1		1	
Chamber of Commerce				6		6		6	6		6		6		6		6	

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National Pipe & Supplies Association	1		1		1		1		1		1		1		1		1	
Oakland Board of Trade	1			1		1		1	1		1		1		1		1	
York, Chamber of Commerce	2		2		2		2		2		2		2		2		2	
Porto Rico:																		
Ponce, National Coffee Growers' Association	6		6		6			6	6		6		6		6		6	
San Juan, Porto Rico Association	1		1		1		1		1		1		1		1		1	
South Carolina:																		
Charleston, Chamber of Commerce			3		3			3	3		3		3			3	3	
Tennessee:																		
Chattanooga, Manufacturers' Association			2		2		2		2		2			2		2		
Texas:																		
Beaumont, Chamber of Commerce	2		2		2		2		2		2		2		2		2	
Houston, Chamber of Commerce	6		6		6		6		6		6		6		6		6	
Paris, Board of Trade	1		1		1		1		1		1		1		1		1	
Virginia:																		
Alexandria, Chamber of Commerce	1		1		1		1		1		1		1		1			1
Norfolk, North Carolina Pine Association	1		1		1			1	1		1		1		1		1	
Washington:																		
Seattle, New Seattle Chamber of Commerce	7		7		7		7		7		7		7		7		7	
Tacoma, West Coast Lumber Manufacturers' Association	1		1		1		1		1		1		1		1		1	
Wisconsin:																		
La Crosse, Board of Trade	2		2		2		2		2		2		2		2		2	
Manitowoc, Citizens' Association	1		1		1		1		1		1		1		1		1	
Milwaukee—																		
Chamber of Commerce	3		3		3		3		3		3		3		3		3	
Merchants & Manufacturers' Association	6		6		6		6		6		6		6		6		6	
Wisconsin Manufacturers' Association	3		3		3		3		3		3		3		3		3	
Superior, Commercial Club	3		3		3		3		3		3		3		3		3	
France:																		
Paris, American Chamber of Commerce	2		2		2		2		2		2		2		2		2	
Total	303	17	346	70	333	82	343	73	397	17	378	31	367	48	378	38	390	23

(Thereupon, at 5.42 o'clock p. m., the committee adjourned to meet to-morrow, Wednesday, October 22, 1913, at 10.30 o'clock a. m.)

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WEDNESDAY, OCTOBER 22, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.40 o'clock a. m.

Present: Senators O'Gorman (presiding), Hitchcock, Reed, Hollis, McLean, Nelson, Bristow, and Weeks.

Senator O'GORMAN. Mr. Gilbert, you may resume where you left off last night.

STATEMENT OF ALEXANDER GILBERT—Resumed.

Mr. GILBERT. The only part of my testimony which was not complete was that which dealt with the relations of the clearing house with four banks which afterwards went into liquidation. I did not yesterday feel that I could state clearly and definitely the dealings of the New York Clearing House with those banks, because the dates of the different borrowings with relation to the outbreak of the panic had escaped my mind entirely.

Senator HOLLIS. What year was that, please?

Mr. GILBERT. That was in 1907. After I got back to my hotel last evening I looked over my papers, and I found some memoranda there which refreshed my mind, so I got the thing pretty clearly in my mind.

By the by, before I go ahead with this I would like to correct my testimony of yesterday. I was asked when I was elected president of the clearing house, and I stated October, 1907. That was true, but I had first been elected president of the clearing house October, 1906, so that during the years 1906 and 1907 and until October, 1908, I was president of the clearing house, which covered the entire period of the panic and one year previous. That enables me to say this, that during the years 1906 and 1907, from October, 1906, to October, 1907, before the outbreak of the panic, there were four banks which were being very closely watched by the clearing-house committee.

Senator O'GORMAN. You mean they were suspects?

Mr. GILBERT. They were suspects.

Senator WEEKS. Were they members of the clearing-house association?

Mr. GILBERT. They were members of the clearing-house association.

Senator NELSON. Have you any objection to giving their names?

Mr. GILBERT. None whatever. They were the Mercantile, the Bank of North America, the Mechanics & Traders, and the Oriental.

Senator NELSON. Those were all banks—not trust companies.

Mr. GILBERT. They were banks.

Senator O'GORMAN. All Federal banks?

Mr. GILBERT. No; the Mercantile was a national bank; the Oriental and the Mechanics & Traders were State banks; and the Bank of North America, I think, was a national bank—the National Bank of North America—yes. Two national banks and two State banks.

Senator O'GORMAN. Will you state, briefly, why they were under suspicion?

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Mr. GILBERT. The Mercantile Bank was under the Heinze influence. Heinze had obtained a control of the stock and elected himself president, and of course the bankers in the clearing house were very familiar with Heinze's operations, and they knew pretty well what kind of a banking administration he would be likely to give the Mercantile Bank.

The Bank of North America was under the Morse influence, and Morse was in various operations which made him one of the suspects. The Mechanics' & Traders' Bank had been captured by a man named Sullivan, who owned a chain of banks in Brooklyn under the leadership of the Union Bank in Brooklyn. He had, I think, 20 or 22 branch banks in Brooklyn, and he had acquired control of the Mechanics' & Traders' Bank, because the Mechanics' & Traders' Bank was a clearing-house bank in New York, and he wanted to get a direct connection with the clearing house, and Sullivan became a suspect.

Senator O'GORMAN. Is he in prison now?

Mr. GILBERT. Yes; he is in prison now.

Senator O'GORMAN. He was afterwards indicted.

Senator NELSON. And imprisoned?

Mr. GILBERT. He is in prison now; yes. The Oriental Bank had a change of management. I think it was a southern representation that got control of the Oriental Bank, and from a number of their practices which the clearing house became cognizant of they thought it their duty to watch the Oriental, although the Oriental had had a long and honorable record.

Senator O'GORMAN. It subsequently liquidated and paid everybody.

Mr. GILBERT. Yes; I think it did.

Senator O'GORMAN. I was a judge in New York at the time, and there were certain proceedings that came before me affecting that bank, and I know they liquidated and paid everybody.

Mr. GILBERT. Yes; I think you are right. Three or four days before the outbreak of the panic these small banks—one or all of them—applied to the clearing house for help. That is, before the outbreak of the panic.

Senator NELSON. Applied to the clearing house for help?

Mr. GILBERT. Yes. And the clearing house at that time, when they applied, had not issued clearing-house certificates. Please take note of this; I want to emphasize this to show you that there was no desire on the part of any member of the clearing house or the administration of the clearing house to crush any of these banks, because as soon as they applied for help, although we had not issued clearing-house certificates, we formed a syndicate among ourselves to advance them the money they wanted.

Senator HOLLIS. Was that not partly, at least, a measure of self-protection?

Mr. GILBERT. Certainly.

Senator HOLLIS. Because as soon as you get a hole through a dam the whole dam is apt to go.

Mr. GILBERT. Certainly. We wanted to save the situation, and we simply said to the members who were gathered around the advisory board of the clearing-house committee: "How much will you lend

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this bank?" "How much will you?" "How much will you?" to each of the members present, and we contributed to it and raised a fund to help these banks before we knew we were going to issue clearing-house certificates. I mention that to show you the banks appreciated the situation, and there was no desire on the part of any member to crush out any other bank because of competition. We wanted to save the situation.

Senator O'GORMAN. You looked on the management of those small banks with distrust?

Mr. GILBERT. We did, and yet we wanted to help them. We wanted to sustain them if we could.

Senator NELSON. When you started to help them what then took place?

Mr. GILBERT. Let me read here, which is evidently a statement by some member of the clearing house, because it details very correctly the situation. It is headed, "A Tale of Two Banks." It was published in the Boston Transcript.

Senator O'GORMAN. If you have no objections, Mr. Gilbert, we will have the stenographer place that in the report.

Mr. GILBERT. I will not read it all, but let me read first the case of the Mechanics & Traders Bank.

Senator NELSON. That is the Heinze bank?

Mr. GILBERT. No; the Sullivan bank. I stated yesterday in my testimony, so far as the Mercantile Bank was concerned, after they applied for help we made an examination of the Mercantile Bank and that resulted in the Sunday morning interview and our asking the resignation of the officers and directors so that a new administration could take charge and continue the bank. The Mercantile Bank was assisted promptly and they worked out all right and Mr. Morse and his influence resigned from the bank, and we eliminated that influence, which was a very good piece of work so far as the Mercantile was concerned, because the Mercantile was shortly relieved of its troubles and put on its feet and worked out splendidly.

Senator WEEKS. Mr. Morse was not an officer in the Mercantile, was he?

Mr. GILBERT. No; he was one of the directors, but Heinze was the president.

Senator WEEKS. Are you quite sure about that? My recollection was the same as Senator O'Gorman's that Mr. O'Brien was the president. Are you sure of that?

Mr. GILBERT. No; Mr. Heinze was president.

Senator O'GORMAN. He may have been the vice president.

Mr. GILBERT. That is right.

Senator O'GORMAN. He had had a long Mercantile career and association in the house of John Claflin. I think he had been invited to go into the banking business by Mr. Morse perhaps five, six, or seven years before the failure.

Mr. GILBERT. Yes; I think you are right about that. Now, with regard to the Mechanics & Traders, between October 18 and 25 the banks of the clearing house made cash loans to the Mechanics & Traders Bank of $2,220,000. This was converted into clearing house loan certificates October 26, 1907. As soon as the clearing house issued the clearing-house certificates then the loans which had been

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made to the bank by various other member banks were retired and the clearing-house certificates took their place. These loans were made on the assurances of Chief Examiner M. W. Hutchins of the State banking department that the bank was solvent. The aggregate issue amounted to $4,520,000.

Senator WEEKS. To that bank?

Mr. GILBERT. To that bank.

Senator NELSON. Clearing-house certificates?

Mr. GILBERT. Clearing-house certificates.

Senator WEEKS. What was the capital of that bank?

Mr. GILBERT. I think the capital of the Mechanics & Traders was $2,000,000.

Senator WEEKS. And how much in deposits did they have?

Mr. GILBERT. Well, it was not a large bank. The deposits were not, I think, over $10,000,000 to $15,000,000.

Senator WEEKS. Then, in all probability their loans were not smaller than, say, seven or eight millions?

Mr. GILBERT. Probably not. Of course, I have not the definite data before me and I could not speak intelligently.

Senator WEEKS. In other words, they must have taken out clearing-house certificates equal to about half of their loans?

Mr. GILBERT. I think they took out pretty nearly as much as they had negotiable assets to borrow upon; that is, good liquid assets to borrow upon. That was my impression. The aggregate issue amounted to $4,520,000, and these were outstanding 137 days. That is nearly five months.

January 30, 1908, this bank was placed in the hands of the superintendent of the State banking department. The charge was made and reiterated before the Pujo committee that had the clearing-house loan committee extended credit the bank would have been saved. The inference intended was, of course, that credit could and should have been extended, and that if it was not, the reason was that two representatives of the Corn Exchange Bank, who also were members of the clearing-house committee, had used their influence to put a competitor out of business. That was the statement made to the committee.

Senator NELSON. The Pujo committee?

Mr. GILBERT. It is true that the clearing-house committee demanded more and a different kind of collateral from the Mechanics & Traders Bank, and that when this was not forthcoming it refused to extend credit. The collateral back of the loans had a face value of some $6,373,000, but before the receivers of the Mechanics & Traders Bank paid off the balance due the clearing house, $2,100,000, the committee had begun to collect $3,447,000 of the collateral and had received $1,000,000 in cash; the balance went to protest. The point is that the result of the attempt to collect on the collateral clearly demonstrated that the loan committee of the clearing house exercised good judgment in confining their advances to the proportion they did. This bank had from October 26, 1907, to January 30, 1908, to adjust its affairs. It wanted more money, but at no time could offer acceptable collateral in addition.

The point was made by Mr. Untermyer, in questioning witnesses before the Pujo committee, that the Metropolitan Bank of New York

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had taken over the Mechanics & Traders and paid off all its depositors in full, thus, according to the intimations of Mr. Untermyer, confuting the judgment of the clearing-house committee that the bank was in danger when further loans were refused.

But the testimony was not permitted to go far enough to tell all the facts in the case. It is true that the Metropolitan took over the New York branches of the Mechanics & Traders and paid off the depositors, but it is also true that the bank was allowed to reopen by the State banking department on the deferred-payment plan under the title of the Union Bank of Brooklyn.

Senator O'GORMAN. Would you prefer to read it all?

Mr. GILBERT. Yes; I would like to have this go on the record.

Senator O'GORMAN. The only reason that justifies my making this suggestion is that there are two witnesses who were here yesterday, and they were promised a hearing this morning.

Senator HOLLIS. I do not see the exact bearing of this.

Senator O'GORMAN. It was in answer to some inquiries made last night, particularly by Senator Reed, who is not here to get the benefit of it, as to how the panic of 1907 began in New York.

Mr. GILBERT. I am exceedingly anxious that the Senator should understand this, because the New York banks have been placed in a wrong position in regard to this.

(At this point Senator Reed entered the room.)

Senator O'GORMAN. Senator, Mr. Gilbert is giving at some length an explanation as to the panic of 1907.

Mr. GILBERT. As I was saying, the Mechanics & Traders' was permitted to reopen and go into business again under the title of the Union Bank of Brooklyn. After Sullivan, who was at the head of the Union Bank of Brooklyn, got control of the Mechanics & Traders, and when the Mechanics & Traders' went out of existence he simply got permission to go ahead under his old banking affiliations in Brooklyn. I was just referring to the failure of the Mechanics & Traders' Bank, because the statement was made that because of the refusal of the clearing-house committee in New York to extend it additional credit, it was compelled to go to the wall, whereas if credit had been extended it could have been saved. That is all in the record now, and I will go on.

The testimony was not permitted to go far enough to tell all the facts in the case. It is true that the Metropolitan took over the New York branches of the Mechanics & Traders' and paid off the depositors, but it is also true that the bank was allowed to reopen by the State banking department, on the deferred-payment plan, under the title of the Union Bank of Brooklyn. This occurred in October, 1908. This Union Bank, successor to the Mechanics & Traders', closed its doors April 4, 1910, and up to date it has not paid one cent to its depositors.

The books showed that a large portion of the unliquidated assets of the Union Bank were in the Mechanics & Traders' Bank when that bank closed January 30, 1908. In other words, the Union Bank allowed deposits of money to be used to pay off all deposits. Now, the probabilities are said to be that after a long wait the Union Bank depositors will receive dividends not to exceed 50 per cent. The former president of the Mechanics & Traders', David J. Sullivan,

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and W. C. Damron, a director of the same bank, are serving terms in the State prison for offenses growing out of the situation described.

Senator O'GORMAN. Who is the director?

Mr. GILBERT. William C. Damron, a director.

Senator O'GORMAN. A Brooklyn banker?

Mr. GILBERT. Yes. Now, that, it seems to me, ought to pretty fully clear up the situation, as far as the Mechanics & Traders' Bank is concerned.

Senator O'GORMAN. When did the Carnegie Trust Co. go under? That is more recent?

Mr. GILBERT It is more recent; yes.

Senator REED. So the sum of it then was that this bank was actually in an insolvent condition?

Mr. GILBERT. To state it briefly, the bank borrowed money before the clearing house commenced to issue clearing-house certificates.

Senator NELSON. It borrowed of the clearing-house members.

Mr. GILBERT. Yes; they borrowed of the clearing-house members, and after the clearing-house certificates were issued they paid off those loans with the clearing-house certificates, and the clearing house loaned them up to the extent of four or five millions of dollars, which was all they had collateral to offer for, and when they wanted more the clearing house refused to give it to them.

Senator REED. As I say, the sum of it all is that the clearing house supported them to the full extent of their good assets, and the bank was actually insolvent, and the clearing house, having gone to the point where it could go no further without danger of losing, stopped advancing money?

Mr. GILBERT. That is it, exactly.

Senator WEEKS. Now, Mr. Gilbert, the real point at issue, I think, in all this controversy is whether the New York Clearing House is preventing banks coming into the clearing house on account of a desire to prevent them from developing into active competitors, or whether it is using its strength and power to destroy banks that it wants to get rid of because they were competitors. When you boil all this controversy down about the New York Clearing House I think it is covered in that statement. You have had long experience with the clearing house, and I think if you will state to the committee whether within your knowledge there has been any case where a bank has been refused membership in it or has been forced out, if it were solvent and serving the public, I believe you will cover the whole question.

Mr. GILBERT. Well, of course, Mr. Weeks, you, as a member of banking interests in Boston, know that the clearing house has its rules and regulations with regard to the qualifications for membership, etc. A bank to enter the New York Clearing House must have a capital of $500,000 and a reasonable surplus; and before being admitted to membership they are examined very carefully—very rigidly, I will say—with reference to their methods of doing business, the character of their assets, and their banking habits. I never have known of any disposition on the part of members of the clearing house to force out or to deny membership to any bank that was worthy of membership. As an illustration of that—well, I will let

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the statement stand there. I have never seen any disposition whatever on the part of the membership of the New York Clearing House to bar from membership any bank that was really eligible for membership; and any bank that is not eligible for membership really has the facilities of the clearing house through its ability to make negotiations with member banks to clear for them.

Senator O'GORMAN. Have you ever known a case where business rivalry or jealousy has been sufficient to keep out a bank that wanted to come in the clearing house?

Mr. GILBERT. I never have known a single case, Senator; I can not recall a single case.

Senator O'GORMAN. Whatever may have been said with regard to the banking interests of New York toward Mr. Morse and Mr. Heinze and their banking activities, the objection of the clearing house to them was due to their methods rather than any other cause.

Mr. GILBERT. Entirely.

Senator O'GORMAN. I think that covers that situation. Is there any other question?

Senator HITCHCOCK. I did not have the pleasure of hearing Mr. Gilbert yesterday afternoon, and I would like to ask a few questions. Suppose, Mr. Gilbert, under this new system, when it is in vogue——

Senator O'GORMAN (interposing). Do you know who the writer of the article is?

Mr. GILBERT. I do not.

Senator O'GORMAN. But it correctly states the facts?

Mr. GILBERT. It correctly states the facts as I know them.

(The article referred to by Mr. Gilbert will be found at the conclusion of his statement.)

Senator HITCHCOCK. I wanted to propose a hypothetical condition to Mr. Gilbert and see what course would be adopted. If this new system were in practice which is proposed in this bill, suppose there should follow a condition when there should be a considerable deficit in our national revenues. Suppose that should be accompanied, as it might be and has been in the past, by a condition of fear in the business world, and railroads going into the hands of receivers, and a considerable exportation of gold, and such a stringency in the banking world as to produce runs on the banks of the country or some of the banks here and there, with possibly an occasional bank failure, say, of a bank not in the system. What method would then be adopted by the board of control to check such a condition or the conditions that would arise under those circumstances?

Mr. GILBERT. That would be a very serious situation. It is really, I think, an extreme case. I think it would tax the regional banks to their utmost. Their discounting facilities would have to be exercised to their fullest extent and the issue of bank notes would have to be permitted up to the fullest extent of its reserve.

Senator HITCHCOCK. Now, then, suppose they made a great issue of national currency under those circumstances. Would not that intensify the exportation of gold?

Mr. GILBERT. It probably would, if they had to go beyond their gold-reserve limit. If they could keep up their gold reserve, if they could keep it from going below 33⅓ per cent, it might not have that effect.

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Senator HITCHCOCK. Would it not be very hard to maintain the gold reserve while there was a constant demand for more currency?

Mr. GILBERT. I think it would.

Senator HITCHCOCK. And the more the currency expanded the more easily it would flow abroad?

Mr. GILBERT. I think it would.

Senator O'GORMAN. Do you know of any way, under those conditions, to discourage or prevent the exportation of gold? Could it be stopped?

Mr. GILBERT. In the panic of 1907, when currency had been hoarded and a premium of 4 or 5 per cent existed on currency, the banks imported gold, but they were only able to import gold through the issuance of clearing-house certificates. You say, How did they do it through the issuance of clearing-house certificates? We could use our clearing-house certificates for the settlement of our balances in the clearing house. We could arrange through our large foreign-exchange houses to import gold for us. We were paying them for currency and a premium for doing it, but we were paying them in our checks, which were settled in the New York Clearing House, and our balances in the New York Clearing House were settled, not with money but with our clearing-house certificates. So we could buy gold or we could import gold from abroad so long as there were foreign-exchange balances abroad to draw against.

Senator O'GORMAN. Would not the conditions that would permit you to import gold also permit you to retain the gold in this country?

Mr. GILBERT. That would depend largely upon the condition of the exchange market.

Senator O'GORMAN. In that connection, I want to make this observation. It has been suggested here at some time during these hearings that we could control the gold in our own country, or discourage its export, by placing a tax on the exportation of gold. What would be the effect of such a practice? Would it discourage the importation of gold?

Mr. GILBERT. I think it would have a disastrous effect on foreign trade as well as gold imports.

Senator O'GORMAN. You think it would?

Mr. GILBERT. I think it would. I think it would be difficult to prevent by tax the outflow of gold.

Senator REED. It would be a danger signal——

Mr. GILBERT (interposing). A dangerous thing to do; it would be an interference with the natural laws of trade.

Senator REED. What do you actually pay for this gold? Say you want $10,000,000 of gold from Europe. Of course, you have to pay for it. What do you pay for it? What do you pay for it with? Bills of exchange or what?

Mr. GILBERT. If we want $100,000,000 of gold from Europe we have to buy foreign exchange; we have to arrange with a foreign exchange house to import the gold for us.

Senator REED. How do you pay that foreign exchange house?

Mr. GILBERT. We pay the foreign exchange house in New York that imports the gold in check drawn against funds here which covers the gold, with interest, shipping charges, and commission added. The balances abroad accumulate just in proportion to the volume of

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our export commodities more or less. If we have a balance abroad we can buy exchange just as we can buy any other commodity.

Senator REED. I was assuming that the balance of trade was against us, and, of course, there would be a balance abroad then, but it would probably be small——

Mr. GILBERT (interposing). Then your balances must be constituted in some other way, either through borrowings abroad, or finance bills——

Senator REED (interposing). What do you include in finance bills in this sense?

Mr. GILBERT. Well, if a bank wants to borrow a half million dollars abroad for immediate use it would, through a foreign exchange house, sell foreign exchange.

Senator O'GORMAN. Where will it get the foreign exchange; will they get it in the market in the first place?

Mr. GILBERT. No; it will create foreign exchange by drawing on a foreign bank or banking house through its agent in New York and depositing securities with the New York agent. This draft is indorsed by the New York agent and forwarded to the foreign bank or banker for acceptance. When accepted it becomes a prime bankers' bill, eligible for rediscount or sale in the open market abroad. These drafts are generally drawn for 60 or 90 days and are cashed by the New York agent at the prevailing market price of exchange, less the agent's commission. When due they are payable in sight exchange. This is the modus operandi of borrowing on finance bills.

Senator REED. Just to get that down in A, B, C style, if your bank wanted $5,000,000 of gold you would first try to ascertain whether there were balances over there that some of your correspondents or people you were in relations with could draw against?

Mr. GILBERT. If we wanted the gold, we would have to import it through a foreign exchange house, either by negotiating a loan and depositing securities against it or by paying cash for it in New York or by buying foreign exchange and using it abroad. If we wanted money for immediate use, we could arrange to sell foreign exchange in this market, as I have already explained.

Senator O'GORMAN. To sell or to buy?

Mr. GILBERT. To sell. They practically sell it in this market and give us the proceeds.

Senator REED. You would then make a draft upon whom?

Mr. GILBERT. Upon the foreign exchange house with which we were dealing.

Senator REED. And this local exchange house would indorse the draft?

Mr. GILBERT. Yes; and we put up the securities.

Senator REED. And you would put up bonds and stock, etc.?

Mr. GILBERT. Or commercial paper—any acceptable security.

Senator REED. Then, that draft having been indorsed in this way, it would be sent over to the agent of this foreign exchange house in London and he would take that draft to a bank or capitalist and sell it?

Mr. GILBERT. It would practically be sold in this market. They would buy it themselves, and they would give us the cash, and then they would send it to their agent for acceptance. If he wants to

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hold it until it matures, well and good; but if he wants money over there, it is eligible for rediscount.

Senator REED (interposing). They give you the gold?

Mr. GILBERT. Yes; if we should desire it.

Senator REED. Very well. I merely wanted to get the details of that method.

Senator O'GORMAN. Would you get the gold or the proceeds?

Mr. GILBERT. The draft, after it had been indorsed by our foreign exchange house—the one we were dealing with—would be practically sold in this market. That house might buy it themselves, and they would give us their check at once. We want the money at once. They sell that for us; we are selling it to them.

Senator O'GORMAN. Now, you get a check, for what?

Mr. GILBERT. A check on their bank for currency—clearing-house money.

Senator REED. How does that bring gold in?

Mr. GILBERT. They can arrange to give us the gold if we want it.

Senator REED (interposing). They send it abroad and they bring the gold in?

Mr. GILBERT. If they want it; yes.

Senator O'GORMAN. And adjust balances from time to time.

Mr. GILBERT. Yes.

Senator HITCHCOCK. Is it customary for the New York banks to keep balances in London?

Mr. GILBERT. Some of the larger banks do; those who deal largely in foreign exchange.

Senator O'GORMAN. Of course, if there are certain large banking institutions, like Mr. Morgan's firm, that have large foreign connections?

Mr. GILBERT. Oh, yes; and there are banks like the City Bank and the Bank of Commerce and others who deal largely in foreign exchange and have balances on the other side.

Senator HITCHCOCK. They keep those balances simply for the purpose of accommodating their customers who have remittances to make to London?

Mr. GILBERT. Why, yes; they keep those balances to draw against.

Senator HITCHCOCK. Just as a western bank would keep a balance in New York, because western men must have New York exchange.

Mr. GILBERT. Yes; exactly.

Senator HITCHCOCK. So the only way in which a man in New York can get exchange on London is by buying it of New York concerns?

Mr. GILBERT. That is it.

Senator HITCHCOCK. And that compels New York concerns to keep balances in London?

Mr. GILBERT. Yes.

Senator HITCHCOCK. Now, do London banks keep balances in New York?

Mr. GILBERT. Not to any great extent.

Senator HITCHCOCK. How do people in London, then, make their remittances to New York for grain and cotton and such goods as America sells?

Mr. GILBERT. They would do it by buying foreign exchange, through foreign exchange bankers.

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Senator HITCHCOCK. Then the London firm which sells them the exchange must have an account to draw against?

Mr. GILBERT. Of course.

Senator HITCHCOCK. So some of the London banks do keep balances in New York?

Mr. GILBERT. Of course. Suppose a merchant wants to settle a bill in New York. He goes to a foreign exchange banker there and buys a bill of exchange and sends it over here.

Senator HITCHCOCK. Well, a bill of exchange is simply an order on some one in New York, and that order can not be issued unless there is a credit there, can it?

Mr. GILBERT. Of course not.

Senator HITCHCOCK. So there must be balances kept in New York banks by European houses.

Senator O'GORMAN. They might not be balances; they might be credits.

Mr. GILBERT. There are always debits and credits on both sides. Foreign exchange houses are constantly buying and selling exchange and adjusting balances by the shipment of exchange or gold.

Senator HITCHCOCK. Is there anywhere anything like a report as to the extent to which those balances exist?

Mr. GILBERT. I do not know of any.

Senator HITCHCOCK. We have, for instance, complete knowledge of the credits in New York belonging to the West, and we have knowledge of the credits in Chicago belonging to the West, and we have not any figures at all to show to what extent the New York houses have credits in London.

Mr. GILBERT. You see, this whole question resolves itself into this: It depends entirely upon the volume of exports and imports. A merchant abroad wants to pay for the importation of goods from this side. A country that is not exporting to this country, of course, would have no balances here to draw against, and consequently a country that has very small export relations with this country would probably have to settle its balance through London and send us London exchange.

Senator HITCHCOCK. Partly because London is a great buyer.

Mr. GILBERT. Yes; London always has balances to draw against on this side. The ability of one country to maintain balances to draw against on this side depends entirely upon its export and import business.

Senator HITCHCOCK. I want to revert again to the question I asked you, based on a hypothetical condition. I understand you to say that if the country should be afflicted as I pictured, if we should have a considerable exportation of gold to Europe, possibly by some perfectly legitimate method; if we should have runs on banks and uneasiness in the banking world and should have a deficit in our national revenues so that the Government would be drawing its funds out of these reserve banks in order to meet that deficit; if United States notes were being presented at the Treasury for gold, and gold certificates were being presented at the Treasury to procure gold, and gold exportations were in progress, and the reserve banks were met by a large demand from their member banks for rediscounts, and in order to grant those rediscounts they were compelled to call upon the Treasury for additional paper currency; and if that

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additional paper currency were issued so that there would be an expansion of our currency, that very remedy would tend to intensify the exportation of gold?

Mr. GILBERT. It would tend to inflate things materially. So long as they demanded currency for their customers, of course they would have commercial paper to deposit with the Federal board agent for additional currency, but their gold reserve might be depleted; it might not be sufficient to maintain the volume they would have to carry. In that case they might have to borrow gold abroad. Frequently in a money panic England has to borrow of France, and they borrow on exchequer bonds or on commercial paper.

Senator HITCHCOCK. The difficulty about emitting an increased amount of paper currency is that it makes it easier for gold to leave the country, is it not?

Mr. GILBERT. Yes; that is the effect.

Senator HITCHCOCK. So the remedy they would be compelled to apply would really intensify one of the evils they were seeking to combat?

Mr. GILBERT. Yes; it would. The greater the volume of bank notes issued——

Senator NELSON (interposing). But could not the discount fever, as I call it—the eagerness for excessive discounts—be checked by raising the discount rate to such a figure that it would not be possible to discount? Would not that be a restraining influence?

Senator HITCHCOCK. Senator, perhaps you have a misconception. I am not basing this increased issue of currency upon the idea that people are asking for an unusually large amount of credit at the member banks. They are not. But the member banks are embarrassed by demands for deposits, and in order to satisfy those demands they take paper which they already have to the reserve banks, have it discounted, and get the currency.

Senator NELSON. But the depositors are the member banks.

Senator HITCHCOCK. Yes: but it is the individual men and women who are drawing this money out that creates a demand on the member banks for currency, and it is in order to settle the demand of the member banks for currency that the reserve banks are compelled to discount commercial paper. It is because commercial paper is being turned into currency.

Senator NELSON. But suppose the discount rates are high, it can not be profitable.

Senator HITCHCOCK. That does not make any difference. The bank that has a run on it, a withdrawal of funds that are being taken out to be put into stockings, can not benefit matters much by raising the rate. It must go to the reserve bank to get the relief.

Senator NELSON. But the reserve bank, in issuing currency——

Mr. GILBERT (interposing). Of course, that is a very extreme case, you know, and it is really a panicky condition that prevails.

Senator HITCHCOCK. That is what we want to provide against, and I am asking whether the remedy that is provided in such a case is really going to meet the situation.

Mr. GILBERT. When a panic prevails and is under full headway no ordinary safeguard can check it.

Senator O'GORMAN. It is like a fever; it must run its course.

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Mr. GILBERT. It must work itself out. It is like a disease in the system. You have lived at a riotous pace until you have disordered your system to such an extent you must have a fit of sickness before you can relieve yourself of that condition.

Senator REED. Are we to understand, then, that there is no way of preventing these panics?

Mr. GILBERT. There is a way of preventing panics, but I am speaking now with reference to the case that Senator Hitchcock stated.

Senator O'GORMAN. You wish to be understood, Mr. Gilbert, as saying that there is a way of preventing the conditions——

Mr. GILBERT (interposing). The conditions which lead up to panics.

Senator REED. But if we take such a case as that stated in Senator Hitchcock's hypothetical question, which, I think, really involves a panic, then you think there is a day of reckoning and there has got to be trouble and disaster, and how it will work out depends upon the particular conditions of each case?

Mr. GILBERT. That is very true.

Senator REED. Then, I understand, you think that with such a panicky condition given, neither this bill nor any other bill you can suggest would enable immediate relief to be given?

Mr. GILBERT. I do not know of any bill that would.

Senator REED. You do not think the issuance of this paper money, even in very large volume, would end the panic?

Mr. GILBERT. No; not after it got started. In 1907 the issuance of clearing-house certificates stopped the panic immediately, as far as credit was concerned. It made it possible for the banks to accommodate their dealers and give them what they required for legitimate business purposes. Of course, no bank wanted to take out clearing-house certificates to a greater extent than was necessary, but they were all willing to take out a volume sufficient to accommodate the customers for their legitimate requirements. Before the issuance of clearing-house certificates, when a merchant went to his bank and said, "I want $10,000 or $15,000 to meet my immediate obligations," the bank was compelled to say, "Now, you will have to go very easy with us, for we are below our reserve and we can not increase our loans and discounts." But after the banks had decided to issue clearing-house certificates the banks could hypothecate their securities and obtain clearing-house certificates, and then they could extend to their customers accommodations for their legitimate requirements. The trouble was this—that there was a hoarding of currency. Currency, of course, is needed for certain things—for the payment of wages, for all our retail business operations, and for other things—and our manufacturers and those who required currency wanted currency, and they wanted gold to make their customhouse payments; but the hoarding of currency locked up not only the paper money but gold, and it was difficult to get that.

I came to Washington at that time. Senator Weeks probably remembers, because I went before his committee, and I suggested that they make an amendment to the banking act which would permit the New York banks, or the central reserve city banks, to deposit the clearing-house certificates with the controller and take out currency against those instead of being required to furnish United States

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bonds—that the term "other securities" would embrace clearing-house certificates. Do you remember?

Senator WEEKS. I think I do.

Mr. GILBERT. Now, if we could have been granted that facility at that time we could have broken the premium on currency in 10 days, because the very moment we could advertise the fact that the Government was going to receive our clearing-house certificates and issue currency against them——

Senator O'GORMAN (interposing). Do you understand there is any legal difficulty in the way of the Treasury accepting those clearing-house certificates?

Mr. GILBERT. I think I had a talk with Senator Weeks at that time. I wrote an amendment and presented it to his committee, and I think Senator Weeks told me afterwards "the difficulty is, we can not get such an act through Congress."

Senator O'GORMAN. As a matter of law, you probably would not be required to put it through Congress, because under a recent interpretation of the same law by the same administration it will be in the discretion of the Secretary to accept that as adequate security.

Senator REED. Senator, is there not a basis there for misapprehension? Mr. McAdoo deposited the moneys of the United States in various banks upon that kind of security. Mr. McAdoo did not issue new money.

Senator REED. Now, I confess that I am not clear as to how the issuance of the clearing-house certificates between the banks enables the banks to extend accommodation to their customers.

Mr. GILBERT. I will try to make that clear.

Senator REED. For instance, John Wanamaker wants to borrow $5,000,000 for the purpose of meeting obligations, the notes of his firm that are out floating around the country and that are maturing. Now, he comes to your bank and says, "I want $5,000,000." The currency of the country is tied up and we have the condition of 1907. Take that condition. How does the issuance of clearing-house certificates enable your bank to extend to him $5,000,000 of credit and give him the money to actually pay that $5,000,000 of debt?

Mr. GILBERT. I will try to make that clear to you. The necessity for maintaining a lawful money reserve in gold and lawful money is largely to meet our payments day by day in settlement of our balances with the clearing house. All the checks that are drawn against us and the notes that are maturing that are payable at our bank come to us, as a rule, from the clearing house. We take to the clearing house every day at 10 o'clock all the checks of the various banks, all the items drawn on the various banks in New York. We take them to the clearing house, and we receive all that are drawn against us, and we settle the balance.

Senator REED. And you may transact $5,000,000 worth of business and actually not use $1,000 of cash?

Mr. GILBERT. Exactly.

Senator REED. Because one offsets the other?

Mr. GILBERT. We strike a balance. But when there comes a time when we have not the money to use for the settlement of our clear-

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ing-house balances—because they must be settled in gold or lawful money—then we have to provide some other means of settlement, and so long as we can provide some other means of settling our balances at the clearing house every day we can go on making loans as usual.

Senator REED. But they do not pay this money out.

Mr. GILBERT. No; we pay it by settling the balances every day.

Senator O'GORMAN. How do you settle them? Just by adjusting the debit and credit?

Mr. GILBERT. Just by adjusting the debit and credit. When we make a loan it is not drawn out, Senator, in cash. It is drawn against us in a check and it comes against us into the clearing house the next day, and it is offset by the items we send to the clearing house for settlement, which are checks on other banks deposited with us.

Senator O'GORMAN. How do you make the difference good—by cashier's checks?

Mr. GILBERT. No; by taking the actual gold there.

Senator HITCHCOCK. Until you begin issuing clearing-house certificates.

Senator REED. I must ask your pardon for my apparent dullness, but you New Yorkers must have some charity for Senator Bristow and myself. Now, here is $5,000,000 that John Wanamaker owes to 100 men scattered over the country. He must pay them $5,000,000 on notes that mature on the first day, we will say, of the month of July. That money has to be taken out of New York and sent to these people. In the ordinary course of business he would come to you; he would give you his note for $5,000,000; you would give him a credit upon your books for $5,000,000. He would immediately draw his checks for $5,000,000 and get drafts and send those drafts out to these different people to take up his notes. The drafts would come back, and the money would have to be paid.

Mr. GILBERT. Yes. Now, they would all come back through the New York Clearing House. If they were all on our bank they would come back to us from time to time through the New York Clearing House. Every day at the New York Clearing House we receive everything that is drawn against us, and we take to the New York Clearing House everything we receive from our customers drawn on other banks through the New York Clearing House, and we offset the debits and credits by settling the balance.

Senator REED. Now, there has actually been sent from New York $5,000,000. Does not that depreciate the aggregate of the money that the New York banks would have by that amount, although you use the clearing-house certificates?

Mr. GILBERT. It would, if we were not getting money every day from other sources.

Senator REED. If I understand you, then, at the same time this transaction goes on and that money is going out of your bank in this way there is another bank which collects in——

Mr. GILBERT (interposing). It goes to some other banks, of course.

Senator REED. Collecting in money——

Mr. GILBERT (interposing). Yes.

Senator REED. What you really do by the clearing-house arrangement is to unite all the banks into one general scheme whereby the

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debits and credits on the whole offset each other; and there must be—if you maintain your clearing-house stability and do not drain the whole system of banks—a stream of money or credits coming in to equalize the stream that is going out?

Mr. GILBERT. Exactly. The balance required to settle the whole every day at the New York Clearing House is a very small percentage of the whole.

Mr. GILBERT. Exactly, and the balance required to sustain the whole every day at the New York Clearing House is a very small percentage of the whole.

Senator REED. By this system checks and drafts all take the place of money for the time being, so that you can have transactions aggregating, perhaps, $50,000,000 or $60,000,000 carried on through checks and drafts, and perhaps there will not be $20,000 of actual cash in the transaction to digest the balance?

Mr. GILBERT. That is the theory exactly.

Senator REED. And the fact of the clearing-house certificate being issued carries that balance from day to day, and what you lack to supply that to-day in the way of cash the clearing-house certificate is given, and to-morrow the balance being the other way, you use that certificate and wipe it out?

Mr. GILBERT. That is it exactly. When we have not the money to supply the balance we issue clearing-house certificates and use those.

Senator REED. It looks a good deal like the miracle of the loaves and fishes, but I guess you make it work.

Senator HITCHCOCK. That is all right when conditions are normal.

Mr. GILBERT. That is when conditions are abnormal, Senator.

Senator HITCHCOCK. Suppose rumors get afloat that a certain big bank is in trouble, and a run starts on that bank and some of the depositors go and demand their cash and others write their checks for the amount of their balances and deposit those checks in other banks, and the result is such a tremendous flow of checks upon that bank that they much more than offset the checks which it receives on other banks, so that that bank is not able to meet its clearing-house balance. Then the question arises whether the clearing house will issue certificates or give the bank credit.

Mr. GILBERT. The general rule would be for the members of the clearing house to protect that bank. They would examine that bank to see if it was in a solvent condition.

Senator HITCHCOCK. What method of protection can they adopt?

Mr. GILBERT. Loaning it money to meet the balances at the clearing house.

Senator HITCHCOCK. Rediscount its paper?

Mr. GILBERT. Yes; rediscount its paper.

Senator HITCHCOCK. Now, I want to ask you this question: Suppose after this bill is in effect it becomes necessary for the Federal board to exercise one of its powers and nominally to suspend one of the Federal reserve banks for violating any of the provisions of this act. The Federal reserve bank is required to keep a reserve of 33⅓ per cent against its notes and its deposits. Suppose its reserves, in spite of its efforts, fell to 25 per cent and the board should suspend that reserve bank and appoint a receiver. What would the effect of that action be?

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Mr. GILBERT. The effect of that action upon the district represented by the Federal reserve bank would be very serious.

Senator REED. Would it not be so on the whole system?

Senator HITCHCOCK. There would be several hundred banks in the whole region which would suddenly have their reserves tied up?

Mr. GILBERT. Their rediscount privileges suspended.

Senator HITCHCOCK. Their rediscount privileges suspended. What would they do for rediscount?

Mr. GILBERT. They would have to make arrangements elsewhere.

Senator HITCHCOCK. No reserve bank could rediscount their paper under this bill?

Mr. GILBERT. No.

Senator HITCHCOCK. Is not that a serious possibility?

Mr. GILBERT. It would produce a serious condition.

Senator HOLLIS. It is a very serious possibility when a man owes money and can not pay it.

Senator REED. Is there not a great difference between failure of a bank of this character, where there are some 600 or 700 or possibly 2,000 banks in a region, the stockholders in which all have their reserves in the one bank, and that one bank has issued a large amount of circulating notes, and, as Senator Hitchcock has put in his hypothesis, they have not been able to maintain their gold reserves, and that is the only bank of reserve for all the 600 or 700 or 2,000 or 3,000 banks, and you close the doors of that bank. What will happen to those other banks?

Senator HOLLIS. My point is that that is exactly what would happen if you assume that the Bank of England, or the Bank of France, or the Imperial Bank of Germany—if such a thing should happen there it would not mean a disaster.

Senator REED. I am not contrasting them with the Bank of England.

Senator HOLLIS. Because the Bank of England would have a reserve.

Senator REED. This bill, put into operation and a condition assumed as Senator Hitchcock has stated in his question, is a very different proposition from that which would occur now, and I want to contrast the proposed situation with the present situation. At the present time the banks do not have their reserves in any one bank. They may be in many banks, and in fact are in many banks. In the second place, they do not have any common stock ownership. Their capital is unimpaired. They act as integers, each bank. Each bank is a thing by itself, and, as a matter of fact, in the last panic, the majority of the strictly country banks—I do not refer to the legal definition of country banks, but the small banks out in the country districts—never closed their doors and never restricted payments, because they were independent banks. We are asked to leave that system and go into a new system, and it is very pertinent to know what the dangers are, as well as the advantages, and I confess I am greatly interested.

Sentor HITCHCOCK. I think it is one of the defects of the bill that the spectacle is presented of one of these great reserve banks being suspended and in the hands of a receiver, probably because it is insolvent. It has then a great many stockholding banks whose stock would be impaired, and it has a great many stockholding banks

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whose reserves would be impounded, and it is a clearing house for a vast region which is practically paralyzed for the time being, and it seems to me there may be a condition involving a possibility of a great dislocation of commerce, with nothing provided to be done under the circumstances.

Senator HOLLIS. My point was that any system that can be conceived by man can be supposed to be in a condition where it is hopeless. I can not assume a condition that would——

Senator HITCHCOCK (interposing). Do you not think, if such a condition should arise, the bill should contain a provision as to what should be done. Are we to have a financial desert and no provision for anything which may be done?

Senator HOLLIS. What I mean is that you can not build up and construct a system concerning which you can not also assume that it may break down.

Mr. GILBERT. Let me say this: The men who framed the present national banking system were fully as wise, in their day and generation, as the men who are trying to legislate for a financial system to-day. They thought over this question of reserves and mobilization of reserves a long time before they adopted that bill. They did not do it without knowledge. It is not true that under this system the reserves of the banks are scattered over the country in a thousand and one places. It never has been true. That has been one of the misstatements which has been accepted and considered as true in all the discussion of this currency question.

What did they do? They divided the banks of the country into three groups—the country banks, the reserve city banks, and the central-reserve city banks. They said the country banks shall carry 15 per cent reserve, three-fifths of which may be on deposit in a reserve city bank. They said the reserve city bank should carry 25 per cent reserve, one-half of which should be on deposit with a central-reserve city bank, and the central-reserve city bank should carry 25 per cent cash reserve in its vault. The tendency has been for the reserves of the country to grow steadily toward the central-reserve cities, so that the central-reserve cities, and particularly New York—the central-reserve cities, we will say, are the banks of rediscount for the other banks of the country, the country banks and the reserve city banks.

Now, that provided for a simple and natural flow of the reserves of the cities toward a point where they would naturally flow in harmony with the natural trend of business.

Senator HITCHCOCK. Let me go on a little further. Suppose such a condition should arise so that the Federal reserve board felt required, under the terms of this bill, to suspend a great reserve bank with, say, 2,000 member banks and a mass of reserve deposits and a great deal of currency outstanding, subject to presentation, and a receiver were appointed, as provided for in this bill. That receiver could not go on and discount paper, could he? Suppose the bank is put in the hands of a receiver, could he go on and discount paper?

Mr. GILBERT. Not at all, unless provision is made by law to meet the emergency——

Senator HITCHCOCK (interposing). As it is now, when a bank goes into the hands of a receiver, that stops the operations of the bank?

Mr. GILBERT. Nothing can be paid out.

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Senator HITCHCOCK. It must be liquidated. Do you think it is a wise provision to allow such a thing to happen?

Mr. GILBERT. I do not.

Senator HITCHCOCK. It seems to me that is one of the serious defects.

Senator REED. What can we do to remedy it?

Senator NELSON. If you will pardon me for interrupting you, the only way you could do that is to provide that all of the assets of the bank put in liquidation should be put into one of the other live regional banks, and let that live regional bank carry on the balance of the work. That is the only way you could do it. You would have to provide the machinery.

For instance, if we had five regional banks, and one of them should suspend or be put in liquidation, the only way you could get immediate relief would be for it to turn its assets into another bank for payment.

Senator REED. How would it be to have the Secretary of the Treasury take hold of it and proceed to do very much as is done now; instead of closing its doors, as the bank examiner might do now, that they proceed immediately to discharge its obligations?

Mr. GILBERT. How would it do to provide that the Federal reserve board should take charge of it?

Senator HITCHCOCK. It might, under its receivership, if it were provided for.

Senator REED. Now, I want to suggest, in this connection, a thing that has been in my mind for some time. I am not referring to bank guaranties, but I am asking you if it is not wise for the income of these banks to be so arranged that there is some surplus income, and that income to be set aside and held in the Federal Treasury in some special fund for the purpose of strengthening the whole banking system, retiring the debts of the Government, possibly, in part, to have a fund to make good just such a situation as this, or to make good any failed member bank, so that depositors could be paid?

I understand there is in Canada a system by which the banks pay a voluntary tribute into a fund, so that if any bank closes its doors the depositors at once get their money.

Mr. GILBERT. That is to protect the circulation?

Senator REED. That is to protect the circulation. Why not extend it to the protection, actually, of depositors?

Mr. GILBERT. I never believed in the principle of guaranteeing deposits.

Senator REED. I am not speaking about an absolute guaranty; I am speaking about creating a fund in this way that could be used for that purpose. There is a difference, of course, between paying, so far as the fund might go, and absolutely guaranteeing them.

Mr. GILBERT. I think the whole thing suggests this: How unwise it would be to undertake to force this measure through hastily. It requires a great deal of careful deliberation. There are a number of problems that will be discovered in this bill that you have not yet discovered. You have been wrestling with this question for some time. You have heard the views of numerous people. You do not understand it. You simply understand the surface features of the bill. We do not know how it will work after it is set up as a piece of machinery, and you have got to carefully weigh this thing, to get

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all the expert advice on the subject that you can, in order to help you to solve all these problems which now perplex you, and have them worked out, so that you may determine beforehand how it will be necessary to perfect this machinery before setting it up into practical operation, because if it is not right when it is set up, it may be very annoying or may be very disadvantageous to the business of the country.

Senator REED. But, in view of the fact that we need a house, and we are displeased with the whole plan, do you not think we ought to build the house and then let the architects pass on it afterwards and find out whether it will stand up?

Mr. GILBERT. I think this: I think that time is not an essential element. I think that the old system is working well now, and there are no portents of ill in the financial skies. I think we can run along with the present system for a number of years yet. There is no excessive speculation, no panicky conditions. The country is in excellent condition in a business way, and I think it will pay you gentlemen, and I think it will pay the whole country, to take all the time that is necessary to work this out and reduce it to its most perfect state before substituting an entirely new system for this old one.

Senator REED. Referring to the proposition that was put to you in the form of several questions, but which remains as a proposition, as far as I am concerned, and I think I speak for the committee, you say you can not answer that now offhand?

Mr. GILBERT. No.

Senator REED. I recognize the fact that a question of that kind ought not to be answered offhand, and is not answered offhand by thoughtful men. Will you, after you return home, if you think of a possible solution, suggest it to us in writing?

Mr. GILBERT. I will. If you will reduce to writing several of these questions and send them to me, I will give it my most thoughtful consideration, and give you the benefit of my conclusions.

I am just as anxious as you are to help solve this problem and to work it out. I would like to say—I feel, in order that you may understand my position—I want to say this, that I am thankful to you gentlemen for undertaking to try to give us a bank of rediscount. It is the one thing we have needed for years and years. Ever since the panic of 1873 we have felt the need of a bank of rediscount, and have never been able to find any way to get it, and we are indebted to you for trying to give it to us. In trying to give us that you introduce a number of other problems which require very careful consideration, and I will be only too glad to help you all I can in solving this problem.

Senator REED. May I ask you a question on one other matter? I do not think Mr. Gilbert has touched on this matter. What method should be adopted to restrict the issuance of paper, so that a redundancy may not be created?

Mr. GILBERT. Do you mean bank notes?

Senator REED. Bank notes; yes. I mean this circulation that is contemplated in the bill, whether we call them bank notes or Treasury notes. What checks are necessary in order to prevent inflation? Is it an arbitrary amount fixed by law? Is it the interest rate; and if so, how should that be applied; or is it a combination of both?

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Mr. GILBERT. I should say the best thing to restrict the issuance of bank notes is the requirement that a very heavy gold reserve should be carried against it.

Senator REED. Of course, that is an absolute restriction.

Mr. GILBERT. And that the paper rediscounted should be of such a quality that banks could not have it in overabundance. I do not think that in any other way it would be wise for you to undertake to restrict the issuance of it, because when a merchant rediscounts at a Federal reserve bank, he is entitled to draw against it, either as a bank credit or in currency—draw his check against it or draw bank notes—and he would not draw bank notes for any other purrpose than for which he legitimately required them.

Senator REED. Mr. Gilbert, I am absolutely unable to formulate in my mind, and I have not heard anybody else yet formulate a definition of commercial paper that to my mind means much. We can say that a note shall be commercial in its character, in accordance with the law merchant. We can say it must be signed by two people or three people, or any other number. We can say it must mature within a given period of time, and that before currency is issued against it, it must be indorsed. Of course, that system has many safeguards, the principal one being the fact that the member bank will probably not accept and indorse the paper unless the makers are supposed to be good. I do not know how you are going to go beyond that, unless you, following this idea of paper being self-liquidating, attach a bill of lading or a warehouse receipt to the paper, and everybody has said that will not do.

Mr. GILBERT. Oh, no; that would not do.

Senator REED. So that we come to the question of a promissory note of a certain maturity. Is not that a certain way?

Mr. GILBERT. It grows out of a legitimate business transaction.

Senator REED. How will you know it grows out of a legitimate business transaction? I am distressed about this situation. I wish somebody would give us a solution.

Let me suppose that you run a bank out in the State of Kansas, or in the city of New York, and you want some money. I come to you with a note signed by John Jones for $100,000, and I put it through your bank, and you take it down and have currency issued against it, putting up $33,000 of gold, and we get $100,000 of currency. Now, we have increased the circulation of the country $66,000 net. The other is there in gold, and that transaction can be indefinitely multiplied. On its face it is an absolute compliance with this bill. In times of speculation, in times of stress, I do not see how that is to be avoided.

Mr. GILBERT. Let me say, Senator, you are building up a situation that is not likely ever to exist.

In the first place, with regard to the overissuance of currency, it does not seem to me that there can possibly be any inflation of the currency if you will provide a 50 per cent gold reserve to be kept and maintained against the issuance of currency, and that the bills shall be payable in gold on presentation at any Federal reserve bank, and that no bank shall pay out bills of any other Federal reserve bank. It seems to me that that will undoubtedly take care of the situation, so far as inflation is concerned.

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Senator REED. I concede that when you raise the gold reserve higher, that, of course, is almost an absolute check.

Mr. GILBERT. In addition to that——

Senator REED (interposing). But there is a great difference between 50 per cent and 33⅓ per cent, is there not?

Mr. GILBERT. I know there is, and I think it ought to be 50. In addition to that, your trouble about the paper currency is not likely to exist, and for this reason:

In the first place you are discounting for your member bank, and your member bank is offering to you a short-time commercial paper which it has discounted for its customers. It may once in a while slip in a piece of paper that would not probably measure up to commercial paper, but he will endeavor to give you commercial paper, and when you rediscount that for him he is not going to ask you to give him currency against it; he is either going to rediscount it to make good his reserve, because he will not come to you for rediscount until his reserve requires it, and if he wants it for currency perhaps he will not want very much, because currency is not required very much. Ninety-five per cent of the business of the country is done on credit, and currency is an unimportant thing except as it may be wanted for the payment of wages, and to carry on our retail trade, and the merchant generally gives his notes, and does not want currency unless it is for small retail items. He draws his check, and the issuance of currency by the Federal reserve bank is not likely to be very heavy. Of course, in manufacturing towns currency may be required to pay wages, and they may draw currency for that purpose.

Senator REED. Then your one idea is that the best check is a larger gold reserve, and if you make that 50 per cent you think that, in itself, fixes the line of safety?

Mr. GILBERT. I think that with the care that will be exercised about the quality of paper that is rediscounted and the making of these notes payable in gold by the banks of issue—the Federal reserve banks—and prohibiting one bank from paying out any but its own notes it will prevent inflation.

So far as the inflation of the currency is concerned, that does not trouble me at all in connection with this measure. It is the inflation of credits that I would fear more than the inflation of currency.

Senator REED. Well, how would you prevent the inflation of credits?

Mr. GILBERT. By being very careful as to the character of paper that is rediscounted.

Senator REED. Well, that goes to the question of the management of the regional bank, does it not?

Mr. GILBERT. Exactly; that is true.

Senator REED. And we can hardly write it into a bill, can we?

Mr. GILBERT. No; we can not.

Senator REED. We have got to leave it to the board of directors of a bank—just the same as if I go to your bank to-morrow and want to give you my note and get a loan.

Mr. GILBERT. Exactly; that is it.

Senator REED. You, then, are going to pass on the question of whether you are going to give me that money or not?

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Mr. GILBERT. Yes.

Senator REED. And that puts the same power, then, in the regional bank over the member banks which the ordinary bank has to-day over its customers. You say that is where it ought to be vested?

Mr. GILBERT. Yes, sir.

Senator REED. Then there is this unfortunate thing in connection with that. To-day the individual who is not satisfied with his bank—of course, if he thinks he is badly treated, he goes to another bank?

Mr. GILBERT. Yes; that is right.

Senator REED. But these banks, being members of a regional bank and living under its system, will have only one place to go, and if they are refused accommodations there they would be in pretty bad shape, would they not?

Mr. GILBERT. Yes.

Senator REED. Well, that is not exactly desirable, is it?

Mr. GILBERT. Well, do you refer to the member banks being refused?

Senator REED. Yes.

Mr. GILBERT. Well, it would simply impress upon the administration of the member banks the necessity of doing business on wise and conservative principles.

Senator REED. Suppose the board of directors, however, being possessed of this great power should unjustly use it and discriminate against certain member banks?

Mr. GILBERT. Well, of course, there is always that risk. We are on the planet, and we have got to go around with it; and we are all human, and we have got to consider human defects, you know.

Senator REED. Well, the present condition is this: It is one where that element of human selfishness or human prejudice or individual mistakes has been constantly guarded against and offset by the opportunity to go elsewhere.

So that it seems to me that, when I deprive you of your opportunity to go to a number of places and confine you to one place, it is my duty, if I am doing that, to be pretty careful to see that you shall be fairly treated at that one place. Now, is there not some way to provide for that

Mr. GILBERT. Well, as a general rule, Senator Reed, every man is fairly treated according to his deserts, you know—especially in the business world.

Senator NELSON. You have one check here, Mr. Gilbert, on this discounting, and that is that these member banks always have to indorse and guarantee all paper that they seek to have rediscounted.

Mr. GILBERT. Yes; that is true.

Senator NELSON. And naturally will not that make the banks careful as to what paper they take?

Mr. GILBERT. It certainly will, and it is a good thing.

Senator NELSON. And does not a banker, as a matter of fact, in making his loans take into account who the borrowers are as well as the signature and the time the note runs?

Mr. GILBERT. They are very, very careful indeed.

Senator REED. All that is true of the general run of banks. The general run of banks do business honestly and discreetly. I am thinking about the power of this regional reserve bank to crush a bank if they wanted to do so. And I think that the reputation of a bank

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for solvency is almost as delicate a thing as the reputation of a woman; suspicion is almost equal to destruction.

Mr. GILBERT. And do you not realize this, that the fact of a member bank, when it applies for rediscount, having to expose the character of paper that it has taken from its customers, is going to make it very careful?

Senator REED. Yes; I think that is true. But now I am speaking about the other end of it. The power is put into the hands of the board that controls the regional banks to say "Yes" or "No."

Suppose you come up with perfectly proper paper—paper that is ordinarily good—they refuse you. Then Senator Bristow comes up with paper that is no better and gets the accommodation. Every bank in the district will know inevitably—or at least a lot of them will know—that you have been refused by that regional bank.

Mr. GILBERT. Well, refusing——

Senator REED (interposing). And your customers will get to know it.

Mr. GILBERT. I think any emergency of that kind would correct itself, because any member bank that was being unjustly dealt with would inevitably appeal to the Federal reserve board and say, "We are not being treated right."

Senator REED. You think that is the real check?

Senator BRISTOW. Well, it would be all over with that bank, as far as its reputation is concerned, if it has to take an appeal and fight out, practically, a lawsuit to establish its reputation with the public, you know.

Mr. GILBERT. Well, the customers of a bank understand pretty generally what the reputation of the bank they deal with is, I find.

Senator BRISTOW. Well, this power will be abused—all power is abused more or less.

Mr. GILBERT. Well, of course, that is a——

Senator BRISTOW (interposing). The powers of the courts have been abused outrageously in some instances. Receivers have been appointed for solvent concerns at the instigation of selfish and designing men.

Mr. GILBERT. But if the Federal reserve bank is administered as a reserve bank and not as a bank to make money, that spirit is not likely to prevail; and that is why I emphasized the point yesterday that these Federal reserve banks should be of a higher class than the ordinary, everyday bank. They must be made to administer the business at all times, remembering that they are reserve banks. They have got to maintain that character and they have got to be ever ready for an unexpected crisis. And the question of profit must be something that is not thought of.

Senator NELSON. And that is one reason why they ought to have a 50 per cent gold reserve.

Mr. GILBERT. Yes; that is one reason they should have a 50 per cent gold reserve.

Senator NELSON. Yes. They should be the conservators of the credit of the country.

Mr. GILBERT. Yes; they should.

Senator BRISTOW. Why would it not be better—it grows on me more and more as we go on from day to day—for this reserve bank to be

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a Federal bank and not owned or controlled by the banks at all; an independent Federal institution, with a capital and enormous resources of its own, so that any flurry that happened in the ordinary banking business of the country would not affect it?

Mr. GILBERT. Well, I have always felt, and I feel now, that the banking business of the country, apart from the question of control, ought to be divorced from the Government. It ought not to—the business of the country will take care of the banking end of it, if it is permitted to without too much interfering. I see the necessity of Government control, Government supervision, to the extent that the Government now supervises national banks of the country. But I do not think it would be wise to put the Government into the position where it could interfere with the legitimate business operations of the country.

Senator BRISTOW. Well, this Federal reserve bank would certainly not interfere with that?

Mr. GILBERT. No; I think this bill recognizes the idea which I have in mind; it is simply supervision rather than administration.

Senator NELSON. The fundamental principle, Mr. Gilbert, is this, that the basis of our whole credit system is founded after all, when you boil it down, upon the commercial paper, upon the notes and bills which your customers discount at the banks—which you discount.

Mr. GILBERT. Exactly; that is true.

Senator NELSON. They come to your bank and put up their notes and bills of exchange.

Mr. GILBERT. Exactly.

Senator NELSON. And you credit them on the books and call them depositors, and that is the whole basis of the fabric?

Mr. GILBERT. Yes; that is it.

Senator NELSON. Of course, if the Government would go into the business and say to the people: "Come here and file your notes and bills with us and we will open an account with you, and give you a credit on the other side of the ledger," then you could go to the Government in place of the private bank.

Mr. GILBERT. Except that the Government would surround itself with restrictions and safeguards and technicalities.

Senator NELSON. Yes.

Mr. GILBERT. That a real business operation of the banks would not do.

Senator NELSON. Now, the deposits that you parade, you banks—and I am not using the expression in an odious sense; but in one sense you are really parading what you owe to your customers.

Mr. GILBERT. Yes; if you exempt from that our capital and surplus.

Senator NELSON. Yes; I mean if we exempt your capital and surplus. The deposits that you parade before the public are really what you owe to your customers.

Mr. GILBERT. Yes.

Senator NELSON. And those debts which you owe to your customers—what you have to show for them are the notes and bills which they have deposited with you; is that not a fact?

Mr. GILBERT. Yes.

Senator NELSON. And that is the whole basis of the matter. And when you speak of the volume of the bank's credits it simply means how much the people of the country have put up in commercial paper

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and deposited with the banks. That is the basis of it, is it not—outside of the mere capital and surplus?

Mr. GILBERT. Well, the whole problem could be very easily stated. The merchant goes to his "bills payable" account and he finds he has a larger amount of notes maturing than he has money in bank to pay. What does he do? He simply goes to his portfolio and he takes out a certain amount of commercial paper and says to his banker, "Put that to my credit."

Senator NELSON. And you credit it on the books of the bank?

Mr. GILBERT. And we simply say "indorse it"——

Senator NELSON (interposing). And then you credit it to him on your books and call him a "depositor?"

Mr. GILBERT. And his notes are presented for payment and are settled, and the world knows nothing about it whatever, and business goes on as usual. Now, that thing is taking place all the time. That constitutes the main business of the banking system all over the country.

Senator NELSON. Yes.

Mr. GILBERT. And this builds up this tremendous superstructure of commercial credits that is always outstanding; and that tremendous superstructure rises and falls and represents the exact rise and fall of the volume of business of the country.

And if anything happened to interfere with that so that when the merchant goes to his bank, when credit is stringent from overexpansion of business, or excessive speculation, or both combined, or from any other cause, and he goes to his bank and he finds that he can not do that as usual, then something happens.

Senator NELSON. Yes.

Mr. GILBERT. Now, abroad nothing would happen. And why? Because the joint-stock banks there, when they find that condition, go to their portfolios, as the merchant did in the other case, and take out their "bills payable" and go to the bank——

Senator NELSON (interposing). The Bank of England?

Mr. GILBERT. Yes; or the Imperial Bank of Germany, or the Bank of France; and they say to one of those banks: "Put this paper to my credit;" and they rediscount for their customers; they give their customers what they want, and everything goes on as usual, don't you see?

Senator NELSON. Yes.

Mr. GILBERT. But here when we come to that point that credit is strained and we can not accommodate our customers something happens. What is it? Credit gets scarce, interest rises, prices of securities fall, distrust prevails, and then panic.

Senator BRISTOW. But now when the joint-stock bank in England goes to the Bank of England, it does not own the Bank of England, it has not any stock in the Bank of England.

Mr. GILBERT. But it has an account there.

Senator BRISTOW. Yes; it has an account, but the Bank of England is an independent institution, over which that bank has no control, and with which it has nothing to do, except as a creditor.

Mr. GILBERT. Well, the cases are parallel there, because our customers do not own our stock.

Senator BRISTOW. But in this institution that we are providing for under this bill, the banks own an interest?

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Mr. GILBERT. Certainly.

Senator BRISTOW. They are operating these institutions; and it is a part of the banking system?

Mr. GILBERT. Yes.

Senator BRISTOW. And it would be affected by the same influences that affect the banks?

Mr. GILBERT. Well, I do not think that that necessarily follows.

Senator NELSON. We propose to take the control away from them.

Senator BRISTOW. Well, this control is, perhaps, a superficial and nominal control at Washington. It looks big, but there is nothing to it, any more than the power the Comptroller of the Currency has now—I would not say there is nothing to it, but——

Senator NELSON (interposing). There is under the new system.

Senator BRISTOW. I am referring to the new system. There is very little control over it.

Senator REED. You hold that in the practical operation of this bill, the six members of the boards of directors of the regional banks, who are elected by the banks, will run those banks, do you?

Senator BRISTOW. They will run the institutions.

Senator REED. And that there will be no interference by the central board, except some such regulation, perhaps, as the Interstate Commerce Commission exercises over railroads?

Senator BRISTOW. Well, it is entirely different from that.

Senator REED. Very different; but I am using that, Senator Bristow, only as a parallel to the extent that it is a supervision and not management.

Senator BRISTOW. Yes; that is true; except that the Interstate Commerce Commission has more the functions of a court than this will have; and its cases are tried out. The citizen who thinks that he is abused and is not treated fairly by a railroad goes to the Interstate Commerce Commission, and the commission examines into the case and orders the railroad to do a certain thing. I do not think this Federal reserve board will sustain that relation to the banking business of the country. I do not think that would be possible. It seems to me it would be more logical—like the supervision of the comptroller's office over the present system—or will be in its practical operation.

Mr. GILBERT. Well, I do not think there will be any objection to that.

Senator NELSON. It is away beyond the power which the comptroller has now.

Mr. GILBERT. Yes.

Senator BRISTOW. Of course, they would have more power than the comptroller has now.

Senator NELSON. Absolutely.

Senator REED. Well, it is a power—and I am not prepared to differ with the Senator from Kansas at the present time, although I reserve the right to do so. [Laughter.] But it is a power, probably, that will not be exercised except where the board of directors of the regional bank are manifestly doing an unwise thing. And therefore I think what the Senator says is true. You have a bank owned by bankers and controlled by bankers, and in that respect it is to be distinguished very radically from the Bank of England.

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Senator BRISTOW. Or the Bank of France; I think so, very much.

Senator NELSON. Well, in this banking situation it is not altogether dependent on the statutes or laws that we enact, but it requires good, honest men. Now, there are a great many Republics in America that have, on paper, as good constitutions and laws as we have here in the United States; but their Governments are failures, because the men do not know how to use those instrumentalities.

But we ought to assume here, I think, in all fairness, that if we make a fair law the bankers of this country will seek to administer that in a spirit of fairness in the interest of the American people. Their very life depends on it.

Mr. GILBERT. I think they will.

Senator NELSON. What makes the elasticity in currency is the wants of commerce. Suppose I go to you as a banker, and I make a loan. I give you my note for $10.000, and I say to you, " Mr. Gilbert, I want $5,000 of currency."

Mr. GILBERT. Yes.

Senator NELSON. And the other $5,000 you give me credit for?

Mr. GILBERT. Yes.

Senator NELSON. Now, that transaction grows out of commerce.

Mr. GILBERT. We give you credit for the whole, and you draw what currency you want.

Senator NELSON. Yes. I take the currency; and I say I want $5,000 in currency, and the rest give me a book credit for. Now, that is a business transaction and it grows out of my needs and wants.

Mr. GILBERT. Yes, sir.

Senator NELSON. And that is what regulates the ebb and flow of credits, is it not?

Mr. GILBERT. Yes.

Senator NELSON. Or something of that kind. And that is how you get an elastic currency, when you base it upon the real commercial wants of the country.

But, now, you bankers have a mission, high and low, and that is not to give credits, not to take the notes of people that are not entitled to credit.

Mr. GILBERT. Exactly.

Senator NELSON. Not to allow gamblers or promoters, who engage in hazardous enterprises, to float them by giving them credit on your books, either in the shape of credits or in currency.

Mr. GILBERT. It is in the banking, as it is in every other business, everything depends upon the wisdom and conservatism of the men who are engaged in it.

Senator NELSON. Yes. After all, we can pass the most stringent laws, and if you bankers are all scoundrels and rogues and do not want to carry on your business in a legitimate way the laws will be a failure.

Mr. GILBERT. Yes; and I want to state this: That I have a much higher opinion of the bankers of the country than—I will not say you, gentlemen—the average legislator has. [Laughter.]

I think, when you consider that in every town in this country and in every city in this country the banking men are looked up to for advice by their customers, and the banking men are confided in and believed in and respected——

Senator NELSON (interposing). That is true.

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Mr. GILBERT (continuing). They must be a pretty high class of men.

Senator REED. Well, Mr. Gilbert, I want to get myself clearly in the exceptions in this legislative condemnation. I want you to understand that I have the profoundest regard for bankers. They lend me money. [Laughter.]

Now, I do not think we need discuss this phase of it. But I want to discuss one feature. I want to suggest to the Senator from Kansas that, while it is true that there is merit in having a bank entirely disassociated from bankers, there are certain elements of strength in it; and while it is true that these regional banks under this system will be controlled by the banks, that might be an element of strength instead of an element of weakness if it is properly managed. And for this reason:

Every bank that is a member of that regional bank is interested in the maintenance of the regional bank. If it fails, all go down together.

Mr. GILBERT. And if it is unwisely administered all will go down.

Senator REED. Yes: if it is unwisely administered all will suffer. They are not only interested in that, but they are interested in the solvency and in the safe business methods of all other member banks, because if a member bank is doing an unsafe business with the regional bank there the security of each other bank is impaired.

So that there is that compensating element, and it may be great enough to overbalance the objection. I do not want to discuss this at length; I simply want to drop that thought here, because I think it is a matter that we ought to consider.

Is there any other question that any member wants to ask Mr. Gilbert?

Senator NELSON. There is just one other matter that I do not know that I ought to bother him with. But I wanted to go back to that importation of gold into the United States. As I understand, those importations are made through two kinds of bills of exchange—what I call finance bills and commercial bills, usually accompanied with a bill of lading. For instance, a draft is drawn on a business house or a merchant in London, accompanied with a bill of lading for so many thousands of barrels of flour shipped from Minneapolis, or so many thousand barrels of wheat. That is a commercial bill of exchange, and on that gold can be brought here, can it not?

Mr. GILBERT. Yes; anything that piles up a balance abroad, you know, gives us a balance to draw on.

Senator NELSON. Yes. Now, the difference with a finance bill is that it is not based on any such articles of commerce?

Mr. GILBERT. Yes; it is simply borrowing money abroad.

Senator NELSON. It is simply borrowing money abroad on securities that you have put up.

Mr. GILBERT. On securities that are deposited there.

Senator NELSON. Yes; on securities deposited there—for the benefit of the man that is drawn on abroad?

Mr. GILBERT. No; for the benefit of the man who wants the money.

Senator NELSON. Well, the securities are for the benefit of the man abroad.

Mr. GILBERT. Exactly.

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Senator NELSON. And it is on those two classes of bills that we get gold here from abroad?

Mr. GILBERT. Well, I would not confine it to those, because those foreign banking houses have their expedients for getting gold. I am not, of course, a dealer in foreign exchange, and I only have a general knowledge of the subject.

Senator NELSON. Yes.

Mr. GILBERT. Of course a foreign exchange house, with strong backing abroad, can resort to other methods of building up its balance there.

Senator NELSON. Yes.

Mr. GILBERT. It might borrow on bonds, or it might have some means of discounting over there.

Senator NELSON. Yes; a great deal will depend upon whether you have to ship actual gold; and that is very seldom. But a great deal also will depend on the balance of trade, will it not?

Mr. GILBERT. Oh, yes; a great deal will depend on the balance of trade.

Senator NELSON. The balance of trade, whether the foreign country is owing us or we are owing them.

Mr. GILBERT. Although in the panic of 1907, at the very worst time, we imported $100,000,000 of gold from abroad.

Senator NELSON. Yes; well, Mr. Vanderlip tells me that that was imported on commercial bills.

Mr. GILBERT. Very likely it was largely on commercial bills.

Senator NELSON. Yes; not on finance bills, but on commercial bills.

Mr. GILBERT. But, prior to the outbreak of 1907, there was borrowed abroad on finance bills about $500,000,000. And it was that——

Senator NELSON (interposing). Yes; now, I remember the time——

Senator REED (interposing). Senator Nelson, will you not let Mr. Gilbert finish his sentence? You say, Mr. Gilbert, it was that that did what?

Mr. GILBERT. It was that, largely, that created a feeling of apprehension here, some months before the panic broke out; the knowledge that so large an amount of money was being borrowed abroad.

Senator NELSON. Yes; on finance bills.

Mr. GILBERT. Because we were putting ourselves at the mercy of our creditors over there; the moment they would say: "The time has come for you to pay up," and ask us to pay up, it was going to cause a drain upon us.

Senator REED. Now, if you had borrowed that on commercial bills; on bills representing wheat, cotton, corn, or cattle——

Mr. GILBERT (interposing). Our basis then would have been a sound commercial basis.

Senator REED. Then the wheat, cotton, corn, and cattle, etc., would have liquidated it?

Mr. GILBERT. Yes.

Senator NELSON. Yes; would have liquidated it. That is the difference between a commercial bill and a finance bill?

Mr. GILBERT. Yes; that is it.

Senator NELSON. Now, I recall that during the last year of Cleveland's administration there were firms in New York who were con-

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tinually shipping gold abroad; they would use the Treasury notes to get the gold out of the subtreasury.

Mr. GILBERT. Yes.

Senator NELSON. And then they were paying for the gold over there, and those firms found it profitable to ship it, and they shipped the actual gold. I remember one firm—I think it was Heidelbach, Ickelheimer & Co., or some such name as that—that kept shipping week after week.

Mr. GILBERT. I do not know that it was confined to any one firm.

Senator NELSON. No; but there were shipments of actual gold in those days.

Mr. GILBERT. But the export or import of gold depends, as a rule, entirely on the profit in doing it.

Senator NELSON. Yes, of course.

Mr. GILBERT. If there is no profit in exporting gold, it will not be exported.

Senator NELSON. And it depends a great deal on the state of the exchanges.

Mr. GILBERT. Entirely. That is what regulates it.

Senator NELSON. Yes; if the balance, when you look over the whole horizon, is in our favor gold will come here, and if the balance is against us it will go abroad.

Mr. GILBERT. Gold will come here if it is in our favor, unless it is temporarily thwarted by raising rates abroad.

Senator NELSON. Yes.

Mr. GILBERT. Making it more profitable to keep the gold over there than to send it here.

Senator REED. Is there anything in this bill now that will enable us, in an effective way, to control discount rates, or exchange rates, I should have said, so that if the gold started to drop it could be gathered in by these banks—I mean our gold reserve?

Mr. GILBERT. I do not see how. The raising of the interest rate by the Federal reserve bank would have this effect on its members, and no other effect that I can see: It would compel its members to confine their rediscounts to sheer necessity; to borrow as little as possible—that is, to borrow only what was absolutely required to accommodate their customers—and if there was any, if among their customers there was anything like a tendency to expansion, or speculation, the member bank would try to control its customers and say, "You must not push me too hard, because the interest rate has been advanced and I do not want to pay the rate." Do you not see that it could have that effect?

Senator NELSON. There is only one possible exception that I can see. Take a great regional bank at New York City. If their discount rates were very high, a great deal higher than abroad, and we make our paper redeemable absolutely in gold, why, foreigners might come here and say, "If we can get 7 per cent in New York, we will invest some of our funds there instead of at 5 per cent in London."

Mr. GILBERT. That might be if we had an open money market here and had the same class of prime paper always to be bought; but the foreigner is not apt to come here to buy our ordinary commercial paper, because he does not know anything about it. When

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he can buy the class of paper that is indorsed by strong, conservative banks, it might tempt him.

Senator NELSON. Yes.

Senator REED. Now, you speak about an open money market. What about that? Do you think that is a good condition to have?

Mr. GILBERT. Excellent.

Senator REED. Well, what is necessary to bring it about? Is it a thing that can be brought about by any law, or is it a thing that must grow up out of business conditions?

Mr. GILBERT. It must grow up out of business conditions.

Senator REED. Why has it never grown up here?

Mr. GILBERT. Simply because we never have exercised our banking privileges—or rather, we have never had the same banking privileges the bankers have abroad. The provision in this bill which permits bankers to accept the drafts of their customers drawn on the bank would make the same class of paper which prevails to a large extent abroad—prime bankers' bills.

Senator NELSON. Yes.

Mr. GILBERT. But they do not have that here now.

Senator NELSON. No; you see, they do not deal in promissory notes, as we do. They deal in bills of exchange and drafts.

Senator REED. Acceptances.

Senator NELSON. Acceptances, yes.

Senator REED. Is there any further question to be asked of Mr. Gilbert?

Senator NELSON. No.

Senator HOLLIS. I just want to ask you this, Mr. Gilbert: Do you recall how it was that we borrowed that $500,000,000 before the panic of 1907?

Mr. GILBERT. Well, it largely grew out of speculation.

Senator HOLLIS. What was that?

Mr. GILBERT. Out of stock-exchange speculation largely.

Senator HOLLIS. That is, you sent gold abroad to speculate in securities?

Mr. GILBERT. No; we borrowed gold from abroad.

Senator HOLLIS. Oh, you borrowed it from abroad?

Mr. GILBERT. Just negotiated the ordinary finance bill, by depositing securities and borrowing abroad instead of here.

Senator REED. Do you know that recalls to my mind the fact that, while we started yesterday to discuss the question of the undesirability of the banks loaning money for speculative purposes—we will say on the New York Stock Exchange—we never did get down to what method of restriction, or what safeguard should be interposed.

Mr. GILBERT. I do not think that you can interpose any safeguard or any restriction that will prevent that condition, because——

Senator REED (interposing). This bill undertakes to do it.

Mr. GILBERT. I know it does; and it will, to a certain extent. But then, I do not think there will be any less amount of money loaned to the stock-exchange houses in New York than there is now. Of course, speculation may be restricted to some small extent.

But there always is, and always will be, a certain volume of money required to carry on the legitimate—and when I say "legitimate" I mean the nonspeculative business of Wall Street and its large houses, and what you would call the speculative interests. There always will

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be speculative interests. In one sense it is legitimate, unless it is carried to excess. And there always will be a demand for a certain amount of money to carry on that business. It exists in every civilized country in the world under the best banking conditions. And after this bill goes into operation the result will be, probably, to limit the amount of call loans and to expand to a larger degree the time loans.

Senator HOLLIS. Now, I want to ask you this——

Mr. GILBERT (interposing). There is one thing that you want to bear in mind, that those loans are so well secured that they are very desirable loans. I can not recall, in my long connection with the banking interests in New York, a single case where there has been an absolute loss to any bank from the loans made in Wall Street; and they are considered prime loans; and that is why the country banks, in order to make a secondary reserve, send their money there to have it invested on call. And a great volume of the money that is loaned in Wall Street is on time. It is attended with very much less risk than going into the market and buying commercial paper.

Senator REED. I understand perfectly that a financial house, whether it is located on Wall Street or on Pennsylvania Avenue, that is engaged in gathering together large amounts of money and using them for the purpose of financing a new railroad or an electric-light plant or a telephone plant or anything of that kind, is engaged not only in a legitimate business but probably in a very useful business for the country, and that that involves the sale of the stock of that railroad or that electric light company, or the bonds, or both.

Now, that is legitimate. But what about this thing that is set up there in New York, where they post the value of stocks and men are betting that the stocks are going up two points; and if the stock goes up they make money and somebody else loses, so that you have a wild, almost indescribable mob, surging and beating back and forth, and suddenly the market breaks, and when the market breaks all the country, to a certain extent, reflects that condition, and then it breaks and breaks until the banks that held those securities begin to break?

It seems to me there must be some remedy for that sort of thing, and I wondered if you could not suggest it.

Mr. GILBERT. But, Senator, if you were to go to New York and go into the stock exchange and watch the buying and selling of stocks, and then go down to the cotton exchange and watch the buying and selling of cotton, and then go down to the wheat pit and watch the buying and selling of wheat, and then go down to the tobacco exchange and watch the buying and selling of tobacco, you would see exactly the same conditions.

Senator REED. Well, that only argues this, that whereas we once had in this country gambling joints running everywhere, a man who attacked the system could have been answered, "Why, they have them in every city." I want to know if there is not some way that that influence, not only in the stock exchange; I am not saying it is worse than the others, but all that illegitimate speculation, gambling pure and simple, can be stopped and business reduced to a legitimate level. There ought to be some means to do this.

Mr. GILBERT. I will say this: Since the report of the Hughes commission, five years ago, which grew out of the conditions of 1907,

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strenuous efforts have been made. It was admitted at that time that there were evils existing in the New York Stock Exchange which ought to be corrected, and strenuous efforts have been made to correct them, and there is less to complain of in the New York Stock Exchange in that respect now than there ever has been before. I think there have been a great many reforms instigated, and they have gone about as far as they can go at the present time to reform it.

But it is only necessary to go back a few years to a time when the same agitation prevailed in Germany, and they actually passed laws there to prohibit this marginal speculation on the stock exchange. And after a year of two they repealed the law, because they found it was really injurious to the country. They repealed the law.

Senator REED. Yes; I know that that fact has been stated, although I have never understood the particular reason for it.

Mr. GILBERT. And in every country, and in this country particularly, where fortunes are so easily made that men always have money, there is a disposition to speculate in something; and the easiest thing to speculate in is stocks and bonds, and one of the legitimate results of that speculation is the maintaining of prices at which these securities can always be sold. You can always find a place to sell them.

And if it was not for the fact that those prices are maintained through the daily operation of these exchanges men would be reluctant to invest in railroad securities. They would say, "I do not want to buy a railroad security, because I can not dispose of it when I want to: I do not know, I might want to convert it and get my money back, and there is no regular market or opportunity for doing that."

But the daily operations of the stock exchange make it not only the quickest market in the world for the disposal of those securities, but make it a market that maintains the prices of securities. And it is the same with wheat and grain and tobacco and corn.

Senator REED. I believe that is rather aside from the purposes of this bill, but it dovetails in along the line of the effort to control the call loans.

Mr. GILBERT. But it is interesting as a side issue.

Senator REED. Yes. Now, is there anything further to be asked of Mr. Gilbert?

Mr. GILBERT. Am I excused, Mr. Chairman?

Senator REED. Yes; we are very greatly obliged to you, and appreciate your having given us your views.

Senator NELSON. Yes; we are very much obliged to you.

Mr. GILBERT. I am very glad to have been with you, gentlemen; and if I can render any further assistance I will be very glad to render it.

Senator REED. If you will agree to revise your opinion of the public men of Washington, we will agree to look as charitably as possible upon the bankers of New York.

Mr. GILBERT. I want to say this, gentlemen, that I will go away entertaining a very much higher respect for our public men than I had when I came here.

Senator NELSON. You have come to the conclusion that we are, after all, searchers after truth, have you?

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Mr. GILBERT. I have come to the conclusion that you know more about this banking business——

Senator NELSON (interposing). Than you thought we did?

Mr. GILBERT. Yes.

(The newspaper article referred to by Mr. Gilbert follows:)

[From the Boston (Mass.) Transcript, Saturday, Mar. 1, 1913.]

A TALE OF TWO BANKS.

SOME NEW LIGHT ON MONEY-TRUST INVESTIGATION—MR. UNTERMYER HAS SOUGHT TO CREATE PREJUDICE AGAINST THE CLEARING HOUSE ASSOCIATION; BUT THE WHOLE STORY HAS NOT BEEN TOLD—A QUESTION OF COLLATERAL—SOME DETAILS OF THE AFFAIRS OF THE ORIENTAL OF BROOKLYN AND THE MECHANICS & TRADERS' OF NEW YORK—MONEY PLENTIFUL AT THE TIME OF THE DOWNFALL.

[Regular correspondence of the Transcript.]

WASHINGTON, *February 28.*

In the attack of the Pujo committee upon the New York Clearing House Association and some of its practices, much stress has been laid by Attorney Untermyer upon the cases involving the Oriental Bank of Brooklyn and the Mechanics & Traders' Bank of New York. Mr. Untermyer in fact has sought to create a general prejudice against the Clearing House Association by allegations, repeatedly hammered in at the hearings, that these two banks were closed by the action of the committee in refusing them credit during the panic of 1907–8, and an attempt has been made to show that this refusal proceeded from a desire to stifle competition.

The whole story of the events which led to the suspension of these banks was not told to the Pujo committee nor does the committee report set forth the facts in the two cases. On the contrary, this alleged abuse of the power of credit by the New York Clearing House has been worked for all it is worth to prejudice the country against certain of the New York financiers and to indicate to Congress that drastic legislation directed against the New York Clearing House is necessary.

CASE OF THE MECHANICS & TRADERS' BANK.

The facts are that between October 18 and October 25, 1907, the banks of the clearing house made cash loans to the Mechanics & Traders' Bank of $2,220,000. This was converted into clearing house loan certificates October 26, 1907. These loans were made on the assurances of Chief Examiner M. W. Hutchins, of the State banking department, that the bank was solvent. The aggregate issue amounted to $4.520,000. Certificates of the Mechanics & Traders' were outstanding 137 days.

January 30, 1908, this bank was placed in the hands of the superintendent of the State banking department. The charge was made and was reiterated before the Pujo committee that had the clearing-house loan committee extended credit the bank would have been saved. The inference intended was, of course, that credit could and should have been extended, and that if it was not, the reason was that two representatives of the Corn Exchange Bank, who also were members of the clearing-house committee, had used their influence to put a competitor out of business.

BETTER COLLATERAL WANTED.

It is true, according to the most trustworthy information, that the clearing-house committee demanded more and a different kind of collateral from the Mechanics & Traders' Bank, and that when this was not forthcoming it refused to extend credit. The collateral back of the loans had a face value of some $6,373,000; but before the receivers of the Mechanics & Traders' Bank paid off the balance due the clearing house—$2,100,000—the committee had begun to collect $3,447,000 of the collateral and had received $1,000,000 in cash; the balance went to protest. The point is that the result of the attempt to collect on the collateral clearly demonstrated that the loan commttiee of the clearing house exercised good judgment in confining their advances to the proportion they

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did. This bank had from October 26, 1907, to January 30, 1908, to adjust its affairs. It wanted more money, but at no time offered new collateral.

The point was made by Mr. Untermyer, in questioning witnesses before the Pujo committee, that the Metropolitan Bank of New York had taken over the Mechanics & Traders' and paid off all its depositors in full; thus, according to the intimations of Mr. Untermyer, confuting the judgment of the clearing-house committee that the bank was in danger when further loans were refused.

THE REMAINDER OF THE FACTS.

But the testimony was not permitted to go far enough to tell all the facts in the case. It is true that the Metropolitan took over the New York branches of the Mechanics & Traders' and paid off the depositors, but it is also true that the bank was allowed to reopen by the State banking department, on the deferred payment plan, under the title of the Union Bank of Brooklyn. This occurred in October, 1908. This Union Bank, successor to the Mechanics & Traders', closed its doors April 4, 1910, and up to date it has not paid one cent to its depositors.

The books showed that a large proportion of the unliquidated assets of the Union Bank were in the Mechanics & Traders' Bank when that bank closed January 30, 1908. In other words, the Union Bank allowed new deposits of money to be used to pay off old deposits. The probabilities are said to be that after a long wait the Union Bank depositors will receive dividends not to exceed 50 per cent. The former president of the Mechanics & Traders', David J. Sullivan, and W. C. Damron, a director of the same bank, are serving terms in the State prison for offenses growing out of the situation described.

ORIENTAL BANK CASE ILLUMINATING.

The case of the Oriental Bank is equally illuminating when reviewed with knowledge of the actual facts. As with the Mechanics & Traders' Bank, its affairs came to a crisis January 30, 1908. It had borrowed several million through the clearing house loan committee and certificates for a part of its borrowings were outstanding. Most of the clearing house certificates in other parts of the country had been retired—those of the Chicago Clearing House were finally cancelled on January 17, the Chicago Clearing House on January 11 having decided that certificates could no longer be used in meeting debit balances.

The New York Clearing House Association became anxious for a return to normal conditions, and on January 25 the clearing-house committee, believing that the emergency which had made the use of loan certificates necessary had passed, sent, through its chairman, a letter to each bank which had not retired its certificates, expressing the desire of the clearing-house committee that all loan certificates be retired on or before February 6. On January 23, two days before this action, the directors of the National Bank of North America (the Morse bank) had requested that the national-bank examiner take charge of their bank because of heavy withdrawals during the previous three weeks and further expected heavy withdrawals. Notwithstanding that the Oriental and the Mechanics & Traders' had had more than three months in which to clean up their affairs, both banks notified the clearing house that they would be unable to retire their certificates. The clearing house, seeking to aid these institutions as far as was deemed prudent, immediately instructed its manager to notify the two banks that the note of the committee expressing the desire that all certificates be retired by February 6 had been recalled and that the two banks would not be pressed to redeem their certificates. This was done by the manager on January 28.

DIRECTORS' REFUSAL TO GUARANTEE.

The story of the Mechanics & Traders' already has been told. The Oriental Bank not only was unable to comply with the request of the clearing house, but it called on the clearing-house committee for a million dollars more. It was notified that it would be accommodated with the loan, provided the directors of the Oriental Bank would guarantee the loan. This evidently they were unwilling or unable to do. The clearing-house committee waited until midnight of January 29 to hear from the directors of the Oriental Bank, and as no word was forthcoming the bank was closed the next day. How the Oriental Bank

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could have been treated more considerately, consistently with the principles of safe banking, is not explained in the report of the Pujo committee.

It will be recalled that the downfall of the Oriental Bank was imputed in part to the machinations of two directors of the Corn Exchange Bank, of whom one was Walter E. Frew, now president of the bank, and one of the most interesting witnesses before the Pujo committee. Another witness was R. W. Jones, jr., former president of the Oriental Bank, whose reflections upon the New York Clearing House were made part of the Untermyer ammunition.

MR. JONES WRITES MR. FREW.

How Mr. Jones reconciles his testimony before the Pujo committee with the following letter written by him to Mr. Frew, under date of January 17, 1911, is another of the mysteries unexplained in the Untermyer report:

NEW YORK, *January 17, 1911.*

MY DEAR MR. FREW: I have been endeavoring for the past two or three days to call upon you personally and express the pleasure which I have had at the announcement of your election as president of the Corn Exchange Bank. While it has not been my pleasure to know you intimately, I want to avail myself of this opportunity especially to express to you the appreciation which I have always felt of the attitude taken by you at the time of the panic of 1907, in connection with the situation which surrounded the Oriental Bank at that time; and while your efforts to protect us did not succeed, they were none the less appreciated by both Mr. Hugh Kelly and myself.

I extend to you my very best wishes in your new official connection, and you may be assured that if an opportunity is ever presented to serve you it will afford me a great deal of pleasure to avail myself of it.

Yours, very truly, R. W. JONES, Jr.

It is cited as interesting in connection with the period of the downfall of the Oriental and the Mechanics & Traders' Banks that at that time the call rate of interest was only 2 per cent, which shows that money was plentiful. The surplus cash reserve of the members of the New York Clearing House Association was $40,526,000. Loans on proper security or good paper were easily obtainable at that time. It is asserted by gentlemen with authority to speak that if the Mechanics & Traders' Bank had been able to offer proper security the same accommodation would have been offered to them as was offered to the Oriental Bank on January 30.

W. E. B.

Senator REED. There is a gentleman in Greensboro, Pa., who wrote me. His name is Motsinger, and he wrote me on the letterhead of the Rotary Engine Co. He would like to appear before the committee. He says that he has studied this bill, and he thinks there are many objections to it which ought to be considered. And I take it, from the general tone of his letter, that he does not mean he is against the system, but he thinks the system needs amendment. I think it is rather an antibank man; that he thinks that the banks have too much power.

Senator NELSON. Yes.

Senator REED. I know nothing about him, except the letters he has written, which are intelligent; and I want to submit to the committee whether we can hear him. He writes:

I feel that I can be of service to your committee and will gladly sacrifice my private duties for greater public ones.

If a date for Friday of this week were arranged, or better still, for Saturday, it would please me.

What will the committee do about this?

Senator HOLLIS. Well, on Friday we have the Minnesota country bankers and Mr. H. Parker Willis, and Saturday we have the national-bank examiners. I think we might invite him for Friday.

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Senator NELSON. I think we had better invite him Thursday, because I do not know how many of the Minnesota country bankers are coming here.

Senator REED. With the consent of the committee, then, I will notify Mr. Motsinger, by telegraph, that if he is here Thursday the committee will try to hear him.

Then there is another communication that has reached me. I presume that copies have been sent to the other members of the committee. It is on the letterhead of the First National Bank of Tombstone, Ariz., and seems to be signed by T. R. Brandt, cashier of that bank. It incloses a memorial in the nature of a criticism of certain features of this bill. It seems to have been prepared with some care, and I suggest that it be printed.

Senator NELSON. All right; let it go into the record.

(The memorial referred to will be found at the conclusion of this day's proceedings.)

(Thereupon, at 1 o'clock p m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

STATEMENT OF RICHARD H. LONG, FRAMINGHAM, MASS., MANUFACTURER OF SHOES AND SHOE MACHINERY AND DEALER IN SHOES AND SHOE MACHINERY.

Senator HOLLIS. Mr. Long, we will hear from you now. Please give your name and address to the stenographer so that we will have it in the record.

Now you may proceed and make your statement in your own way.

Mr. LONG. I appear before the committee as a manufacturer and a merchant, and my reason for coming is that I had not seen any account in the papers that merchants and manufacturers had appeared before the committee to any extent, and I believe the currency bill, if it is enacted, should consider the merchants, manufacturers, and farmers fully as much as any other factors in the country. Under the present conditions of banking as it is in New England I believe the credit that is given by banks goes first to the large industries that are represented in the banks or connected with them, and after that to the men who are engaged in buying and selling stocks, and that the commercial man comes last.

I am in favor of the bill as it is, rather than not have a currency bill enacted. I believe a currency bill should be enacted to bring about more independence in banking circles and to give the trading people of the country, who are engaged in real business rather than speculative business, a better chance than they have to-day.

Senator BRISTOW. Now, if you will pardon me, Mr. Long, wherein do you think this bill would make more independent the banking business of the country?

Mr. LONG. I believe the regional banks—that the individual banking houses would do business with them where now they do it largely with a few banks. I believe it would be distributed better.

Senator BRISTOW. But the regional banks are owned by the bankers; they are run by directors elected by the bankers; it is part of the

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banks; and the control is a banker's control and a banker's ownership. Now, wherein you are going to get independence is what struck me.

Mr. LONG. I believe the banking interests now are controlled by a few people. For instance, in New England the banking interests are controlled largely by a few banks in Boston. They have correspondents largely throughout New England.

Senator BRISTOW. You say through correspondents in New England, in your opinion, there are a few banks in Boston that control the credit?

Mr. LONG. That is it.

Senator BRISTOW. Have you any doubt that if the banks which those few banks control are to elect the directors of the regional bank, which they are to do under this bill, there will not be any difficulty in those banks controlling the directors?

Mr. LONG. I do not think the bank ought to elect a majority of the directors. But I think, even if they do, that the control of the regional bank, so far as it goes, from the men appointed by the reserve board, will make those regional banks much more independent than the banks are to-day of banking control.

Senator BRISTOW. Of course you think that. I think there will be less independence myself. I have not any doubt about it. Instead of getting away from the thing you are seeking to get away from, by favoring this bill I think you are simply riveting it by law upon this country. Now, let me suggest to you that those banks—with 1,500, 2,000, or 4,000, I do not know how many banks you have in New England—with this independent arrangement, if they can not get discount at Boston, can go to New York or some place else if they want to. If, with this democracy in the banking business in New England that we have now, these men are able to control and dominate as you suggest, then if they succeed in getting control of the board of directors of the regional banks they have absolutely got it, and you are helpless. You have got to go to that bank then; the banks could not go any place else under the law.

Mr. LONG. I do not understand that the bill would prevent the national banks or those that come into the regional bank—I do not understand it would prevent them from going to any other banks to do business. Is that a part of the bill?

Senator BRISTOW. They can not discount, because they can not keep their reserves except at the regional bank. The country bank discounts its bills now with the city bank, the reserve bank where it keeps its reserve.

Mr. LONG. Yes.

Senator BRISTOW. Now, if it is not satisfied with the reserve bank where it keeps its reserve, it will go to some other bank. It has an opportunity of going to other banks.

Mr. LONG. Doesn't it have the same opportunity under this bill?

Senator BRISTOW. No; the law requires it to carry its reserves in this regional bank, and it can not carry them any place else.

Mr. LONG. Could it not keep a deposit any place else?

Senator BRISTOW. Oh, it can keep a deposit, but it can not keep the reserve. The reserve, under the law, must be in the regional bank.

Mr. LONG. As I understand it, this bill would not affect the banks except those that go into this system. The other banks would be independent.

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Senator BRISTOW. They would be just as they are now.

Mr. LONG. And the fact that the manager of the regional bank would be appointed by the Federal reserve board would take away the entire control, as the regional bank would not be so entirely controlled by the banks as the banks are to-day.

Senator BRISTOW. There would be a difference of opinion there. I think it would be more so, but then I am just giving you my views. I do not want to interrupt you any further.

Mr. LONG. I believe, however, that the bank should not control the reserves of the regional bank, and that the capital for those banks should not be required from the national banks. I think it should be subscribed by the public, so that it would make the regional banks entirely independent. In that case it would take away, to a certain extent, the monopoly of credit that is now held by a few people.

Senator BRISTOW. That is, you would have the board of directors of the regional banks appointed by the Government instead of elected by the banks?

Mr. LONG. Yes; if the capital was supplied by the public there would be no reason for the banks appointing the directors.

Senator BRISTOW. No.

Mr. LONG. As I understand, this bill provides they shall elect six directors.

Senator BRISTOW. Yes; they shall elect six directors.

Mr. LONG. I believe that if the banks are to elect directors they should only elect three, and the Government should elect the majority.

Senator BRISTOW. In that event you would not recommend compulsory subscription; that is, you would not advocate the principle of compelling the banks to create this institution and then not allowing them to have the control or a voice in managing a thing which their own money had created? You would advocate that it be a voluntary subscription and independently managed?

Mr. LONG. That is it—voluntary subscription and independent management. And if the 5 per cent dividend was not sufficient to get the capital necessary, I believe it should be increased to 6, so as to allow the stockholders to have a dividend of 6 per cent.

Senator MCLEAN. Have you ever had trouble in securing accommodations?

Mr. LONG. Yes, sir; I have had troubles.

Senator MCLEAN. Do you have competitors in the shoe-machinery business?

Mr. LONG. Yes, sir; I do not know whether the committee would like to hear it.

Senator HOLLIS. I wish you would give us a short history of your experience.

Senator MCLEAN. A year and a half ago, in a hearing before the Committee on Interstate Commerce, Mr. Brandeis, or some one, then testified before the commitee of the existence in New England of parties who were very anxious to organize a competing concern to the manufacturers of shoe machinery. As he stated, if I recollect correctly, the project failed because the people interested in this new concern could not get accommodations from the banks, and they could not get it because the banks were in a conspiracy with the old shoe-machinery concern. Perhaps you are the person he referred to.

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Mr. LONG. No; I was not the person he referred to, but I did have troubles along that line. If the committee would like to hear them, I can tell them briefly.

Senator HOLLIS. I would like to have a brief statement of that.

Mr. LONG. It was in 1907; I petitioned for a bill in the Massachusetts Legislature to prevent the shoe-machinery company from making certain contracts, and that bill was enacted into law after considerable controversy. At that time I was a shoe manufacturer of this machinery company, and I wanted to be free. During the time that contest was on in our factory we discarded the machines of the machinery company.

Senator HOLLIS. You mean what is known as the United Shoe Machinery Co.?

Mr. LONG. Yes. My company discarded the machines of that company, and a new company was organized to manufacture shoes with machines we bought—secured in different places. Shortly after that the United brought seven or eight suits for infringement against me personally and against the different companies that made the machines and against the new company we organized to carry on the shoe business, and I was informed, soon after that, by the manager of our machinery company, which was a very small company, that if we did not stop trying to do business in competition with the United Co. and give up opposing them, they would see we were put out of business.

Senator MCLEAN. Who informed you?

Mr. LONG. The superintendent of our machinery factory. He said he was informed by a machine man, and that the information came from the management of the department of the United Shoe Machinery Co. The information came to me that they had a representative in every bank in the city of Boston, and they would see to it I could not borrow a dollar in Boston of any of the banks with which I was doing business. At that time I had a credit line, when I wanted it, of, perhaps, $200,000, and soon after that all the banks I did business with told me to pay up, and since that time none of those banks would give me any credit. I was also informed that this machinery company had power to prevent me from getting credit at any bank through New England or even through New York. I had had credit in those cities—New York, Springfield, Worcester, and Albany—and while I applied for it and they gave me to understand it would be granted, it was turned down. I did find one bank in Springfield where one of the directors arranged for a line of $25,000 credit. I met the credit man of that bank in Framingham on his way to Boston, and I was informed that his Boston correspondent would like to open an account with me and gave me a line of credit, and he took me and introduced me to the vice president of that Boston bank, and the vice president, after the Springfield man went out, said: "You do not suppose, Mr. Long, you are going to get any credit here, do you; don't you know that the president of the United Shoe Machinery Co. and five other directors in that company are directors here and, of course, you can not get any money here? The result was that the Springfield bank turned down the credit.

Senator WEEKS. What bank was that, Mr. Long?

Mr. LONG. That was the First National of Boston.

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Senator BRISTOW. Now, you attribute that to the influence of the United Shoe Machinery Co.?

Mr. LONG. I had the information before, and that was the result.

Senator BRISTOW. Was there any legitimate question as to the validity of your solvency: that is, your ability to fulfill your obligations?

Mr. LONG. There should not have been more question then than there ever was.

Senator BRISTOW. Before that you had no trouble in getting credit?

Mr. LONG. Before that I had no trouble in getting credit.

Senator MCLEAN. How many years have you been in business?

Mr. LONG. Since 1896, the old company. This was in 1908.

Senator MCLEAN. Were you asking for a much larger line of credit than usual?

Mr. LONG. No. No: the banks had loaned me $50,000, or $75,000, on credit altogether.

Senator MCLEAN. You said you wanted $200,000?

Mr. LONG. No; I said we had lines of credit of about that amount. The local bank of Framingham would always give us credit when we asked it. They would be as well informed as anyone.

Senator MCLEAN. What reason did the banks give you for denying your credit?

Mr. LONG. Some of them said I had better get out of the shoe-machinery business. They were afraid of the machinery company, what it would do to us.

Senator BRISTOW. That is, you think that these banks that would have had a disposition to let you have the money were afraid that in competition with the Shoe Machinery Co. you would fail and were afraid you would not be good; or were they afraid that the hostility of the Shoe Machinery Co. to them would make them lose more money than your business was worth to them? Which was it?

Mr. LONG. I think they thought it advisable to be friendly to the Shoe Machinery Co., which had a large amount of money on deposit in Boston in the different banks. And they did have representatives, directly or indirectly, on the boards of most of the banks of Boston, or a large number of the banks.

Senator BRISTOW. Now, the story you tell is very interesting, and of course I think a good deal of that kind of business has been done in this country myself. But the strange thing is that gentlemen like you think this bill would remedy that situation. I think it makes it worse. It seems to me, Mr. Long, you must admit that if the banks that can be influenced by the Shoe Machinery Co. should control the election of the board of directors of the regional bank for New England then they have everything they want, because they control the very source of supply and the banks could not go out and seek independent help, because the reserves are, by law, forced into this bank.

Mr. LONG. That would be true to some extent, but I think even under this present bill the three members of the board of directors who are appointed by the Federal reserve board would help to bring about more independence in banking.

Senator BRISTOW. Suppose they were not unfriendly to the Shoe Machinery Co.; then what would happen?

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Mr. LONG. Suppose they were unfriendly?

Senator BRISTOW. Suppose they were not unfriendly.

Mr. LONG. Those three members?

Senator BRISTOW. Yes.

Mr. LONG. I do not see anything in this bill that would make the condition any worse than it is.

Senator BRISTOW. It would not make it any better, would it?

Mr. LONG. I think it would tend to make it better.

Senator BRISTOW. Will you please tell me just how?

Mr. LONG. I believe under the present condition there is a large concentration of credit. I believe that with these regional banks the credit would be distributed.

Senator BRISTOW. What makes you think that when the regional banks are all controlled by the very men that now control the credit?

Mr. LONG. That gets back to the credit, whether the three men appointed by the Federal reserve board would have enough independence to see that those banks would not be influenced.

Senator BRISTOW. They are in the minority, aren't they?

Mr. LONG. Yes; they are in the minority.

Senator BRISTOW. How much influence does a minority stockholder have in the management of those corporations?

Mr. LONG. I understand that the Federal reserve board have the right to remove any of the members of the regional banks, and if those three men were independent and saw the banks were not being carried on independently they could appeal to the Federal reserve board and have those directors removed. But I believe the situation would be much better if the banks did not control these regional banks—if they did not have a majority of the board of directors.

Senator BRISTOW. I agree with you—have the bank as an independent bank, and that the banks do not own it and do not control it. That is an entirely different proposition.

Mr. LONG. I believe it should be that way.

Senator BRISTOW. But I understood you to suggest that you wanted this bill as a remedy, and for my life I can't see it. I think instead of getting a remedy you are fastening your hands with shackles a great deal worse than you are to-day.

Mr. LONG. I am not looking at myself at the present time.

Senator BRISTOW. I was referring to men situated as you have been.

Mr. LONG. Yes; but I think this bill, while it would not be a real remedy, it would to an extent be a remedy, and it would tend toward bringing about more independence in banking. I believe, as I understand, this bill intends to bring about a method where banks can rediscount their paper and have a credit that will be more elastic than the present. I think the principle is a good one.

Senator BRISTOW. Yes, Mr. Long. I am sorry to say that a good many gentlemen have the same impression you have from political stories that have been circulated through the country in order to give favor to this bill. But, for myself, I think it is an erroneous impression; that that does not come from applying your knowledge of practical affairs to the provisions as they are written in the bill.

Mr. LONG. Well, I believe that under this present bill if a person was discriminated against in a line of credit he could go individually to his local bank, and if they did not give him relief there he

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could personally go to the Federal reserve board and point out the situation, and it would help to bring about a better condition. But I do not think it is a perfect bill. I think a bill for the purpose of having a better system of credit could be drawn, and I think this bill should be amended, and I think the best way to amend it would be to take away the control from the banks and not require the banks to furnish the capital, except so far as they wished to do it.

Senator BRISTOW. I entirely agree with you on that proposition, and, so far as I am concerned, I am in favor of that kind of a bank. But that is as antagonistic to the provisions of this bill as anything could be.

Mr. LONG. Well, you do not think this bill would make the situation any worse than it is?

Senator BRISTOW. I think it would; yes. I think so. I think it concentrates the credit a good deal more than it is now—makes it possible.

Mr. LONG. Don't you think the publicity that would be brought about in the conduct of the affairs of the regional bank would bring about more independence in banking?

Senator BRISTOW. I do not see any publicity here that is provided for.

Mr. LONG. You do not think the three men appointed by the Federal reserve board would have any influence?

Senator BRISTOW. I do not think they would pay much attention to it. If the board of directors did not pay any attention to this experience of yours—the board of directors was off somewhere; it was the officers of the bank that turned you down. You will have nine on the board of directors, but the officers will run this thing. That the directors will come, and they will be presented with the matter, and they will decide it is a delusion and a snare for men situated as you are, in my opinion. That is the reason I am opposed to it, because I do not think it accomplishes anything at all that gentlemen situated as you are feel the need of. I do not know anything about the facts of your case, but I have no doubt but what certain powerful interests can prevent a man from getting credit, no matter how good he is, because the banks do not want to incur the hostility of those interests; and the men who control those interests have power enough and selfishness enough to want to destroy their competitors and to do it in any way they can, and they will use their power with the banks, and the banks do not want to go up against a dangerous proposition. It may not be because they have any part in the conspiracy in question, but they are prudent business men and do not want to get into a controversy that will be dangerous or detrimental to the interests of the stockholders, and that will stop them.

Mr. LONG. There is one provision of this bill relating to farm loans that I think would be a good thing for all parts of the country, because the farmers could have a way of borrowing money. Even in New England there are a good many small farmers that need money for a few months, who own property that is not mortgaged, and if they could borrow money for a few months from their own bank, dealing with the regional bank, I believe that would be a material help.

Senator BRISTOW. It would be a benefit to the farmers you have in New England?

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Mr. LONG. I think so. I think, in my own town of Framingham, there are farmers it would help.

Senator BRISTOW. Can you tell us—a few months would not do us any good out West—the kind of paper that the farmers have?

Mr. LONG. I understand those farm loans would be short-time paper with the property as collateral.

Senator HOLLIS. A mortgage.

Mr. LONG. Yes; a mortgage.

Senator BRISTOW. Would that be of much use to the farmer in New England?

Mr. LONG. I think it would.

Senator BRISTOW. How do they make their loans up there: just as business men do, three months' time?

Mr. LONG. Three or four or six months. As I understand the bill, they could borrow for six months or eight months, and the banks would carry it for a few months and then send it to the regional bank for discount.

Senator BRISTOW. In the farming regions in the West and Central West a 12-months' limitation would destroy the usefulness of that, because their loans practically are all made for five years; and I wondered what conditions in New England would make a 12-months' farm loan of value to you that it would not be to us out West. What crop does the farmer gather that enables him to meet the note?

Mr. LONG. They raise hay and other crops. I think hay is the principal crop. But there are times that the farmer needs money, and I think any help you can give to the farmer might help him to raise larger crops and reduce the high cost of living?

Senator BRISTOW. Well, the high cost of living does not come from the high price the farmer gets for what he raises. It comes from the prices we have to pay after it leaves the farmer. The farmer is not getting any more for his wheat now than he got many, many years ago. A few things are higher but many things are not. The high cost of living has been charged to the farmer, and in making this tariff bill—which ought not to be referred to, I suppose—he has been made the victim. The real evil is the commercial system we have and not the high cost of producing the farm products, in my judgment.

Senator O'GORMAN. Has this witness concluded?

Senator BRISTOW. There is nothing else, unless Mr. Long wishes to add something else to his statement.

Mr. LONG. I think I have said about everything I wanted to say, except to reiterate that I think in this bill, before it is finally enacted, the merchant, the manufacturer, and the farmer should be considered; but even in its present form I think it would be a benefit to them and bring about more independence in banking.

Senator REED. How are we to consider the merchants, the manufacturers, etc., in this bill? How are they to be protected any more definitely than they are by virtue of building up a strong, safe banking system, regulated in its great outlines by the Government?

Mr. LONG. In times of stringency I believe the merchant, the manufacturer, and the farmer is the man that is refused credit first, and I believe this bill, with its rediscount feature, as it is in its present form, with its rediscounting privileges, will make a more elastic system of credit.

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Senator NELSON. You know, of course, that the farmers and merchants can not go to these regional banks and get a discount, don't you?

Mr. LONG. But their own banks. A merchant would go to his own bank.

Senator NELSON. They can do that now, can they not?

Mr. LONG. Yes; but the bank in a small town could not loan over a certain amount of money to a manufacturer. If he wanted more money than his bank could loan at the present time, he would be obliged to go elsewhere; but if the bank could rediscount his paper, he could get a larger line of credit.

Senator O'GORMAN. Can not any bank now find adequate opportunity to rediscount its paper when it has to do that?

Mr. LONG. I think under the present condition—at the present time—the leading banks frown on the idea of rediscounting paper. It is not considered to be sound banking.

Senator O'GORMAN. And you think the custom will become legitimate under the proposed plan?

Mr. LONG. I believe under this bill if the banks were required to deposit a certain amount of money with the regional banks it would bring about a practice of rediscounting paper.

Senator NELSON. Do you believe that the banks are the creators of wealth, or any banking system? Does that create wealth or credit of itself?

Mr. LONG. I think a banking system may limit credit or enlarge credit. I do not think they create credit.

Senator NELSON. Does not the credit and currency of the country hinge upon the prosperity of the country?

Mr. LONG. Yes.

Senator NELSON. And the volume of production—what the farmers produce and the manufacturers manufacture, and the merchants handle?

Mr. LONG. Yes, sir.

Senator NELSON. Is not that what makes business? Is not that what builds the credit?

Mr. LONG. That is.

Senator NELSON. And the banks do not do it. They are simply the vehicle; the instrumentality?

Mr. LONG. Yes.

Senator O'GORMAN. Does any other Senator desire to ask a question?

Senator REED. I did not hear this gentleman's testimony. I have been told you say you were engaged in the manufacturing business and could not get money?

Mr. LONG. Yes, sir; I was manufacturing shoes and shoe machinery.

Senator REED. Where?

Mr. LONG. Framingham, Mass. I introduced a petition for a bill in the Massachusetts Legislature in 1907 that became a law after quite a contest, and at that time I was using machines from that company under contracts of lease, and while the legislation was going through the house and senate we discarded the machinery from that company, and our old company that was under contract went out of

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business and a new company was organized to manufacture shoes with machinery that we bought. Soon after that the superintendent of a branch of our business that was looking after the machinery informed me that through another machinery man, a representative of the United Shoe Machinery Co., word had come along to me that if I did not stop opposing them they would see I would not be able to borrow any money in Boston from the banks I was doing business with. At that time I had lines of credit in Boston of about $200,000. That credit was taken away, and since that time I have not received any discounts from those banks.

Senator O'GORMAN. Was any reason given by the banks for taking that away from you?

Mr. LONG. They said that I had better go out of the machinery business and stop opposing the United Shoe Machinery Co.

Senator WEEKS. What banks were you borrowing from?

Mr. LONG. I was borrowing from the Commonwealth Trust Co., of Boston.

Senator WEEKS. How much credit did you have?

Mr. LONG. I had a line of $100,000. I owed them $50,000, and I was promised $50,000 more. The Atlantic National Bank, of Boston, I had a line of credit there up to about $75,000. I was offered a line of credit by the New England National Bank of $50,000.

Senator REED. You did not go out of business, did you?

Mr. LONG. No, sir.

Senator REED. Where did you get your money?

Mr. LONG. I was obliged to limit my business, to sell through retail stores that I owned, and be slow in paying my bills until we made money enough to be more independent.

Senator REED. Are you running now?

Mr. LONG. Yes, sir.

Senator REED. Has your business been prosperous since?

Mr. LONG. Not anywhere near as prosperous as before, because I was limited for a time in credit.

Senator REED. But you have not had any failure?

Mr. LONG. No, sir.

Senator REED. You have been doing a paying business all the time?

Mr. LONG. We conducted business all the time.

Senator REED. What I am trying to get at is whether there was any such condition in your business, at the time you say those credits were refused, to have led a conservative banker to have refused you credit because your business was not in a good condition?

Mr. LONG. I do not think there was. We paid the notes, and the different banks refused to make further discounts.

Senator O'GORMAN. Did the bank have reason to fear that your competition with these other large interests might so involve you as to impair your ability to meet your obligations?

Mr. LONG. I do not think so. I owned real estate, free and clear of encumbrance, that cost me nearly $500,000.

Senator NELSON. Were you an incorporated company?

Mr. LONG. Yes, sir.

Senator NELSON. You succeeded another company, as I understand it?

Mr. LONG. Yes; the Framingham Shoe Co. is the company that succeeded the old company.

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Senator NELSON. The old company succeeded that?

Mr. LONG. The Framingham Shoe Co. is the present company. The old company was the R. H. Long Shoe Manufacturing Co.

Senator NELSON. Did you buy out the old company when you formed the new company?

Mr. LONG. I owned the old company. I owned all the stock.

Senator NELSON. And you changed into a new company. What did you make the change for?

Mr. LONG. I did not change into the new company. The old company went out of business. It had contracts with the United that it could not use any other machinery, and that company went out of business.

Senator NELSON. That was your company, too?

Mr. LONG. Yes, sir.

Senator NELSON. And then you formed a new company?

Mr. LONG. Yes, sir.

Senator NELSON. How much stock and bonds did it have?

Mr. LONG. The new company has a capital of $225,000.

Senator NELSON. In stock?

Mr. LONG. Yes.

Senator NELSON. And how many bonds outstanding?

Mr. LONG. No bonds.

Senator NELSON. No mortgage?

Mr. LONG. No, sir.

Senator NELSON. And who held the stock?

Mr. LONG. I held the stock, all but a few shares.

Senator NELSON. All but 2 shares?

Mr. LONG. All but a few shares—maybe 8 or 10 shares.

Senator NELSON. So it was really a one-man company?

Mr. LONG. Yes, sir. The notes I offered to the banks were the notes of the Framingham Shoe Co., payable to me, with my indorsement.

Senator O'GORMAN. With your indorsement?

Mr. LONG. With my indorsement: and I at that time owned real estate in Framingham that cost me about $500,000.

Senator REED. Now, you are bucking, as the term goes, this United Shoe Machinery Co., consisting in refusing their machines and no other?

Mr. LONG. Yes, sir.

Senator REED. And putting in a rival machine?

Mr. LONG. Putting in other machines; yes, sir.

Senator REED. And your old company had had a contract binding it to use the United Shoe Co.'s machines?

Mr. LONG. Yes, sir.

Senator REED. Did you repudiate those contracts—that is, break any contract in any sense—or just refused to keep the machines longer?

Mr. LONG. Yes; we claimed their contracts were illegal.

Senator REED. Had you agreed to use their machines for a given period of years?

Mr. LONG. Yes.

Senator REED. And you repudiated that by means of reorganization?

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Mr. LONG. Not exactly that; the old company was a Massachusetts company, which simply went out of business.

Senator REED. It went out of business, and the contract came to an end because you no longer used them?

Mr. LONG. Yes, sir.

Senator REED. Did this contract bind your company to use the machines for a given period of time, or was it terminable when the company ceased to manufacture?

Mr. LONG. Most of the contracts would practically terminate when the factory ceased to do business. There were some which were continuous.

Senator REED. Was there any claim that you had been really guilty of a breach of good faith when you adopted this method of escaping from the contract?

Mr. LONG. There was never a suit or claim brought against the old company on account of the contract. There was some infringement suit against me personally.

Senator NELSON. Were you the principal owner of the old company?

Mr. LONG. Yes, sir.

Senator NELSON. So you simply changed your corporate name?

Mr. LONG. No; the old company went out of business.

Senator NELSON. You went out of business, and then you took on a new name?

Mr. LONG. A new company was organized.

Senator NELSON. A new company was organized?

Mr. LONG. Yes, sir.

Senator O'GORMAN. What did the old company do with its plant?

Mr. LONG. They had a plant which they hired.

Senator NELSON. Did they have any plant which they turned over to the new company?

Mr. LONG. No; the new company bought some merchandise.

Senator NELSON. What did the $250,000 of stock represent?

Mr. LONG. Investments.

Senator NELSON. In what?

Mr. LONG. Merchandise and cash.

Senator NELSON. Good will?

Mr. LONG. No. There was $25,000 of good will in the company.

Senator O'GORMAN. You say the plant held by the first company was rented?

Mr. LONG. Yes, sir.

Senator O'GORMAN. From you?

Mr. LONG. No.

Senator O'GORMAN. From whom?

Mr. LONG. From the Coburn Manufacturing Co.

Senator REED. You said there was some infringement suit brought. When was that brought, before or after you changed your company name?

Mr. LONG. They were brought after the new company was organized.

Senator REED. They claimed you were then using a machine which was, in fact, an infringement of other patents?

Mr. LONG. Yes.

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Senator REED. Did those suits claim large amounts of money as damages?

Mr. LONG. There was no amount; it was simply a suit with a request for an injunction.

Senator REED. Were those suits for injunction pending at the time the banks said they did not care to let you have any more money?

Mr. LONG. Some of them were.

Senator REED. After the suits had been disposed of, did you ever again apply to these banks for credit?

Mr. LONG. I did.

Senator REED. Was it still refused to you?

Mr. LONG. Yes.

Senator O'GORMAN. How were the suits decided?

Mr. LONG. So far as they went they were decided in my favor.

Senator O'GORMAN. Are you doing business with any of those banks which refused to give you credit then?

Mr. LONG. No, sir.

Senator WEEKS. Did the United Shoe Machinery Co. have an account with the Atlantic National Bank at this time?

Mr. LONG. I do not think so.

Senator WEEKS. You do not know whether it did or not?

Mr. LONG. No; I do not.

Senator WEEKS. Did it have any director on the board of directors of the Atlantic National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did anybody connected with the United Shoe Machinery Co. own any stock in the Atlantic National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did the United Shoe Machinery Co. have a deposit in the New England National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did anybody connected with the United Shoe Machinery Co. belong to the board of directors of the New England National Bank?

Mr. LONG. I think they did.

Senator WEEKS. Who?

Mr. LONG. I do not know, except from what the vice president said to me about the loan.

Senator WEEKS. You do not know who?

Mr. LONG. No.

Senator WEEKS. Did they own any stock of the New England National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did the United Shoe Machinery Co. keep an account with the Commonwealth Trust Co.?

Mr. LONG. I understand they did.

Senator WEEKS. Do you know whether it did or not?

Mr. LONG. I was told they did.

Senator WEEKS. Did it have any directors on the board of the Commonwealth Trust Co.?

Mr. LONG. I do not know that.

Senator WEEKS. Did they own any stock in the Commonwealth Trust Co.?

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Mr. LONG. I do not know.

Senator WEEKS. Before Mr. Long leaves the stand I want to make a brief statement, and I would like to have him make any corrections in regard to it before he leaves, if there are any points he wants to raise.

This is an old story which he has brought to us relating to a controversy between himself and the United Shoe Machinery Co. I know nothing about its merits; neither do I know of any influences brought to bear by any large corporations to prevent their rivals from obtaining accommodations in banks. It is possible that such may have been done in some cases, but I see no evidence of it in the complaint he has made, but in regard to the First National Bank, I want to say the information Mr. Long has given the committee is, in my judgment, not entitled to any credit.

Mr. LONG. If you will allow me to interrupt you.

Senator WEEKS. Let me finish my statement, and then you may make any corrections you desire.

At the time to which he refers I was one of the directors of the First National Bank, and as I was here in Washington I knew nothing personally about this matter. Mr. Long was my opponent in the primaries last fall as a candidate for Congress and made his campaign against me because of my being on a board of directors with certain directors of the United Shoe Machinery Co.

At that time I naturally wanted to find out whether Mr. Long had any real grievance against the First National Bank, of which I was an officer, so I made inquiry, and I learned as a result of my inquiry that Mr. Long did apply for a loan at the bank, but he never had kept an account with it. He asked to open an account at the bank by making a loan. Ordinarily, when a man predicates opening an account by making a loan, there is hesitation on the part of the bank as to proceeding any further with him. In this particular case one of the vice presidents of the bank, Mr. Dimmell, did say to Mr. Long that he did not think his statement warranted the bank's loaning him money under such circumstances, and later on, after he had investigated Mr. Long and obtained a report upon his commercial rating, he was confirmed in that opinion, so that at another time when Mr. Long called at the bank and saw the president and asked to open an account and make a loan, the same reply was made to him, and that reply was made because, in the first place, Mr. Long had been engaged in business in Belchertown, Mass., and had made a pretty bad failure in his business, and, in the second place, he not only was manufacturing shoes and shoe machinery but he maintained a considerable number of stores. He manufactures and sells the Waldorf shoe. It constitutes a business with a good many strings to it, and it has not been the policy of the bank to loan money under those circumstances to any borrower.

But these replies made by the president and vice president of the bank were made without any consultation with any director connected with the United Shoe Machinery Co. or any other director. They were based entirely, in my judgment, on the merits of the case, and had no other motive whatever.

Mr. LONG. I would like to correct one statement made by Senator Weeks in regard to a failure in Belchertown. I did not make any

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failure. The same company was in business in Framingham that was in business in Belchertown.

Senator WEEKS. I have always been told—I do not want to do you any injustice—that there were a number of people in Belchertown who lost money through your manufacturing industry there.

Mr. LONG. That was a political story.

Senator WEEKS. If so, I apologize, and would strike that from the record.

Mr. LONG. I did not come here to refer to my own troubles with banks. I came before this committee to say that in framing the bill the manufacturers and merchants should be considered in the framing of the bill that is to be enacted into law—manufacturers, merchants, and farmers. I think they need additional credit facilities more than the big industrial corporations and people connected with the stock exchange, who, in my opinion, have the first call on the money in the banks.

Senator WEEKS. That is a general opinion, I think.

Senator O'GORMAN. Are there any further questions? If not, Mr. Long, we will excuse you.

We will now hear from Mr. Vinson.

STATEMENT OF TAYLOR VINSON, ESQ., OF HUNTINGTON, W. VA.

Senator O'GORMAN. Mr. Vinson, state your full name, your residence, and business activities for the record.

Mr. VINSON. My name is Taylor Vinson; my residence is Huntington, W. Va.; I am a lawyer and interested in the coal business.

Mr. Chairman and gentlemen of the committee, I want to apologize for the presumption I have in appearing before your committee. There are some phases of this bill which is now under consideration which I have looked at from the practical point of view of the man who has most business with banks as as a borrower, as it affects his own personal affairs. I think, in that respect I represent one of a very large and numerous class of business men.

I am encouraged to proceed with this statement I am going to make by reason of statements I have heard since I have been here, coming from different members of the committee. They foreshadowed what I have to recommend, and I would not be here, in view of the very great and continued criticism coming from such high and respectable sources against this bill if I did not have something, which, in my judgment, is better to offer as a substitute. I hope that will be a sufficient apology, Mr. Chairman, for taking up your time for a few moments.

In my study of the principles of legislation, which I had to do as a student of law, there are two or three fundamental precepts which, if followed, ought not to lead any legislative body very far astray. There are one or two also which I would like to read, and which I think are axiomatic.

One is that the supply of currency is a governmental function and not a private function. I lay that down as a principle which I will elaborate a little later. The exercise of a governmental function should never be committed to private persons having personal interests to serve. In other words, no judge should decide a case in which he is personally interested.

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The central-bank plan, known as the Aldrich plan, and the regional-bank plan which is outlined in the bill before this committee are the same as far as this principle is concerned, and both these plans violate this principle. That is, the regional banks and the central bank are owned and controlled by private persons representing private rights and yet exercising the most sacred governmental functions.

Criticisms that have been directed toward the central-bank plan, as originated by ex-Senator Aldrich, so far as its being a private institution, governed and controlled by private individuals representing private stockholders, as being a most dangerous exercise of power over the supply of currency that is to be issued and controlled by a purely private institution—I say the argument is just as strong, if not more so, against the principle that a regional bank as provided for in this bill.

Those are two precepts, and I have another on the question of reserves. The necessity for reserves is to create primarily in the mind of the depositor the implicit confidence in the ability of his bank to return his money whenever he calls for it. To divert the bank reserves into the purchase of bills and notes by the reserve agent weakens and impairs that confidence and produces fears and apprehensions that, at times, necessarily lead to panics.

In other words, reserve money if diverted and spent for other purposes, however redeemed, ceases to be reserve.

Along that line and carrying out that idea, Mr. Chairman, I have prepared a bill which, if I had the honor of being a member of this committee, when the committee got into executive session, I would move to substitute for the bill now before you.

I will state the principle of this bill very briefly. It is to create a currency department of the Treasury of the United States. That currency department would be, for the sake of convenience, called a Treasury bank. I used that term because I did not think of anything more appropriate. That Treasury bank would be governed and controlled entirely by a board of governors composed of seven members. Of course six of these members would be appointed by the President; and the Secretary of the Treasury, by reason of his affiliation with the business, would be ex officio a member of the board but not the chairman.

These members would be appointed for periods of 12 years—I mean the 6 members. That is, the first appointment would be two for 4 years, two for 8 years, and two for 12 years, so that no President, even if he might have the mind to do so—which I feel sure he would not—could put in different persons on the board—persons affiliated with any particular political party; he would be unable to do that.

This would be a board of governors, each of whom would have necessarily as a qualification an intimate knowledge of banking conditions, but yet be entirely divorced from banking or any banking interests, whether as a director or stockholder. This board would be as strong and as great in character and in ability to discharge the functions that they would be called upon to discharge as you find in the character and ability of the members of the Supreme Court of the United States to discharge the duties that they are called upon to discharge. It would not be influenced by any personal considera-

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tions whatever. In other words, it would have a new form along the very particular lines of an interstate commerce commission, vested, however, with very much greater responsibilities and requiring a more conservative exercise of judgment.

Now, then, if that board were created, and we had this bank, if you please, which is simply another name for that part of the Treasury Department; we will call it a Treasury bank, because under that name this department would exercise its functions. Then, if any bank in the country, whether National or State bank, desired the privilege of rediscounting any of its commercial paper, or I might say short-time paper, it would make its application to this board of governors along the same lines as provided in this bill, the same as would apply to the regional bank. The application would not be made directly to the board of governors, would establish State offices, if you please, in each collection district of the United States, if it was necessary to accommodate the local banks, and they would use the internal-revenue collector for that particular district as their representative and agent, and he would be under their direction. So that when an application came it would go first into his hands, and then, having the supervision of the income tax and the excise tax on all corporations in his territory, he would have practically a credit statement showing the individual credit of most men and most makers and indorsers of paper that would come before him for action.

Senator WEEKS. What you propose is to make a separate bank in the Treasury Department, which shall, essentially, be a central bank under Government control?

Mr. VINSON. Absolutely.

Senator WEEKS. That is your proposition.

Mr. VINSON. That is it.

Senator WEEKS. Without going into details?

Mr. VINSON. Without going into details. It is necessary to go into a few details, so that these details may be contrasted with the provisions of the bill before you.

Senator HITCHCOCK. Where does the bank get the money it is to loan?

Mr. VINSON. The Treasury bank?

Senator HITCHCOCK. Yes.

Mr. VINSON. Well, in the first place, it would be authorized, directly, to issue notes—to issue Treasury bank notes. The bonds that are now held by the Treasury to secure the circulation of the national banks would be reissued and turned over to this Treasury bank as 3 per cent bonds instead of 2 per cent bonds, and then all the national banks, and all other banks having national-bank notes, would simply send those notes to the Treasury bank, and the Treasury bank would issue those notes, and in that way you would have a retirement of your national-bank notes, the payment of which is secured by the $725,000,000 of bonds, 3 per cent bonds instead of 2 per cents, with the right of the Treasury bank to pledge these bonds at any time the gold reserve might run low.

Senator HITCHCOCK. The $700,000,000 of national-bank notes would be supplanted by $740,000,000 of Treasury notes to begin with—United States notes?

Mr. VINSON. Yes, sir. Back of those Treasury notes would be the same amount of United States 3 per cent bonds.

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Senator HITCHCOCK. They would all be outstanding?

Mr. VINSON. They would all be outstanding.

Senator HITCHCOCK. As the bonds came in, where would the Treasury bank get the additional funds to lend?

Mr. VINSON. Well, I have not yet reached that point. I wanted to explain how the bill will mathematically retire all bank notes, and silver certificates and gold certificates, so that the whole country will have but one character of paper money.

Senator O'GORMAN. Do you provide for the retirement of the greenbacks?

Mr. VINSON. Yes, sir.

Senator WEEKS. Before you go on with that, I want to come back to your original premise. On what do you base your statement that it is a Government function to issue circulation?

Mr. VINSON. I base it upon the criticisms that were offered by the friends of the present measure against what we call the central-bank idea of the Aldrich measure.

Senator WEEKS. Is there anything in the Constitution or in the practice of nations which warrants any such conclusion?

Mr. VINSON. I do not know that it would be a constitutional requirement.

Senator WEEKS. But it is a constitutional requirement for the Government to coin money.

Mr. VINSON. I mean that would oblige the Government to keep to itself the sole power of regulating the currency.

Senator WEEKS. Is there anything in the practice of other Governments which warrants the conclusion that it is a governmental function to issue circulation?

Mr. VINSON. I think the practice of other Governments is directly to the contrary.

Senator WEEKS. You want to throw away the experience of the world and adopt something new?

Mr. VINSON. I would like to throw away the experience that would not be applicable to our own country. A great deal of stress has been laid by the friends of the Aldrich plan upon the fact that the banks of England, Germany, and France have been controlled along parallel lines to the proposed Aldrich bank so successfully for such a long period. That is the precedent which the lawyer would call it, that he sites in support of his proposition. But the conditions are so very different there from what they are here that the precedent ceases to be a precedent upon analysis.

Now, I have no doubt that the people of England and the Governments of these various countries feel that the Government, as such, must retain every particle of the credit that it has, so that it may, on extremely short notice, be able to use all that credit and raise a tremendous war fund, and that the people, knowing that fact, have more confidence, in all probability, in the stability of these banks of issue than they would have if the Government stood back of them. That is not our condition.

Senator NELSON. Your idea is to retire the present national bank notes by substituting 3 per cent bonds for the 2 per cent bonds, and having the Government keep those 3 per cent bonds as a basis for this new circulating medium?

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Mr. VINSON. As a basis rather of redemption. In other words, the bonds would only be let out whenever the notes which the Government issued to retire the national-bank notes were presented for payment.

Senator NELSON. Would you measure the quantity of the notes by these new 3 per cent bonds?

Mr. VINSON. I think you would measure the quantity the same as now.

Senator NELSON. Would you not still have this bond-secured currency to that extent? You would have a currency based on 3 per cent bonds instead of 2 per cent bonds?

Mr. VINSON. Yes; that would be it, substantially.

Senator WEEKS. How can you redeem a note with a bond?

Mr. VINSON. You would get one with a bond.

Senator WEEKS. How?

Mr. VINSON. By selling it.

Senator WEEKS. To whom are you going to sell them?

Mr. VINSON. I think anybody would buy them.

Senator WEEKS. Any time anybody came with a note to redeem, you would sell the bond?

Mr. VINSON. Certainly not. I take it the governors of the bank always have on hand a sufficient quantity of gold to meet all requirements.

Senator WEEKS. Have you provided for that?

Mr. VINSON. Absolutely. I would give the governors the power to sell the bonds——

Senator NELSON (interposing). You would have the currency redeemable in gold?

Mr. VINSON. Absolutely.

Senator NELSON. And made a legal tender?

Mr. VINSON. Absolutely. My idea is this: That any currency—that is, the currency ought to be just as good as gold, under any and all circumstances. I think the very idea of the expression "lawful money" used in this bill is bad. The idea of having any money that is not lawful money, paying debts with it and using it in our every-day affairs, using money that is not strictly speaking lawful money, is a bad idea.

Senator NELSON. I am asking simply in order to get some light on your proposition. Now, beyond the circulation that would arise from the conversion of the 2 per cent bonds to 3 per cent bonds, what would you base that other extended circulation on, the circulation beyond that?

Mr. VINSON. For the discount of the notes?

Senator NELSON. Well, if you issued more circulating notes than would be covered by these new 3 per cent bonds, what would you base those on?

Mr. VINSON. You would not issue any more than were covered by the 3 per cent bonds and these notes would have back of them precisely the same governmental guarantee which they have now.

Senator NELSON. You would have Government bonds as the basis of that currency?

Mr. VINSON. Oh, to be sure. The faith of the Government would be back of all the note issues.

Senator NELSON. How could you get elasticity in the currency?

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Mr. VINSON. Very simple. As a bank would borrow money, or rather, rediscount it at this Treasury bank by the approval of the board, it would take notes that would mature inside of 120 days out of its own portfolio and have them discounted, and when those notes were paid the money arising from the payment of the note would go into the Treasury bank again.

Senator NELSON. Then, unless you provide the Treasury with a special discount fund, the Treasury would simply discount this paper by issuing more currency?

Mr. VINSON. It would.

Senator NELSON. So that really you provide, in addition to this bond-secured currency, more currency, based upon the paper discounted.

Mr. VINSON. Asset currency.

Senator NELSON. Go on and give us the rest of your plan.

Mr. VINSON. That is the plan, in a very few words; so that at no time could any individual or any section, or any bank, have any other feeling, so far as the currency supply is concerned, than a feeling that they had been exactly and justly dealt with.

Senator HITCHCOCK. How much would you allow a bank to rediscount?

Mr. VINSON. Forty per cent.

Senator HITCHCOCK. Of what?

Mr. VINSON. Of their loans and discounts.

Senator HITCHCOCK. How do you arrive at that particular feature?

Mr. VINSON. Forty per cent?

Senator HITCHCOCK. Yes.

Mr. VINSON. Well, I took up the idea and made some little investigation about it and found that, generally speaking, particularly among country banks, they would have 40 per cent of what you might call loans that would certainly be paid upon maturity. I called upon the banks at home in order to get that figure. I do not mean to say that is accurate at all, but in order to prevent an inflation of the currency there should be a limit of the amount of discount that any bank may secure.

Senator HITCHCOCK. Then, of course, the more the bank extended its loans, the greater its ability would be to secure currency from the Treasury?

Mr. VINSON. That would naturally follow, just as in the bill before you the more loans the bank would have the more capacity it would have to secure Treasury notes.

Senator HITCHCOCK. Would it not be safer and more conservative to place a limit on the bank's capital rather than on its action in inflating its loans?

Mr. VINSON. As the loans would mature the primary basis of the money to be secured on them would be better.

Now, then, there is another change which it seems to me is particularly desirable. I would reduce the reserves from the 25 per cent now required, and the 15 per cent now required—reduce them down to 10 per cent; 5 per cent of that reserve would be deposited with the Treasury bank and the other 5 per cent would be required to be kept in the vault of the bank.

Senator HITCHCOCK. Suppose a bank had taken out bills to the full limit, and, in the first place, had loaned out all of its loanable

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funds, so that its reserve is down to the danger line, and then it procured 40 per cent additional currency, to extend its outstanding loans, and suppose, when it was unexpected, there would be a run on it; what would you do?

Mr. VINSON. It would be limited to 40 per cent at any one time.

Senator HITCHCOCK. Take a hypothetical case of a bank which has $100,000 capital and a million dollars of loans. That is possible; they sometimes run as strong as that. Suppose such a bank, having loaned to its limit, should go to the Treasury and secure $400,000 of currency and loan that out, so that it would have $1,400,000 of loans outstanding, and then suppose its depositors began a run on it so that it was pretty well extended. What would that bank do to protect itself?

Mr. VINSON. In the first place, it would have its reserve to start on, in the Treasury bank.

Senator HITCHCOCK. Of course, but you say it would be only 15 per cent. It would still have 85 per cent of its depositors to pay, if they all came in at the same time.

Mr. VINSON. Where there is a threatened run on a bank it can use all of its other assets to borrow additional money in order to stop that run if in the judgment of the governors it is entitled to it.

Senator HITCHCOCK. It has exhausted its resources and the Treasury would extend its loans?

Mr. VINSON. Yes, sir.

Senator HITCHCOCK. Suppose it finds itself in a weak position, and its depositors get into a panic. Having exhausted its resources, how can it protect itself from its depositors?

Mr. VINSON. It has the other 60 per cent, together with this 10 per cent of reserves.

Senator HITCHCOCK. It can not discount those.

Mr. VINSON. I know. I have a section covering that, so that when a bank run is threatened or started upon a bank the Treasury board—I mean the board of governors of the Treasury bank—may come to its rescue, if in their judgment it is entitled to the credit.

Senator O'GORMAN. You would call that an emergency fund?

Mr. VINSON. Absolutely for an emergency, and the board of governors would exercise their discretion as to whether it should have aid or not.

Senator O'GORMAN. Do you think it is prudent to allow the privileges of rediscount in order to enable a member bank to extend its line of loans, or should the advantages of rediscount be restricted only to the procuring of money with which to pay depositors?

Mr. VINSON. Senator, I think that, to a certain extent, and I might say a limited extent, the bank ought to have the power to get additional money, provided always that it has paper—I mean bills and notes—in its vaults that have maturities running from 20 to 30 to 40 or 60 days up to 4 months that will surely be paid at maturity.

Senator O'GORMAN. Is that not always subject to the danger of inflation?

Mr. VINSON. It can only be an inflation for 4 months at the outside, and the inflation settles itself. It redeems itself.

Senator O'GORMAN. Going back for a moment, you suggested substituting 3 per cent bonds without the circulating privilege?

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Mr. VINSON. No circulation would be required.

Senator O'GORMAN. It would simply be a 3 per cent investment?

Mr. VINSON. That is it.

Senator O'GORMAN. Do you think that is a sufficient rate of interest in these times, even for a Government security—3 per cent?

Mr. VINSON. Of course those bonds and the interest arising from the bonds would be nontaxable, nor would the interest on the bond itself be subject to the income or inheritance tax; but I think bonds of that kind would command a premium.

Senator O'GORMAN. Do you really think so?

Mr. VINSON. Yes; I do. They are practically commanding a premium now.

Senator O'GORMAN. The 3 per cent bonds?

Mr. VINSON. I think so.

Senator HITCHCOCK. They are about par.

Mr. VINSON. About par? I think I saw them quoted at 101.

Senator McLEAN. I think they have been quoted at 99.

Mr. VINSON. The last quotation I saw was 101.

Senator O'GORMAN. Do you not think the normal trend in the future for the interest rate will be upward rather than downward?

Mr. VINSON. That depends on the supply of money.

Senator O'GORMAN. Having in mind our experience in recent years, the trend has been upward?

Mr. VINSON. That is because the business has grown faster than the money, and, of course, as greater capital demands are made, naturally that increases the rate which business has to pay for its capital. You take the best railroads in the country to-day, and it is very hard for them to get money under 7 or 8 per cent. Four or five years ago, until this tremendous capitalistic demand was created by the growing business of the country, they could get money for 4½ or 5 per cent.

Senator O'GORMAN. Yes; and some of the best city bonds are now being sold at 4½ per cent?

Mr. VINSON. Yes.

Senator O'GORMAN. But nevertheless you feel confident that the 3 per cent bond would maintain its value at par?

Mr. VINSON. I think so, judging from past experience, Senator. I do not believe there would be any doubt about it.

Senator HITCHCOCK. Returning now to this incident of a bank with a million dollars of loans, which, on the strength of its loans has secured $400,000 of currency, or 40 per cent from the Treasury; then its loans amount to $1,400,000. Now, then, would it be entitled to an additional 40 per cent on the $400,000?

Mr. VINSON. Certainly not. It would not be entitled to any more loans until those loans had been paid off and the money arising from them was all sent back to the Treasury Department. You would have a continuing redemption.

Senator HITCHCOCK. You would just allow it to make one loan?

Mr. VINSON. No; I would give it credit for 40 per cent.

Senator HITCHCOCK. This additional $400,000 would entitle it to an additional credit of $160,000?

Mr. VINSON. Not at all.

Senator HITCHCOCK. It is commercial paper.

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Mr. VINSON. But you would base that on its deposits out, and it may be when it was running up to its full limit; then all that would have to be retired and paid before it would be eligible for another loan.

Senator HITCHCOCK. Just allow it one loan?

Mr. VINSON. Just allow it one loan up to 40 per cent.

Senator O'GORMAN. You would give it 40 per cent practically all the time?

Mr. VINSON. Yes; 40 per cent practically all the time, at the time when they required it.

Now, if the paper which was pledged or sold to secure that credit was all paid, there is no reason why, if it has sufficient satisfactory paper in its vaults, that another 40 per cent credit might be added to it at the time the loan was paid back.

Senator HITCHCOCK. Let us make it specific. On January 1 the bank has a million dollars of commercial paper. It applies to the Federal Treasury and gets $400,000 of currency and that exhausts what it is entitled to on its commercial paper?

Mr. VINSON. Yes, sir.

Senator HITCHCOCK. Five days after that it comes to the Treasury, and as I have here $400,000—I have now $400,000 of commercial paper.

Mr. VINSON. Yes.

Senator HITCHCOCK. No; at that time it would have——

Mr. VINSON. It would not have that $400,000.

Senator HITCHCOCK. Well, I will restate that. On the 1st of January it has $1,000,000 of loans and applies to the Treasury and secures $400,000 of currency. As security for that currency it puts up $400,000 of commercial paper, leaving $600,000 of commercial paper in its vaults, but exhausting its right.

Mr. VINSON. Yes.

Senator HITCHCOCK. It thereupon loans out this $400,000 of currency and secures $400,000 more of commercial paper, bringing its commercial paper up to $1,000,000 again. Would not it then be entitled to another $400,000 of currency?

Mr. VINSON. I do not think so, Senator, under the plan.

Senator HITCHCOCK. Well, you have to guard against that.

Mr. VINSON. They would hold the securities, I think, in there. I think it would be limited to the 40 per cent.

Senator O'GORMAN. Have you prepared a bill?

Mr. VINSON. Yes, sir; I have prepared a bill to that effect.

Senator HITCHCOCK. There is something in your suggestion; but I think the standard has got to be the capital of the bank.

Mr. VINSON. Well, I figured the other way—on the loans and discounts.

Senator HITCHCOCK. You would put a premium upon risky banking. The conservative way to figure it would be upon the actual cash capital of the bank, and not upon the paper the bank is manufacturing.

Mr. VINSON. That may be a good way to do. I had running in mind, however, the loans and discounts.

And on the matter of reserves, a great deal has been said about reserves; and going back to my primary principle, if you please, a reserve that is used for other purposes than a reserve ceases to be a reserve. That follows necessarily. Just as to-day the reserves that

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the country banks send to their New York reserve banks under the existing system, those banks are practically compelled to use those reserves and not keep them there.

Senator HITCHCOCK. Five per cent of them.

Mr. VINSON. Yes. I say that it is a business necessity that they must be used. And the very minute they lend that money out, whether it is on a stock-exchange collateral, or on time paper, or whatever they do with it, it then ceases to be a reserve. And it is that fact, if you please, Senator, that creates in the minds of most bankers that apprehension, that dread, that fear that—

some time in the next month, or two or three months, we will have a money squeeze, and if we do, I had better be looking out about my reserves, because I know to-day that they are not in existence.

Now, it seems to me that that is one fault, if not the great and chiefest fault, of our existing system.

Senator HITCHCOCK. You do not mean to have the bank keep them all in cash, do you?

Mr. VINSON. I would keep it in cash; one-half of it in the bank itself for its daily uses. I would have it keep that much more over its daily uses. Of course, it would have to deposit a lot of other cash in its correspondents, to take care of its business. And yet I would keep in the Treasury always a 5 per cent reserve, available any minute.

Senator HITCHCOCK. What would the Treasury do with it?

Mr. VINSON. They would simply hold it as a basis of its own circulation, if you please. I would have that paid in 1 per cent a month, for 18 or 20 months; have it paid in there as a permanent reserve fund.

Senator HITCHCOCK. You mean as a basis for circulation?

Mr. VINSON. I mean as a basis for the notes it issued to the banks that applied for them.

Senator HITCHCOCK. You mean in case they are presented for payment?

Mr. VINSON. Yes; in case they are presented for payment. A portion of that reserve, or a small portion of that reserve, might be used.

Senator HITCHCOCK. Would not the Treasury be doing exactly what you object to the New York banks doing, using the reserves of those banks?

Mr. VINSON. That is true; but it will be limited to using a very small portion of the reserves. The very fact, however, that the gold is there will create in the minds of the people into whose hands the notes go a confidence and a belief that they are safe.

Senator HITCHCOCK. What portion of it would you allow the Treasury to use?

Mr. VINSON. From 1 to 2 per cent of it. The very fact that it is there, however, and available for the use of the bank is a creator of the confidence that is necessary in the conducting of the banking business.

So, I think, that our experience along that line should justify a position that would be against the diversion of reserves by the banks as they exist—and also the same practice that is now proposed to be perpetuated in the bill that is now pending.

In other words, the regional banks will lend out the banks' reserves for the district in which it is located.

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Senator HITCHCOCK. Only two-thirds of it.

Mr. VINSON. Two-thirds of the reserves?

Senator HITCHCOCK. Yes.

Mr. VINSON. Well, that would be subject to control, would it not?

Senator HITCHCOCK. No; the banks are required to keep a reserve themselves of 33⅓ per cent, which means that they are permitted to lend out a maximum of 66⅔ per cent of their reserves.

Mr. VINSON. Of their reserves? That is what I thought. They would lend out two-thirds of the reserves that are put in there, and upon which the banks would have to depend to be used in a case of emergency.

Now, I want to point out, or make some contrast——

Senator HITCHCOCK (interposing). Well, of course, in case of emergency, those individual banks can always apply to the reserve bank, and the reserve bank can procure currency to meet an emergency.

Mr. VINSON. Yes: if it has got the gold.

Senator HITCHCOCK. Yes.

Mr. VINSON. If it has not got the gold it can not.

Senator O'GORMAN. Do you think an internal-revenue collector could as intelligently pass upon applications for rediscount as the officers of a regional bank, as provided for in this bill?

Mr. VINSON. I think, Senator, very much more so.

Senator O'GORMAN. Do you not think the average collector, under the new income-tax law, will have all he can attend to in performing the ordinary duties of his office, without imposing this additional burden upon him?

Mr. VINSON. I would think there should be; and my bill provides for an increase of his force, so that he would be at the head of the business that he has now to attend to.

Senator O'GORMAN. Your plan, then, would really impose upon an internal-revenue collector a substantial part of the banking system of the country, would it not?

Mr. VINSON. Only in getting information and passing upon the solvency of the paper that the banks have to offer; and also——

Senator O'GORMAN (interposing). Well, that is one of the two most important functions of the proposed bill, is it not?

Mr. VINSON. That is one of the functions that he would have to exercise, and he would have most of the information right in his office, by reason of his other duties.

Senator O'GORMAN. You, of course, recognize that the abilities that might qualify a man for internal-revenue collector might not furnish the necessary equipment for performing the duty that you would now assign to him?

Mr. VINSON. That may be very true. I say that might be very true, but the machinery to get at the information concerning the solvency and the desirability of the paper which the banks would offer for rediscount could be ascertained very much quicker by him.

Senator O'GORMAN. Do you not think that could be used to very much better advantage—and I can see that it could be used to advantage—by putting that information that an internal-revenue collector may have at the service of a regional bank, for instance, or the officers of a regional bank? They would be at liberty, under the law, to

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make an examination of any returns that may be lodged in the office of the collector of the district.

Mr. VINSON. I can readily understand that, if the regional bank would establish in each State or in each collection district an agency for securing this information——

Senator O'GORMAN (interposing). For credit information?

Mr. VINSON. Yes; for credit information. Why, doubtless it could be done as well. It would have to be done, though, in connection with the internal-revenue collector's office; that is, to make it accurate.

Senator O'GORMAN. Yes.

Mr. VINSON. Now, it could be done, I think, very much more effectively if it was done under his direction, because he has already got most of the information in his office.

Senator O'GORMAN. You see, there is a sentiment prevailing in this committee largely, if not entirely, at the present time that the provision in the original bill making certain Cabinet officers members of the reserve board is unwise and will probably be rejected by this committee—if I may venture to say that much now—because of the belief that a Cabinet officer has all that he can attend to in looking after the business of his department, just as an internal-revenue collector has probably all he can attend to in looking after the affairs of his office. And men charged with the great responsibility—none greater, perhaps, under our system—of looking after the banking facilities of this country as contemplated by this bill or any similar bills will be required to be capable and big men, giving all their time——

Mr. VINSON (interposing). That is true.

Senator O'GORMAN (continuing). To those duties and to no other duties.

Mr. VINSON. I say that is true. The idea I had in making the Secretary of the Treasury a member of this board was not so much to exercise the same kind and character of functions as the other members of the board—I mean the same time and duty—but to have him be in touch with it.

Senator O'GORMAN. Yes.

Mr. VINSON. So that one could be interdependent upon the other.

Senator O'GORMAN. If you have your bill ready, we will have the stenographer insert it in the record.

Mr. VINSON. Thank you. Yes; it is ready.

(The proposed bill referred to will be found at the conclusion of Mr. Vinson's remarks.)

Senator NELSON. Let me ask you a question in that connection. In your system what change, if any, do you make in bank reserves?

Mr. VINSON. I reduce them; I reduce them from 25 to 10 per cent.

Senator NELSON. Yes; you reduce them. But would you still allow the reserves to be kept in reserve cities or central reserve cities, or would you have the reserves kept in the Treasury Department?

Mr. VINSON. Kept right in the bank.

Senator NELSON. You would reduce the reserves and have them all kept in the Treasury?

Mr. VINSON. I mean one-half of them.

Senator NELSON. And the other half in the vaults of the bank?

Mr. VINSON. Yes; the other half in the vaults of the bank.

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Senator NELSON. Would you do away with reserve cities and central reserve cities?

Mr. VINSON. Absolutely.

Senator O'GORMAN. That would be your method of mobilizing and concentrating reserves?

Mr. VINSON. Absolutely. My own idea is that a reserve should be a real and an actual reserve.

Senator NELSON. And a protection for the depositors?

Mr. VINSON. And a protection for the depositors, and not a reserve that is represented only by a credit on some bank's books.

Senator O'GORMAN. Yes.

Senator NELSON. Loans and discounts?

Mr. VINSON. Yes; loans and discounts.

Senator NELSON. I see.

Mr. VINSON. Now, I want to contrast some of the provisions I have outlined with the provisions of the present bill.

Senator NELSON. Yes; I would be glad to hear you do that.

Mr. VINSON. I want to take up the difference between the board of governors that I have outlined and the board of directors of the regional banks, and let us see which one would probably, if not necessarily, do the simplest and fairest justice to all the banking interests and the industrial and commercial interests.

I will first take up the regional directors. There are six of these directors and that is a majority of——

Senator NELSON (interposing). Of two-thirds.

Mr. VINSON. Of two-thirds that will have the control of this bank. Now, to illustrate the criticism that I have to offer on the bill as now drawn——

Senator O'GORMAN (interposing). Is that not a modified control? It is all subject to the final supervision and control of the Federal reserve board here at Washington, is it not?

Mr. VINSON. I do not understand that the reserve board at Washington would pass, or assume to pass, on the judgment exercised by the board of directors of the regional bank on questions of discount, I mean on questions of rediscounting paper; I do not think they have any power to do that under the present bill.

Senator NELSON. Well, they would if it was the purpose to obtain currency. If the rediscount was for the purpose of obtaining currency by the regional bank, then the board would have a voice in the matter.

Mr. VINSON. I do not understand, Senator, that the reserve board would ever pass on the application of any bank for rediscount to the regional banks. I understand that that would be determined entirely by the board of directors of the regional bank. I mean——

Senator NELSON (interposing). You mean to the member banks?

Mr. VINSON. To the member banks, yes; that is what I am speaking of.

Senator NELSON. Well, the member banks can not draw currency except indirectly.

Mr. VINSON. Well, they can get credit, which is the same thing.

Senator NELSON. They have to apply to the regional bank for the currency.

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Mr. VINSON. I understand. That is what I say, that the directors of the regional bank will pass upon whether it will allow me, as a banker, to get currency and rediscount my paper there or not.

Senator NELSON. Yes; you are right about that.

Mr. VINSON. And the reserve board will have nothing to do with that, except, of course, to furnish a general supply of currency that goes into the regional banks. But how that supply shall be distributed to the different banks in the different sections of that particular region is left exclusively to the board of directors of that bank.

Senator NELSON. Of the regional bank?

Mr. VINSON. Yes; of the regional bank, I mean.

Now, let me illustrate by what probably would be a fair example in the event that this bill becomes a law as it is now written.

The States of West Virginia, Virginia, Kentucky, Tennessee, Alabama, and Georgia would, in all probability, go into one region. Then in the organization of that regional bank there are six directors to be elected by the banks—in three groups. The three largest cities in that group would be Richmond, Va.; Atlanta, Ga.; and Louisville, Ky.

Each one of these groups would elect two directors. One would be a director of one of the banks and the other would be a friend.

The larger cities, controlling the money centers and having their correspondents all over the States, particularly that in which they are located, can concentrate the vote upon the man they would recommend, whereas in a State like Tennessee or West Virginia, that has no large city, the banks there would not know the people who had been offered or nominated by these large banks. And in that way each of these three large centers, if you please, both commercial and industrial and banking centers, would dominate necessarily the selection of these directors.

Senator NELSON. That might be possible as to six of them, but three of them——

Mr. VINSON (interposing). I am speaking of the six now, Senator, and I will come to the three a little later on.

Senator NELSON. Yes.

Mr. VINSON. Now, what is the result of all of that? Take, for instance, the group of the banks in Louisville, Ky., to illustrate the point I want to make. They select from among their number a director of one of their banks for class A. Then they select some friend, who is supposed to represent the industrial and commercial interests, under class B.

Now, of course, that will be a personal friend, necessarily, of that particular group of banks that will get together and combine their efforts, and they will secure the greatest number of votes in the district—I mean in that particular group in that district—just exactly as it will occur in Richmond, Va., and will occur in Atlanta, Ga.

In other words, with the influence of the large centers, why, they can say and will say, "We want our directors to be elected here, because we want men that we know ourselves." In other words, they will proceed upon the theory that "we want our friends in court," and it is perfectly natural that they should do that. Then, when they get their friends——

Senator O'GORMAN (interposing). If they can.

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Mr. VINSON. Well, they can do it, because they have got more power, and they can concentrate.

Senator O'GORMAN. How will they have more power?

Mr. VINSON. They will have more power in this way: Take the banks in and around the larger cities and the small towns; they do their business in these large cities, and frequently the same parties that get a control of the larger banks in the city have shares of stock in a small way in a country bank, so as to tie the two together, rather, in a system and work in harmony. That is a characteristic all over that section of the country. You will find that the representatives—the cashiers and presidents, or some large stockholder—in a large bank will have his friends and his interests with the small banks, in order to get their business. It is rather a close corporation. It is a usual practice, and is a benefit to both of them.

Senator HITCHCOCK. Suppose they get the directions they want, what can they do with them?

Mr. VINSON. Well, let us see. Then the directors are installed. There are two there representing the interests of the bankers in Richmond, Va. There are two representing the interests of the bankers in Louisville, Ky. There are two representing the interests of bankers in Atlanta, Ga. There are none there to represent the interests of local banks, outside of a minority that would be appointed by this Federal reserve board.

Senator HITCHCOCK. Now, assuming that, what can they do?

Mr. VINSON. Let us see: The first thing they will do is to sit down and appoint a discount committee, composed, perhaps, of three members.

Now, that discount committee is the real governor of that bank; and, of course, they will appoint that committee out of their own number. Naturally, they will have the power to do it and will exercise that power. Every piece of paper that comes up there from any bank in those five or six States must meet the approval of this discount committee.

It must be remembered and kept in mind that each member of this discount committee—or, rather, one member of it, surely—is a director of a bank of his own, and the other two are so tied up with the banking interests, either as borrowers or as friends of the bank—they may be railroad presidents, for that matter, or they may be the heads of the largest manufacturing establishments of the country—yet they are great borrowers of large sums of money. In other words, those banks select their friends.

Then the question comes up of segregating and determining who shall have discounts at the bank and who shall receive favors, if they are not in a position to grant favors all around; and it is more than human nature could be expected to do, I think, to expect that those men will not grant their favors to their own cities.

Senator BRISTOW. There is no doubt about it.

Mr. VINSON. Do you think there is any doubt about that, Senator?

Senator BRISTOW. Not a bit.

Senator HITCHCOCK. What would you think of a provision that a member bank is as a matter of right entitled to discount to the extent of its capital stock, and no member bank shall have the right to discounts exceeding twice the amount of its capital stock, so as to limit the power of this board of directors?

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Mr. VINSON. Senator, there is not any question in the world that it does and can mean nothing else. I know that there has been a lot of fear expressed by well-meaning people that the Federal reserve board and also the local board, although selected by banks, would be subject to political manipulation. I have no fear of that. But, Senator, the thing that I do fear is that they will be subject to and interested in business manipulation.

Senator O'GORMAN. What is your answer to Senator Hitchcock's question?

Mr. VINSON. I beg your pardon. Will you please ask the question again? I did not get it.

Senator HITCHCOCK. I say, what would you say to the proposition that the discretionary power of the board of directors should be so limited that any bank, being a member of the system, should be entitled to discount to the extent of its capital stock at any time on the presentation of paper that comes within the terms of the bill, and that no member bank should receive discounts in excess of twice its capital stock?

Mr. VINSON. Senator, if you are going to pass this bill along the lines on which it is drawn, it seems to me that your suggestion will be an absolute necessity.

Senator HITCHCOCK. Would you allow the board of directors some discretionary power?

Mr. VINSON. Naturally, I would allow them the discretion of saying what paper is good and what paper is not good. Of course they could use that discretion to the very great detriment of a section or a lot of banks which they do not want to favor.

Senator O'GORMAN. Would not Senator Hitchcock's suggestion be also valuable in minimizing the dangers incident to inflation and overexpansion, which might exist if there was substantially no limit upon the activities of the regional bank in extending credits?

Mr. VINSON. I think undoubtedly that it would be a most dangerous thing to do to leave the bill in the form in which it is now, which is that a bank may get a discount to an unlimited extent upon the paper which it has.

Senator HITCHCOCK. Now, another question. What would you think of having one rate of discount on paper up to the extent of the capital stock of a bank and a higher rate of discount if it goes above that in its discounts?

Mr. VINSON. I think that the rate of discount should be variable, so that if a bank had a disposition to extend to too great an extent its discounts it could be discouraged.

Senator NELSON. And check by a higher rate?

Mr. VINSON. Yes; checked by the higher rate.

Senator NELSON. Yes.

Mr. VINSON. In the bill I have prepared I provide that the board of governors shall regulate the rate, not less than 2 per cent and not more than 6 per cent.

Senator HITCHCOCK. Well, I think the rates ought to be the same to every member bank; and I am inclined to think that when a bank passes a certain amount in its discounts and still requires more, it ought to pay a higher rate for those discounts.

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Senator NELSON. You will find in practice—as to having one uniform rate, if you had a dozen regional banks, or six or eight, you would find that it would not work in practice.

Senator HITCHCOCK. I mean to say that every regional bank must have the same rates for its member banks.

Senator NELSON. Yes; but we could not have the same rate for the several regional banks over the country.

Senator HITCHCOCK. Well, I want to approximate that at least by providing that the currency furnished the regional banks shall be furnished on the same terms to each of them.

Senator NELSON. Yes; that is right.

Senator O'GORMAN. Have you concluded your observations, Mr. Vinson?

Mr. VINSON. I simply wanted to point out, in a brief way, some other objections to the present bill.

One objection, and I think it is a very serious one, is that it will withdraw, by reason of the requirements under the bill that the bank shall pay 20 per cent of their capital into the regional banks—10 per cent at all events and probably 20—and in addition to that an average of about 8 per cent on all deposits——

Senator O'GORMAN (interposing). Five per cent.

Mr. VINSON. That is, in the——

Senator NELSON (interposing). Country banks.

Mr. VINSON. Yes; in the country banks. Nine per cent in the large banks, Senator, I think it is.

Senator NELSON. It will probably average about 8 per cent.

Mr. VINSON. I think it will average about 8 per cent.

Senator NELSON. That is after three years.

Mr. VINSON. Yes; I mean when the bank is really in running order.

Senator NELSON. Yes.

Mr. VINSON. Now, let us see just what that really means. That really means that, in round numbers, there would be something over $100,000,000 on a 10 per cent basis, or $200,000,000 on a 20 per cent basis; and for the sake of the power vested there, we will say the $200,000,000 is withdrawn from the banking power of the country by reason of the assessments on their capital.

Now, in addition to that, there is withdrawn an average of 8 per cent on all deposits, which, in round figures, would be $480,000,000 more.

Senator O'GORMAN. Of course, you think that would all possibly cause a contraction in the credit?

Mr. VINSON. Naturally.

Senator O'GORMAN. Yes. Now, suppose the contributions were not made until the time had arrived—or it was close to the time when the banks could begin the rediscount features of the bill, so that the two things would be simultaneously—the money paid in and the right to withdraw it?

Mr. VINSON. That was the very point I was coming to. I think (and I believe I have very good grounds for thinking) that the banks would be very reluctant to go into the discounting at all, and would only do so under compulsion.

Senator O'GORMAN. What would you think of a proposition requiring the national banks to contribute only 5 per cent of their capital, and allowing them to pay that 5 per cent in five payments?

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Senator NELSON. Monthly payments—what would you say to that?

Senator O'GORMAN. Monthly, or perhaps a longer period, extending to a year or 18 months. Would not the withdrawals be so gradual that they would not perceptibly interfere with the credit of the country?

Mr. VINSON. If you would limit it to 5 per cent, I think that would be true. But when you are holding over these banks—every one of them—the prospect, and you might say the expectation, of a call for 10 per cent more——

Senator O'GORMAN (interposing). No; I say suppose the law provided for only 5 per cent?

Mr. VINSON. I mean, if you limit it to 5 per cent—that is, the amount of capital to be taken by the banks—and then do run it over a period of 18 to 24 months of course it would be withdrawn so gradually that it would not be the same shock to the business community.

Senator O'GORMAN. Would you say that that would create a sufficient fund for the regional banks to do business with?

Mr. VINSON. I think so.

Senator NELSON. What have you to say as to the number of regional banks?

Mr. VINSON. I do not know, Senator. If you are going to have regional banks at all, I do not see any objection to having four or five.

Senator NELSON. What about a dozen?

Mr. VINSON. Or a dozen.

Senator O'GORMAN. What about two dozen?

Mr. VINSON. Well, of course, you limit the power of the regional banks to do good by increasing the number. But you do more than that. There is an advantage to it, because you bring it down closer to the banks that need it; and these local banks will exercise more influence and be more independent the greater the number of regional banks.

Senator O'GORMAN. Well, if you had but four or five regional banks, each regional bank would have branches and agencies within its region.

Mr. VINSON. Yes; that is, I mean if you have competitive agencies located in the different localities, then I think two or three regional banks will be sufficient.

Senator O'GORMAN. Yes.

Mr. VINSON. They would have to do all their work through their local agencies everywhere and simply sit up there and pass upon those things.

Now, there is one other matter I want to call the attention of the committee to, and that is the character of the paper that is eligible for rediscount. I am constrained to believe that the authors of the bill allowed this provision to go in through oversight—that is, the kind of notes that are to be eligible for rediscount in the regional reserve banks.

According to this, and the definition is not clear, it says:

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions.

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And then the bill undertakes to define what the term "commercial transactions" means.

That is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or may be used for such purposes.

And then it limits definition as follows:

But such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities.

Now, I can not quite believe that the committee that prepared the bill really meant just what they have said in there, because if they did, it means that most of the transactions in the country—I mean the business transactions and the paper growing out of them, however solvent and safe it may be—are blacklisted; they are outlawed.

In other words, if I own stock in the bank and I want to sell that stock to some person, no matter how good their credit may be, he may say, "I will give you my note for it due in 90 days," and I am more than willing to do it.

The man who gives the note, the maker of the note, there is no question of his responsibility. I take that note to my bank and I want to get the currency to get it discounted. My banker looks at it and says, "You secured this note by selling your stock to Mr. Smith." I say, "Yes." He says, "Then I can not take it."

Senator O'GORMAN. I do not think it is necessary to dwell on that, because it was obvious that it was the design of the authors to confine the restriction to purely speculative transactions.

Mr. VINSON. Yes.

Senator O'GORMAN. And the committee, if I mistake not, will see that the verbiage of that provision is substantially changed, so that it will not operate to your prejudice in a case such as you now suggest.

Mr. VINSON. Yes. Well, I am very glad of that.

Senator BRISTOW. I unfortunately had to leave during a part of your statement, Mr. Vinson, but, as I understand it, you propose a Treasury bank, in substance?

Mr. VINSON. Yes, sir.

Senator BRISTOW. That shall exercise these functions of rediscount, and so forth?

Mr. VINSON. Yes, sir.

Senator BRISTOW. And that the evil that you think is incident to this bill in the organization of the boards of directors of the regional banks, and I agree fully with your ideas, would be entirely eliminated, because this Treasury bank, as you call it, would be governed by a board appointed by the President?

Mr. VINSON. Yes, sir.

Senator BRISTOW. And it would be a bank of rediscount?

Senator O'GORMAN. And of reserve.

Senator BRISTOW. And a bank of issue and a bank of reserve?

Mr. VINSON. Yes, sir.

Senator BRISTOW. And as a practical man you have no doubt but that the control, the vital control, of the regional banks will be by the big banks that have the largest number of country correspondents in the region?

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Mr. VINSON. I think it is absolutely inevitable.

Senator BRISTOW. And any practical man can not have any other view about it, it seems to me.

Mr. VINSON. I do not think they could.

Senator O'GORMAN. Are there any other questions?

Senator NELSON. You had better leave your bill with the committee, Mr. Vinson. And I ask, Mr. Chairman, that the bill be printed in the record.

Senator O'GORMAN. Yes; it will be printed in the record.

Mr. VINSON. I want to extend my thanks for your courtesy, gentlemen.

Senator O'GORMAN. We are very much instructed by your suggestions.

(The bill referred to is as follows:)

AN ACT To create a Treasury bank, to provide an elastic currency, to afford means of selling or rediscounting commercial paper to provide a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the "Treasury bank act."

SEC. 2. There is hereby created an additional department of the Treasury of the United States, to be known as the United States Treasury bank, to be organized and vested with the powers and duties as hereinafter prescribed. It shall continue in existence until such time as Congress may determine by subsequent legislation. Under the name of "Treasury bank" it may bring and prosecute any suit in equity or action at law in any court of the United States within whose territorial jurisdiction any one of the defendans may reside, regardless of the amount in controversy, for the purpose of enforcing any claim it may have growing out of the provisions of this act. It shall be located in the city of Washington, D. C

SEC. 3. The Treasury bank shall be under the control and direction of a board of governors composed of seven members. The Secretary of the Treasury shall be ex officio member of the board. The other six members shall be appointed by the President, by and with the advice and consent of the Senate. Two members of the board shall be appointed for the term of 4 years and two for the term of 8 years and two for the term of 12 years, and thereafter all appointments of members of the board shall be for a period of 12 years, except appointments to fill vacancies shall be for the unexpired term only. Not more than three of the board to be appointed by the President shall at any time during their term be members of the same political party. The appointed members of the board shall receive a salary of $12,000 per annum, and the Secretary of the Treasury shall receive a salary of $4,000 per year for acting as member of the board. From among their number the board shall from time to time select a chairman. The board is hereby authorized and directed to appoint a secretary and such agents, representatives, and employees as may be necessary in executing the provisions of this act. The board shall prescribe the duties and fix the compensation for all persons appointed or employed by it. All appointees and employees of the board shall hold their positions only during the pleasure of the board. The board is hereby empowered to establish all rules, regulations, and conditions for the purposes of carrying out and enforcing the provisions of this act. The members of the board appointed by the President shall devote all their time to the duties herein imposed and shall have no pecuniary interest in any banking institution subject to this act during the time they are acting as such members. At least three members of the board shall have had a banking experience prior to their appointment. The board shall cause to be kept a record and books of account of all their transactions and proceedings. The board shall provide suitable offices in the Treasury Building if practicable, and if there should not be accommodations in that building then as near thereto as may be. Any member of the board may be impeached for incompetence, neglect of duty, drunkenness, or gross partiality

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in favor of or against any bank or group of banks, or locality, in the administration of this act. Such impeachment proceedings shall be the same as proceedings for the impeachment of Federal judges, and during the time the impeachment is pending such member of the board shall be suspended and prohibited from acting as a member of the board.

SEC. 4. The Treasury bank shall be the custodian and depositary of all Government moneys and funds, which shalls be drawn upon by check or draft to meet governmental expenses and appropriations, under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided, however*, That all Government deposits in national banks at the time this act goes into effect may remain with such banks until such time as the Secretary of the Treasury may determine. Government revenues as collected may be deposited with the Treasury bank at its State offices, under rules and regulations to be prescribed by the board. The board is hereby empowered to use the office of the collector of internal revenue for each diserict as a State or local agency, and the collector of each district shall be under the control and direction of the board, in aid of executing this act. The board shall prescribe the compensation to be paid the collector.

REDEMPTION OF EXISTING NOTES.

SEC. 5. All national banks shall, as soon as practicable after this act takes effect, transmit to the Treasury bank all the notes of national banks and all the notes and certificates issued by the United States, except gold certificates, which they may have or thereafter acquire, and shall receive therefor an equal amount of the notes of the Treasury bank in such denominations as the national banks may designate.

SEC. 6. The Treasurer of the United States shall turn over to the Treasury bank all the bonds deposited by national banks to secure circulation, and thereupon the obligation of national banks to redeem their outstanding notes in species shall cease and determine, but said banks may redeem their outstanding notes in Treasury bank notes. The Treasury bank shall redeem all national-bank notes on demand either in gold or with its own notes at the election of the holder of the national-bank notes. Upon application of the board the Secretary of the Treasury shall issue 3 per cent bonds of the United States in exchange for 2 per cent bonds at par. The interest on the bonds to be issued shall be payable semiannually and the principal in 25 years, both principal and interest payable in gold. The bonds so issued shall become the property of the Treasury bank and may be pledged or sold from time to time to provide specie when required for redemption purposes. The Treasurer of the United States shall determine the premium on bonds deposited to secure circulation, based on the average market value of such bonds for the year 1912, and shall pay such premium to the banks depositing the bonds, and shall also refund to the national banks the 5 per cent heretofore retained to cover expenses of redemption.

SEC. 7. Any holder of notes or certificates heretofore issued by the United States in any form or denomination, or of gold coin or gold bullion, may deposit the same with the Treasury bank and receive therefor the notes of the Treasury bank in like value and amount. All notes and certificates heretofore issued by the United States coming into the Treasury bank shall be redeemed by the Treasury of the United States by paying to the Treasury bank the specie therefor according to the tenor thereof and in compliance with existing law for such redemptions. The notes and certificates redeemed as in this section provided shall be canceled or destroyed.

SEC. 8. After this act becomes operative no notes shall be issued by national banks, nor shall the United States Treasury Department issue any notes or certificates to be used as a circulating medium. Any notes issued by State banks, trust companies, or State banking institutions, intended as a circulating medium, shall pay an annual tax of 10 per cent on the par value thereof to the United States. The issue of notes or certificates intended as a circulating medium shall hereafter be limited to the Treasury bank. And all notes issued by the Treasury bank shall be redeemed in gold, on demand, either by the Treasury bank or the United States Treasury at the election of the holder thereof.

SEC. 9. The United States Treasurer shall pay to the Treasury bank in gold the principal and interest of the bonds delivered to the Treasury bank as the same become due and payable, after deducting any sums which the treasurer may have paid in redemption of national-bank notes.

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PURCHASE OF SECURITIES FROM BANKS.

SEC. 10. It shall be the duty of the Treasury bank to purchase negotiable notes, acceptances, and bills of exchange from national banks and pay therefor its own notes issued for that purpose upon the following terms and conditions, viz:

(*a*) The amount of such securities which may be purchased from any national bank shall not at any one time exceed 40 per cent of the loans and discounts of the bank selling the same; and

(*b*) The maturity of the securities purchased under this section shall not be for a longer period of time than 120 days from the dates of their purchase; and

(*c*) All such securities shall be approved by a majority of the board of governors of the Treasury bank. The board may for any reason reject any security so offered for sale; and

(*d*) All securities purchased hereunder shall be indorsed by the bank offering the same, authorized and directed by resolution of the board of directors of said bank. Such indorsement shall constitute a first lien upon all the assets of the bank as a security for the payment of the paper so indorsed at its maturity; and

(*e*) Upon default in the payment of the purchased security when it is due and payable, the governors of the Treasury bank may direct the Comptroller of the Currency to take possession of said bank and all its assets, and forthwith collect therefrom a sufficient sum to pay any such defaulted paper, unless the indorsing bank shall pay the same to the Treasury bank in the same manner as if there had been no default; and

(*f*) Upon all securities purchased the Treasury Bank shall charge a discount fee of not less than 2 per cent nor more than 6 per cent per annum of the principal and accrued interest, to be deducted from the proceeds arising from said sale, the residue of such proceeds to be transmitted to the order of the selling bank in the notes of the Treasury Bank; and

(*g*) The funds arising from the payment of the securities purchased shall be forthwith returned in currency to the Treasury Bank, which when done shall release the indorsing bank of its obligations assumed by virtue of its indorsement; and

(*h*) The board of governors of the Treasury Bank shall cause such independent examinations to be made of the national banks and the securities offered and owned by them from time to time, as in their judgment may seem expedient.

STATE BANKS AND TRUST COMPANIES.

SEC. 11. Any trust company or banking institution organized under the laws of any State or Territory of the United States, having a paid up and unimpaired capital of not less than $25.000, may avail itself of the provisions of section 10 of this act and sell to the Treasury Bank negotiable notes, acceptances, and bills of exchange owned by it upon the same terms and conditions applicable to national banks.

SEC. 12. From the sums arising from the bond-interest payments provided for in section — and the discount on purchased notes provided for in sections 10 and 11, and interest paid on deposits in banks, section —, the board of governors shall pay the cost and expense of executing the provisions of this act, and the interest on sums deposited with it as reserves, as required in section —, and the residue of its income shall be credited to the United States at annual periods.

SEC. 13. Each national bank shall keep an available cash reserve of not less than 5 per cent of its deposits in its bank and not less than 5 per cent of its deposits with the Treasury Bank. Deposits of reserves with the Treasury Bank shall be in gold and may be made in five equal instalments of four months each after this act takes effect. Reserves required by the law now in force shall not be reduced below 15 per cent until the full 5 per cent has been deposited with the Treasury banks. The reserve shall only be used in emergencies to meet the demand of depositors, and shall be subject to call by the bank owning the reserves with the approval of the board of governors of the Treasury Bank.

SEC. 14. The board of governors of the Treasury Bank may, in their discretion, advance notes of the Treasury Bank to any national bank or trust company or State banking institution in an amount sufficient to meet a run upon said banks

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or trust companies by its depositors, whenever in the judgment of said board such bank or trust company is perfectly solvent. But the board of governors shall only issue such Treasury Bank notes upon ample and easily convertible security to be approved by the board.

SEC. 15. The board of governors may authorize the Treasury bank to deposit with national banks, State banks, or trust companies any Government funds not required to meet current demands. Such deposits shall be secured by bonds of the United States, or State or municipal bonds, delivered to the Treasury bank for that purpose. Not more than 75 per cent of the par value of State or municipal bonds so delivered shall be deposited with the applicant where such bonds are offered as security. Such deposits may be withdrawn at any time by the Treasury bank upon giving 20 days' notice of its intention so to do. The board of governors in determining the banks to receive such deposits shall be governed as far as practicable by the currency requirements in the different sections of the country. The bank receiving such deposits shall pay to the Treasury bank interest at the rate of 3 per cent per annum. As additional security for the repayment of such deposits, the Treasury bank shall have a first lien upon all the assets of said banks.

SEC. 16. The board of governors may establish branch offices of the Treasury bank in each of the States and Territories of the United States where the conveniences of the banks located in that State or Territory may require, and prescribe rules and regulations for the management of said offices.

SEC. 17. Banks and trust companies desiring to sell securities to the Treasury bank, as provided in section 10, shall make application therefor upon blanks to be furnished by the board of governors, specifying in detail the kind of security with names of makers and indorsers and date of maturity, and upon receiving such application the board shall send a representative forthwith to examine said bank and the securities offered, who shall report to the governors. For the purpose of making the investigation the board may designate any regular bank examiner who is available. The Treasury bank may keep at any branch office a sufficient amount of its own notes or Government funds to facilitate the delivery of proceeds of purchased securities to the bank selling the same.

SEC. 18. The governors shall publish a weekly statement of the transactions and condition of the Treasury bank, and make a report to the Senate and House of Representatives every six months, and at such other times as either may request.

SEC. 19. The board of governors may authorize national banks to establish branch banks in foreign countries, under such requirements, rules, and regulations as the board may prescribe.

SEC. 20. The board of governors shall prescribe the form, size, and denomination of all Treasury bank notes to be issued hereunder, and may exchange new notes for notes that are mutilated or soiled. All notes issued by the Treasury bank shall be a legal tender, and accepted in payment of all debts, dues, and obligations, public and private.

SEC. 21. The board shall prescribe rules and regulations whereby national banks will be permitted to make loans on real estate security: *Provided, however*, That loans upon real-estate security shall at no time exceed 20 per cent of their paid-up and unimpaired capital.

SEC. 22. All notes issued by the Treasury Bank under the provisions of this act shall become obligations of the United States, payable in gold on demand, at the office of the Treasurer of the United States, and the Secretary of the Treasury is hereby empowered to issue and sell, or pledge the bonds of the United States for the purpose of providing gold necessary to redeem the notes issued by the Treasury Bank as the same may be required. The bonds authorized to be issued under this section shall be 40-year bonds from the date of issue, bearing 3 per cent per annum, payable semiannually, both principal and interest payable in gold. Neither principal nor interest of such bonds and those mentioned in section — shall be subject to any tax or levy by the United States, or any State or municipality thereof, nor shall the same be subject to any income or inheritance tax imposed by the United States, or any State or municipality.

SEC. 23. All acts and parts of acts, inconsistent with the provisions of this act, are hereby repealed.

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STATEMENT OF F. J. SYME, OF NEW YORK, N. Y.

Senator O'GORMAN. You are the publisher of The Shareholder, Mr. Syme?

Mr. SYME. Yes, sir.

Senator O'GORMAN. What is The Shareholder?

Mr. SYME. It is a regular Wall Street paper; strictly a Wall Street paper.

Senator O'GORMAN. What do you mean by that?

Mr. SYME. I mean that the news it contains is almost exclusively relating to Wall Street affairs.

Senator O'GORMAN. It is a financial paper, is it?

Mr. SYME. It is a financial paper; yes, sir.

Senator O'GORMAN. You have been conducting it for how many years?

Mr. SYME. For 17 years.

Senator O'GORMAN. You are the editor of it?

Mr. SYME. Yes, sir.

Senator O'GORMAN. What were your business activities before you became the editor of this paper?

Mr. SYME. For a time I was interested in the selling of municipal bonds. Previous to that, however, I was located in New Orleans, La., and was largely in the rice-milling business.

Senator O'GORMAN. And then for the last 17 years you have been a student of finance, have you?

Mr. SYME. A student of finance, yes.

Senator O'GORMAN. And you have been familiar with the financial conditions in the country?

Mr. SYME. Yes, for the last 25 years.

Senator O'GORMAN. You have read the pending bill, have you?

Mr. SYME. I have; yes, sir.

Senator O'GORMAN. Will you state to the committee what comment you have to make upon it?

Mr. SYME. Well, gentlemen, one of the objections to that bill, as I see it, is the fact that it takes from Congress the right to designate what securities shall be taken to the Treasury Department and currency given for them. That has always been a right of Congress. Congress has always exercised that peculiar right. It was congressional legislation that stated that gold could be deposited with the Treasury Department and Treasury notes given out for the gold. It was also under a law of Congress that Government bonds could be taken to the Treasury Department in the same way and currency issued for those Government bonds.

At a later period the question came up whether silver could be taken to the Treasury Department and the holder receive currency for it; but Congress balked at silver and said "no."

Now, these were all congressional functions, the functions of Congress. At the present time it is proposed that a different class of securities shall be taken to the Treasury Department and currency issued for them; but the bill does not say that Congress shall say what those securities shall be. It does not state, for instance, that Congress shall say that such and such a security can be taken to the Treasury Department——

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Senator NELSON (interposing). But can Congress do any more than lay down general rules? How can Congress take up each piece of paper in detail and examine it and say whether it may be used?

Mr. SYME. Very easily, Senator; that is done every day.

Senator NELSON. How could we pass on the paper here in Washington?

Mr. SYME. I will tell you how it is done. Take the stock exchange of New York, for instance. It designates certain stocks and bonds which shall be listed.

Senator NELSON. Yes.

Mr. SYME. Our various State legislatures also designate what bonds shall be safely invested in by the savings banks. That question of designating is not near as difficult as you would suppose. It is very easy, in fact.

Senator O'GORMAN. What change would you suggest in the language used in the act?

Mr. SYME. On that particular point?

Senator O'GORMAN. Yes.

Mr. SYME. I would suggest, for instance, that all this designating be done by Congress.

Senator O'GORMAN. Congress will designate in this act, if it is enacted.

Mr. SYME. No; I do not understand it so. Your act says that the regional bank shall do the designating—start the thing. It is their volition that starts the whole proceeding.

Senator NELSON. No; we lay down the rule in the bill. We describe the class of paper.

Mr. SYME. You describe the class?

Senator NELSON. Yes; in the bill.

Mr. SYME. You do not designate the particular thing. You do not say, for instance, that the bonds of the New York Central Railroad Co. can be taken to the Treasury Department.

Senator NELSON. We do not want them.

Mr. SYME. Well, I took that stock as a case in point. There are lots of other things you do want. For instance, what you want——

Senator NELSON (interposing). What we want is commercial paper.

Mr. SYME. That is not the whole object of the bill. All right, then, state your man. You pass a law that the notes of John D. Rockefeller shall be received at the Treasury Department and Treasury notes be issued for them. State your man. If you want a certain man, state your man.

Senator NELSON. We have got to have a census of the country on that. [Laughter.]

Mr. SYME. I say I rather object to this bill on account of its change of the whole tendency of the country on that particular point, as to the designation of what shall be used and what shall not be used.

Senator NELSON. We would have to have a census of all possible borrowers in the country in order to put them in an act of Congress.

Mr. SYME. I do not think that is the case. Of course that is a matter of opinion. But I do not think that is so. I think, in other words, that Congress can, in a very short time, pick out a billion or two of dollars of stock throughout the country, or, if you choose,

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commercial paper throughout the country, and that when this is presented to the Treasury Department currency shall be issued for it. Now, there is a whole lot of trouble that has grown out of the fact that Congress proposes to give up that right to designate. That right to designate, I do not think for the best interest of the country or Congress itself, for that matter, it should give it up. I think it is one of the perquisites of Congress, and it should be held onto.

Senator NELSON. Well, we are glad to get everything we can. [Laughter.]

Mr. SYME. You just take and see where all that leads to. You take, for instance, a case where Congress does not do that. These regional reserves do do it. The result of it all is that instead of looking at the thing, which Congress would look at, these regional reserves look at the man, and all the modern finance is directed toward looking at the thing. For instance, a man comes to that bank and wants to get a discount, say, of $100,000, or $200,000, or, if you choose, $1,000. The bank president considers the man more than he does the actual thing.

Senator NELSON. What is the actual thing in that case?

Mr. SYME. In that case it would probably be the man's general reputation. He was known as a man of good repute, and because he is known as a man of good repute the discount is allowed. As to what he brings there, it is not of near as much value as his general repute. In other words, the banking system of the country gradually gets down to the point where good repute is everything and the thing on which the loan is to be made is nothing. Good repute is at a premium. The actual thing itself is at a discount. Now, I can illustrate that, perhaps, very well by a little incident that occurred in my own affairs only two or three days ago. I went to a certain gentleman from whom I had been accustomed to borrow for the last 10 years. I, of course, do not owe anything at the present time. He was a private banker. I wanted to get a loan on some presses, some newspaper presses. We happened to need a little money. I suggested to him that he make me a loan on the two presses we had. He would not do it. The thing was not the right thing. There was a case where the man was a sensible man.

Senator NELSON. Did you offer a mortgage?

Mr. SYME. Oh, yes. That part would have all been fixed up, but he objected. The thing was not right; the security I offered him was not right. My general repute was all right, of course, and also the party who was interested with me, but that man, of course—he was a wealthy man—took the right view of the case. He wanted the thing to be right, and not the man. Now, this law will reverse all that. It will make the man everything and the thing nothing. Most of the loans that will come into the Federal Treasury under those circumstances will be based not upon the thing but upon the general reputation of the man, and I regard that as slightly objectionable. I think, in other words, that the Government, in loaning its money out, ought to stick to the general idea of regarding the security more than regarding the individual that brings it there; and the whole tendency of this law, so far as I can see, is to exalt the man above the thing that he offers as his security.

Well, now, there is another feature of the case. It is proposed, under this bill, as far as I can make it out, that Government notes

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up to about seven or eight billion of dollars will be issued, and it is doing it on pieces of paper that I do not think are legally drawn for any such purpose as that. I have my doubts as to whether there is any paper in existence, to any such amount as that at all events, which the Government can, with safety, take and issue any such large amount of governmental certificates for. In other words, I think before any such extensive amount of loaning out is gone into we ought to have a system of national incorporation under which of course there would be governmental supervision over a great many of our corporations. And under those circumstances the loans of such companies, I think, would be correct for this particular purpose. I have my doubts as to whether a single piece of paper exists in the country to-day on which the best results would be received by the Government for the issuance of this very large amount of credit.

There is another decided objection to this plan, and that is the permanency connected with it. Under this plan these regional banks can take a piece of paper to-day and pass it through and get the money for it. To-morrow they probably would not do the same thing. So there is no permanency connected with this peculiar thing. I do not think, in other words, that the bill as it stands would improve the general condition of the country a bit. I think it would raise a number of general conditions which would be unfavorable. I am satisfied that what some of these gentlemen have said here to-day is true. I am satisfied there would be a very large amount of favoritism growing out of it. Certain regional banks would make up their minds to favor certain institutions, certain manufacturing establishments. Take a case, for instance, where a regional bank was located in Louisville, if you choose. That particular bank would want to build up the interests of Louisville.

Senator REED. Oh, we can not assume any such thing as that, when this bank at Louisville will not be officered by Louisville bankers and when the whole thing is under command of the general board. Is there any other criticism you have of this particular bill?

Mr. SYME. I rather think that it is a bad bill. I have nothing in particular to say of the bill.

Senator REED. It is just a general idea?

Mr. SYME. Yes.

Senator REED. Is there any other gentleman here waiting to be heard?

Mr. PECK. I would like to be heard for a few moments.

STATEMENT OF L. T. PECK, CASHIER OF THE FIRST NATIONAL BANK OF HAWAII, HONOLULU.

Senator REED. Proceed, sir.

Mr. PECK. I would like the privilege of calling to the attention of the committee, Mr. Chairman [Senator Reed], that the act provides for the entry into a new system of national banks located in the continental United States. That, in itself, elimniates the insular United States—the organized Territory of Hawaii. I have no objections to make to that. The bill, as it has come to the Senate, I am making no objection to that part of it, but there are provisions in this bill

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which seemingly apply to all existing national banks, whether continental or insular.

There are five national banks in the island of Hawaii, one in the island of Oahu, of which I am cashier, and four in the island of Maui. Now, on the island of Oahu is stationed at present a large military force, and large revenues are collected from public dues, and large disbursements are made, relatively speaking. The pay of the troops alone is something in the neighborhood of three and a half millions a year. The disbursements, probably, will be upward of five millions a year.

Senator REED. What are the average deposits of that bank?

Mr. PECK. The deposits of our bank at present, exclusive of the Government deposits, are about one and a quarter millions. The capital is $500,000; the surplus and profits about $230,000 more.

Senator REED. What other national banks are there on that island?

Mr. PECK. None, sir.

Senator REED. Any other banks of any character?

Mr. PECK. Yes, sir; there are. The capital, surplus, and profits of the four leading banks in Honolulu alone are something like three and a half million dollars—the commercial banks. Then there are trust companies, savings banks, and private banks which bring the total capital and surplus up to about four and one half millions.

Senator REED. How many national banks are there in the islands, speaking of all of them?

Mr. PECK. Five.

Senator REED. Now, what you want this committee to do is to consider those islands and the advisability of taking the banks of those islands into the bill?

Mr. PECK. Not exactly, Senator. I said I had no criticisms to offer as to the action of the House in excluding Hawaii from the benefits or provisions of the bill.

Senator NELSON. You are willing to be excluded?

Mr. PECK. I beg your pardon?

Senator NELSON. You are willing to be excluded from the system?

Mr. PECK. We are not anxious to be excluded. We do not pretend to come up from out little island Territory and suggest to the Congress of the United States just how they shall legislate for this Nation.

Senator REED. But do you want to be taken into this general plan or do you want to be left out of it?

Mr. PECK. Speaking for myself and for my own bank, the First National Bank, which is the largest national bank there, I would say that up to this time we have never felt the need of a rediscount market. I do not think our bank has ever rediscounted a dollar of its paper, and the banks in the Territory have taken care, very readily, of the commercial needs of the Territory thus far. I came here to suggest that in passing this bill the existing rights of the national banks in Hawaii be not unduly affected, because there are provisions in this bill which seemingly provide for partial annulment of portions of the national-bank act that would apply to us. For instance, it says in this bill that the section referring to the counting of 5 per cent redemption money lodged by any national bank in the Treasury shall no longer be allowed to any national bank. That, of course, includes the five banks in Hawaii; and it

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also provides in section 16, and this is the important part of it, which I especially wish to bring to the attention of the committee, that all moneys now held in the general fund, etc., shall be deposited in Federal reserve banks, etc., and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by agents, drawn against such deposits. I should like to suggest that provision be made that that does not affect the Government depository or such depositories as may hereafter be established in Hawaii. There is now a depository there—our own bank is a depository—with a maximum balance of $500,000, and upon it is placed the responsibility of making all of the disbursements and financing all of the cash needs of the Army, the Navy, and the other bureaus of the United States Government stationed in Hawaii.

Senator REED. Under a special act?

Mr. PECK. Under the general banking act we have been designated as a depository by the Secretary of the Treasury and deposit United States bonds and Territorial bonds to secure that.

Senator REED. When you say "responsibility placed upon you" you mean——

Mr. PECK (interposing). As a depository.

Senator REED. You mean as to the matter of paying those bills?

Mr. PECK. As a fiscal agent of the United States.

Senator HITCHCOCK. The Government is really under compulsion to use your bank there, if it uses any bank. It could not use a reserve bank in the United States to make payments in Hawaii?

Mr. PECK. No, sir.

Senator HITCHCOCK. At least, I suppose you have to cash the Government checks there?

Mr. PECK. All of the disbursing accounts, 39 of them, are kept with the depository itself and not in the Treasury of the United States. That was for the convenience of the Government.

Senator NELSON. Does the Government remit the cash to you or how do you get it there?

Mr. PECK. I think it has only remitted once, in any actual currency.

Senator HITCHCOCK. What is the method of paying those bills?

Mr. PECK. They are paid in gold coin and silver.

Senator HITCHCOCK. Where does the Government get the gold from?

Mr. PECK. From the public revenues, the import duties, customs, and internal-revenue receipts, and also placing the main-land credits to the credit of the depository when there are not sufficient local receipts to meet the disbursements.

Senator HITCHCOCK. That is, the customs and internal revenues are paid into your bank by the Government officers, and then taken out by the officer who makes the disbursements?

Mr. PECK. Yes.

Senator HICHCOCK. The Government does not ship gold to make payments there?

Mr. PECK. Exactly.

Senator HITCHCOCK. But it pays out of your bank because it has a credit in your bank from the receipt of revenues?

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Mr. PECK. Yes, sir; revenues.

Senator NELSON. That belongs to the Territory?

Mr. PECK. They belong to the United States Government.

Senator NELSON. They do not exceed the customs duties and internal revenues?

Mr. PECK. And surplus moneys and funds are deposited elsewhere.

Senator NELSON. I suppose you get exchange from the Pacific coast—from San Francisco—do you not?

Mr. PECK. We utilize the exchange conditions between the islands and the mainland, and do this free of cost to the Government.

Senator NELSON. Instead of shipping the currency there you exchange your credits?

Mr. PECK. Exchange them, as far as we are able. Occasionally, actual shipments are made, and whenever the revenues between steamers exceed the disbursements between steamers, we remit the excess deposits to the United States Treasury.

Senator NELSON. Do the revenues of the Government that are collected by the Government there equal the disbursements of the Government in your islands?

Mr. PECK. Not at present.

Senator NELSON. So there is a small balance that has to be sent there in some way?

Mr. PECK. Quite a balance at the present time, Senator.

Senator REED. The question I want to get at is this, whether the banks out there want to come into this system or whether they want to be excepted from the bill and under some special provision?

Mr. PECK. Well, Senator, we are the only national banks in Honolulu, and on the island of Hawaii there are other banks of lesser size.

Senator REED. There are other banks on the island of Hawaii?

Mr. PECK. I said of lesser size. There are four banks on the island of Maui.

Senator REED. National banks?

Mr. PECK. National banks, country banks, located right out in small villages.

Senator NELSON. There are four right outside of this bank of yours, as I understand it?

Mr. PECK. Yes, Senator.

Senator NELSON. National banks. Now, what he wants—I can see what he wants—he wants the Bank of Hawaii treated just like these regional banks are to be treated in respect to Government funds; that is, it is to be made the depository of Government funds there for disbursement. That is what you desire, is it not, without coming into the system?

Mr. PECK. I am afraid I have not made myself clear. I will state it again. In legislating for the national banks in the continental United States I would suggest that you see to it that the legislation in no particular unwittingly affects the present status of the insular national banks in Hawaii. That is the proposition.

Senator NELSON. Where do you keep your reserves at present?

Mr. PECK. And let me add, also, Senator, that that has nothing to do with the question of whether or not we come into the system. I would answer that on its merits—that question. We keep our reserve in designated reserve agents with San Francisco and New York.

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Senator NELSON. That is, except what you have to keep in your own vaults?

Mr. PECK. Yes. We are supposed to keep in our own vaults, by law, 6 per cent reserve; but on account of our isolated position, being six days removed by sail from San Francisco, we actually have to keep in our vaults, at present and have for some time past, something approaching 50 per cent of our demand liabilities, in order to be able to furnish the cash on the checks of the Government disbursing officers, in order to supply the coin for the pay of the troops, etc., and other disbursements of the Government. I simply want that the status shall not be unwittingly affected by the passage of this bill.

Senator NELSON. I would like to suggest that you prepare such amendments as you think would fit your case.

Mr. PECK. I have just drawn up a few lines here, Senator. As I am a layman, they very likely would have to be altered, but the sense is in them. It would be, perhaps, to take the place of section 29:

Each and every provision of this act relating to national and other banks, banking associations, and trust companies shall apply only to those located in the continental United States.

And I would also suggest that the committee make provision for the proper collection and depositing of public revenues in all places where there are collecting offices of the Government and no reserve bank provided for at that point, or no agency of a reserve bank, because if neither a reserve bank nor a branch be established where the revenues originate, there will be no place for the revenues provided for in the bill to be deposited at all; because they must be deposited, apparently as collected, in those reserve banks.

Senator NELSON. I can see it would be a great outrage to your Territory to take the revenues away from your bank and put them into the continental United States. That would be a great mistake.

Mr. PECK. It would be an embarrassment to the Government which would be severe.

Senator NELSON. The Government would have to transmit the funds there to pay its bills?

Mr. PECK. It would. And as everything there is paid in coin, and if they should keep transporting the funds from month to month eventually, perhaps, they would have a good share of the gold reserve of the mainland in that island.

Senator REED. Are you inclined to come into this system?

Mr. PECK. I would like to ask if the committee thinks it is practicable to take us in, being practically 2,000 miles away, and, for all commercial purposes being, as it were, like a foreign country. I would like to discuss that with the committee, if it desires.

Senator REED. I expect we ought to hear about it, ought we not?

Mr. PECK. It is not provided in the bill now. It says the continental United States shall be divided into districts.

Senator BRISTOW. Would it be practicable for you, 2,000 miles away from the United States, to be able to be a part of this system?

Mr. PECK. If we needed discounts in a hurry we could send word by mail—six days to San Francisco, wait three or four or five days for a return steamer—and six days later we would get our reply. And in the meantime we might either be out of commission or not need the relief.

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Senator REED. Do you consider, then, you ought to be required to carry a larger reserve by law than you are now, if you are allowed to keep there, in this isolated position, an isolated banking system?

Mr. PECK. We do that there now. We carry, instead of 6 per cent, the minimum required by law, a minimum of probably 40 per cent. And, in ordinary requirements, they practically balance each other in one island, where the whole thing, as it were, is a wash between debits and credits, and we provide for the coin requirements of the United States Government for the pay of its troops, who are paid in actual gold coin, and the naval expenditures—everything is paid in gold coin.

Senator REED. Why could not they be paid in ordinary national-bank notes?

Mr. PECK. Because of the habits of the people.

Senator REED. It is just a matter of habit, is it?

Mr. PECK. Yes, sir; from time immemorial. Originally in these islands they had moneys from all parts of the world. In 1873 they had a Hawaiian coinage minted in the United States.

Senator NELSON. Do you have currency circulating in the shape of gold certificates?

Mr. PECK. No, sir; we have gold coin. The people do not care to carry paper money. There is no paper money in circulation to speak of.

Senator BRISTOW. None in circulation?

Mr. PECK. Not to speak of. As fast as it accumulates from the tourists it is gathered together and held for the accommodation of returning tourists and the unused portion is shipped back by express or registered mail, insured, to the mainland.

Senator BRISTOW. California uses a great deal of gold coin. I suppose there is more down there than in all the rest of the United States, and it is used even to a greater extent in the Hawaiian Islands, is it?

Mr. PECK. It is universal.

Senator BRISTOW. It seems to me to be a great waste to be using gold coin and wearing it out when it could be in the vault of a bank and its representative in the form of a gold certificate could be carried around.

Mr. PECK. Some people think that coin is more sanitary.

Senator REED. What about your own bank circulation? You have a national-bank circulation?

Mr. PECK. We have $250,000 bank circulation.

Senator REED. What do you do with it?

Mr. PECK. It is paid out and distributed through the agency of the bank in Washington, as is the case with many other national banks.

Senator NELSON. Do not your notes circulate among the people there?

Mr. PECK. No paper money circulates there. We take that out for the convenience of the currency system of the United States Government.

Senator NELSON. You have to take out a given amount?

Senator REED. What do you do with it? You say you have $250,000 and that it was paid out through a bank in Washington?

Mr. PECK. Yes; through our agency here.

Senator REED. What do they do; get you gold?

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Mr. PECK. Where it was originally—all they pay out now from day to day is the redemptions which take place.

Senator REED. I want to get this in my mind. You have $250,000 from the Federal Government of bank bills which you never put back in circulation. What do you do with it?

Mr. PECK. We put it in circulation through our agency here.

Senator REED. You have a bank here with which you do business and you put this money in that bank, and then that bank, I suppose, handles your bills of exchange and everything of that sort for you in this country or part of it?

Mr. PECK. Only in a very small way. As national-bank notes are as good as any other form of money they are exchanged into eastern credits, and those eastern credits we transmute to local credits through the instrumentality of the exchange at Honolulu.

Senator REED. And in that way you get gold?

Mr. PECK. Yes, sir.

Senator REED. Transmit them into gold. I see the point. Then, if I get you right, what you want is an amendment to this bill providing that nothing in this bill shall impair the rights or the privileges of the banks situated outside the continental United States which are now national banks. You have no further suggestion than that to make at this time?

Mr. PECK. Except, if the committee had a notion that it might alter, fundamentally, this provision and include insular territory as well as continental territory and attach, as it were, our distant islands to the Federal reserve districts in which California would be included, for instance, I would like to discuss that point; but if it has no such notion I would leave the whole matter without discussing it.

Senator REED. I do not know what the committee will do.

Senator O'GORMAN. I do not think it was intended to extend beyond this continent.

Senator NELSON. We could amend this section 16, which says:

> That all moneys now held in the general fund of the Treasury shall, upon the direction of the Secretary of the Treasury, within 12 months after the passage of this act, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by checks drawn against such deposits.

We could except Hawaii from that so that the revenues of the Government collected in Hawaii need not be deposited in these regional banks.

Senator O'GORMAN. Do you think it was ever designed that this was to be extended to Hawaii, Porto Rico, or the Philippines?

Senator NELSON. I do not know that they have any national banks there.

Senator O'GORMAN. It should be confined to this continent; in my judgment that was the intention of the framers of the bill.

Senator REED. We would have to go a little further than Senator Nelson's suggestion, because my attention has been called by Mr. Peck to the fact that there is some other language in the bill which repeals certain privileges of the national-banking act.

Senator NELSON. We would have to amend it. This relates to Government deposits only. He has suggested an amendment to the other

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provision of the bill. I do not know whether we have any national banks in Porto Rico.

Mr. PECK. There are none there.

Senator NELSON. And none in the Philippine Islands?

Mr. PECK. None there.

Senator NELSON. I think Hawaii is the only place.

Mr. PECK. Alaska—if Alaska be a part of the continental United States, then this bill must give Alaska representation in this scheme.

Senator NELSON. I suppose it is in the continent of North America, and it would be a part of the continental United States; but, of course, that would not apply to your islands or to Porto Rico. But we can put a provision in the bill including Alaska in order to save any question about it, if it is necessary.

Senator REED. I suggest that you file with the committee your suggestions as to what ought to be done, provided the system was extended to Honolulu, and your objections to its being extended there at all, if you have objections. I suggest that you file that with the committee in the form of a brief, so that we may save a little time and get through with the rest of the witnesses who are here to-day.

Mr. PECK. I do not feel that I am empowered to speak for the other financial institutions of the islands.

Senator O'GORMAN. How many banking institutions are there there?

Mr. PECK. With the branches, about 15 or 20.

Senator O'GORMAN. How many American?

Mr. PECK. Everything is American there, with the exception of the branch bank of the Yokohama Specie Bank of Japan.

Senator O'GORMAN. Is that a large bank?

Mr. PECK. It has the finest banking house in Honolulu.

Senator REED. What is its capital?

Mr. PECK. I do not know. It is a bank with world branches. Their headquarters are in Japan. It is a very powerful institution.

Senator NELSON. The bank which is in Hawaii is simply a branch of this Japanese bank?

Mr. PECK. That is it, Senator.

I would like to call the attention of the committee to this phrase, one page 14, line 9, of the bill: "Any national banking association now organized." The word "continental" is not used there. It says—

> any national banking association now organized which shall not within one year after the passage of this act become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this act applicable thereto, shall be dissolved.

We want to feel sure that we will not be dissolved.

Senator O'GORMAN. You will not be dissolved. How many national banks are there in the island of Hawaii?

Mr. PECK. Five.

Senator NELSON. Those are small banks?

Mr. PECK. Four on the island of Maui; two have $25,000 capital, and two have $50,000, and they are comparatively new, and the surplus is not large. But on the island of Hawaii the banking operations are in rather large figures. The exports every year amount to about $55,000,000.

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Senator REED. If you care to express it, what is your opinion of permitting foreign banks to maintain branches in those islands?

Mr. PECK. There are a great many Japanese aliens and Chinese aliens in those islands who can not become American citizens. All Japanese born there can become citizens. Eventually those that are born there will outnumber the Americans considerably. They will, of course, control the electorate of the islands.

Senator O'GORMAN. When will that condition arise?

Mr. PECK. I think it has been estimated, but I could not tell, Senator. There is a very high birth rate there.

Senator NELSON. Probably within 25 years?

Mr. PECK. It might be within 25 years. It may be sooner. There are a number of oriental voters there now.

Senator O'GORMAN. How long have you been in the islands?

Mr. PECK. About 13 years; Brooklyn is my birthplace.

Senator REED. Then we are in danger of having a dependency of the United States controlled from Japan, are we not?

Mr. PECK. That is a pretty large political question, not a banking question, and, of course, I could answer questions as a banker better, perhaps, along these latter lines, but at the same time the Congress of the United States controls the status of the Territory of Hawaii. What it made it can unmake. It has the power.

Senator O'GORMAN. There is no doubt about that. What is your suggestion in that respect, if you have any to make?

Mr. PECK. There is no danger whatsoever at the present time, and I hope there will be none in times to come. I hope that we will Americanize those Japanese who are born there and who are going to live amongst us and who are very worthy people, indeed. There is no prejudice in Hawaii against the Japanese. Sometimes some concern is felt as to the possible attitude of the Japanese Government toward America, as such concern is felt on the mainland; but, so far as the denizens in Hawaii are concerned, they mingle with us, they do business with us, and comport themselves with dignity and industry, and I can not say anything but well of them.

Senator REED. You did not answer my question as to what you thought of a foreign bank maintaining a branch in Hawaii. Do you think it ought to be permitted to continue?

Mr. PECK. I think so, sir.

Senator HOLLIS. What amount of your bank notes are redeemed in Washington now?

Mr. PECK. I presume about the same proportion as that of other banks.

Senator HOLLIS. You do not know exactly?

Mr. PECK. I could make up that statement and have it sent to you.

Senator HOLLIS. I wish you would.

(The memorial introduced by Senator Reed is as follows:)

TOMBSTONE, ARIZ., *October 17, 1913.*

The SENATE COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

GENTLEMEN: Before the "steam roller" is invoked to pass the Glass bill, I desire to invite the attention of its sponsors to a point that appears to have escaped their attention.

During the debate on the bill upon the floor of the House it was sought to learn to what extent it would be necessary for member banks to rediscount

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with the Federal reserve banks in order to inaugurate the system and how long it would be necessary to renew such rediscounts.

Mr. Bulkley, of Ohio, who is Mr. Glass's right-hand man, had the floor. I quote from the Congressional Record of September 12, page 5152:

"Mr. SMITH of Minnesota. Have you made any computation as to just when the central reserve banks will be able to pay off that $162,000,000 that they rediscount, or is it a sort of an endless chain, whereby they will have to keep redepositing continuously?

"Mr. BULKLEY. I think they may have to carry this for some time. I would not be able to say exactly how rapidly these banks will be able to readjust their circumstances; but certainly they are enormously in debt now because of deposits which have been made with them by country and outside banks, and in course of time they will have to liquidate that debt. This table only shows that there will be no embarrassment about their liquidating it. How long it will take to work it off I could not say.

"Mr. MADDEN. Did I understand the gentleman to say that there would be rediscounts amounting to about $300 000,000 altogether?

"Mr. BULKLEY. The rediscounts will be about $266,000,000.

"Mr. MADDEN. In order to make the payments required with the central reserve bank?

"Mr. BULKLEY. With the regional reserve banks.

"Mr. MADDEN. With the different banks that are to go into it?

"Mr. BULKLEY. Yes; that is correct.

"Mr. MADDEN. That means that they do not have any money with which to make the payment, does it not?

"Mr. BULKLEY. It means that they are about that much short of having enough.

"Mr. MADDEN. That if the cash was required to organize the Federal reserve banks, they could be organized under this system?

"Mr. BULKLEY. Yes; that is true.

"Mr. MADDEN. When you rediscount the $266,000,000 in order to make payments for which you have no money, will not this rediscounted paper have to be renewed at the end of the term for which it is rediscounted?

"Mr. BULKLEY. To the extent that it can not be paid, which would be to a large extent, I think."

The inference to be gathered from the foregoing is that perhaps the larger part of this paper would have to be renewed and so carried for some time, but there was no hint or suggestion given of the wild inflation that lies just ahead.

Here I desire to advert to the "report" of the committee when reporting the bill to the House. I quote from item 12, on page 66:

"If it be asserted that this process will lead to inflation the answer to be made is that whether it will or not is a matter in the hands of the reserve banks which will have it in their power, by fixing their rate of discount suitably to prevent the banks from creating with them by rediscounting reserve balances in excess of the required 5 per cent."

The 5 per cent referred to is the 5 per cent of the deposits of banks which it is proposed shall be paid over to the Federal reserve banks to inaugurate the system.

So, Mr. Bulkley states that it will be necessary for the banks to rediscount 266 millions of their paper in order to complete their payments of 5 per cent of deposits, and that such portion of it as can not be paid at maturity will have to be renewed.

The committee's report states that when the payment of 5 per cent of deposits is complete that from this point forward inflation will be within the control of the Federal reserve banks through fixing the rate of discount.

Now I will call attention that the bill provides for the retirement of the national-bank notes through a period of 20 years, amounting to 725 millions of dollars, and their replacement by Federal reserve Treasury notes. The Federal reserve Treasury notes must be based upon rediscounts taken over from the banks.

To start the system the banks must rediscount 266 million, and at the end of 20 years must have contributed further rediscounts of 725 millions, making a round billion dollars of rediscounted paper that must be furnished by the member banks to cover these two items alone, and which must be furnished without reference whatever to a discount rate. They are absolute requirements forced by the transposition of the currency.

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It should be noted and understood that the transposition of the currency will require 725 millions of rediscounts in addition to the 266 millions of rediscounts first mentioned, the situation being this: Holding the 266 millions of rediscounts, the Federal reserve banks could take out a like amount of currency, but not having any demand liabilities they can not pay it out except in the purchase of additional assets (presumably further rediscounts). Thus, when they had paid it all out they would then have 266 millions of rediscounts in addition to the first 266 millions of rediscounts.

Therefore the minimum requirement to inaugurate the system and transpose the currency will be a billion dollars of rediscounts forced over from the member banks.

Furthermore, the natural growth, population, and business of the country will call for additional currency, which likewise must be based upon further rediscounts.

It is fair to estimate this increase for the coming 20 years at perhaps 500 millions, which, if correct, will swell the volume of rediscounts to a billion and one-half.

Lastly, we come to the rediscounting for purely credit purposes, and which item is properly controlled by the discount rate.

From what has been said of the bill we have been led to believe that everybody and your Uncle could borrow all kinds of money under this bill, and renew about as you please. Banks are invited to loan without limit.

What will be the aggregate of rediscounts held by the Federal reserve banks at the end of 20 years?

Will the proponents of this bill answer the question?

Let us be conservative and guess the amount of rediscounts held at 1,500 millions.

If this amount of the choicest paper in the banks be taken over, where will the banks get paper from to replace it with, and what will be the quality of said last paper?

Do the makers of this measure think that sound loans founded upon matured business grow on bushes over night?

What new path do you seek to lead us in?

The question, which will this bill produce, inflation or contraction, is no longer a matter of doubt. The facts as set forth and taken from the bill itself prove to a certainty that it is the wildest scheme of inflation set up within an age. Forced inflation at that.

Again, at the same time, we could easily experience drastic contraction in the attempt to install this system; causes by the banks declining to rediscount as it is intended they shall, but instead, exercise their right to call in their loans resulting in a panic in credit.

This bill is loaded at both ends.

Let us look at the earnings of the Federal reserve banks a moment; 1,500 million of rediscounts at 5 per cent brings 75 millions of dollars a year—quite a chunk of interest and should leave very handsome earnings to be divided 60 per cent to the Government and 40 per cent to the banks; but we are not quite sure of the 40, for the Federal reserve board might (will) take a notion to raise the interest rate on currency from the minimum of one-half to possibly 3½ and in this way take over practically all the profits before division time comes.

Coming back to Mr. Smith's question of, when will the banks become able to free themselves from liability on rediscount?

The answer is absolutely plain; never under the sun. It goes the other way.

The banks are to be permanently yoked to that burden and our system of individual and independent banks blotted out.

A continued and swelling line of rediscounts must be furnished by them forevermore.

Why was it that when this information was asked for on the floor of the House that it was withheld?

What was the object?

Why did not Mr. Bulkley inform the gentleman that this 266 millions was only an entering wedge, and that the amount was to be augumented by a forced increase multiplied many times over within the next 20 years?

Why this deception? What? Ye gods, is it possible that Mr. Bulkley himself did not know any different?

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If this be true, then, what of the high company he has been associated with in the preparation of this most wonderful mistake?

Did they not know different? If they did, why then did they not disclose the facts in their report?

Which conclusion shall we arrive at?

There are other weighty objections to this bill, which are under current discussion, but the defect herein pointed out is fundamental and vital.

The bill must be reframed entirely. Therefore I suggest, gentlemen, to lock your steamroller up and go home and lets think it over a while longer.

We are not in the least danger from a currency panic and will not be as long as we have the Vreeland law (which can be extended), and as for the credit situation, we are now suffering from inflation and a moderate restraint upon credit for some little time to come will be all for our own best good.

Study the subject; we can learn much yet; we have just commenced.

Make haste slowly.

Very truly, T. R. BRANDT.

(Thereupon, at 5 o'clock p m., the committee went into executive session, and afterwards adjourned to meet at 10.30 o'clock a. m., to-morrow, Thursday, October 23, 1913.)

THURSDAY, OCTOBER 23, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10.55 o'clock a. m.

Present: Senators O'Gorman (presiding), Hitchcock, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

Senator O'GORMAN. Mr. Crozier, we will now hear you. Will you kindly give your full name, address, and business activities to the stenographer?

STATEMENT OF ALFRED OWEN CROZIER, OF COLLEGE HILL, CINCINNATI, OHIO.

Senator O'GORMAN. What is your business?

Mr. CROZIER. Lawyer and author of two financial books—The Magnet, and United States Money *v.* Corporation Currency.

Senator O'GORMAN. Mr. Crozier, I think I have been reading, with great interest, one of your productions during the last few days.

Mr. CROZIER. With my sympathy if you have, Mr. Chairman.

Senator O'GORMAN. No; it is adding to whatever information I may have on the subject. You are not a banker yourself?

Mr. CROZIER. No, sir.

Senator O'GORMAN. You have a brother who is a banker?

Mr. CROZIER. I have; yes, sir.

Senator O'GORMAN. You have written on the subject of banking and currency?

Mr. CROZIER. Yes, sir.

Senator O'GORMAN. You have spoken and lectured at times?

Mr. CROZIER. Yes, sir.

Senator O'GORMAN. You say you are a lawyer?

Mr. CROZIER. I am; yes, sir.

Senator O'GORMAN. You have no banking affiliations?

Mr. CROZIER. None whatever.

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Senator O'GORMAN. You have read this bill?

Mr. CROZIER. Yes, sir.

Senator O'GORMAN. Now, you may state your views of this bill.

Mr. CROZIER. Before discussing the subject more generally, if instead of adopting a complete ideal banking and currency plan it is decided to merely prop up the present system by enacting the measure recently passed by the House, I respectfully suggest the following modifications:

First. Make cash reserves of each bank 15 per cent, of which 5 per cent shall be kept in the bank's vaults, 5 per cent in the regional reserve bank, and 5 per cent in any banks in that system, the amount so deposited in any bank shall not exceed 10 per cent of the capital stock of the depositing bank, or of the bank receiving such reserve deposits.

Senator BRISTOW. Just give me that again; I did not catch that fully.

Senator NELSON. Read the whole paragraph.

Mr. CROZIER. First, make cash reserves of each bank 15 per cent, of which 5 per cent shall be kept in the bank's vaults, 5 per cent in the regional reserve bank, and 5 per cent in any banks in the system.

Senator NELSON. Any other banks?

Mr. CROZIER. Any other banks in system. The amounts so deposited in any bank shall not exceed 10 per cent of the capital stock of the depositing bank or of the bank receiving such reserve deposit.

Senator HOLLIS. That would cut it up very badly in the case of most banks that would have a fairly small capital and very large deposits. You have that in mind, and that is your idea?

Mr. CROZIER. Precisely. Let me finish the paragraph, and then I would be glad to make any further explanation. If all State and national banks join, this plan would centralize about $500,000,000 of reserves for the purposes of protection and rediscount; leave $500,000,000 in the banks' vaults and decentralize and scatter in small amounts for safety the other $500,000,000, instead of centralizing same in a few large cities. If the reserves had been scattered in 1907 there would not have been a general panic and suspension of cash payments by the banks.

Senator O'GORMAN. Mr. Crozier, let me ask you here: You appeared before the House committee last year, did you not?

Mr. CROZIER. In 1908.

Senator O'GORMAN. As far back as that?

Mr. CROZIER. Yes.

Senator O'GORMAN. You appeared before the so-called Glass committee a year ago, did you not?

Mr. CROZIER. I did, by invitation of the committee, but it was submitted in printed form, rather than in person.

Senator O'GORMAN. You presented then the same views you are presenting here now?

Mr. CROZIER. No, sir; an entirely different side. You will find, Mr. Chairman (I will say right here, in this connection) that through your courtesy you have already included in the report of your hearings an entire complete substitute bill and an analysis of the various systems, which I submitted through a Senator, a friend of mine, and that will be found in part 18 of your printed hearings.

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Senator O'GORMAN. So that what you have to say to-day will be supplemental to that?

Mr. CROZIER. Supplemental to that, but largely on a different subject than there discussed.

The purpose of this, gentlemen, is to scatter, to concentrate a portion of the reserves for protection and rediscount and scatter the rest for the safety of the banks, and to also do justice to all parts of the country in giving a large part of the country an opportunity to have for local use a portion of the bank reserves. I do not believe it is fair or right or wise or safe to continue the present reserve system which compels by law the taking away of vast sums of money from every section of the United States and concentrating it in a few large so-called reserve cities for the exclusive benefit and use of those reserve cities. Now, if this change is made in your law, which you can do here, it will mean that the large banks in the cities will scatter their reserves. Why? Because outlying sections, the country banks in outlying sections, can afford to pay 3 per cent and sometimes 4 per cent for use of those reserves.

Senator NELSON. Is not that a danger, to allow them to pay interest on it?

Mr. CROZIER. I think not. I think that the demand for money, Senator, should regulate largely the interest rate.

Senator NELSON. No; but I mean on these reserves. Would not that be a temptation for banks to send it to remote corners where they could get an extraordinary high rate of interest?

Mr. CROZIER. I think there is no element of danger in that, Senator, provided the deposit in any given bank is restricted to 10 per cent of the capital stock of either bank.

Senator NELSON. Suppose you had 10 or 20 banks to make deposits in one bank to that extent? You see what an enormous amount of bankers' deposits they would have?

Mr. CROZIER. But the concentration would not be anything like as great, Senator, as it is under the present system where New York gets in the neighborhood of a third of all the reserve money in the United States. And the present system has operated to make a rate of interest of from 1 to 2 per cent in one financial center where most of the reserve money is used for stock speculation, and while money for those purposes is loaned for those rates, commercial business of all sections of the country is compelled to pay 5 and 6 per cent for the use of money for their business. This would tend to equalize the interest rate for the benefit of all sections of the country, and would not impair the safety of the reserve system.

Second. Make more clear the power of the Federal reserve board to remove class B bank directors for any act it deems not to be in the interest of agricultural, commercial, or industrial interests of the district, or for the welfare of the general public. That will make the Federal board a real power, instead of largely an ornamental figurehead. As now written, the Federal reserve board's right of removal is only if it thinks those men have ceased to be representative of that class. In other words, ceased to be agricultural, commercial, or industrial people. Now, the board should have the power of removal if those men, by their official acts fail to represent the agri-

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cultural, commercial, or industrial interests of the general public, because the Federal board represents the general public.

Third. Empower the Federal reserve board to fix from day to day for Federal banks the general discount rate charged local member banks which shall be uniform throughout the United States. Remember, gentlemen, it is chiefly the public currency and revenues—the property of the people—that is being loaned by the Federal banks. When a system is created by an act of the General Government to dispose of the public currency and public revenues belonging to all of the people there is no justification in morals and should not be in law for discriminating in the interest rate charged for public currency between sections of the same country. There is a further reason, gentlemen, a scientific reason: If you would give to the Federal reserve board the absolute power possessed by the Bank of England to fix and change from day to day the interest rate, the discount rate, you will have created one of the most useful powers in the hands of an agency of the General Government of all the people by which it can intelligently and effectively check improper general speculation and encourage the development of prosperity. In other words, as you know and have been told by distinguished financial men who have been here, an increase in the general discount rate always tends to check speculative operation and activities throughout the country. On the other hand, a decrease of the general discount rate tends instantly to release money and thereby a tenfold volume of bankers' credit based on that money that the banks at once seek to find profitable outlets for, and business is artificially stimulated throughout the country. So that the mere raising and lowering of the general discount rate, if it is exercised wisely and intelligently by a central patriotic authority, can be made a tonic and means a governor by which automatically, to a measurable extent, the prosperity and business conditions of the country can be regulated. Therefore a power so enormous should not, in my judgment, be delegated to any private corporation or dozen private corporations to be used for private profit, because those corporatins naturally would use it to increase the interest rate and thereby increase the profit of such banks as own the corporations.

Fourth. Prohibit discrimination and favoritism by Federal banks as between member banks in the matter of service or interest rates. Now, gentlemen, while these regional banks are to be private corporations this bill gives them very large special privileges and powers.

Senator O'GORMAN. Gives to whom?

Mr. CROZIER. This bill gives to the Federal banks and regional banks very large powers and very large and rich and valuable special privileges. The system of control of these Federal banks is private.

Senator O'GORMAN. Why private? There are three members appointed by the reserve board strictly governmental officials. Of course the six others are selected by the various member banks.

Mr. CROZIER. Precisely; and that is why it is private instead of public in the control and management of the banks.

Senator O'GORMAN. You say the three officers named by the reserve board are private officials?

Mr. CROZIER. No, sir. No; you do not understand me. I said the control and management of the regional bank is a private control and not a public control and management.

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Senator O'GORMAN. I can not agree with you. The regional banks, even under the pending bill, are ultimately controlled by a public governmental board residing here in Washington. I can appreciate the observation you made a moment ago, that perhaps sufficient powers have not been conferred on the reserve board to give it effectual control over the several regional banks.

Mr. CROZIER. Yes.

Senator O'GORMAN. That is a matter that can be easily corrected.

Mr. CROZIER. Yes; but I am taking the present bill as it stands now, Senator. The House has already passed it, and I must necessarily discuss the b ll in the legal form of its present structure.

Those are private corporations, they are privately owned and privately managed in law. Now, it is true that the Government board has very large moral influence there, and that that moral influence would be very beneficial and useful, I grant. But speaking legally, the banks and not the Government choose six of the nine directors, and therefore it is private control and management as the bill now reads.

For that reason, it seems to me, as you are to take away from the Government and turn over to 12 private corporations formed by the banks an entire exclusive monopoly of every dollar of the public currency of the United States and every dollar of the public revenues of the United States, and turn them over to these private central banks, if you please, for the profit of those private corporations, it seems to me it is the duty of Congress to absolutely insure in the bill that these public funds will be administered by those private banks, private corporations, without discrimination or partiality. For the same reasons that the Interstate Commerce Commission is authorized——

(At this point there was a call for a quorum of the Senate.)

Senator O'GORMAN. Gentlemen, we will now adjourn to the committee room of the Judiciary Committee on the ground floor of the Senate wing of the Capitol, as it is necessary for us to answer the roll calls.

(Thereupon, at 11.15 o'clock a. m., the committee adjourned to the Judiciary Committee room in the Capitol.)

Senator O'GORMAN. You may proceed, Mr. Crozier.

Mr. CROZIER. The matters of prohibiting discrimination by Federal reserve banks, as between local member banks, is a matter that is equally justifiable with the law prohibiting discrimination by railroads between customers in the matter of railroad rates and service, in my judgment.

And it is in some respects more important, because it is not inconceivable that, in some instances, a clique may obtain control of the regional banks; and unless there is this safeguard provided there may be favors extended to one local bank and denied to others, and there should be nothing of that kind; every bank, especially if they come in under compulsion, should have the protection of an affirmative prohibition in this law.

Senator NELSON. Now, how would you put that into the bill? What rule could you lay down in the bill—putting it into words?

Mr. CROZIER. I would empower the Federal board to remove any and all directors of Federal banks that participate or permit discrimination by Federal banks in the administration of their powers.

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Senator NELSON. But that would not be laying down a rule of guidance for the regional banks. I mean, what rule would you lay down for the guidance of the regional banks to prevent discrimination?

Mr. CROZIER. The granting, for instance, of rediscounts to one bank and refusing them to another bank on precisely the same class of paper.

Senator HITCHCOCK. What would you think of providing that every member bank, as a matter of right, should be entitled to rediscounts to the extent of the capital stock, and that no member bank should be permitted to have discounts in excess of twice its capital stock, except in case of an emergency, and then only upon reference to the Federal reserve board?

Mr. CROZIER. That, Senator, is an absolutely essential provision if the law of supply and demand instead of the arbitrary will of the directors of a private regional corporation is to govern in the world of finance and banking.

Senator HITCHCOCK. Then, what would you think of this further provision, that the rate of discount should be the same to all member banks, and should be higher when the member bank is accorded discounts exceeding the amount of its capital stock?

Mr. CROZIER. I have already stated—I think you were not present at the time—that I favor a uniform rate of discount throughout the United States.

Senator NELSON. On the part of the regional banks. Mr. Crozier took that stand.

Mr. CROZIER. Yes; on the part of the regional banks, and fixed by the Government board, and changed from day to day or from week to week. And I would say, further, that for extra loans granted as a mere emergency I would make a special rate. I would provide in the rules put out by the Government board a special higher rate that would operate, when that emergency was over, to bring back the emergency currency into the general pile.

Senator HITCHCOCK. That is, you would allow a bank, up to the amount of its capital stock, for instance, to have the lowest rate?

Mr. CROZIER. The minimum—the maximum, rather.

Senator HITCHCOCK. Well, the minimum rate.

Mr. CROZIER. The minimum and the maximum are the same.

Senator HITCHCOCK. And then if it required discounts in excess of its capital stock it should pay a higher rate?

Mr. CROZIER. Yes, sir.

Senator HITCHCOCK. But the rate in all cases to be the same to the member banks?

Mr. CROZIER. Yes. I stated before that in morals, and I thought in law, there was no justification for granting by law to private regional corporations the power to discriminate between localities of the same kind in the price of interest for public currency and public revenues distributed through those private corporations for the public use.

Fifth. Prohibit any bank in the system charging more than 7 per cent for either time or demand loans, or discrimination between customers in the rates paid for deposits or charged for loans under similar conditions. This refers, of course, to local banks.

Senator NELSON. Member banks.

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Mr. CROZIER. Yes; member banks. You are all familiar with the fact that the practice in New York has grown up on the stock exchange of bidding the price of call loans to 10, 20, 30, and 50 per cent, and sometimes 100, 200, and 300 per cent—during the Northern Pacific corner.

Now, that increased interest rate automatically acts as a magnet and entices the money all over the United States away from local business, local industry, and local banks into that one center, to be used chiefly for speculative purposes. It is a scandal; it is a wrong on the whole country; it is a thing that ought to have been abolished years ago.

Senator O'GORMAN. What should be abolished?

Mr. CROZIER. The charging of more than 7 per cent for either time or call loans.

Senator O'GORMAN. You mean it should be prohibited?

Mr. CROZIER. Prohibited; yes; because it is a fraud on the whole country. It is a thing that creates tensions, and it has done more than any other one thing, gentlemen, to bring on panics in this country.

Are the 48 States utterly helpless to change a condition in one city of one State that repeatedly operates to demoralize the financial and banking conditions of the whole country? Are we helpless? I think we are not helpless, gentlemen, provided in this very measure you gentlemen take the initiative and try to correct that wrong.

It is well known—it has been brought out in the investigations which have been conducted by authority of Congress—that banks incorporated under national law repeatedly participated in the scheme of inflating call rates, and over and over have called loans at one end of the bank for the sole purpose of forcing their customers to go to the other end of the same bank and submit to a usurious interest rate; and all this under charters granted and existing by Federal laws. The system is wrong; it is a scandal.

Sixth. Prohibit the granting or calling of loans for the purpose of influencing the quotation prices of securities and the contracting of loans or increasing of interest rates in concert or cooperation by the banks to influence public opinion or the action of any legislative body or the political action of bank customers.

Senator NELSON. Will you please repeat that? I did not get it.

Mr. CROZIER. Six, prohibit the granting or calling in of loans for the purpose of influencing quotation prices of securities and the contracting of loans or increasing of interest rates in concert or cooperation by the banks to influence public opinion or the action of any legislative body or the political action of bank customers.

Senator NELSON. How could that be put in practical operation? In what way would you do it?

Mr. CROZIER. If you will make a declaration, a prohibition in your law, a specific prohibition in this law, prohibiting that practice, even if you put no penalty behind it, the statutes of the United States will furnish a penalty of three years' imprisonment or not to exceed $10,000 fine under the conspiracy act.

Senator HITCHCOCK. You would have to prove a motive?

Mr. CROZIER. Yes; you would have to prove it. All criminal matters are subject to proof. If the proof can not be provided, then there is no injury to the banks. But I remember—and you gentlemen

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remember—within recent months the distinguished Secretary of the Treasury of the United States was reported in the open press notices as specifically charging that there was a conspiracy, or words to that effect, among certain of the large banking interests to put a contraction upon the currency and to raise interest rates for the sake of forcing public opinion—to force Congress into passing currency legislation desired by those institutions. I say that is not a proper business for banks to engage in chartered under Federal authority. And this is the place to correct that evil, if it is ever to be corrected.

Senator NELSON. Did the Secretary of the Treasury furnish any proof of that fact?

Mr. CROZIER. I can not say that he did. He referred——

Senator O'GORMAN (interposing). Do you personally know of anything that justified that suspicion or fear on his part?

Mr. CROZIER. No; not on his part. No; I am not in the confidence of the Secretary of the Treasury.

Senator SHAFROTH. Well, on your own part, do you know of any combination? Have you any proof of any combination?

Mr. CROZIER. I am a lawyer, and a number of these gentlemen are lawyers. We know that circumstantial evidence sometimes is the most valuable.

Senator SHAFROTH. Certainly.

Mr. CROZIER. And six or seven months ago the condition of business in this country never had been as healthy as at that time.

Senator HITCHCOCK. Well, I do not know about that. In March, when the bank statements were made, the reserves were at their lowest ebb, and the banks have been struggling ever since that time to strengthen them.

Mr. CROZIER. Senator, that has been, over and over, put up as an unhealthy—or as an evidence of lack of prosperity in the country.

Senator HITCHCOCK. No; it shows a strained condition of the banking resources.

Mr. CROZIER. On the part of the banks.

Senator HITCHCOCK. But it does not show—and at once, when it was revealed, the banks went to work to try to fortify themselves, which they should have done.

Mr. CROZIER. Yes; but not in the fire-alarm way in which it was done. An official of the National City Bank of New York, which bank is the leader, has always been the leader in taking away from the Government and the people of the United States the control of their public currency and putting it into the hands of a private corporation—in other words, the leader in the movement for the Aldrich central-bank plan—an official of that bank went out to Detroit in the spring, and in a public address rang the fire alarm that naturally would set every bank in the United States into calling its loans and strengthening its reserves.

Senator HITCHCOCK. Can you put into the record what he said?

Mr. CROZIER. I have not it with me.

Senator HITCHCOCK. Can you procure it?

Mr. CROZIER. I think I could.

Senator HITCHCOCK. I ask that that be done. I would like to know what this was—what specific thing was done; what specific thing was said.

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Mr. CROZIER. I will try to find that, because at the time I know I was sure that started a movement for the contraction of the currency—for the contraction of bank loans that would be nation-wide before it got through.

Senator NELSON. But do you not think the condition of the banks, as revealed by the statement that Senator Hitchcock referred to—do you not think that that justified——

Mr. CROZIER (interposing). It justified the banks, Senator, in strengthening their reserves privately; but it did not justify the publication in the public press of the whole country of an alarming condition and the publication of it in the face of the announcement from the President that an effort was to be made to put over currency legislation at this session of Congress. Now, it is impossible——

Senator HITCHCOCK (interposing). I think you are getting your dates mixed, Mr. Crozier. The President did not take that position until later. It was midsummer before the President took that position.

Senator SHAFROTH. It was the 24th of June.

Senator HITCHCOCK. Yes; and the condition of the banks of the United States, as I remember, was revealed in their March statements.

Mr. CROZIER. I think you are correct as to the formal announcement of the President; but shortly after the President's inauguration, if my memory serves me correctly, it was pretty generally published throughout the United States that currency and tariff were both to be considered, at least, at this session of Congress. I do not think that the formal statement of the President that they must be completed during this session was made until the time you speak of, but it was generally understood by the banks and by everybody that currency would come up at this special session, at least for discussion; and those people, the interests back of the Aldrich plan, have been busy night and day for the last six years.

Senator O'GORMAN. Have you any other views bearing on the provisions of this bill, Mr. Crozier?

Mr. CROZIER. Yes; that is exactly what I am coming to.

Seven. Empower the Federal reserve board to loan currency direct to any local bank in the system, as well as to the regional banks, on the same securities required by Federal banks.

Senator NELSON. Will you repeat that statement and let me see if I understand it?

Mr. CROZIER. Seven. Empower the Federal reserve board to loan currency direct to any local bank in the system, as well as to the regional banks, on the same security required by Federal banks or regional banks, whenever such board deems that the public welfare requires such action.

Senator NELSON. Well, the Federal reserve board would not have anything to loan; the only way they could do it would be to order one regional bank to loan to another.

Mr. CROZIER. No. They have the public currency absolutely under their sole control at the outset.

Senator O'GORMAN. You may proceed, Mr. Crozier.

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Mr. CROZIER. That is the only way local banks and the business public can be protected against possible abuse of the currency monopoly by a regional bank; absolutely the only way. You are creating, if you put this bill through, 12 private monopolies—private corporations owned by the banks, to which private corporations you are delegating by act of Congress an absolute monopoly of every dollar of the public currency of the United States and every dollar of the public revenues of the United States.

Senator HITCHCOCK. Well, that is the way the bill is now. It will not be that way when it comes out of this committee.

Mr. CROZIER. I hope not. But I have no way of seeing into the minds of this committee.

You are doing that, gentlemen; more than that. You are putting into the hands of those regional reserve banks exclusively, and not in the hands of the Government board, the exercise of the power of elasticity that we all desire to establish.

Eighth. Preferably eliminate the regional-bank feature and merge a reasonable portion of all bank reserves for purposes of protection and rediscount under the control of the Federal board, such board to be increased in size, and have its powers enlarged and properly safeguarded. The number of regional banks should not be reduced if they are to be owned and controlled by private interests instead of the Government.

The object of the big banks in demanding fewer regional banks is to increase their grip on the system and make more easy and certain the monopoly of all money and bank credit, and of private control of the public currency, which this measure openly grants to the powers of privilege.

If the Government is to retain absolute. instead of pretended, control, then one bank or public agency is all that is needed, and will be more simple and scientific than a dozen or any other number of scattered agencies exercising currency powers.

The so-called administration currency bill grants just what Wall Street and the big banks for 25 years have been striving for, namely, private instead of public control of the public currency.

I know that, gentlemen, for on the 17th day of December, 1907, I was in the city of New York at the meeting of the National Civic Federation, when the chairman of the committee, Mr. Seligman, in the presence of the meeting in which the representatives of Wall Street were in the majority, presented their currency resolutions. This was right during the panic—or right after the panic.

I moved as an amendment a proviso to that resolution. and the proviso was this:

Provided. That the power to control the volume of the public currency in circulation among the people shall not be taken from the Government and put into private hands.

I asked Mr. Seligman and the committee in public to accept that amendment, and they refused to do so.

Senator HITCHCOCK. Do you think that the Government now controls the volume of currency?

Mr. CROZIER. It does to a large extent; but it is not elastic.

Senator HITCHCOCK. Will you point out to the committee how the Government controls it?

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Mr. CROZIER. It controls it—it issues it and turns it over, of course, on bonds——

Senator HITCHCOCK (interposing). Well, how would the Secretary of the Treasury—you mean by the Government, the Secretary of the Treasury, I suppose—how would he go to work, now, to expand the currency?

Mr. CROZIER. He can not do it under the present law.

Senator HITCHCOCK. Under the present law he can not contract it.

Mr. CROZIER. Under the present law he can not contract it.

Senator HITCHCOCK. Then how do you say it is under the control of the Government?

Mr. CROZIER. I say it should be under the control of the Government. That is the power I want put into the hands of the Federal board or agency, the power of elasticity; and I do not want it taken away from the Federal board or from the Government or from the people and put into the hands of private corporations, to be exercised for private profit and without due regard to the general welfare.

Senator HITCHCOCK. Well, do you know of any country where it is under the control of the Government?

Mr. CROZIER. Well, I can not say I do, in the strictest sense; but I do not know of any other Government where we have the people in control of the Government as we have here—to the same extent.

Senator HITCHCOCK. Let me ask you this question: What would be the effect if it were in the power of the Treasury Department and the Treasury Department should be able to exercise it by greatly expanding the currency? What would be the effect of that?

Mr. CROZIER. I am opposed to doing it in that way. I want created a deliberative, law-controlled agency or, preferably, a department of the Government segregated from the ordinary business of the Government and from the financial affairs of the Government; a United States monetary council; a body just as deliberative and intelligent as the Supreme Court of the United States.

Senator HITCHCOCK. Well, suppose that should be created to your liking, and it should expand the currency, with the power that you have suggested conferred upon it. What would the effect be?

Mr. CROZIER. Increasing the volume of money in circulation would increase the credit tenfold.

Senator HITCHCOCK. What would be the effect upon prices?

Mr. CROZIER. The effect would be to increase them.

Senator HITCHCOCK. Do you think that any body of men ought to have the power to increase prices?

Mr. CROZIER. I think they ought to have the power to increase or decrease them.

Senator HITCHCOCK. Do you think that we ought to empower a commission to raise and lower prices in the United States?

Mr. CROZIER. Yes; I think somebody is going to have that power over the elasticity of the public currency, and I would rather intrust it to an agency of the Government than to intrust it to private corporations that are run for private profit. It is only a choice of evils, if you please.

Senator HITCHCOCK. Would it not be better to have the volume of currency responsive to the needs of business?

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Mr. CROZIER. It will be so under an intelligent and wise board. That board will not be arbitrary, if it is intelligent and honest and efficient.

Senator NELSON. But what rule of elasticity would that board follow? What would be the rules that would guide the board?

Mr. CROZIER. The same rules that you have here, except that it would have a better judgment and a more public judgment, because it would have the instrumentality for influencing the thing with due regard, not to locality, but to the whole country and the whole situation.

Now, if we are to assume, gentlemen, that in a republican form of government it is impossible for Congress to create a public body that it is safe to delegate these governmental powers to and that therefore we must take these powers away from the Government and delegate them to some private corporation, run for profit, that is different; I do not agree with you. I believe in the republican form of government and in the ability of that form of government to construct a public agency, a department of government, that will be absolutely free from all political taint or partisan bias and free from control by the influence of Wall Street or anybody else—just the same as the Supreme Court is to-day.

But it should be a separate department of the Government; it should not be intermixed or intermeddled with the Treasury Department work at all.

Senator NELSON. You would have to have a bureau of elasticity then. [Laughter.]

Senator HITCHCOCK. A rubber bureau. [Laughter.]

Senator O'GORMAN. You may proceed, Mr. Crozier, with your remarks.

Mr. CROZIER. If the gentleman will take the trouble and have the patience to read, in part 18 of your published proceedings, you will find a complete bill there.

Senator NELSON. I will try to read it.

Mr. CROZIER. It will give you an idea of the precise machinery that should be used for that purpose.

The so-called administration currency bill grants just what Wall Street and the big banks for 25 years have been striving for, namely, private instead of public control of the public currency. It does this as completely as did the Aldrich bill. Both measures rob the Government and the people of all effective control over the public money supply and vest in the banks exclusively the dangerous power to make money among the people scarce or plenty. The Aldrich bill put this power in one private central bank. The administration bill puts it in 12 regional central banks, all owned exclusively by the identical private interests that would have owned and run the one Aldrich bank.

Mr. CROZIER. There is absolutely no difference between the two measures in legal effect as to the control of the volume of currency in circulation. In one case the Aldrich bank and in the other the 12 regional banks exclusively decide the quantity of public currency that shall be put out among the people through local banks by rediscounting commercial paper, what locality, and which banks shall get it, and the price that must be paid for it. They also exclusively decide the quantity of currency that shall be taken away from the

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people by stopping the rediscounting and forcing local banks to gather up the people's cash and hand it to the regional banks to pay maturing rediscounted paper, and they only decide when this shall be done.

Senator HITCHCOCK. None of that would be true if the law were to provide that every bank, as a matter of right, should be entitled to a certain line of discount at any time.

Mr. CROZIER. That would help very much, and if you will increase the powers of the Federal board over those banks; to put the Federal Government in supreme control of the discount rate, so that the law of supply and demand will regulate it, I am in favor of this bill, if we can not get an ideal system.

Senator SHAFROTH. You do not think then the central board itself ought to have the power to increase and decrease?

Mr. CROZIER. I will explain that a little later.

Senator SHAFROTH. All right.

Mr. CROZIER. In other words, the imperial power of elasticity of the public currency and the tenfold volume of bank credit are loans built upon such currency, is wielded exclusively by these central corporations owned by the banks. This is a life and death power over all local banks and all business. It can be used to create or destroy prosperity; to ward off or cause stringencies and panics. By making money artificially scarce interest rates throughout the country can be arbitrarily raised and the bank tax on all business and cost of living increased for the profit of the banks owning these regional central banks, and without the slightest benefit to the people. These 12 corporations together cover the whole country and monopolize and use for private gain every dollar of the public currency, and all public revenues of the United States. Not a dollar can be put into circulation among the people by their Government without the consent of and on terms fixed by these 12 private-money trusts.

The Federal reserve board is utterly powerless. It can print and pledge the credit of the Government to a billion dollars of public currency and turn it over on its terms to the 12 reserve banks. Then its power ends. It can not compel the regional banks to put a dollar into actual circulation through local banks, no matter how badly it is needed by the people as a medium of exchange. It can not prevent the regional banks from suddenly withdrawing the entire billion from circulation, even if that course demoralized all business and wrecked all prices. The power to inflate and contract the volume of the public currency in the hands of the people and banks is vested not in the Federal board, but in the dozen private banking corporations.

Senator REED. Do you think if the regional banks of this country were to do the things you speak of that it would be more than about two days and a half until the directors would be removed under the power of removal?

Mr. CROZIER. There is no power of removal. I have already discussed that. I discussed that before you came in, I think. There is no power of removal of the three class B directors, so long as they are themselves commercial, agricultural, or industrial men. I asked for an amendment along that line before you came in, Senator.

Senator REED. There is a power of removal which is limited to the three?

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Mr. CROZIER. Yes.

Senator REED. If we could remove those three and appoint three others, we would be able to run that bank again in a few days?

Mr. CROZIER Yes; under this bill. I am only discussing the bill which may be evolved.

Senator REED. I am talking about this unbelieveable thing.

Senator SHAFROTH. Of course, it is not likely that this will occur.

Mr. CROZIER. Let me say in answer to the Senator, I am not saying, and do not say, and would not say that every bank or any bank now, next week, next month, or next year would do these things to this extreme, but when you gentlemen are making a statute you do not assume that the powers you grant probably will not be abused, but you safeguard the language of the statute so that selfish interests can not abuse those powers, even if they are inclined to do so.

Senator REED. That is all right. I was asking about your claim that we could not control in an extreme case. Undoubtedly the control would be there.

Mr. CROZIER. Yes. There is, under the language of the bill passed by the House, no control or power in the Federal board to remove the directors of Federal banks, so long as these class B directors are themselves commercial, agricultural, or industrial men.

Gentlemen, that is private control of the public currency, the power in private hands to manipulate or arbitrarily raise and lower the prices of all securities, commodities, property, and human labor by simply inflating and contracting at the will of such corporations the outstanding quantity of the public currency of the United States.

Senator REED. What do you say of this section in regard to the powers given to this central board:

> To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency.

That would cover the case you have been discussing.

Mr. CROZIER. I do not think so.

Senator REED. "Dereliction of duty," that would cover it; would it not? "Dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States."

Senator SHAFROTH. There is another clause in there to the effect that when they shall be satisfied that they do not represent the agricultural or industrial interests they may be removed.

Mr. CROZIER. That means if they stop being agricultural men and become bankers they should be put off the board. What I want in there is a section providing that if they cease, by their official acts, to serve the interests of those particular interests they should have the power of removal.

Senator REED. Section D provides, among the powers of this central board:

> To supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such notes.

Read that in connection with paragraph (f), which says:

> To suspend the officials of Federal reserve banks, and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States.

It seems to me there would be a manifest power there.

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Mr. CROZIER. Suppose, Senator, the regional bank directors should say, "Speculation is becoming rife; let us call in 25 per cent of our loans." Now, the Federal reserve board might believe that that was a tremendous burden on business, but it would be only an error of judgment.

Senator REED. But that would be incompetency?

Mr. CROZIER. Yes, sir.

Senator REED. The Federal reserve board undoubtedly would have the power, and there is no court in the country that would interfere with their power.

Mr. CROZIER. I would like to see that clause put in the bill, Senator. I would like to see that specific clause put in the bill, making the Federal reserve board the supreme court on this and all other questions that come up under this bill.

Senator NELSON. Will you repeat that statement you made a while ago?

Mr. CROZIER. That is, private control of the public currency, the power in private hands to manipulate or arbitrarily raise and lower the prices of all securities, commodities, property, and human labor by simply inflating and contracting at the will of such corporations the outstanding quantity of the public currency of the United States. All authorities agree, so far as I know, that an inflation of the money in circulation, the money of the people, tends to automatically increase prices.

Senator NELSON. The banks can not do it. The call for the currency must come from the regional banks. They must put up their commercial paper. The regional bank can not issue, haphazard, currency and scatter it among the people and then bring it back. They can only issue it where there is a call by the member banks.

Mr. CROZIER. That is true.

Senator NELSON. So the demand comes from the consumers in the first instance?

Mr. CROZIER. They have the power to refuse to comply with the demand. If the law of supply and demand of legitimate business—and commercial paper is legitimate business, if it is genuine commercial paper—if that law of supply and demand can be put into your bill, so it will be the Government and not the arbitrary will of the board of directors of the private corporation, you will take out very much of the danger.

Senator HITCHCOCK. That is undoubtedly the purpose of the bill, and the committee will see to it.

Mr. CROZIER. I hope so.

Senator SHAFROTH. You have your amendment all prepared?

Mr. CROZIER. No; I have just suggested it.

Senator NELSON. He has a bill in the record.

Mr. CROZIER. I have a complete bill in the record.

Senator SHAFROTH. You had better put in your amendment just as you want it, so that instead of going to your philosophy we can go to the language used.

Senator O'GORMAN. Let me make this statement for the record. As I understand it, your proposed bill, which has been submitted, really provides for a central bank with branches under Government control?

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Mr. CROZIER. It is not a bank in any sense of the word whatever, but a central agency, a monetary council.

Senator O'GORMAN. It is intended to discharge the two main functions sought to be advanced by this bill, providing for the rediscount of commercial paper?

Mr. CROZIER. It is not strictly rediscount.

Senator O'GORMAN. It is an accommodation?

Mr. CROZIER. No; it is loaning on the security of commercial paper instead of bonds; that is all. It is not a rediscount.

Senator O'GORMAN. It also makes provision for the mobilization of reserves?

Mr. CROZIER. It is to form an ideal money and banking system. I am here because of the expression in the newspapers that there was some probability of this bill in its general form going through, and if that is to be, then I wanted it changed in certain particulars, and if it can be made so that it is a patriotic thing, so that the Government is in control, I have no objection to the banks. They should be used. My bill provides that the currency must be put out through the banks. They are natural agencies. They have the situation in hand all over the country, but I want the banks to pay the Government whatever the true value of that currency is, and I do not want it given to them and allow them to make all the profits from the Government. There is no reason why it should not be that way. It is a business matter, pure and simple.

This measure makes it possible for selfish private interests for selfish objects to use the whole public currency to harm or despoil all the people in spite of the Federal board, or all the powers of the Government of the Republic. Is this democracy? It is not rule by the people, but rule of the people by the dozen calculating private corporations.

The business heartbeats of 100,000,000 people can be stopped any time without notice of these corporations to raise interest rates or influence elections or legislation, suddenly obstruct the free play of circulation, the currency, the life fluid of all business, by temporarily stopping the rediscounting for local banks and requiring the payment of maturing short-time rediscounted paper in cash by the banks. We must remember that under our bank reserve system the volume of bank credit loans is ten times the total cash in the reserves. That a currency contraction that withdraws $500,000,000 from bank reserves will force the banks to instantly require their business customers to pay up $5,000,000,000 of bank loans. The sudden and unexpected contraction of bank loans five or even one billion dollars means nation-wide stringency, if not panic.

What folly, then, to put this dangerous power over all the people and their business activities into the hands of the very private interests that will profit most by using such power for selfish purposes at the expense of the people. Why not leave it where it now is and has been for 50 years—in the hands of the Government—for the good of all?

By establishing a proper Government agency to hold bank reserves and use the same with the public currency and revenues to protect the banks and put currency into circulation through the banks we can get the desired currency elasticity in practical and scientific form with-

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out delegating these sovereign governmental powers to private corporations.

The administration currency bill should be simplified and changed so it will provide genuine public control of the public currency. The regional-bank feature should be eliminated and the Government board enlarged, safeguarded, and given adequate powers. It should not be a bank or do a banking business. It needs no capital stock. The bank reserves, currency, and public revenues will provide ample funds for all purposes. Every dollar should be a real dollar, good to pay a dollar of debt or purchase, full legal tender, redeemable in and secured by an adequate reserve of actual gold. Behind it should be the faith and credit and taxing power of the Federal Government. Such a currency always will be sound and never depreciate. What more do we need? Why should we have less? Congress must answer those questions.

Gentlemen, one of the wickedest things in this bill is the fact that it proposes to create a possible $1,000,000,000 of optional currency, not one dollar of which can be used to pay any private debt, and the man selling goods to a purchaser may refuse to accept it if it is tendered to him. And yet it is to be an obligation of the Government of the United States and for the banking of the Government of the United States. I say that it is not the province of Congress to authorize the creation and putting into circulation of $1,000,000,000 of currency that the people think is real money, and when they tender it to redeem some mortgage at the last moment to be told that that is not a legal tender and that they have lost their property.

Senator HITCHCOCK. Do national-bank notes have that effect?

Mr. CROZIER. They have not, and that is why I am opposed to it.

Senator HITCHCOCK. Can you give us any instances of what you refer to?

Mr. CROZIER. I had one gentleman in Denver tell me of a case of a piece of mining property of great value on which there was borrowed in Wall Street about $150,000. The loan was made, and after they received it they developed the mine to the point where immense ore reserves were shown. These people suddenly foreclosed, and they got the money elsewhere and got together their last dollar to redeem it, and part of that money tendered was bank notes and part of it was gold certificates, and they were refused, because gold certificates are not legal tender, although there is 100 per cent of gold in the Treasury to secure them. They were mere warehouse receipts.

There is nearly 90 per cent of money in actual circulation in this country under the law of Congress which is not worth the paper it is written on, if anybody cares to refuse it, because it is not legal-tender money.

Senator WEEKS. Did you investigate to see whether that story which you have related to us was true or not?

Mr. CROZIER. I did not personally investigate it, but it came from a business man in Denver who, I suppose, knew what he was talking about.

Senator NELSON. Senator Shafroth may know something about that.

Senator SHAFROTH. Not that particular instance, but I remember a time when a man wanted to make a tender of $3,000, and he laid down $3,000 in gold, because he felt sure the people with whom he

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was making the settlement would not take anything else. I have seen several instances where they have resorted to that.

Mr. CROZIER. Now, gentlemen, I would like to ask some member of this committee to explain why a gold certificate is not a legal tender?

Senator HITCHCOCK. I supposed it was a legal tender.

Mr. CROZIER. It is not.

Senator NELSON. It is not.

Mr. CROZIER. Over $1,000,000,000 of those certificates are put out by the Government of the United States and they have 100 per cent of gold behind them, and yet they are utterly worthless paper in any business transaction between private individuals if the other party cares to refuse to accept them.

Senator O'GORMAN. Do you know any reason why any currency issued with the authority of the United States Government and with its approval should not be regarded as legal tender for all purposes?

Mr. CROZIER. There is no reason.

Senator O'GORMAN. I am asking if you know any good reason.

Mr. CROZIER. I have asked that question of a great many learned men about this legal-tender money, and the only answer I have ever obtained—I have asked it of college professors of economics, and they are preaching it in the great colleges and universities of this country to young men who are coming up to be the future citizens, as the reason why it should not be the legal tender, and that is if it is made real money some time the Government of the United States may issue too much of it. In other words, they are preaching distrust of republican institutions and the safety of republican governments to those tens of thousands of young men in the educational institutions of the United States.

Senator REED. That is interesting, but we can not undertake to reform the universities of this country.

Mr. CROZIER. But the Senator asked the question. I simply say I have put that question to a good many men.

Senator WEEKS. I do not think it is worth while to indulge in a discussion of that subject at this time, but I think the reasons are ample and conclusive why such a circulation should not be made legal tender.

Mr. CROZIER. I have never yet found any reasons that were advanced, excepting the one I have suggested, that there would be too much of it.

Now, then, my contention is this, that every dollar issued by the authority of Congress should be a full legal tender—should be redeemable in gold and should have behind it a reserve of actual gold.

There can be no question about the soundness of that currency, because the Aldrich bill provided a currency that was to have behind it not the guaranty of the Government, but only 33⅓ per cent of gold, and not really even that, because under the Aldrich bill silver could have been used exclusively, and not a dollar of gold behind that currency. Greenbacks could have been used exclusively and not a dollar of either gold or silver to secure the Aldrich bill currency. The same is true of your bill.

Senator O'GORMAN. You may proceed with your points, Mr. Crozier.

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Mr. CROZIER. The whole power of the Federal Government right now is being exerted to regulate or destroy trusts and combines as unlawful, dangerous, and against the general welfare. How strange that instead of protecting the independent banking system and competition for loans by forbidding banks to confederate to monopolize money and credit and raise interest rates, this pending currency bill would actually force the 25,000 banks to unite for mutual profit and advantage in a dozen corporate combines to which an absolute and binding monopoly of the entire public supply of money and bank credit of the United States is granted by act of Congress. A private monopoly of money and bank credit is the most dangerous and burdensome of all monopolies, because no important business can long thrive or even exist without a reasonable and ready supply of currency and credit available at fair interest rates.

I can not believe that the President and his advisers have as yet considered the question from this angle. It seems impossible that they would knowingly fasten upon the country by law an odious private monopoly of the public supply of money and bank credit, or while publicly proclaiming Government control of the public currency actually seek to put through Congress a measure that in fact and in law establishes absolute private control of the public currency in most complete and dangerous form.

I have no desire to obstruct or unnecessarily delay currency legislation if it is wise, sound, and patriotic. But we must not go faster than we can analyze and understand the important and far-reaching effects of proposed legislation. Although a lifelong Republican until that party, under the lead of Aldrich in 1912, took its official stand for private control of the public currency, my sympathies have since been with the President and his supporters in Congress. But if Democracy, in spite of the teachings of Jefferson and the warnings of Jackson, is now to be also officially committed to private control of the public currency and surrender everything to the big banks for the sake of accomplishing currency legislation quickly instead of more deliberately, the way is likely to be opened for revolutionary political changes in the near future. There is not the slightest doubt that the progressive two-thirds of both parties desire public instead of private control of the public currency. Will not these progressives come together in the Progressive Party or some new party in defense of their birthright and to preserve popular control of the public money supply if both Republican and Democratic Parties yield to the pressure of Wall Street and the big banks and take control of the public currency away from the Government and put it into private hands? What else can they do? Gentlemen, you may be shaping the issues of the next campaign and influencing powerfully the future history of the country in designing this currency legislation. I will gladly go with you in the support of any wise and practicable system that does not surrender to private interests the great sovereign power of issuing and regulating the volume of the public currency in circulation among the people.

Garfield said that whoever controls the supply of currency would, to a large extent, control the business and activities of all the people.

The great and immortal Jefferson declared that a private central bank issuing the public currency was a greater menace to the liberties of the people than a standing army.

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Senator O'GORMAN. Did he have in mind a central bank controlled by private interests?

Mr. CROZIER. Exactly that; the same as these regional banks are. Would not he, if now among us, say the same of a dozen private central banks all owned by the same private interests and possessing an absolute monopoly of putting into circulation every single dollar of the public currency of the United States? Personally I shall continue to follow the wise and patriotic teachings of Jefferson even if all the leaders of modern Democracy choose to follow Aldrich and other strange gods.

It seemed unfair to oppose one plan without at least tentatively suggesting another. Therefore I took the liberty of preparing the plan for an ideal money and banking system found in the bill you so kindly printed in full in part 18 of the published hearings of the Senate Banking and Currency Committee.

I have no prejudices against banks or bankers and want them protected fully as to all their legitimate interests. But they must keep out of the Government's business of issuing and regulating the volume of public currency, and the Government should keep out of the ordinary banking business. There can be no safe or justifiable partnership between the Government of the Republic and any private interests.

Senator O'GORMAN. We thank you for coming before us, Mr. Crozier.

Senator SHAFROTH. Will you formulate those amendments which you suggested and send them to the chairman, and mark them as suggestions made by you for amendments to this bill?

Mr. CROZIER. I will be glad to do so.

Senator O'GORMAN. I have here some suggestions which have come from Mr. Dawson, who appeared before us some days ago, containing proposed amendments to the pending bill, and, if there be no objection, his communication will be printed in the record.

Senator BRISTOW. I desire to say we requested Mr. Dawson to send us suggestions.

Senator O'GORMAN. And in the same way Mr. Vanderlip has been recalled to amplify certain changes in the bill which he suggested when he was here before.

(The communication referred to is as follows:)

FIRST NATIONAL BANK,
Davenport, Iowa, October 18, 1913.

Hon. ROBERT L. OWEN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: In response to the kind invitation of the committee, I herewith present the amendments suggested to the pending currency bill which, in my opinion, will tend to make the measure satisfactory to the 7,000 so-called country national banks.

I am much stronger in the opinions presented to your committee on the 10th instant than I was at that time. Upon my return I addressed a letter to every country national bank in Iowa and to about 60 more in Illinois. In that letter I stated the essential changes which I had recommended to your committee and asked for the opinion of the country banker with respect to the same. Up to this time replies have been received from about 125 banks and these replies are most interesting. I believe the committee will derive much information from them, and so I am forwarding them to you for the record.

You will, I am sure, be impressed with the sincerity and good temper of these letters from men who are conducting the national bank of from $25,000 to

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$100,000 capital in the average village or town throughout the country. You will note also that hardly a single suggestion is contained in all these letters that was not presented in my testimony to your committee. The most gratifying feature of all, however, is the inevitable conclusion which one reaches after reading these letters that if the essential changes suggested to the bill are made the measure will meet with general approval in the smaller communities and by nearly 90 per cent of existing national banks.

As none of these essential changes go to the underlying principles of the bill, but are merely matters of detail which are relatively unimportant in comparison with the larger aspects of the measure, I am confident that they will appeal strongly to the good judgment of the committee.

The changes which will make the bill satisfactory to the smaller national banks are these:

(1) Lessen the capital-stock subscription.
(2) Protection against loss on the 2 per cent bonds.
(3) Protection against loss in the shifting of reserves.
(4) Permit the rediscount of a limited amount of six months' paper.
(5) Equalize the privileges with State banks, with which they are in direct competition.

I am inclosing herewith copy of the letter which I addressed to the bankers in conducting my referendum and seeking to fairly ascertain the sentiment of that large class of the smaller banks. I have endeavored to obtain a fair expression of their views, and this your committee will find in the responses which I am sending for the record. I am sure your committee will appreciate that this is about the only way that a direct expression from banks of this large class can be presented for your consideration.

In forwarding these replies I have prepared them for printing in the hearings, and, having carefully read them all, I am confident that your committee will find them useful to have at hand in convenient form.

In submitting the amendments I have put them down in the order in which they come in the bill. All of the amendments relate to the five changes above enumerated, except, possibly, the one regarding section 11, which pertains to the organization of the Federal reserve board.

Thanking you personally for your many courtesies, and assuring you that the smaller national banks of the country will heartily appreciate the friendly consideration of these suggestions, I am, with high regard,

Very truly, yours, A. F. DAWSON.

[Inclosure.]

FIRST NATIONAL BANK,
DAVENPORT, IOWA, *October 14, 1913.*

BLANK NATIONAL BANK,
Blanktown, Iowa.

GENTLEMEN: At the conclusion of an extended hearing before the Senate Committee on Banking and Currency last Friday, I was requested by Chairman Owen to prepare and submit such amendments as would tend to make the bill satisfactory to the average national bank. In this hearing we discussed the bill wholly from the standpoint of banks with a capital of $25,000 to $100,000, of which there are nearly 7,000 in the United States; arguing that the proposed system could not be a success unless these banks were induced to enter it. I suggested the following changes to make the bill more satisfactory to banks of this class:

(1) Lessen the capital stock subscription.
(2) Protection against loss on the 2 per cent bonds.
(3) Protection against loss in the shifting of reserves.
(4) Permit the rediscount of a limited quantity of six months' paper.
(5) Give us equal privileges with the State banks, with which we are in direct competition.

Will you kindly favor me with your opinion of these suggested changes and any other amendments that you think will improve the bill?

This looks like an opportunity to secure legislation that will better enable us to serve the people in our respective communities, as the amendments proposed will have careful consideration by the committee when it comes to put the bill in final shape to be reported to the Senate.

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Will you please give me the benefit of your advice and suggestion in this important matter so that the facts may be fairly laid before the committee? As the time for action is very short, I shall hope to have your reply by return mail.

Very truly, yours, A. F. DAWSON.

AMENDMENTS SUBMITTED BY A. F. DAWSON, OF DAVENPORT, IOWA.

Page 2, line 22, strike out the word "twelve" and insert in lieu thereof the word "five."

Page 3, line 4, strike out the word "required" and insert in lieu thereof the word "permitted."

Page 3, line 5, strike out the word "twenty" and insert in lieu thereof the word "ten."

Page 8, line 10, after the word "districts," strike out all down to and including the word "district" in line 15.

Page 12, amend section 7 so that it will read as follows:

"SEC. 7. That after the payment of all necessary expenses and taxes of a Federal reserve bank, the member banks shall be entitled to receive an annual dividend of five per centum on the paid-in capital stock, which dividend shall be cumulative. One-half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to twenty per centum of the paid-in capital stock of such bank, and of the remaining one-half fifty per centum shall be paid to the United States and fifty per centum to the member banks in the ratio of their average balances with the Federal reserve bank for the preceding year. Whenever, and so long as, the surplus fund of a Federal reserve bank amounts to twenty per centum of the paid-in capital stock the member banks shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock. Fifty per centum of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid to the United States and fifty per centum to the member banks in proportion to their annual average balances with such Federal reserve bank; all earnings derived by the United States from Federal reserve banks shall constitute a sinking fund to be held for the reduction of the outstanding bonded indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury."

Reasons for changes suggested: It is a fair, businesslike proposition to pay a reasonable dividend to the stockholder, and then divide equaly the balance between the two partners, who supply the deposits. As the Government will supply about one-fourth of the deposits and the member banks about three-fourths a division of the excess profits half and half would seem to be eminently fair to the Government.

Page 16, line 15, strike out the words "the reserve" and insert in lieu thereof the words "all the."

When State banks avail themselves of the privileges of the system they should be subject to the same requirements as national banks.

Page 17, amend the first paragraph of section 11 so that it will read as follows:

"SEC. 11. That there shall be created a Federal reserve board, which shall consist of seven members, and it shall be composed in the following manner:

"First. One ex officio member, namely, the Secretary of the Treasury.

"Second. Two members to be elected by the member banks in the several Federal reserve districts. They shall be elected by ballot, each member bank having one vote. One shall be designated to serve for five and one for seven years, respectively, and thereafter each member so elected shall serve for a term of seven years unless sooner removed for cause by the President. Said first election shall be conducted under rules and regulations prescribed by the reserve bank organization committee. All subsequent elections shall be conducted by the board of directors of the several Federal reserve banks under rules and regulations approved by the Federal reserve board.

"Third. Four members to be appointed by the President of the United States by and with the advice and consent of the Senate. In selecting the four appointive members of the Federal reserve board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different geographical divisions

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of the country. The four members of the Federal reserve board appointed by the President and confirmed as aforesaid, and the two members elected by the member banks shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of $12,000, together with an allowance for actual necessary traveling expenses, and the Comptroller of the Curency shall, in addition to the salary now paid him, receive the sum of $5,000 annually. Of the four members thus appointed by the President not more than two shall be of the same political party, and at least one of them shall be a person experienced in banking. Two shall be designated by the President to serve for three, one for five, and one for seven years, respectively, and thereafter each member so appointed shall serve for a term of seven years unless sooner removed for cause by the President. Of the four persons thus appointed, one shall be designated by the President as manager and one as vice manager of the Federal reserve board. The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and the Federal reserve board, shall be the active executive officer of the Federal reserve board."

This seems to provide a control which will be secure against political control on the one hand or the control of concentrated wealth on the other. This attempts to steer between these two dangers.

Page 22, strike out all of lines 1 and 2.

I do not think the board would ever have occasion to suspend the reserve requirements with reference to Federal reserve notes, but if an emergency arose where such suspension would save the day it should not be prohibited.

Page 23, strike out all of section 13.

The proposed advisory council is unnecessary if member banks are given representation on the Federal reserve board.

Page 25, strike out the third paragraph of section 14 and insert in lieu thereof the following:

"Upon the indorsement of any member bank, if a country bank as defined by existing law, any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than ninety days and not more than one hundred and eighty days; but not more than fifteen per centum of the total paper of the classes described in this and the preceding paragraph shall have a maturity of more than ninety days."

This permits the rediscount of a limited amount of six months' paper, and I regard this as vital if the benefits of the system are to be conveyed to the smaller national banks. The above might be inserted as a new paragraph, allowing the third paragraph to stand as it now is, if thought preferable.

Page 29, lines 2, 3, and 4, strike out the proviso.

This is a matter which, in my judgment, should be left to the discretion of the directors of the Federal reserve banks and the Federal reserve board. If the new system is not to be conducted as a money-making institution for the Government, some people can not understand why the Federal reserve banks should pay interest on Government deposits and not on other deposits.

Page 29, lines 22 and 23, strike out the words "or lawful money."

These new notes should be redeemable in gold.

Page 23, line 13, strike out all down to and including the word "patrons" in line 23.

This provision is very objectionable to the smaller banks. I am convinced that it would be unwise to enter into this matter of exchange charges between banks further than to provide that drafts drawn on a Federal reserve bank by any member bank should be honored at par by every other member bank. This can easily be arranged by a regulation of the directors of the Federal reserve bank.

Page 30, line 13, strike out all after the word "accredited" down to the end of the paragraph and insert in lieu thereof the following:

"Whenever in the opinion of the Federal reserve board the collateral deposited with the Federal reserve agent shall be less in value than the amount of the notes issued to said Federal reserve bank, it shall require additional collateral, in order that the collateral may always equal the amount of such notes, deducting, however, from the amount of the notes any deposits in lawful money which may have been made with the Government to offset said notes, as hereafter provided."

Page 31, line 6, strike out all after the word "bank" down to and including the word "out," in line 15.

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Page 36, line 17, amend paragraph (a) of section 20 so that it will read as follows:

"(a) If a country bank as defined by existing law, it shall hold and maintain a reserve equal to twelve per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for. Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults. After sixty days from the date aforesaid and for a period of six months at least one-twelfth within the next succeeding six months at least two-twelfths, and thereafter at least four-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the twelve per centum reserve hereinbefore required may, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided, consist of balances due from national banks in reserve or central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided the said remainder of the twelve per centum reserve required of each country bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district."

This provides a little more gradual process of shifting the reserves of country banks. I believe the shift could be accomplished in this way without material disturbance or inconvenience.

Page 39, after line 4, insert a new paragraph, as follows:

"The board of directors of the Federal reserve bank may in its discretion fix from time to time a rate of interest to be paid on the deposits of member banks, subject to the approval of the Federal reserve board, and such rate shall be uniform throughout the United States, and in no case shall it exceed the rate of interest paid on Government deposits."

I believe this discretion should be included in the bill. We have seen how potential this question of interest has been in centralizing reserves in private hands. One of the main objects of this bill is to mobilize reserves, and should those in control of the system not be given discretion to employ such means as will most successfully and fairly accomplish this reseult?

Page 39, lines 18 and 19, strike out the words "or lawful money."

I would allow section 26 to remain in the bill as it now stands, so that national banks without a savings department might be permitted to make a limited amount of farm mortgage loans running not to exceed one year.

Page 44, amend section 27 so as to read as follows:

"SAVINGS DEPARTMENT.

"SEC. 27. That any national banking association may make application to the Comptroller of the Currency for permission to open a savings department. In making such application any national banking association may further apply for power to act as trustee for mortgage loans subject to the limitations and conditions herein prescribed. Whenever the Comptroller of the Currency shall have approved any such application he shall so inform the applying bank, and thereafter it shall be authorized to receive savings deposits as so defined, under rules and regulations to be prescribed by the Comptroller of the Currency.

"All business transacted by the commercial department of any such national bank shall be in every respect subject to the limitations and requirements provided in the national banking act as modified by this act, and such business shall hence forward be known as commercial business.

"The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, to purchase securities authorized by the Federal reserve board, to loan any funds so accumulated upon real estate or other authorized security and to collect the same with interest, and to declare and pay dividends or interest upon its deposits. In making loans secured by improved and unencumbered farm land, no such loan shall be made for a period longer than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security, and such property shall be situated within the Federal reserve district in which the bank is located.

"The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national banking act, and

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it shall be the duty of said board to make and publish at its discretion lists of securities, paper, bonds, and other forms of investment which the savings departments of national banks shall be authorized to buy or loan upon; and said lists need not be uniform throughout the United States, but shall be adapted to the conditions of business in different sections of the country.

"It shall be the duty of every national bank to maintain, with respect to all deposit liabilities of its savings department, a reserve in money which may under existing law be counted as reserve, equal to not less than five per centum of the total deposit liabilities of such department, and every national bank authorized to maintain a savings department is hereby exempted from the reserve requirements of the national banking act and of this act in respect to the said deposit liabilities of its savings department, except as in this section provided. Every regulation made in pursuance of this section shall be duly published, and also posted in every member bank having a savings department."

This change eliminates the segregation of capital, etc., which is impractical and unworkable in the smaller banks. The farm loan provision, to be of any material value in serving the people in this regard, must permit such loans to run for five years. It is generally conceded that the best investments for savings banks are first-mortgage loans secured by improved and unencumbered farms.

All of which is most respectfully submitted.

A. F. DAWSON.

Senator REED. Before Mr. Vanderlip begins, let me make this statement: Mr. Dawson forwarded to the clerk of the committee a large number of letters which he had received from the bankers in his State in response to certain questions which he had propounded to them, and he asked that all these letters be printed in the record. After looking through them in a desultory way and talking with Senator Pomerene, we suggested to the clerk that it would only be necessary to print the letter sent out by Mr. Dawson and the number of replies he had received in the affirmative or negative to each proposition instead of printing the mass of correspondence, which would take up a great many pages. I state that to the committee so they may understand the situation.

Senator SHAFROTH. How many pages will this make now?

Senator O'GORMAN. Oh, not more than about 10 pages.

(The additional statement of Albert F. Dawson, president of the First National Bank, of Davenport, Iowa, follows:)

Mr. DAWSON. Upon my return home after the hearing accorded to me by this committee on the 10th instant I took immediate steps to ascertain the views of the "country" national banks in the Middle West with respect to those amendments to the pending bill which I had suggested with a view to remove the objections made by banks with a capital of from $25,000 to $100,000. In order to get a fair expression direct from each bank I sent a letter to each of the 325 "country" national banks in Iowa and about 70 in addition to bankers of the same class in Illinois. This letter was sent out under date of October 14, and following is a copy of it:

DAVENPORT, IOWA, *October 14, 1913.*

MY DEAR SIR: At the conclusion of an extended hearing before the Senate Committee on Banking and Currency last Friday I was requested by Chairman Owen to prepare and submit such amendments as would tend to make the bill satisfactory to the average national bank. In this hearing we discussed the bill wholly from the standpoint of banks with a capital of $25,000 to $100,000, of which there are nearly 7,000 in the United States, arguing that the proposed system could not be a success unless these banks were induced to enter it. I suggested the following changes to make the bill more satisfactory to banks of this class:

(1) Lessen the capital-stock subscription.
(2) Protection against loss on the 2 per cent bonds.
(3) Protection against loss in the shifting of reserves.

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(4) Permit the rediscount of a limited quantity of six-months' paper.

(5) Give us equal privileges with the State banks with which we are in direct competition.

Will you kindly favor me with your opinion of these suggested changes and any other amendments that you think will improve the bill?

This looks like an opportunity to secure legislation that will better enable us to serve the people in our respective communities, as the amendments proposed will have careful consideration by the committee when it comes to put the bill in final shape to be reported to the Senate.

Will you please give me the benefit of your advice and suggestion in this important matter, so that the facts may be fairly laid before the committee? As the time for action is very short, I shall hope to have your reply by return mail.

Very truly, yours, A. F. DAWSON.

(Of the 123 answers to the above filed with the committee 122 expressed their approval of the suggested amendments, 1 being opposed thereto.)

Senator O'GORMAN. Mr. Vanderlip, you may proceed. The committee will be glad to receive any further suggestions you may have to offer regarding the pending legislation.

FURTHER STATEMENT OF FRANK A. VANDERLIP, NEW YORK, N. Y.

Mr. VANDERLIP. Following my previous hearing, it was suggested by some of the members of the committee that I engage my mind with the problem of whether or not a bank could be formed which would be entirely under the control of the Government, and which would be a feasible and workable institution. I have been giving my very best attention to that subject. To state the conclusion, rather than the road by which it was reached, I will say that I believe that is possible. I believe you can create an institution every officer of which will be appointed by the Government and the control of which will lie solely with these public officers, an institution in which the banks will have no word of Government whatever, and which still would be satisfactory to the banks and would be a workable plan. I shall be glad to elucidate that plan, if you wish.

Senator O'GORMAN. You may proceed.

Mr. VANDERLLIP. I would suggest the granting of a charter to a Federal reserve bank, with $100,000,000 of capital—a fixed amount of capital, not a variable amount. The head office would be located in Washington, and there would be as many branches as the governors of the bank might see fit to provide, probably starting with 12, the number of regional banks now suggested.

I would adopt the idea of the present bill in regard to the appointment, in the very first instance, of an organization committee. The function of this committee would be to divide the territory of the United States into, we will say, 12 districts, and to select one city in each of those districts which would be the seat of a branch of the Federal reserve bank.

The stock of this bank should be either entirely owned by the Government, the funds for the purpose being secured by the sale of Government bonds at the lowest interest rate at which those bonds would float, or it might be offered to the public generally, and the success of that offering insured by requiring the banks to underwrite a pro rata proportion. There would be no need of any restriction

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on the purchase, sale, or accumulation of the stock, because it would have no rights whatever, except a right to receive a specified dividend. The stock would have no voting power, and no right of any character except to receive dividends and, in the event of liquidation, to receive back the amount of money that was paid in, but no accumulation of surplus, should there be any surplus—which there probably would not be—in the event of liquidation.

I would have the Government of this institution absolutely and completely in the hands of a board of seven men appointed by the President of the United States with the advice and consent of the Senate. These men would serve for terms of 14 years, the first board to be classified so that the term of office for one director would expire every second year, and thereafter appointments should be made for 14 years. There should be no ex officio appointments, but all members should be selected by the President for these terms, and there should be a clause in the act directive to the President that these appointments shall be made from men qualified for the duties, that the appointments shall in no case be made as political rewards, and that three at least of the seven should be men who have had acknowledged banking and financial experience.

Senator REED. And I suppose, Mr. Vanderlip, you would add that at the time of their appointment and during the holding of that office they should have no banking connections whatever?

Mr. VANDERLIP. Oh, absolutely.

Senator WEEKS. Stockholding or otherwise.

Mr. VANDERLIP. And that would be the case of all appointees of the bank in any official or executive capacity. They should have no relation, either official or financial, with any other existing banking institution.

I would provide that each branch be equipped with an executive committee of seven, to be appointed by the board of the Federal reserve bank, and with the same directive clause that they should be appointed for their qualifications or experience, and that at least three of the seven should have had acknowledged banking and financial experience.

The President would designate one member of the board to act as governor and one as deputy governor; and the governor, or in his absence the deputy governor, would act as chairman of the board and be the chief executive officer of the bank. In the case of the executive committee the board of the Federal reserve bank would designate a chairman and a vice chairman, and the chairman would be chairman of the board, or in his absence the vice chairman would be. The executive committee would elect officers of the branch other than themselves. The titles of the executive officers would not be president, vice president, etc., but their functions would be similar to the functions of such officers in a bank; that is, the chief executive officers.

Senator HITCHCOCK. Who would elect those officers?

Mr. VANDERLIP. The executive committees.

Senator HITCHCOCK. The executive committees of what?

Mr. VANDERLIP. Of each bank; that is, subject to the approval of the board of the Federal reserve bank. Every act of the executive committee would at all times be subject to the approval of the Federal reserve board.

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Senator NELSON. Here in Washington?

Mr. VANDERLIP. Here in Washington. That board would be supreme in every particular in the management of this institution.

Senator O'GORMAN. Will you state here, Mr. Vanderlip, why it would be necessary with a branch to have officials other than the seven governors who would be named by the reserve board?

Mr. VANDERLIP. The branches would be the active executive factors of this institution. These branches would have the right to rediscount and would rediscount commercial paper for member banks.

There should be a permanent trained banking staff, who would work under the direction, first, of the executive committee, and, in the last instance, under the board of the Federal reserve bank.

Senator HITCHCOCK. These directors would give their whole time to the service of the branch?

Mr. VANDERLIP. That should be specifically provided, that they should give it their whole time.

I should have said in regard to the stock that I would attach a double liability to it if it is sold to the public.

Senator HITCHCOCK. Would you limit the quantity that individuals might buy?

Mr. VANDERLIP. I would not, because it would not make any difference in the management if one individual owned it all he would have no influence whatever.

Senator O'GORMAN. If this entire system is to become a public utility system and is to be conducted not primarily for the purpose of private gain, and if the return to the holders of stock will be restricted to a fixed dividend rate of perhaps 5 or 6 per cent, would it be well to impose an additional liability on the holders of such stock?

Mr. VANDERLIP. On reflection, perhaps not. I probably was influenced by the present practice.

Senator O'GORMAN. Would not that discourage the public from investing in such stocks?

Mr. VANDERLIP. I think it would, yes; and be such a discouragement as would offset the benefit. I am inclined to think you are right on that.

Senator REED. Besides, Mr. Vanderlip, if this stock were sold, the best holding in the world for it would be a general holding among the people; I should think that would be the most helpful construction. And therefore it might be held in large part by people who invested their savings in it, and a double liability would not amount to much.

Mr. VANDERLIP. I quite agree with you and withdraw that suggestion.

Senator NELSON. What dividend rate would you suggest, Mr. Vanderlip, on that stock?

Mr. VANDERLIP. The lowest rate that will float the stock at par.

Now, there will be some question as to the earning capacity. Of course, the cheapest thing for the Government to do would be to sell its bonds at the lowest possible rate. It could sell $100,000,000 of bonds at 3½ per cent. I doubt if it could float $100,000,000 of stock at 5 per cent. My judgment would be, as conditions are now, that about 5½ per cent would be the point at which that stock would float; 6 per cent would be a little too high, and 5 per cent would be distinctly

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doubtful. The rate ought to be such that the burden of underwriting the stocks which you impose on the banks would not be a serious one and would not result in the banks getting any great amount of that stock.

Senator HITCHCOCK. Would you think 5 per cent would be too low if it were made a cumulative dividend?

Mr. VANDERLIP. It should be cumulative, undoubtedly.

Senator NELSON. Do you not think a stock of that kind under those conditions would be analogous to a permanent annuity, and would it not be a popular investment for that purpose?

Mr. VANDERLIP. It would after the bank had been running a sufficient length of time to demonstrate its earning capacity, and I think there would be no doubt about its earning capacity.

Senator HITCHCOCK. What would you think of the proposition to have the Government subscribe for a part of this stock and issue bonds to pay for it until a market was found for it?

Mr. VANDERLIP. It might well be provided that the Government instead of the banks underwrite the issue. That is to say, they would offer it to the public and take what the public did not take and later sell it to the public.

Senator MCLEAN. How would it do to allot it to the highest bidder?

Mr. VANDERLIP. If you made the rate 6 per cent, I think I should allot it to the highest bidder. I would think well of the plan that was adopted when the Spanish War loan bonds were sold of allotting to the smallest subscribers first, giving as wide a distribution of this stock as you could—give it to the public; give it to the small investor first. If the public won't take it, then the banks must take it. Or we might adopt the suggestion that has been made here, and let the Government itself underwrite it, and not make a forced underwriting on the part of the banks. You must, in some way, if you launch this enterprise, insure its success. You would have to insure its success on the start by raising this money, and either the Government or the banks would have to stand ready to take what the public declined to take.

Senator WEEKS. Let me give you another thought about the double liability. Double liability presupposes the possibility of a failure. I do not think there ought to be such a possibility in this kind of bank.

Mr. VANDERLIP. I quite agree with you. I think the double liability is wrong.

Senator WEEKS. That the organization should be such that there could not be such a thing as a failure of the bank.

Senator O'GORMAN. Mr. Vanderlip, bearing upon your suggestion that the stock be underwritten by the banks, you mean by all the national banks?

Mr. VANDERLIP. By all national banks, pro rata; that is to say, in the proportion that the capital of each bank bears to the total capital of all national banks on a given day.

Senator O'GORMAN. Assuming there would be some national banks—because there would be some—not in favor of this plan, would they not be likely to protest, as they are protesting now, that this additional burden should not be placed upon them?

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Mr. VANDERLIP. They would protest exactly as they are protesting now, but with less force, because they would not be obliged to make a permanent investment. They could perfectly well measure their loss, because they could sell the stock the day after they got it.

Senator O'GORMAN. Do you not think this plan would more generally invite public confidence if the banks had nothing to do with the creation of the system, leaving it to the public and the Government?

Mr. VANDERLIP. It would be most desirable if you would be willing to do that. Leave the banks out entirely; the banks will welcome that.

I should have said in regard to the appointment of the board of the Federal reserve bank that the President should distribute them geographically, so as to give due weight to commercial sections of the country; not to geographical extent but to commercial importance, and that the members of this board should be retired automatically at some age; the same age, perhaps, as the Supreme Court judges.

Senator REED. When you say they should be distributed commercially, you mean distributed so that they could meet the present or developing lines of commercial activity?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Mr. Vanderlip, why do you recommend 14 years as the term of service?

Mr. VANDERLIP. I regard long terms as absolutely essential to insure proper character for this board. It is through that point that I am willing to come at all to the thought of an institution entirely controlled by Government appointees. With one member retiring every two years there can then be hardly any question of partisan politics in that board. I think there is the greatest safety not only in the character of appointments, but in the ripe experience which the men would gather and in the thought that it was practically a life appointment of the very highest character that a man in finance or business could attain.

Senator NELSON. And you would get more of a continuity of practice, policy, and administration?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. What salary would you recommend?

Mr. VANDERLIP. The very highest you are willing to pay; and any salary that is now paid by the Government to any officers other than the President would seem to me too small. I know you would find it hard to give these men salaries higher than the Supreme Court justices or Cabinet officers. Really, the minimum should be $15,000, with probably $17,500 for the governor.

Senator BRISTOW. Why do you suggest seven directors for the branches, the seven to devote their entire time to it, and then, outside of the seven directors, have the officers selected? It seems to me that that is a pretty big organization for a branch.

Mr. VANDERLIP. It will be a pretty big institution. It will be an extremely big institution with a tremendous amount of detail. If this institution is to carry on the exchange business—which means the collection of exchanges—that in itself will require an organization—a genius of management—of the very highest character. It will be a work of detail equal to almost any job you might think of.

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Senator O'GORMAN. If I catch your meaning at this point, Mr. Vanderlip, these seven officials managing the branch, appointed by the members of the Federal reserve board, may act relatively as a board of directors does in an ordinary private institution, and they will control the action of the bank?

Mr. VANDERLIP. Yes, sir; but I would presume they would be somewhat closer to the detail work than is an ordinary board of directors. They would be more analogous to the managers of a foreign bank, that is not run by a president, but is run by two or three; or, as in the case of some banks in Germany, five managers, and under them the active executive officers.

Senator NELSON. Would not five be sufficient?

Mr. VANDERLIP. I should see no serious objection to that.

Senator HITCHCOCK. Can you make any guess as to the number of employees such a branch would probably have?

Mr. VANDERLIP. The branches would, of course, be of different sizes. A number of employees are going to be required to handle the collections. That is a tremendously detailed work.

Senator BRISTOW. Why should it handle the collections?

Mr. VANDERLIP. That is absolutely essential, it seems to me, to the working of this plan, or any plan such as you have in mind. One answer would be because it will be a great economy to the commerce of the country, a great saving, a speeding up of the handling of collections, and in every way an economy.

But there is a much more significant reason than that. To handle collections banks have to keep deposits with other banks. That some of them are seeking to avoid, or, at least, seeking to make unnecessary. You will find country bankers objecting—until they come to understand this plan—to the fact that they must keep their reserves without interest in the Federal reserve bank or the regional banks, and they feel they must also keep about the same lines of deposits with their correspondents as they have before, because they do not grasp the significance of the collection feature. If the Federal reserve bank will undertake the collection business and will have the proper rediscount facilities, there is practically no reason for one bank to keep a balance with any other bank. Now, it is important that that should be done, for if you are going to compel the country bank to keep its reserve without interest, and still the exigencies of business compel it to keep a balance with a correspondent practically as large as it is already keeping, it works to the evident disadvantage of the bank.

Senator HITCHCOCK. The branches you provide for would have substantially the same functions as the regional banks under this bill?

Mr. VANDERLIP. Almost precisely.

Senator HITCHCOCK. Are you able to make any estimate of the number of employees such a branch would require?

Mr. VANDERLIP. That would, of course, depend almost entirely upon the size of the branch and the volume of the collections. I should think it would take easily several hundred employees in the larger branches.

Senator O'GORMAN. Assuming, under the pending bill, that New York City were constituted a single regional center, that we had one regional bank for New York City, have you calculated the probable number of employees such a regional bank would require?

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Mr. VANDERLIP. I suppose the City Bank employs more than 100 men on that particular branch of business.

Senator O'GORMAN. Looking after collections?

Mr. VANDERLIP. The City Bank has about 14 or 15 per cent of the total deposits of all the clearing-house banks. You can see from that that a rough guess would be 700 men, or something like that. Of course that is a very offhand estimate.

Senator HITCHCOCK. One man handles, I understand, 1,500 or 2,000 checks a day. Is that right?

Mr. VANDERLIP. I am not sufficiently familiar with that detail to answer.

Senator BRISTOW. Why would it not do to let the country banks divide their reserves, and let them keep part of them, say, with the Federal bank—that is, make a smaller reserve requirement, and let them keep their deposits with commercial banks, as they do now, to such extent as they think desirable?

Mr. VANDERLIP. That is feasible, but I have presumed the point was pretty nearly settled that you wanted to take from the central reserve city banks the duplication of deposits which results from their holding the reserves of other banks.

Senator REED. That is the great danger in the present system, is it not?

Mr. VANDERLIP. No, sir; that is not the great danger——

Senator REED (interposing). Or, is it not one great danger?

Mr. VANDERLIP (continuing). I am inclined to think the present system is not as good a system as you would have with all the reserves in the vault or in the Federal reserve bank.

Senator BRISTOW. Now, suppose this were a bank of issue and could issue currency to meet a stringency or demand; could the evil which has resulted from the pyramiding of these reserves result after that system was once established? Could not the banks get the relief they desired so that there would be no trouble in these centers as a result?

Mr. VANDERLIP. I would not quite admit that the evil has come from this system of holding reserves; it has, in a measure. Either system—the one of the Government bank or the one you have been considering that has been passed by the House—will, I believe, obviate the recurrence of any such condition as, for example, in 1907, when it was a physical impossibility to supply the currency that was demanded by 25,000 frightened banks that wanted to build up their own reserves. There is the trouble. It is at the country bank end, not at the city bank end, that our system is defective. Of course, the two ends are related, but the trouble comes from the country bank becoming frightened—and by "country bank" I really mean all banks—and drawing to itself more reserve than it requires. What we want is mobilization of reserves—a reserve reservoir—and we want but one, and you will never get this thing just right until you get but one, either actually or in fact, or by relating the members you do have so they are in effect one.

Senator HITCHCOCK. What reserves would you require this Government bank to hold?

Mr. VANDERLIP. Perhaps it would be better for me to run through the plan and take these questions up in their natural order.

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Senator NELSON. I should like to hear your reserve plan and your currency plan.

Senator BRISTOW. That would be better.

Mr. VANDERLIP. The earnings of the bank would—in the case of the Government subscribing to all the stock—first be devoted to an accumulation of a surplus of, let us say, 20 per cent. After that half to the accumulation of a further surplus and half to the Government, until the total surplus equals 50 per cent, after which all earnings would go to the Government. In the case of the public subscribing to the stock, the net earnings would first be devoted to paying the dividend, then to an accumulation of a surplus up to 20 per cent, then half to an accumulation of a further surplus and half to the Government, and after the surplus had reached 50 per cent all the remaining earnings to the Government.

I would devote all the earnings which the Government receives to the cancellation of the public debt, under specific terms which should be in the bill calling for tenders of bonds.

The customers of the bank should be only the Government and qualified member banks. Qualified member banks would include all national banks, and might include State banks and trust companies under proper restrictions of admission.

The Government should deposit all of its general fund with the bank and constitute the bank its fiscal agent.

Senator HITCHCOCK. Is there any objection to leaving that optional with the Secretary of the Treasury?

Mr. VANDERLIP. I should think so. This is a Government institution solely, and the funds of the Government ought to be deposited there. Otherwise a Secretary of the Treasury might withdraw from commerce that entire deposit, which would, of course, be the principal deposit of the bank, and you might have the management of the bank and the management of the Treasury at loggerheads, and the bank could be broken.

Senator HITCHCOCK. What would lead a Secretary of the Treasury to do that thing?

Mr. VANDERLIP. I do not always know what leads Secretaries of the Treasury to do what they do.

Senator SHAFROTH. If these directors were long-time appointees, say 14 years, there might be an entirely different political party, and that might lead to a rupture.

Senator HITCHCOCK. Do you think the withdrawal of Government funds would seriously cripple the bank and possibly lead to its breaking?

Mr. VANDERLIP. I can readily conceive a condition of the bank where if you would draw $150,000,000 or more of reserve money out of it the reserve would then be away below the legal limit, and this would lead to the bank's serious embarrassment, if not to closing.

Senator HITCHCOCK. Of course, you are providing a power to issue currency and a power to issue Government bonds——

Mr. VANDERLIP (interposing). But the Government bank could not pay its currency to the Government.

Senator HITCHCOCK. I understand you are giving the officers of the Federal board the power to issue Government bonds?

Mr. VANDERLIP. No power to issue bonds; no, sir. I do not understand the question—power to issue bonds?

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Senator HITCHCOCK. Let me ask you this: You propose to give the Federal board the power to issue currency?

Mr. VANDERLIP. Certainly.

Senator HITCHCOCK. How do you propose to have that currency secured?

Mr. VANDERLIP. I will come to that in the regular order, if I may.

Senator HITCHCOCK. Would not that involve the power to sell bonds to get gold?

Mr. VANDERLIP. No, sir.

Senator O'GORMAN. The hour for adjournment has arrived, and we will take a recess until 2 o'clock.

(Thereupon, at 1 o'clock p. m., a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

Senator O'GORMAN. I think we may resume, Mr. Vanderlip.

STATEMENT OF FRANK A. VANDERLIP—Resumed.

Mr. VANDERLIP. The reserve requirement for national banks I would have so changed as gradually to transfer the reserves from correspondent banks now acting as reserve agents, so that ultimately all reserves would be in the vaults of the member banks and in the vaults of the Federal reserve bank in the form of balances. The reserve requirement should be the same for all banks, country or city, because no bank would have any reserve responsibility to another bank, and there would be no reason why any one bank should be compelled to keep any larger reserve than any other.

Senator O'GORMAN. Do you suggest what that reserve ought to be?

Mr. VANDERLIP. I am inclined to think that a reserve of 12 per cent for all banks would be sufficient; and, in that connection—I reached that conclusion for this reason—I would recommend that the minimum reserve of the Federal reserve bank be 50 per cent rather than 33⅓ per cent—that it would be 50 per cent for all outstanding demand liabilities, including the notes that it might issue.

Senator WEEKS. The same reserve for notes would apply to all other forms of liabilities?

Mr. VANDERLIP. Yes.

Senator NELSON. Fifty per cent?

Mr. VANDERLIP. Fifty per cent for both notes and deposits. I would permit the board of the Federal reserve bank in an emergency to suspend the reserve requirements for 30 days and to continue such suspension for periods of 15 days. The reserve bank would be empowered to rediscount for member banks paper of a self-liquidating character, to be defined by the act.

Senator NELSON. But there would be no member bank under this system, in the sense we have it in the bill?

Mr. VANDERLIP. No, not exactly in that sense; but there would be member banks. Perhaps a better term would be "depositing banks."

Senator O'GORMAN. Because that would be the only test.

Mr. VANDERLIP. The only test would be, Are bank depositors—are they permitted to deposit? All national banks would be depositors,

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and State banks and trust companies might be, and all depositor banks should have the right of rediscount.

Senator POMERENE. You would have no qualification?

Mr. VANDERLIP. I would certainly have a qualification for the State banks. I will come to that in due order.

Senator POMERENE. But not so far as the national banks are concerned?

Mr. VANDERLIP. Every national bank must keep its reserve deposit as this law would indicate.

Senator POMERENE. Of 12 per cent?

Mr. VANDERLIP. Of 12 per cent, a portion in its vault and a portion with the Federal reserve bank. And, by the way, I should permit it to keep any amount which it choose to keep in the Federal reserve bank above the minimum that it must keep there. I would not make it keep in its vault any more than its needs require.

Senator NELSON. Five per cent out of the 12?

Mr. VANDERLIP. I would not have any fixed amount. I would let it keep as little in its vault as it could. For instance, a city bank doing a character of business that required very little currency would keep practically all of its reserve with the Federal reserve bank, knowing it could, at a moment's notice, convert its balance there into currency if it had a demand. Now, I would limit the amount that the depositor bank might rediscount. I think a fair limit would be the amount of its capital and surplus. I would permit the bank to go into the domestic market——

Senator NELSON (interposing). Excuse me, but you say you would limit it to that. You refer to discounts in general or discounts for the sake of obtaining currency?

Mr. VANDERLIP. Discounts in general, made directly on the application of the bank that is rediscounting. I would limit it to the purchase of paper in the open discount market that bore the indorsement of a bank. I would permit the bank to go into the open discount market and buy paper, but only paper that bore the indorsement of a depositor bank. In the foreign market I would permit a bank to go into the discount market and buy prime foreign bills without any regard to an indorsement by a depositing bank. The bank would also have to have the power to deal in gold coin and bullion and in the obligations of the United States Government, and probably of the insular possessions.

Senator HITCHCOCK. Suppose the Government had need of more funds: Would it have the right to borrow of the bank?

Mr. VANDERLIP. I should think it might have the right to borrow from the bank.

Senator NELSON. It ought to have that right?

Mr. VANDERLIP. It probably ought to have that right, but there would be something of a question. The bank is an instrument of the Government. The bank is wholly controlled by Government officers, by public officers. That is a question I would want to reflect on before giving an opinion.

Senator HITCHCOCK. In Germany, as I recall it, the Reichsbank loans to the German Government by buying short-time bills, but those representing the stockholders have the right to put a veto on it so as to limit the amount.

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Mr. VANDERLIP. The trouble here would be that there would be no one who could put a veto on it.

Senator O'GORMAN. Why not? Why not have the reserve board exercise that power?

Senator HITCHCOCK. Because they are Government officials and do not represent the stockholders.

Senator O'GORMAN. It is true they represent the Government in the sense that they are Government officials. Yet their principal responsibility lies in a proper administration of this system, and power could very well be confined to them, notwithstanding the fact they are appointees of the President, to use their own judgment as to the extent to which the Government might procure credit in an emergency.

Senator NELSON. At all events, Mr. Vanderlip, excusing me for interrupting you, the loans to the Government should be short-time loans and not permanent investments.

Mr. VANDERLIP. That is exactly what I was about to say. In no event ought the Government to place its obligation with the bank where the maturity was more than a year. It must be banking paper.

Senator O'GORMAN. The Government would at all times possess the power it now has of getting money on its bonds—by issuing and selling bonds in the open market.

Mr. VANDERLIP. Always. Now, I come to a point that I regard as of the greatest importance, and one that has always baffled me heretofore in trying to see how a central bank, officered by public officers, could possibly be made to work. I think the question came up in the hearing I had here before. A central bank covering the whole country must have different rates of discount in different communities, else a community with a high interest rate will borrow all the funds of the bank before the community with the low interest rate reaches the point where it wants to borrow any.

Senator HITCHCOCK. Suppose you limit the amount that can be advanced to any bank.

Mr. VANDERLIP. Senator Hitchcock, you suggested in the hearing this morning a thought which I had never heard before in any discussion, and one that I have embodied in this bill, and which I thought was a new invention. I believe it is the most important thought that we have had on the line of a Government bank. It is this: I would have a uniform minimum rate of discount in every branch and for every bank, but that uniform minimum rate would apply only to a certain percentage of borrowing. If the individual bank is permitted to rediscount up to an amount equal to its capital and surplus, I would say that it may rediscount 30 per cent of that at the minimum rate. Then as it increased its rediscount above that, I would have a progressively increasing rate above the minimum rate. There you get the repressive measure where it belongs—not on the community but on the individual bank. You might have a community in which nearly all the banks were borrowing over the 30 per cent and paying more than the minimum rate, and one bank that had been running conservatively and borrowed nothing. When it came in the market, if the rates were different in the different parts of the country, it would be at a disadvantage. It would have to be penalized because of what its neighbors had been doing. Under

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this plan the bank in a high interest rate community, where every one of its neighbors was paying more than the minimum, when there came need for it to borrow could borrow at the minimum rate up to 30 per cent of the total amount it could borrow, the minimum rate in the West being just as low as for New York banks, New England banks, or any other banks. That would be perfectly fair to every bank, and the minimum rate would apply everywhere throughout the country to every bank alike, and would be advanced as the individual bank's borrowing increased above, let us say, 30 per cent of the total.

Now, it was the discovery of that idea that brought me to the conclusion you could have a Government bank officered by public authority. Without that, this thing would be perfectly certain to happen: There would be political pressure from the community that was being charged a higher rate than some other community, and that political pressure would certainly move a public body, and you could not get the repressive action of the discount rate which you would be able to get by this very simple method. I was somewhat astonished and greatly pleased that you had arrived at that conclusion.

Senator HITCHCOCK. I am very glad to have your indorsement. [Laughter.]

Mr. VANDERLIP. As fiscal agent of the Government I would have the Federal reserve bank charged with the duties now imposed on the Treasury of the United States, and on the Bureau of Redemption in the office of the Comptroller of the Currency. I would transfer the present redemption fund which is now in the general fund—improperly in the general fund, because it is a trust fund—I would transfer that to this bank to be held as a trust fund, never as a part of its reserve, but to be held as a trust fund, and would charge this bank with the detail of redemption and the custody of bonds to secure national bank note circulation as long as that circulation is outstanding.

Senator HITCHCOCK. Of course, that would not add to the resources of the bank; it would simply be for economical reasons.

Mr. VANDERLIP. Yes.

Senator WEEKS. How much of a charge would that bank be permitted to make for that service?

Mr. VANDERLIP. I think it should not make any charge. The Government does not make any charge, and the bank ought properly, as fiscal agent, to assume that duty. Now, that is a suggestion. It is not an essential part of this plan, but it seems to be a sound suggestion.

I would authorize this bank to issue circulating notes. Now, there is the great difference and the great improvement that this plan would have over any plan that has been having your consideration, so far as I know. I think I said in my former hearing that I regarded the issue of these notes in the form of an obligation of the Government as wrong and as tending to lead to disaster, but that until it led to disaster that scheme would work. That I believe. But the more I reflected on it the greater emphasis I put upon the unwisdom of placing the Government obligation on the notes. Here anyone who holds the opinion that the people should control the

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currency would find nothing contrary to that view by permitting this bank to make the obligation and to be solely responsible for the redemption of the notes. It would be the people. A bank wholly officered by public employees is the voice of the people, and that is the way the note ought to be issued—the obligation of the bank and not the obligation of the Government.

Senator HITCHCOCK. What would be back of the note of such a bank?

Mr. VANDERLIP. The note should be secured by segregating rediscounted paper to the amount of 100 per cent, or one-year exchequer notes of the Government, to which I will refer later, and a 50 per cent gold reserve. Or the note might be secured by 100 per cent gold reserve.

Now, there might be conditions arise where there will be outstanding notes in excess of the amount of commercial paper the bank will have, but under those conditions the notes should be covered by 100 per cent of gold, and the bank should be perfectly free to issue its notes without limit so long as they are covered by 100 per cent in gold. There will be an actual flow of gold into the bank, and notes should be put out whenever they are demanded, and the bank's gold stock could always be increased in that way with 100 per cent gold-covering notes outstanding to any extent.

Senator HITCHCOCK. You mean notes may be put out even when rediscounts are not coming in, simply because the banks are asked for currency.

Mr. VANDERLIP. Yes; but in that case they should have 100 per cent gold back of them.

Senator HITCHCOCK. The bank asking for currency may procure it either by depositing gold or drawing against their balances?

Mr. VANDERLIP. Yes.

Senator POMERENE. Then you have two distinct classes of notes?

Mr. VANDERLIP. No, sir; they would be exactly the same. The note must be covered either by 100 per cent of gold or by 100 per cent of rediscount paper.

Senator NELSON. With a reserve of 50 per cent?

Mr. VANDERLIP (continuing). Or exchequer notes and 50 per cent of gold.

Senator NELSON. Your reserve?

Senator HITCHCOCK. But to the extent that the notes exceeded the discount paper, they must be covered entirely by gold?

Mr. VANDERLIP. Entirely with gold.

Senator POMERENE. You would expect those notes, redeemable then by the gold, to be practically the same as all gold certificates?

Mr. VANDERLIP. Yes.

Senator WEEKS. Would you make them legal tender?

Mr. VANDERLIP. I would not.

Senator POMERENE. Why?

Mr. VANDERLIP. Because they are, after all, a credit instrument. I see no reason whatever why a gold certificate, which is not a credit instrument, but a representative of gold, should not be a legal tender. I can not conceive any reason at all why it should not. But, parenthetically, I believe there are the strongest reasons why the size of the gold certificates should be increased. Gold in the form of gold certi-

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ficates of $10 and $20 denomination ought not to be found in the pockets of the people. They ought to be in the bank reserves, and the thing in your pockets ought to be the note of the bank, always redeemable in gold.

Senator NELSON. You would have these new notes legal tender?

Mr. VANDERLIP. I would not, sir.

Senator BRISTOW. But you would make the gold certificates legal tender?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Can you state briefly what evil might result from making them legal tender?

Mr. VANDERLIP. They are not money in any sense; they are a credit instrument; they are a promise to pay—they are a promise to redeem in money. They ought not to be made money, and no hardship can follow not doing so. It may be that there has been sometimes a case where a man presenting a national-bank note has met with the statement, "That is not legal tender, and I will not receive it." That case is so rare, if it ever did occur, that the point is negligible. Certainly the national-bank note was always convertible into legal tender, and, of course, the note of this bank always should be.

Senator HITCHCOCK. I understand, as an academic proposition, it is not sound or not wise or not legitimate to make them legal tender. But as a practicable proposition, I can not see what evil would result. Supposing it were done, just for the convenience of the people, what evil could result?

Mr. VANDERLIP. An obligation to pay is and ought to continue to be an obligation to pay money—to pay gold—not an obligation to give somebody's promise to pay gold. I do not think that is academic; I think it is real. On the other hand, I can see no objection at all to their not being made legal tender, because they will perform every function you want a circulating note to perform. I would give them every quality that the present national-bank note has They should be received for public dues, and they should have all the qualities contained in the national-bank act in reference to national bank circulating notes.

Senator HITCHCOCK. I can see why they should not be made good for bank reserves, because then the gold might get away from the banks, which would be bad; but I have not been able to see why they should not be made legal tender. The man who receives them perforce can get gold for them. I can not see that he suffers anything. Now, there must be some practical reason.

Mr. VANDERLIP. He does not suffer anything if he can get the gold. If he can not get it, he certainly ought not to be forced to take the promise to pay.

Senator HITCHCOCK. You are assuming that the note is always redeemable in gold.

Mr. VANDERLIP. If that is so, the note will always circulate as well as legal tender, except in the rarest possible instances.

Senator HITCHCOCK. I realize that, but is there anything that can result as a practicable evil by making them legal tender?

Mr. VANDERLIP. Yes. If by any chance this bank got in such a condition that it could not redeem those notes and reserve conditions were suspended, and it was not compelled to redeem them, just as the Government itself did not redeem its promises to pay for a great

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many years, then to force a creditor to take that depreciated note, instead of the gold he is entitled to, would be an evil.

Senator NELSON. And they would be depreciated in price, as was the case of the legal-tender notes during the war.

Mr. VANDERLIP. Yes.

Senator O'GORMAN. They went down, I think, as low as 33 or 35 cents on the dollar.

Senator NELSON. It might not get as bad as that, but it would lead to depreciation.

Senator HITCHCOCK. Of course, those notes were issued without any gold reserve at all, without any provisions that are now made for safety. But I am still not able to see who would suffer or what evil would really arise by making them legal tender. They are legal tender, as I understand you to propose, when presented to the Government.

Mr. VANDERLIP. Because this is a Government institution.

Senator HITCHCOCK. Yes.

Mr. VANDERLIP. The Government ought to be ready and announce its purpose to receive them.

Senator HITCHCOCK. Therefore the Government, receiving them, can pay them out for any purpose. They are perfectly good.

Mr. VANDERLIP. It could not pay them for any purpose where its contract was to pay gold.

Senator HITCHCOCK. Those cases are rare, and the great volume of obligations could be made in them.

Mr. VANDERLIP. Nearly every corporation mortgage for the last 10 years has been made payable in gold.

Senator HITCHCOCK. They would not be affected, then; they would not suffer by making these legal tender?

Mr. VANDERLIP. They certainly might if they became depreciated and the income of the corporation was paid in the depreciated note, while the outgo was paid in gold. It would suffer very much.

Senator BRISTOW. Would making these legal tender have a tendency to have contracts made payable in gold more than would be the case if they were not made legal tender?

Mr. VANDERLIP. It would have a tendency. Contracts are now very largely made payable in gold when the amount is large and the period considerable.

Senator NELSON. Are these long-time railroad bonds payable in gold?

Mr. VANDERLIP. Almost invariably.

Now, on the subject of having those notes the obligation not of the Government but of the banks I heard a witness in this room this morning say that universities are teaching disloyalty to our Government. They are teaching history, and there never has been a case in history where the Government established a fiat obligation that that obligation did not go below par and usually lead to disaster.

Senator NELSON. Are you taking up the question of how to secure the gold for the redemption?

Mr. VANDERLIP. I am providing that they keep 50 per cent gold reserve.

Senator NELSON. Yes; but how is that gold to be acquired?

Mr. VANDERLIP. That will come in in the payment for the stock, in the deposits of the Government, and in the deposits of reserves by

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all the depositing banks. That will not all be gold; that will be partly gold and partly legal tender. I think that part of the reserve which specifically covers the note might well be made gold—to protect a note redeemable in gold.

Senator NELSON. Would it not help us if we made the customs payable in gold?

Mr. VANDERLIP. No, sir; the customs in this case might just as well be payable in notes as gold, because they are going to be deposited right back into the banks. If the import dues were paid in gold, importers would draw gold out of the bank for it and it would come right back into the bank again.

Senator HITCHCOCK. Have you made any estimate as to the possible volume of these notes which would be issued?

Mr. VANDERLIP. A suggestion I am just about to make would operate at once, or as soon as would be practicable, to replace $300,000,000 or $350,000,000 of national-bank notes by these notes. Except from that I should doubt if in normal times there would be very many of these notes with the present level of business. In the crop-moving period I think there would be $200,000,000 more. Then in future years, as the needs for currency expanded with growing business, the amount of these notes would expand.

Senator HITCHCOCK. Why would you retire $350,000,000 of national-bank notes, when in your former testimony you expressed the opinion that our currency is not redundant at any time to an extent greater than $150,000,000, as I recall it?

Mr. VANDERLIP. I would do that and keep exactly in accord with my former testimony. It was to the effect that if you did not retire some of the present existing national-bank notes there would not be room enough in our circulation for the purely elastic factor; that in normal times we have enough circulation. We would only, therefore, have to issue these notes for the peak of the load, and there might be none at all in the springtime, but only in the fall, in the crop-moving period. We ought to get some of these out of the way to make room for a note of an elastic quality. And then I would also provide the bank with a one-year exchequer note, as I explained in the hearing before. In a word, the plan would be this: Gradually, and over such period as the Federal reserve board may decide upon, the Federal reserve bank shall offer to purchase the 2 per cent bonds of the United States deposited to secure circulating notes of the national banks, at par, and up to an amount equal to one-half of such bonds deposited with the Treasury of the United States as security for national-bank note circulation. Now, it would pay for these by taking the redemption responsibility for the notes that are outstanding and would then exchange the 2 per cent bonds that it got for the 3 per cent one-year exchequer notes.

Now, you may say at once that that represents a loss to the Government. But with the tax the bank would pay—and that tax to be a lien upon its earnings ahead of any dividends—an amount equal to 1½ per cent on an amount of notes equal to these exchequer notes issued—that would compensate the Government for the payment of 1 per cent additional interest, and would compensate also for the loss of the one-half of 1 per cent tax now paid on circulating notes secured by 2 per cent bonds.

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Senator POMERENE. Do I understand that tax to be on the exchequer notes you referred to?

Mr. VANDERLIP. The tax would be on circulating notes secured by exchequer notes.

Senator POMERENE. Yes.

Mr. VANDERLIP. I would gradually substitute rediscounted paper for the exchequer notes and leave them free in the treasury of the bank. This gives the bank an employment for its funds in normal times. In normal times there will be no great amount of rediscounts in this country. You remember the advantage of the rediscount system is not to employ all of your funds all the time in such rediscounts. It is not for a bank to borrow from this central reserve bank, and loan those funds at a higher rate to its customers. In normal times the bank will not go to the central reserve bank to rediscount at all.

The advantage is only that you can go there in the last emergency; that is the great advantage of it, that you can always go there; that you can always make your commercial paper liquid. Normally, the rate will be too high to go there. Normally, a bank will go into the open discount market and sell some of its commercial paper; or it may borrow through other banks. But the knowledge that it can always go there, can always make liquid its commercial paper, is the great thing.

Senator HITCHCOCK. I do not believe I quite get clear in my mind this process. You would have the banks take over $350,000,000 of 2 per cent bonds now held in the Treasury for the various banks?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Now, what would the bank pay for those?

Mr. VANDERLIP. It would assume the national bank notes now outstanding. That would be equivalent to paying par for the bonds.

Senator HITCHCOCK. Well, the national-bank notes outstanding belong to the banks of issue.

Mr. VANDERLIP. I know. Now, this bank would assume those notes outstanding that are secured by this $350,000,000 of bonds.

Senator HITCHCOCK. It would assume their redemption?

Mr. VANDERLIP. Yes; it would assume their redemption and retirement.

Senator HITCHCOCK. And what would it redeem them with?

Mr. VANDERLIP. With its own notes. which it would be enabled to issue by putting these exchequer notes under the new circulating notes. Now, they would only remain under them temporarily. Ultimately commercial paper would come under them and the exchequer notes would be free in the Treasury. But, generally speaking, the $350,000,000 of national bank notes would be replaced by $350,000,000 of notes of the Federal reserve bank.

Senator HITCHCOCK. Well, the $350,000,000 of 2 per cent Government bonds which would be taken over would be replaced then——

Senator O'GORMAN (interposing). Substituted.

Senator HITCHCOCK. Substituted by exchequer notes.

Mr. VANDERLIP. They would be absolutely retired by the Government. They would be received by the Government, and in their place the one-year exchequer notes would be issued.

Senator HITCHCOCK. And they would belong to this bank?

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Mr. VANDERLIP. Yes.

Senator HITCHCOCK. And bear 3 per cent interest?

Mr. VANDERLIP. They would bear 3 per cent interest; they would mature every year; but the bank would be under obligation to renew them. They would renew them, probably. one-twelfth each month, or something of that kind.

Senator NELSON. But that right of converting 2 per cent bonds into 3 per cent exchequer notes, as you speak of, ought to be prorated among the banks, ought it not?

Mr. VANDERLIP. Oh, yes.

Senator NELSON. According to their bond holdings?

Mr. VANDERLIP. Certainly.

Senator NELSON. Otherwise it would not be fair.

Mr. VANDERLIP. It would not fair. Each bank ought to be permitted to sell one-half of its bonds that are up to secure circulation at par for this purpose.

Senator HITCHCOCK. But the Government would be paying 3 per cent on its bonds instead of paying 2 per cent. How do you compensate it for that loss?

Mr. VANDERLIP. By giving them the tax of 1½ per cent on the notes.

Senator HITCHCOCK. What notes?

Mr. VANDERLIP. The notes that the Federal reserve bank is to issue to retire the national-bank notes.

Senator HITCHCOCK. But you see that would be taxing itself, would it not?

Mr. VANDERLIP. It would be taxing itself, except that I say that that tax shall be a lien ahead of any dividends.

Senator HITCHCOCK. But, then, if the bank earns dividends any surplus over the dividends it is allowed to pay goes to the Government?

Mr. VANDERLIP. Then you might say, in effect, that it will be taxing itself.

Senator HITCHCOCK. So that you do not relieve the Government; and the Government would be paying 3 per cent interest instead of 2 per cent.

Mr. VANDERLIP. The Government would be taxing itself, in effect, if you could accomplish all the purposes that are sought to be accomplished, without doing this thing and make the earnings of the bank as high as they would be if you had not converted 2 per cent bonds into 3 per cent notes. But the earnings of the bank would really be materially higher as a result of converting bonds into notes; so much higher that the Government would profit instead of lose by making the notes bear 3 per cent.

Senator O'GORMAN. Would not the benefit that the Government would derive from the enjoyment from the surplus profits of this Federal reserve bank be more than ample compensation?

Mr. VANDERLIP. Very much more, in my opinion.

Senator O'GORMAN. For the immediate loss to which it may be exposed.

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. In paying 3 per cent interest, where heretofore it has paid only 2 per cent.

Mr. VANDERLIP. Yes, sir.

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Senator WEEKS. Have you made any estimate of how much that surplus profit would be?

Mr. VANDERLIP. I have not; but I feel quite confident that that would be the case.

Senator WEEKS. Do you think the dividends should be made cumulative?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. With a 50 per cent reserve in gold, Mr. Vanderlip, could you not issue that currency based upon these exchequer bills in larger volume than the par value of the exchequer bills—than their face value?

Mr. VANDERLIP. I would not advise that, and I would not encourage the bank at all to use these exchequer bills as cover for circulating notes. The rediscounted paper is what should be used, and the exchequer notes should be held there in the Treasury for the employment of funds in a scant time. You see you pay 3 per cent on these notes, but to whom do you pay it? You pay it right back to yourself, practically, because the Government gets the earnings of the bank.

Then these exchequer notes become of the greatest value in influencing a gold movement or in protecting the bank in any time of stress. They would be a perfectly ideal bankable paper in any commercial market in the world. With the highest possible credit and short maturity, they would be the ideal thing for a bank to have to operate with in the money markets of the world. The bank could go to the Bank of France or to the Bank of England or anywhere where there was credit to be had or gold to be bought and buy it with that obligation.

Senator HITCHCOCK. Well, as a matter of fact, would not they slowly drift out of the country, and would it not happen after 10 years that this bank would not have any of these choice 3 per cent bonds?

Mr. VANDERLIP. At the end of every year they come back into the hands of the bank. The Government pays them and issues new ones in their place, which the bank buys. They can not drift out of the country in the way you suggest. If they drift out of the country—that is, if the bank used them in order to buy gold, we will say, in London as soon as they mature—and some of them will mature in 30 days, some of them will mature in 60 days, and so on, and the last will mature in a year—they will at maturity be presented for payment and new ones at once bought by the bank.

Senator HITCHCOCK. Then, suppose the United States should become involved in war and it should find itself in a position where it had to market great quantities of bonds, would it not happen that it would not be able to renew these bonds on a 3 per cent basis?

Mr. VANDERLIP. The bank pledges itself for 20 years to renew them——

Senator HITCHCOCK (interposing). Oh, you have that in the charter of the bank, have you?

Mr. VANDERLIP. Yes, sir. That must be fundamental, that the bank is under pledge to renew them.

I would have this measure provide a national clearing house, as I explained this morning, and not alone for the reason that it would be a great economic engine, but that you must provide for the col-

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lection of checks without imposing on banks the necessity of keeping balances with other banks.

Senator WEEKS. Mr. Vanderlip, that would be one of the most difficult things to do in this measure which you propose. Country banks—probably 22,000 or 23,000 out of the 25,000 believe that their interests are going to be jeopardized if that is done, and universally they have opposed any such action. Now, what can we do to prevent their making a material loss in revenues and still carry out the suggestion which you make?

Mr. VANDERLIP. Point out that they oppose it, not on economic grounds, which, if they understand it they must admit are sound, but on selfish grounds of earnings; and try to show them that if they will be broad gauged and put into operation a measure that will be for the best interests of this whole country, their earnings will be larger, although reduced by this small amount of profit which they make now on collections.

Senator O'GORMAN. Mr. Vanderlip, let me give you a concrete case. A gentleman representing the second largest bank in the State of Mississippi testified before us recently that the net profits of the bank amounted to $40,000 a year.

Senator WEEKS. $48,000, was it not?

Senator O'GORMAN. Perhaps it was. It was something over $40,000, and he said $20,000, almost 50 per cent of the net profits of the bank, were derived from exchange charges; and he said, in substance, that if a system were adopted by which their profits would be so materially reduced, that they would, of course, surrender their national charter, and continue as a State bank and continue to enjoy that revenue. Now, what would you say to that?

Mr. VANDERLIP. I would say that I fear that these $20,000 profits were gross. If you analyze exactly what he said, he probably said that he got $20,000 in gross—he may not have used the word "gross"—in his collection charges. I can not believe that any bank that is doing anything like a normal business derives half of its net profits out of the net profits of the collection business. It is not so; that is all.

Senator O'GORMAN. We have been told by all representatives of country banks that their profits, perhaps on a capital of $25,000 or less, might probably not exceed $15,000 or $20,000 a year—and that they may make as much as $2,500 a year or $3,000 from exchange charges.

Mr. VANDERLIP. A gentleman was making that statement to me the other day, and I challenged it; and he admitted that what he meant was that the gross profits out of collections were equal to one-half of his net earnings. Well, when you come to analyze that statement, the taking away of the collection business would not fall so heavily on that bank. If a bank is doing a business where half of its earnings come out of the community for paying collection charges, it is charging the community too much, and that community is paying too great a charge for that bank's services.

Senator WEEKS. Is it not true in the case of small banks of that kind, that about the same force would have to be maintained, whether they were doing this collection business or not; so that the receipts from the collection business are practically net?

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Mr. VANDERLIP. Well, that might be, in some measure, true.

Senator WEEKS. In small banks?

Senator NELSON. Now, is not the situation altered somewhat under your plan from what it is in the bill, because there is nothing compulsory? That is, the country bank need not come into the system; they can stay outside and are not obliged to come in.

Mr. VANDERLIP. They must come in, so far as the reserve provisions are concerned.

Senator NELSON. Yes.

Mr. VANDERLIP. That is all. There is nothing else compulsory, particularly if you do not compel them to underwrite this public subscription of stock. There is nothing compulsory at all, except this reserve requirement; they must keep their reserve where you tell them to. That is all.

Senator NELSON. They need not do their clearances through these subsidiary banks?

Mr. VANDERLIP. Not at all.

Senator NELSON. So that the situation is not, practically, under your plan as it would be under the plan proposed in the bill?

Mr. VANDERLIP. Well, in effect this bank would do the clearing business so cheaply and so effectively that it would take it away from the other banks. The economy would be so great that that would be the effect.

Senator NELSON. Yes.

Senator HITCHCOCK. I would like to have your opinion on this, Mr. Vanderlip. Suppose it is a fact, as I believe it to be, that there are possibly several thousand small communities in the United States which depend upon a bank, say, of $10,000 capital, and that bank is a great convenience to that community, and it has, say, $7,000 of deposits. It is not possible with that volume of deposits to have loans sufficient to pay a dividend upon the capital and a decent salary to the men that run the bank.

Now, they eke out dividends and their salaries by these collection charges. Would you not say that the bank is of sufficient convenience to that community to warrant a continuance of that system?

Mr. VANDERLIP. I would say that it is a great convenience to the community, and that under this plan it still would retain a considerable amount of what it makes out of collections. That is to say, a merchant in that community having a bill to pay in New York will come in to buy a New York draft under our present system. In order to sell a New York draft that bank has got to keep a balance in New York to write it on.

Under the system that I propose, or that is proposed in the bill that is before you, when a merchant comes in to get a piece of paper that will pay a New York draft the bank will merely write its check on the central reserve bank or, in the other case, on the regional bank. Instead of writing it on a New York bank it writes it on the central reserve bank or on the regional bank. It can sell it; it can get some charge, some commission, there just the same.

But its check on its deposit in the central reserve bank is par in New York or par anywhere else. It can write drafts for its customers that will be par anywhere in the United States, without keeping

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the balance anywhere in the United States, except in the Federal reserve bank.

Senator HITCHCOCK. Well, that is true. But it still is not getting what it gets now. I understand a discount on such checks of its customers has come to it for collection. And now suppose that bank, not being able through a little charge on its drafts and through the interest on its loans to make a living, to make an existence possible, goes out of business. The people of that community then go back to the idea of keeping their little hoards in stockings or in bedticks or under mattresses or they go 10 or 15 miles away and deposit it in a bank. Has not that community suffered a loss?

Mr. VANDERLIP. They have suffered a very great and very real loss if that were the effect, but that will not be the effect. The effect will be that that bank having the new facilities provided by either of these plans will prosper more, even in spite of this small loss, than it ever prospered before.

Senator HITCHCOCK. I think it is very questionable whether that bank gets any advantage out of this new system, however, which is proposed, because it has a privilege of discount now with its city correspondent, and its city correspondent might take paper which could not be available under the bill that we have before us or the one which you have, so that it gets no benefit at all.

Mr. VANDERLIP. The community in which that bank is operating will get a lower level of interest under either of these plans.

Senator HITCHCOCK. Well, I hope that will be the result, but I have never been able to see how such a bank gets any benefit out of this system.

Mr. VANDERLIP. If the community does get a lower level of interest rate, the community will prosper more.

Senator HITCHCOCK. But I think all these little banks will be wiped out. They do not exist in any European country where the centralized bank system prevails. You will find no such banks in France or in Germany or anywhere where that system prevails.

Mr. VANDERLIP. Personally I should be very glad, looking at the question from the point of view of the bank with which I am connected, to pass a measure that will compel the small banks of the country to keep deposits with us. My whole personal interest is on that side. But my judgment is that the advantage of the whole country lies on the side of the national clearing house.

Senator NELSON. Well, the little country banks, Mr. Vanderlip, not being required to keep deposits in other banks for exchange business as they do now would have more loanable funds at home, would they not?

Mr. VANDERLIP. Yes; and instead of getting 2 per cent for that balance as they now do they would get 5 or 6 per cent.

Senator NELSON. And that would compensate them in a measure for that small loss, would it not?

Mr. VANDERLIP. I believe it would compensate them fully.

Senator BRISTOW. Mr. Vanderlip, if Senator Nelson is through, I should like to ask you a question.

Senator NELSON. I have finished.

Senator BRISTOW. There is one feature that has been discussed a good deal since you were here the other day in regard to this exchange

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matter, and that is the payments by check. Bankers do not like it, but the people do.

We have developed these small banks all over the country, and the country bank solicits from farmers and different citizens in its community and asks the people to deposit their money with it, and then to take a check book and pay out by check.

And I think that that has resulted—the use of checks in this country in the establishment and maintenance of a great many small banks, because it has drawn the money that was kept around in bureau drawers and other places in the community into a center; and instead of keeping the money in his pocket or hidden away somewhere, the citizen takes a check, and when he pay for any article of merchandise, or for a pig, or a cow he draws a check for it; he does not carry the money with him; the money is in the bank; and somebody has borrowed it that needed it; and so it builds up the community.

Now, the use of checks has become so common in this country that when a merchant in Salina, Kans., pays his Chicago house, he frequently—I say usually—simply draws a check on his local bank and sends it; it goes to Chicago, and they do not have to go and get a money order; they do not have to go and get an express order, or they do not have to go and buy a bank draft. The citizen does it at night, after everything is closed up. And in our part of the country the pay rolls are paid by check; everything it done by check.

Now, with this discount system—not discount system——

Senator O'GORMAN (interposing). Clearing system.

Senator BRISTOW. Yes; clearing system that is suggested here; would not that break up or interfere with that process?

Mr. VANDERLIP. No; it would greatly facilitate it.

Senator BRISTOW. Now, tell me how it would facilitate it.

Mr. VANDERLIP. By facilitating the collection of the check. If that check reaches the Chicago merchant, he deposits it with his bank and is charged exchange on it. Anything that will facilitate the collection of that check is of advantage to the merchant, and therefore of advantage to the man who issues the check, because, in the end, that is where the cost must fall.

The merchant is not going to do business without profit. He is going to put into his pocket something to cover the loss of time and of commission in collecting that check. Anything that will facilitate the collection of that check will increase the use of similar checks.

Senator BRISTOW. Well, that is very satisfactory if it will operate that way.

Now, there is another advantage to the local merchant or the local citizen in our part of the country. Settlements are made the 1st of the month; and nearly all of the routine business is done and payments made the 1st of the month; collections are made the 1st of the month. The merchant on the last day of the month will go over his accounts. He knows what is due and where his check will reach the creditor on the 1st of the month; that if it does, he will get a discount probably. He collects on the 1st of the month. He draws those checks when he probably has not the money in the bank. His bank account may be low; it would not begin to pay them, and he depends upon his collections on the 1st or 2d day of the month to

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meet those checks by the time they get back; and that is done everywhere.

Now, in the normal operations of the business of the country there are thousands and hundreds of thousands of men who handle their business in that way. And anything that we did here that would disturb or make difficult this routine-established method of business would be received with very great disfavor. And I do not want anything in this bill that we may pass here to in any way disturb that situation.

Mr. VANDERLIP. This measure will not facilitate the kiting of checks. It will not facilitate the business of writing a check when you have not a balance in the bank to pay it with. This will shorten the time between the blotting of your signature on a check and the time when that check is charged against your account; there is not any doubt about that.

Now, if you think it desirable for people to be able to write checks without having a balance in the bank, and let those balances come after a while, and increase the time between the day you sign the check and the day you are charged with it, you do not want this system.

Senator POMERENE. And the kiting of a check is neither fair to the banker nor fair to the payee of a check, is it?

Mr. VANDERLIP. No, sir.

Senator SHAFROTH. Mr. Vanderlip, how would it do to put a maximum charge of $1 a thousand for collection?

Mr. VANDERLIP. I would not be prepared to answer that as to the figure. Certainly you do not want this bank to do a service without being paid for it. You do not want to impose on this bank the necessity of crediting in New York at par a check that has been drawn in San Francisco, and that the bank can not get its credit for until that check has traveled to San Francisco. You must permit it to charge what it is right to charge—what would be fair for the service performed—either a charge in the form of a commission, or in a delayed credit of the item——

Senator SHAFROTH (interposing). The only thing is, the country banks are protesting very strongly against this bill, and there is also some protest that excessive charges are made; and I thought that if you could put a limit upon it it might be a compromise that would be well to consider.

Senator BRISTOW. Mr. Vanderlip, suppose that I draw a check for $1,000, living in Kansas, as I do, to pay a debt which I owed in Chicago—we will say to the Butler Paper Co. And that company deposits that check in a Chicago bank with which it does business, and that check is then sent back to the bank upon which it is drawn at Salina. The bank at Salina, Kans., does not charge me anything. It wants me to make my remittances that way. It prefers that I should do so. What charge is made—what bank gets the charges on that check?

Mr. VANDERLIP. I will tell you who does charge you something; that is, the Butler Paper Co.; because you have paid them with something that is not worth par; you have paid them with a piece of paper that they have to do one of two things with, either to put it in their bank and get a delayed credit for it, which means a credit after

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some days, just to give the bank time to collect it, or be charged a collection commission.

Senator BRISTOW. Theoretically you are right, but practically you are not.

Senator O'GORMAN. You are a favored depositor there, Senator Bristow.

Senator BRISTOW. The Butler Paper Co. credit me with that check just the same as if it were a bank draft, or a postal money order, or an express money order; it makes no difference to them. I get exactly the credit, penny for penny, that I would even if I sent the money by express.

Mr. VANDERLIP. You will admit that it is worth less to the Butler Paper Co. than cash or a Chicago draft, will you not?

Senator BRISTOW. I do not know.

Mr. VANDERLIP. I can prove that it is, because I can tell you that they will not be able to get a par credit for that. They must pay a commission.

Senator BRISTOW. Well, I want to know what charges are made as against this check in its trip from Salina to Chicago and back again.

Mr. VANDERLIP. The Chicago bank will charge the Butler Paper Co. a commission. The Chicago bank will probably send that check to Kansas City and will pay nearly all of their commission to Kansas City. Kansas City will send it on to Salina, Kans., and probably has an arrangement with the Salina bank to remit once a week, so that the Kansas City bank will be out an average of four days. It must have charged a commission that will compensate it for interest. The Chicago bank must have charged a commission that will compensate it for interest, because it has credited this as cash to the Butler Paper Co. It does not get it back under a week. It is not cash, it is froth. It is a piece of paper in the mail. It will take a week to get that back from Salina, Kans., and perhaps more; a week to get it in the form of money in the vault of the Chicago bank.

The Butler Paper Co. has, however, obtained a balance that it can check on, and they must be charged a commission for collecting that piece of paper equal to the interest and to such work as may be connected with the collection, interest for the period from the time the credit is given to the paper company until the time the bank gets into its vault the equivalent amount of money.

Senator BRISTOW. As a matter of fact, the bank may charge the Butler Paper Co., and it may not. All banks do not make a charge for that.

Mr. VANDERLIP. I believe they do in Chicago. I believe there is a clearing-house rule there compelling all banks to charge.

Senator BRISTOW. Now we will take another illustration. Suppose that I have a customer at Plainville, Kans., who owes me $100 and sends me a check on the Plainville bank in payment of that $100, and I deposit the check and credit his account with $100. When I deposit that check it is credited to my account for $100. Well, as a matter of fact, that bank in the town where I live makes no charge. I never pay anything, and my Plainville customer never pays anything.

Mr. VANDERLIP. You pay something, and you do not know it.

Senator BRISTOW. That is a very convenient way to pay debts.

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Mr. VANDERLIP. You keep a deposit balance with that bank, else it would not receive that check and credit you with it at once.

Senator NELSON. Why?

Mr. VANDERLIP. And it pays you no interest on that deposit balance.

Senator BRISTOW. No.

Mr. VANDERLIP. And that is where you pay it.

Senator BRISTOW. Well, if this system were changed so that I could not do that, I would get no interest on the deposit anyhow.

Mr. VANDERLIP. The system would not be changed so that you could not do that. You could do all of these things. You could do everything you have been talking about here. The new system would only facilitate—it would only shorten the time, make the collection more rapid.

Senator BRISTOW. I do not object to shortening the time. I do not ask that this be artificially delayed. I think that it would be dishonest to artificially delay it. But I do contend that the system that has been developed by the small country banks for the purpose of gathering together the money in its vaults, so that the people can loan to the bank and the bank can loan it to the people, and take it out of the dark places where it does no good to anybody, and bring it where it can be used by the community—which is all the product of or which has resulted, rather, in the checking system—I think that anything that would destroy the check system or retard it would be injurious to the community and to the country as a whole.

And then its convenience is such that my sympathies have all been with the country bankers, because I felt that it was of great advantage to the country and that if these small banks had not been established, so as to gather together these sums and send them to the centers, we would not have anything like the banking system we have got now. And it is a wonderful convenience. And that is why I do not want to favor any exchange provisions here that will in any way interfere with that.

Mr. VANDERLIP. The bank is compensated by the proposed new conditions. They will more than compensate it.

Senator BRISTOW. So far as the checks of a bank are concerned, that was only of secondary importance, except as it might affect its earnings which are necessary, but I was primarily looking at the convenience to the community, and I know that if that convenience was taken away the measure would not be considered upon its merits; it would be regarded as an aggravation; it would be a source of great opposition.

Senator WEEKS. Is it not possible that the Butler Paper Co. might have sold to Senator Bristow a bill of goods at a slightly lower price if they knew they were going to receive cash instead of a check which would take five or six days to collect?

Mr. VANDERLIP. I think it possible; certainly if it were a large transaction.

Senator BRISTOW. I think the banks who get the use of this money absorb that charge, because they can afford to do it on account of the deposits they get, and the business men keep the deposits there because it is convenient to have them there. The banks absorb those checks, and what I suspect is that the big banks who feel the burden of those country checks would like to get out from under.

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Mr. VANDERLIP. We get from $200,000 to $300,000 a year gross in charges.

Senator O'GORMAN. Exchange charges?

Mr. VANDERLIP. Exchange charges.

Senator BRISTOW. New York has the reputation of being pretty swift on exchange charges.

Senator O'GORMAN. I understand you are quite prepared to see a system adopted by which you will lose that revenue?

Mr. VANDERLIP. Yes, sir; because we believe we would get other advantages.

Senator HITCHCOCK. Would you materially reduce the force in your bank?

Mr. VANDERLIP. Yes; quite materially.

Senator WEEKS. I would like to call attention to a controversy which has been going on in the press between two usually well-informed men about the cost of this collection system, and I would like your opinion in regard to it. I do not remember the figures.

Senator HITCHCOCK. I have them right here. One man estimates the cost of such a system to be $8,675,000 a year, and the other says that is about $6,000,000 more than it should be.

Senator WEEKS. What have you to say about that, Mr. Vanderlip?

Mr. VANDERLIP. I am not a technical banker. I did not grow up in a bank. I know very little about the technical details of a bank. I am not prepared to express an opinion. I would suspect, perhaps, that here, as in many other cases, the truth will lie between the extremes. I am not prepared to express an opinion on that. I know the gentleman to whom you refer, and I have a very high opinion indeed of the technical knowledge of the one who makes the highest estimate. I am inclined to think he may be too high, but I would not undertake to demonstrate that without a study which I have not given to the subject.

Senator O'GORMAN. You may proceed, Mr. Vanderlip.

Mr. VANDERLIP. I would enlarge the charter rights of the national banks in order to permit them to compete successfully with trust companies that will be admitted to the system. That is to say, I would not put a premium on a national bank going out of the system, taking out a trust company charter and becoming a depositor of a Federal reserve bank.

The main expansion of charter rights should be to permit a national bank to have branches in the city where it is located, and to establish foreign branches, and to exercise general trust-company functions. That will prevent banks going out of the national banking system, taking out trust company charters, and becoming depositors in the central bank.

Senator NELSON. Let me see if I understand you right there. You speak of trust-company functions. Would you include in that the right, under proper restrictions, to loan on farm mortgages?

Mr. VANDERLIP. I would not, if I was personally writing the bill. Still I sympathize quite strongly with the view of western bankers, who find they can make a better loan on that kind of security, and who find that State banks are competing with them.

Senator NELSON. You must remember one thing, Mr. Vanderlip, and that is what a great thing those farm mortgages are for the big insurance companies.

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Mr. VANDERLIP. Yes; I know.

Senator NELSON. They are a very great source of investment. The insurance companies prefer them to stocks and bonds.

Mr. VANDERLIP. As I have said before, I do not believe the provision in this act that is on the table is a dangerous one. I do not altogether like it, but I do not believe it is dangerous.

Senator WEEKS. You spoke of foreign banks just now. Have you come to any conclusion in regard to the amount of capital that would be required in order to establish a bank, for instance, in the Argentine Republic, to successfully compete with foreign banks there?

Mr. VANDERLIP. It would take a large amount of capital. They are used to seeing very large figures in the capitalization of banks there, although in that case the stock is not fully paid, as a rule. We have, and I think should have, no system of partly paid capital stock, and I think to successfully establish a bank in any South American country will require a showing of very considerable capital in order to compete with existing banks.

Senator WEEKS. About how much?

Mr. VANDERLIP. I would not think of anything under a million dollars. In Buenos Aires, I should think $5,000,000 would be a minimum for a great American bank.

Senator WEEKS. That is, capital segregated for that purpose?

Mr. VANDERLIP. If you are going to segregate capital—I do not quite see the point of it. It seems to me that the honor, and really the credit of the whole bank, would have to be pledged to any branch of the bank.

Senator NELSON. Would it not do to have a branch in South America and in London, and have those branches with the power of what you call accepting houses?

Mr. VANDERLIP. They should have.

Senator NELSON. So that drafts could be drawn on those branches and accepted by them, and would not such drafts circulate like the European drafts?

Mr. VANDERLIP. Yes, sir; they would go into the open discount market then.

Senator NELSON. They would go into the open discount market in London and every other continental bourse.

Senator O'GORMAN. Mr. Vanderlip, have you any acquaintance with the banking requirements in different foreign countries where some of our national banks would establish branches under either of these plans?

Mr. VANDERLIP. I have made a wide study of South American banking conditions.

Senator O'GORMAN. Of course, you would expect that any branch of a national bank doing business abroad would continue to conform to the requirements of the national banking act?

Mr. VANDERLIP. Perfectly.

Senator O'GORMAN. As we may modify it. Suppose the local laws may have some requirements at variance with the requirements of our national laws. How would that conflict be met—because the natives of those foreign countries will have an interest in the proper maintenance of these banks; they will be doing business with our banks; they will be depositors and borrowers?

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Mr. VANDERLIP. As a matter of fact, the laws are very generous in South American countries toward either branches of foreign banks or banks organized under the laws of foreign countries. Of course, you could not permit a bank organized under our laws to have branches in another country that would impose conditions opposed to the conditions you impose. They might impose conditions in addition to those; but you could not permit the establishment of a branch where the law of some other country would in anyway fundamentally change the impositions of our own laws.

Senator HITCHCOCK. Would the reserves be kept in this country?

Mr. VANDERLIP. They could not be entirely. That is a point that would have to be worked out. The whole subject needs very careful study, and is very lightly treated in the bill before you.

Senator HITCHCOCK. There is nothing in the bill that would indicate what should be done with the reserves?

Mr. VANDERLIP. No.

Senator HITCHCOCK. You are opposed to segregation?

Mr. VANDERLIP. I do not say I am opposed to segregation; but, as a matter of fact, I feel sure that the whole credit of the bank is pledged to the support of the credit of the branch.

Senator HITCHCOCK. Unless you have segregation and the branch be organized, the reserves would necessarily have to be kept in this country?

Mr. VANDERLIP. They would, and any till money that the branch kept would have to be in addition.

Senator O'GORMAN. Do you not think the laws of foreign countries would have to be very liberal which would permit the reserves of one of our branches in a foreign country to be retained in this country?

Mr. VANDERLIP. There are few countries that have any minimum reserve requirements.

Senator REED. Mr. Vanderlip, is not this question you are now discussing—the amount of reserves to be kept in a foreign branch—one that would almost necessarily have to be referred to the discretion of a central board of control, so that that board, within the exercise of its discretion, could prescribe the rules and conditions with reference to the reserves of such banks, and generally with reference to the transaction of their business?

Mr. VANDERLIP. I think it is, and I think it well could be with such a board as I have suggested here—a board absolutely removed from politics, made permanent, having continuity, and being of the character that I believe such provisions as I have suggested here would insure.

Senator NELSON. These foreign branches, would they be branches of this big central Federal bank, or would they be branches of our national banks?

Mr. VANDERLIP. Those are two entirely different subjects.

Senator NELSON. What have you been referring to?

Mr. VANDERLIP. I have been referring to our national banks up to this time. It is true that the Federal reserve bank itself ought either to have agents or branches in at least three of the European centers.

Senator NELSON. Ought it not to have branches there, through which they could make our acceptances over there?

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Mr. VANDERLIP. I think, probably, it would have to be something in the nature of a subbranch. We have talked here of 12 branches and any number of subbranches, and I should think the foreign offices would be in the nature of subbranches.

Senator WEEKS. Is the National City Bank doing any business through such an agent at this time?

Mr. VANDERLIP. It is doing no business. The National City Bank has a resident representative in London. He does no actual business. I mean he signs no paper; he is not an officer of the bank.

Senator NELSON. Does he make any acceptances?

Mr. VANDERLIP. Nothing of the kind.

Senator NELSON. What we need is practically an acceptance house abroad, is it not?

Mr. VANDERLIP. Yes; and we need the right of acceptance by national banks, and I would not limit that as in this bill to the acceptance of paper that arises out of the importation or exportation of goods. I would permit acceptances also in domestic transactions, and keep a limit to the amount of half——

Senator NELSON (interposing). And acceptances of finance bills, too?

Mr. VANDERLIP. No, sir.

Senator NELSON. Commercial bills?

Mr. VANDERLIP. Commercial bills.

Senator REED. What limit do you refer to?

Mr. VANDERLIP. Half the capital and surplus would be a fair limit.

Senator REED. What is the objection, if any, to banks dealing in exchange?

Mr. VANDERLIP. What is the objection to banks dealing in exchange?

Senator REED. Yes.

Mr. VANDERLIP. No objection in the world that I know of.

Senator REED. Foreign exchange?

Mr. VANDERLIP. The National City Bank is quite the largest dealer in exchange in the country, and I have never heard any objection to engaging in that business. It is essentially a part of the commerce of the country to handle foreign exchange.

Senator REED. When I say exchange—what is the objection to a bank dealing in acceptances with foreign banks, provided there is a reasonable limit; is there any sound objection?

Mr. VANDERLIP. There is no sound reason whatever, and there is a great advantage. It permits a bank which has the power of acceptance to sell its credit, and it is a perfectly proper act for the bank to do. Under our present system you can not sell the credit of a bank. Its credit is only evidenced in the willingness of people to deposit money in it.

Senator O'GORMAN. The moment a bank gives its acceptance, it enlarges its liability?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. It is not contemplated that such a liability is to be taken into consideration in fixing the reserve?

Mr. VANDERLIP. No; and therefore you limit the liability and hedge it about with collateral security. That is to say, collateral credit in the form of the liability of the drawer of the bill you accept.

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Senator O'GORMAN. In other words, when you give your acceptance, if at the same time you obtain adequate collateral, you are really enlarging your assets, at least to the same extent you are increasing your liabilities?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. So the safety of the plan would depend upon the judgment employed in the acceptance of the collateral?

Mr. VANDERLIP. Exactly.

Senator HITCHCOCK. When you make a loan you increase your assets, do you not?

Mr. VANDERLIP. It is just the same except that it does not take the cash out of your bank. Some one else provides that, because they put weight upon your credit which you have added to the credit of the other man.

Senator REED. And the same character of judgment must be applied in making an ordinary loan over the counter as would be applied in issuing an acceptance or signing an acceptance. It is the same thing?

Mr. VANDERLIP. Just the same character, but perhaps a little more caution would be exercised in regard to an acceptance because it runs longer than the average loan. An acceptance might run for six months, while the average loan of city banks is less than that.

Senator NELSON. A good many of these bills are drawn upon the proceeds of the bills of lading which accompany them, and that amounts to a security accompanying the bill, does it not?

Mr. VANDERLIP. That is a direct collateral security.

Senator NELSON. That is a direct collateral security in the very highest grade of bills?

Mr. VANDERLIP. It is typical of the right kind of loans a bank should make.

Senator WEEKS. As a result of your investigations in South America, if proper provision were made in this bill for establishing branches, do you think you would divert any of your capital to that purpose?

Mr. VANDERLIP. There are great difficulties in the way. There is, unquestionably, a profitable field there, and merchants of the United States would be greatly aided by the establishment of American banks. The greatest difficulty lies entirely outside of any legislation. It lies in the inability to get men of the right type who will learn the language, and who will become residents among the people, and who will absent themselves from the country. I have become almost convinced that it is, at the present time, so difficult that at least the establishment of South American branches is going to be a slow process.

Senator WEEKS. Do commercial houses have any difficulty in getting men for that purpose?

Mr. VANDERLIP. They do.

Senator HITCHCOCK. If a bank should keep a reserve against a note which it issues, why should it not keep a reserve against an acceptance which it gives?

Mr. VANDERLIP. Because an acceptance is not a demand obligation; that is, it is an obligation maturing at a fixed date. Why should you keep a reserve against that any more than against loans?

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Senator O'GORMAN. You may continue, Mr. Vanderlip.

Mr. VANDERLIP. I would permit State banks and trust companies to be admitted to membership by conforming to the same capital, reserve, and examination requirements which national banks are obliged to meet in similar localities. The Federal reserve board should have the power to examine any member bank, and should examine a State bank before it was admitted to the advantages of the system.

I would make the circulating notes of the Federal reserve bank a first lien upon all its assets, and I would make——

Senator NELSON (interposing). Prior to dividends?

Mr. VANDERLIP. Prior to deposits, absolutely a first lien on everything, and depositors could not be paid off until the circulating notes were paid. I would protect the innocent holder of a circulating note, absolutely. Then, in turn, I should let the Federal reserve bank have the first lien upon assets of member banks for any indebtedness due from the member banks. This central bank must not lose money on bad loans. You would, by that method, give it not only the rediscounted paper but you would give it a first lien beyond that if some of the rediscounted paper proved bad. If it proved bad you have recourse to the first lien.

In respect to the rate of dividend that you would have to pay in order to float the stock at par, if you will exempt that dividend from all taxes which it is feasible to exempt it from—I am not a lawyer and I do not know how far you could go on that—that would be, of course, helpful in enabling you to float the stock at a lower dividend rate than otherwise.

These are the general heads of what I believe would be an economically sound scheme for a bank entirely controlled by the Government, and I believe it would be acceptable to the bankers of the country, after they came to understand it. I am not at all sure——

Senator HITCHCOCK (interposing). You did not make any statement of the subject of bank reserves since luncheon, did you?

Mr. VANDERLIP. I believe I discussed that before luncheon; but I would have a uniform reserve requirement for national banks. That reserve, of course, would have to be kept either as a deposit balance or as cash in the vaults; rather, it would have to be kept as both, and I would permit a national bank to keep any part of the reserve which it saw fit with the Federal reserve bank, but would compel it to keep some minimum amount.

Senator HITCHCOCK. Do you think that a bank which itself acts as a reserve agent for country banks should keep a larger reserve than the bank which does not?

Mr. VANDERLIP. I know it should.

Senator HITCHCOCK. What would you fix the reserve to be?

Mr. VANDERLIP. I think probably 12 per cent would be sufficient, if you increased the reserve to be held by the central reserve bank. If you left that reserve at 33⅓ per cent and dropped the reserve of all national banks to 12 per cent, there would be too much capacity for expansion. I would make the Federal reserve bank keep a minimum of 50 per cent reserve.

Senator NELSON. For notes and deposits?

Mr. VANDERLIP. For notes and deposits both.

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Senator O'GORMAN. Mr. Vanderlip, why do you propose that the central reserve banks should have 12 agencies? How do you fix on the number as 12?

Mr. VANDERLIP. I only fixed on it because presumably a great deal of thought has been given to the subject, and 12 was fixed on by the measure before you, and that seems to me about right.

Senator O'GORMAN. Would you be prepared to recommend that the number of agencies be left to the discretion of the Federal reserve board?

Mr. VANDERLIP. I would. I should say it would be wiser to fix the exact number in the first instance in the bill and leave it, after one or two or three years, to the discretion of the board to increase or decrease that number.

Senator O'GORMAN. Mr. Vanderlip, is there any substantial difference between the plan which you suggest and the plan described in the pending bill, excepting that you have revived a method of creating a banking system without requiring the qualifying banks to furnish the capital?

Mr. VANDERLIP. I believe there are most fundamental differences, and one that is of more importance than any other is the fact that you have made the bank note the obligation of the bank and not unnecessarily and dangerously added the obligation of the Government.

Senator O'GORMAN. Even under the system proposed in the pending bill, that is still an open question.

Mr. VANDERLIP. Of course, I can only talk to what the pending bill is.

Senator O'GORMAN. Yes.

Senator HITCHCOCK. You say that is the obligation of the bank?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Can you conceive of the possibility that a bank officered entirely by United States officials appointed by the President would default on its obligations and those obligations not be assumed by the National Government? Would not the National Government be morally responsible for them?

Mr. VANDERLIP. The National Government might ultimately assume those obligations. I am not altogether sure. I do not think the National Government has thus far shown to a certainty that it is going to discharge its obligations against the 2 per cent bonds, and the public does not think so; if it did, the bonds would not be selling below par.

Senator REED. Mr. Vanderlip, say the Government sold a 2 per cent bond to A B: it agreed to pay him 2 per cent interest, and it has done so. It agreed that it would pay that bond at a given date, and that date of maturity has not yet arrived.

Senator SHAFROTH. It will be 1930.

Senator REED. How can you justly say the Government has defaulted in its obligations?

Mr. VANDERLIP. I do not say the Government has defaulted in its obligations, but I do say that it has not, as yet, indicated to a certainty that it is going fully to fulfill its obligation.

Senator REED. What is its obligation?

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Mr. VANDERLIP. Its obligation, presumably, is to leave a free field for circulating notes to the national banks who buy these very low interest rate bonds for the purpose of taking out circulating notes. You now propose to fill that field otherwise.

Senator REED. You are speaking about this bill, that we might in this bill do something——

Mr. VANDERLIP (interposing). Oh, certainly. It is the prospect as to whether you will or will not do the right thing in this bill that has sent the bonds below par.

Senator REED. That is a very different thing from saying the Government has defaulted. What you really mean to say is that somebody has imagined that the Government may do something that will impair a utility that has been heretofore attached to these bonds, and that that gentleman, in anticipation of a general fall which may never come, has been around peddling his bonds for less than their face.

Mr. VANDERLIP. I would also say that nobody has imagined you would do something that would keep them at par and is therefore a buyer at par.

Senator REED. Of course, it is said that bankers are the most unimaginative people in the world. [Laughter.] And I suppose that is a good thing. Mr. Vanderlip, I am interested in one question here that I wish you would go into, even at the risk of repetition. It is proposed to establish, under this plan which you suggest, a Government bank. It is organized under a law to be enacted. It is to be officered, from president to janitor, by men appointed by the President of the United States. Its very activity and power spring from the Federal Government. It is to become the fiscal agent of the United States Government, and into its vaults every penny of money collected by the Government is to go. Now, that institution, created in that way, is about to issue letters of credit, if you please, and put them out to the people of the country as money. What reason is there that it should not make them good?

Mr. VANDERLIP. No reason under heaven, and you must be sure that they will make it good and not depend on some outside agency to do it.

Senator REED. Now, if the people must make it good, what is the difficulty about saying on the face of the note that the United States Government will make that note good?

Mr. VANDERLIP. Because it is no function of the Government at all to create a piece of fiat money and lend it to a banking institution. And if I can read history, there never has been a case where a Government has started in to create fiat money in that way that it has not, after starting on a sound principle, edged along toward an unsound principle and eventually found itself with its obligation below par and discredited.

Senator REED. I think we differ about terms. I want to ask you what you mean by fiat money.

Mr. VANDERLIP. I mean an obligation to pay on demand without having deposited in full the thing that you have agreed to pay.

Senator REED. Very well. I am not assuming now that this bank will issue a single note unless it has back of that note gold coin or gold bars or good commercial paper guaranteed by the member banks

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and all the safeguards thrown around this currency that can be thrown around it. Now, you do not call that fiat money, do you?

Mr. VANDERLIP. Absolutely fiat. That only speaks for the credit of the borrower. The Government loans this note to the bank. The Government has no reserve back of it; it merely has looked well to the credit of the borrower.

Senator REED. Very well. You say that it fiat money?

Mr. VANDERLIP. Absolutely.

Senator REED. Now, the bank, under proper management, may want to issue a billion dollars of that fiat money, secured in that way. If the bank makes a bad disposition of it, disposes of it without proper collateral, of course the bank will go down. But it is proposed to make the conditions so that the bad disposition is impossible——

Mr. VANDERLIP (interposing). Then why add to a perfect note?

Senator REED. I ask you the corresponding question. If a failure is impossible, what difficulty is there about writing your name upon it?

Mr. VANDERLIP. There is no demand on the part of anybody who will take that paper to have the name of the Government written on it. If there is any danger at all then the danger is a great one to the guarantor, and there is no demand for the guaranty; there is no necessity for it; you have created a good note. It will float on the characteristics you have given it, and you should not involve the credit of the Government by adding something that no one calls for simply because you feel that the Government should control the issue. Under the plan proposed the Government will control the issue, but the obligation will extend only to the assets of the bank.

Senator REED. Now, I propose to sell to you the promissory note of A B, which I decline to indorse except without recourse, and yet I say to you, "There is no possibility of this note ever being defaulted." Mr. Vanderlip, is the only reason back of this argument the possible fact that the Federal Government may incur a loss by guaranteeing an absolutely sound currency?

Mr. VANDERLIP. No, sir; the reason is the Federal Government has started upon a course of issuing these demand promises to pay and loaning them to a bank. Started on that course, history tells us that the next step will be the creation of more money of the same kind for another purpose not so sound.

Senator REED. You are afraid, then, not so much of this system which you propose to inaugurate, with the modification I am now discussing, as you are that in the future the Government of the United States might issue other and different money upon other and different kinds of security?

Mr. VANDERLIP. That it may issue exactly the same kind of money upon a less security.

Senator REED. In other words, the bank board of seven men which you propose to create might, simply because the Government created the note, proceed to let those notes pass out with less security than they would if the Government had not created the note?

Mr. VANDERLIP. That is not the point; not that that bank board will not care for the credit of that bank, but that there will come a demand, if you are willing to create this fiat money and lend it to this

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central bank, that you next create some more of it and lend it to the shippers of wheat and the growers of cotton, to whom you will——

Senator REED. I catch your point. You are afraid that the mere fact that the Government guarantees this money would lead to the demand that the Government guarantee other and different money. That would be a very different proposition.

Mr. VANDERLIP. History is full of just such instances.

Senator REED. I know; but, Mr. Vanderlip, history is full of every kind of wildcat banking. History is full of every kind of failure in government. The history of the world shows that there never was a Government set up that did not end in a monarchy, and yet our fathers had the temerity to build a Republic. I want to know if there is anything economically sound except that, because I am very much interested in it.

Mr. VANDERLIP. No, sir. As I have said repeatedly, the plan in this bill will work just as well if the note be the obligation of the Government as it would if it were properly and soundly the obligation only of the bank, up to a point where the credit of the bank or the credit of the Government becomes involved, or, of course, up to a point where the Government will issue some more or similar notes for a dissimilar purpose.

Senator REED. Yes. Now, you propose, under your plan, to make these notes a full legal tender?

Mr. VANDERLIP. No, sir; I make them the same quality as the present national-bank notes. They are receivable for public dues, but are not a full legal tender.

Senator REED. Receivable for public dues?

Mr. VANDERLIP. Yes, sir.

Senator REED. That is, the Government must take them?

Mr. VANDERLIP. The Government must take them.

Senator REED. But private individuals not?

Mr. VANDERLIP. Yes, sir.

Senator REED. Now, will you tell me why a private individual should not take them?

Mr. VANDERLIP. Because if a private individual has made a contract to receive gold he should not be compelled to receive payment in somebody's promise to pay gold. Now, in the case of the Government, the Government would deposit its receipts with the bank daily in any event. It may just as well receive them in the bank's notes as in gold; whichever way it receives them, it would turn them that day into a deposit balance with the bank. By depositing the note the bank redeems the note.

Senator SHAFROTH. Why do you say, Mr. Vanderlip, that the contract is made for payment in gold, when we know when we can take the United States notes there and compel the party to take those in liquidation of the claim?

Mr. VANDERLIP. I say that it is payable in gold. It is true you can compel the other party to accept something else, because you have made a law which says that something which is not money is legal tender. Because of that law you can compel a man to receive a thing that is not money. Now, that is wrong. However, it is the law.

Senator SHAFROTH. Do you not recognize that at the same time we have not a sufficient quantity of legal-tender money to act as reserves for national banks?

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Mr. VANDERLIP. No, sir.

Senator SHAFROTH. Do not a stream of redemptions go to the Treasury every year to the extent of $600,000,000?

Mr. VANDERLIP. I am happy to say they do; that is the proper function of the bank note. It should go to redemption.

Senator SHAFROTH. Then you think that is an advantage instead of a disadvantage?

Mr. VANDERLIP. Unquestionably; that is perfectly fundamental. A bank note that did not go to redemption would cease to perform its proper function.

Senator SHAFROTH. Did they go to redemption as much when there were fewer bank notes and proportionately a larger amount of legal-tender money?

Mr. VANDERLIP. I think the proportion of redemptions was about the same when the amount was very much smaller. Of course, it is true, and should be true, that if there is a greater demand for currency the bank note will not go to redemption so rapidly. That is what should happen and that is what happens in this case. That is to say, if there were a greater demand even for reserve money, the banks would collect reserve money from the public and it would be replaced by the bank note.

Senator SHAFROTH. And is not the member bank sending that money down here to Washington to get legal-tender money for it?

Mr. VANDERLIP. It is.

Senator SHAFROTH. And you think if there were more legal-tender money that would still continue? Would not the bank have actually more of the legal-tender money in circulation, and therefore would not have to send to Washington for it?

Mr. VANDERLIP. No; it would go on just the same. If you had more legal-tender money, if the bank reserves were redundant, the bank loans would be expanded just as certainly as any effect will follow a cause; and as the note came into the bank, not being available for reserve, it would then flow down here to be redeemed in legal tender. We always want more legal tender, because we will always expand our loans as long as we have legal tender enough to support the expansion.

Senator SHAFROTH. Mr. Vanderlip, if the State banks and trust companies come into this system, they will make a very large demand for more legal-tender money, will they not, to act as reserve?

Mr. VANDERLIP. That would depend upon whether the total reserve requirement were larger in this measure than is now required from State banks. That would not be the case in New York; it would be the reverse.

Senator SHAFROTH. But if the 18,000 banks that now have a right to keep bank notes for their reserves were to come into this scheme with the same requirement as national banks, of compelling reserves, would not that necessitate a great quantity of legal-tender money to act as reserve?

Mr. VANDERLIP. You mean to take the place of the bank notes that they now hold in their reserves?

Senator SHAFROTH. Yes.

Mr. VANDERLIP. I was told by the chairman of the committee at the last hearing that the total amount of such notes held by State

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banks and in National banks was around $80,000,000, as I recollect. It is not a large amount.

Senator SHAFROTH. Yes; but don't you see the State banks are not required to keep as large reserves, and if that requirement is made larger there will be a large demand for legal-tender money to act as reserves.

Mr. VANDERLIP. But I say the State banks with which I am familiar are required to keep a larger reserve.

Senator O'GORMAN. Of course, there are some States that do not require any reserve.

Mr. VANDERLIP. Exactly; but even if there were no reserve requirement you would probably find they would keep a reserve about as large as this provides.

Senator REED. Mr. Vanderlip, I confess that I still am unable to comprehend the real utility of a scheme which results in $600,000,000 of the $700,000,000 of national-bank notes being sent to the Treasury every year, redeemed at the Treasury, and immediately reissued. What useful purpose does that serve? That may seem a kindergarten question, but I want to get at it.

Mr. VANDERLIP. A bank note ought to be the currency in the pockets of the people, of course, ought it not?

Senator REED. The more we have of small currency in the pockets of the people, I presume, the better.

Mr. VANDERLIP. Not at all. You only want an amount in the pockets of the people that will facilitate their ordinary business. And, as I said, with much emphasis at my former hearing, that is a matter over which you have as little influence as any matter connected with the banking business. What we carry in our pockets is a fixed amount.

Senator REED. Very well.

Mr. VANDERLIP. Now, that amount will fluctuate——

Senator REED (interposing). Why should it be a bank note rather than any other note?

Mr. VANDERLIP. Because you want the reserve money to be in the bank to form a basis for credit. You want circulating in the hands of the people a note that will conform in volume absolutely to the needs of the people and will be wiped out of existence as soon as it is not in use in their pockets. As soon as it comes into the bank it should disappear. And you can not pay that note out again, as you say, unless there is a demand for currency. Frequently there is a little demand for currency and we are unable to get out our own circulation at all. That is the case through several months of the year in some years. You can not always get out circulation. You have an inflow of these notes for redemption that is much larger than the outgo of currency that is demanded, and you redeem the surplus——

Senator REED (interposing). Let us say that your bank has—how many million dollars do you have out in bank notes?

Mr. VANDERLIP. About $3,500,000.

Senator REED. Very well. Those bank notes of yours are gathered up by other banks and sent into the Treasury for redemption?

Mr. VANDERLIP. Yes.

Senator REED. And pretty soon all your $3,500,000 is wiped out and there has been sent out in lieu of it greenbacks, silver certificates, etc.

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Mr. VANDERLIP. No. This is the point. There probably has been nothing sent out in lieu of it. There has been less demand for circulation in the pockets of the people.

Senator REED. Very well; it is retired?

Mr. VANDERLIP. Yes.

Senator REED. And you have not any money out?

Mr. VANDERLIP. Yes.

Senator REED. How does it get out again?

Mr. VANDERLIP. Then, when the people want more money, when we have crops moving, when we have to hire the labor for crop moving, and have that larger use for money, it comes out.

Senator REED. That is what I want to get at. How does it come out?

Mr. VANDERLIP. Because the banker in your State that is in a community where the farmer is going to use more money finds his reserves being drawn out, and he sends to St. Louis for currency, and St. Louis in turn sends to New York, and unless they ask for reserve money we will send them a bank note. The bank note gets right out into the hands of the day laborer——

Senator REED (interposing). And you send to the Government, saying you want some more money?

Mr. VANDERLIP. Yes, sir.

Senator REED. You say, in effect, "You have retired all our bank currency, and now we want it again"?

Mr. VANDERLIP. As soon as it is retired we get it again and hold it in our own vaults. We have to pay no tax on it as long as it is in our own vaults. When a demand for currency comes we ship it out, unless it is a demand for reserve money.

Senator REED. Now, you get $3,500,000 from the Treasury to-day. You take it down and put it in your bank vaults and hold it there, and you have to pay a tax upon it——

Mr. VANDERLIP (interposing). No, sir; we do not, until we emit it.

Senator REED. Unless you emit it?

Mr. VANDERLIP. Yes, sir.

Senator REED. It goes around and circulates and gets into the banks in Chicago. The banks in Chicago send it down for redemption, and now it is retired. Immediately it is sent back——

Mr. VANDERLIP. Yes, sir.

Senator REED. And you either pay it out at once or lock it up until you need it?

Mr. VANDERLIP. We lock it up if our receipts of national-bank notes are larger than the shipments of money that need not be reserve money. Now, we are shipping money, we will say, every day, some of which must be reserve money, because we are asked to send reserve money, and some of which need not be reserve money. We are receiving national-bank notes every day. If the amount of our shipments is less than the amount of our receipts there is no point in getting out our own notes for these shipments. We might just as well pay out in these other notes and send the surplus down here for redemption.

Senator REED. Then, as I understand you, the whole question amounts to this: The method of redemption, plus the tax, is a means of limiting the amount of this currency which may be out. If you

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had no tax you would draw your $3,500,000, you would put it in your vaults, and you would lend it whenever you pleased. It would go out into circulation, other banks would keep it in their vaults, lending it when there was a demand made. But, in view of the fact that there is a place of redemption and that by sending it in a bank can thereby escape this tax, there is an incentive to send it in and have it canceled?

Mr. VANDERLIP. The great incentive is another one, however. The bank that sends it in does not thereby escape any tax. The motive for sending it in is to get reserve money. The bank has more currency than it can pay out. You can not pay out currency unless somebody wants it. It is not because you have a surplus of currency you are going to increase your loans. A loan is usually collected in the form of a deposit balance; it is seldom collected in currency.

Senator REED. But you must have a legal-tender reserve, so they send it in and exchange it for a legal-tender reserve?

Mr. VANDERLIP. Yes, sir; that is the motive back of the redemption of the national-bank note.

Senator REED. In other words, the Government with its funds has to continually furnish the reserves back of the national-bank money?

Mr. VANDERLIP. The Government is merely an agent. The national banks must first put up the money that the Government uses to redeem these notes. It is not Government funds at all that are going to be used to redeem the notes.

Senator REED. It is the money we got for the bonds.

Mr. VANDERLIP. Not at all; it is the money that is put up in the 5 per cent redemption fund. It always has to be kept there, and always does redeem all that comes in. We have to make that good daily; just as often as there are charges against it we are notified that our redemption fund is deficient and we must build it up. Our redemption fund is never exhausted.

Senator REED. If those bank notes were a full legal tender and could be used for reserves, there would not be any necessity for sending them in at all?

Mr. VANDERLIP. No; nor any limit to the expansive possibilities they would be made a basis for.

Senator REED. Except that the bank would have to buy Government bonds.

Mr. VANDERLIP. That would be the only limit.

Senator POMERENE. Mr. Vanderlip, did you discuss the question of the qualifications which you would require of State banks and trust companies in order to enter into this plan of yours?

Mr. VANDERLIP. In a general way. I would make the qualifications the same as for national banks, with similar limitations as to capital, as to reserves, and as to examinations. I would permit the Federal reserve board to make such other regulations as they found in practice necessary to make. I would always insist that that board examine a bank before it was admitted as a depositor, if it were a State bank.

Senator O'GORMAN. Then, in a word, you would permit the State banks to come into the system under such rules and regulations as the reserve board would establish?

Mr. VANDERLIP. I would; such a reserve board as I have suggested here. I would always emphasize the character of that board.

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Senator O'GORMAN. Two of those essential requirements, however, would be that the State bank would comply with the national-bank requirements respecting reserve and the State bank would also, as you stated, deposit in this Federal bank?

Mr. VANDERLIP. Oh, of course.

Senator O'GORMAN. What is your suggestion as to the amount or extent of the deposit that would have to be made by a State bank? Would you leave that with the reserve board?

Mr. VANDERLIP. It should make exactly the same deposit as a national bank would make. It must have the same reserve requirements.

Senator NELSON. And the same capital?

Mr. VANDERLIP. The same capital as a national bank in a similar locality.

Senator O'GORMAN. What would be the requirement of a national bank with respect to deposits? I did not hear you state that.

Mr. VANDERLIP. That the national bank would keep a reserve of 12 per cent, of which at least 5 per cent must be kept on deposit with the Federal reserve bank.

Senator O'GORMAN. When you spoke, then, of deposits by national banks you had reference to the portion that would be deposited?

Mr. VANDERLIP. Nothing more at all.

Senator REED. There has been a great deal said here about the reluctance of banks to rediscount, and the figures compiled by the comptroller show that there is an astonishingly small amount of discounts recorded. What do you know about the custom of indirectly discounting paper?

Mr. VANDERLIP. There is such a custom.

Senator REED. To what extent do you think it is practiced?

Mr. VANDERLIP. I do not know. It is discouraged by leading banks. I believe the highest amount of direct rediscounts that the comptroller's reports have shown is $109,000,000, which was reported last summer.

Senator O'GORMAN. Outstanding at one time?

Mr. VANDERLIP. Outstanding at one time. As a guess, I should think there might be $30,000,000 of rediscounts that do not show.

Senator NELSON. What is the form in which those indirect discounts appear?

Mr. VANDERLIP. The form varies. A bank may induce a lending bank to buy certain commercial paper which it holds and give it a letter directing it to charge the borrowing bank's balance when that paper matures. Sometimes the bank will sell to its own directors commercial paper, and its directors will unite in making a loan, the bank showing no rediscounts. Those, I think, are the two most important methods.

Senator O'GORMAN. Why is that resorted to?

Mr. VANDERLIP. So as not to show a rediscount on the published statement.

Senator REED. Mr. Vanderlip, I was told of one bank that carries $9,000,000 of bank deposits, the president of which stated they actually had loaned $4,500,000 to the banks by what he called indirect discounts.

Mr. VANDERLIP. That bank was encouraging that sort of business. That is not a fair average.

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(At this point, to enable members of the committee to vote in the Senate, a recess was taken, at the expiration of which the hearing was resumed.)

Senator O'GORMAN. Mr. Vanderlip, have you any further observations to offer?

Mr. VANDERLIP. I have gone through the details of the plan. I have no specific observations to offer, except possibly to try further to emphasize the essential differences between the plan I have suggested, or outlined, and the plan that is before you, as it has passed the House. I believe those differences are absolutely fundamental and make the differences between a sound and unsound piece of legislation. I should say there are three differences of vital importance:

The difference that makes the note the obligation of a bank and not the obligation of the Government I regard as of the greatest importance. I can not overemphasize my feeling in that respect.

The difference which permits of a single bank and of a single discount rate alike to all banks I regard as a difference of great importance, and one which gives much greater equity to this measure than to the other. It would be impossible to adopt this theory with 12 or any other number of various banks—this theory of a uniform discount rate. It can only be adopted by a central bank.

Senator HITCHCOCK. Will you permit me to interrupt you for a question? I intended to ask you some questions before we took this recess.

Senator BRISTOW. He was outlining the differences between this suggested plan, Senator, and the present bill. Suppose he completes that first.

Senator HITCHCOCK. Yes.

Mr. VANDERLIP. This measure will not be compulsory upon the banks unless you compel them to underwrite the stock, which you may do. But, in that event, the compulsion would be not nearly so obnoxious, because the bank could sell the stock if it so desired. I think it is superior in that it would distribute the stock to a large number of people.

Senator O'GORMAN. Right there, if you will pardon me. Having in mind the dividend would probably be exempt from all taxation, do you care to modify the view you expressed this morning that it ought to be 5½ or 6 per cent?

Mr. VANDERLIP. I am inclined to think if the dividend is exempt from all tax and there is no double liability on the stock, you could float it at 5 per cent.

Senator HITCHCOCK. Now, you speak of the national banks or member banks underwriting this stock subscription.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. You would give them a monopoly of the initial purchase of this stock?

Mr. VANDERLIP. Exactly the reverse. I would give the public the monopoly, permitting the banks only to buy after the public had refused to take it.

Senator HITCHCOCK. Would you permit the public to take it at par?

Mr. VANDERLIP. Certainly.

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Senator WEEKS. How would you allot it?

Mr. VANDERLIP. I would allot it first to the smallest subscribers, just as the Spanish War bonds were allotted, so as to get as wide a distribution as possible.

Senator WEEKS. At par? I understood you to say you would sell to the highest bidder.

Mr. VANDERLIP. That would be another view to take. In that event, of course, the stock would be allotted to the highest bidders, and you could not allot it to the smallest subscriber.

Senator NELSON. The fairest would be to make the dividend so fair and low that you would sell it at par.

Mr. VANDERLIP. I think that would be the fairer way, to sell it at par and then to allot to the smallest subscriber.

Senator HITCHCOCK. You would not exempt the dividend from this stock as far as the income taxes are concerned—the Federal income tax?

Senator O'GORMAN. If you say "all taxes" that would embrace it.

Mr. VANDERLIP. I would, if you deemed that feasible. That is to say, if you want to float this stock at the lowest possible dividend basis, then you will exempt it from all taxes. Any taxation you add would in effect make it necessary to pay a higher dividend rate. Whether the small amount of the income tax would make it necessary to pay a dividend above 5 per cent is a question.

Senator HITCHCOCK. Would not that be a direct inducement for wealthy people who would have a very high rate of income tax to pay, to invest in this stock and thus concentrate its ownership? And that is exactly what we do not want to do.

Senator O'GORMAN. You could place a limitation as to the number of shares any individual would be permitted to take.

Mr. VANDERLIP. That would be possible. There would be no point in doing that, as the stock has no voting rights in any way.

Senator HITCHCOCK. But you said it was very desirable to have this widely scattered among the people.

Mr. VANDERLIP. I think so.

Senator HITCHCOCK. In rather small allotments, as those are people who have difficulty in making investments; but if you exempt it from the income tax it would not affect many of them, because those people have the minimum of income. But it would be an inducement for the very wealthy people to buy this stock, because they might escape a 10 or a 5 per cent income tax, so, I think, it should not be exempted from the income tax.

Mr. VANDERLIP. There is no principle involved in exempting it from any tax. The only point in exempting it from a tax is to enable you to float it at the lowest dividend rate.

Senator HITCHCOCK. Have you any doubt that a 5 per cent Government stock of that sort would sell at par without any exemptions?

Mr. VANDERLIP. If you are perfectly sure of it, and will provide that the Government will take any unsold part, all right.

Now, the last and one of the very important points of difference I want to emphasize is the character of this board of management. I think I said at the last hearing, in answer to a question of Senator Pomerene, that I was not afraid of Government management; I was greatly afraid of inexperienced or partisan management. I believe

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this insures a management that is continuous, experienced, and that will be free from partisan influence, and will be of a character that the banks can fairly trust. The long term, without any ex officio members, is of vital significance.

Senator HITCHCOCK. What limitation would you put on the power of that board as to the rate it would charge for the use of rediscounts?

Mr. VANDERLIP. No limitation whatever.

Senator HITCHCOCK. You would allow them to give this for nothing—to give rediscounts for nothing?

Mr. VANDERLIP. It is inconceivable that a board that is sane would do that. They are governed by the reserve requirement. You do not need a law further than that. If they must have a minimum 50 per cent gold reserve, they would very quickly reach a point where they would have to raise the rate.

Senator HITCHCOCK. They might have a reserve of 60 per cent gold and yet refuse to discount, too.

Mr. VANDERLIP. They should never refuse to discount sound paper. They should make the rate as high as the necessities of their position dictate. They should never refuse to discount sound paper.

Senator HITCHCOCK. You place this absolutely in the hands of this board—the power to say what the volume of currency should be—subject to the demands of the business world?

Mr. VANDERLIP. Ah; subject to the demands of the business world. The board would have no influence whatever, any more than your enactment would have an influence, upon what the volume of circulation will be.

Senator HITCHCOCK. If it made a discount rate of one-half of 1 per cent, that would certainly greatly expand currency, would it not?

Mr. VANDERLIP. No, sir; it would expand the credits of the bank, but not the currency.

Senator HITCHCOCK. That additional credit of the bank after the reserve surplus of the deposits is exhausted would mean an increase in currency?

Mr. VANDERLIP. How can a bank get out any currency that is not needed for use in the hands of the people? Let us take a definite illustration. Suppose the National City Bank is a member and decides to rediscount $10,000,000 of paper, can it get out any more currency as a result of that? It will have a credit; it will have a balance in the central reserve bank, but it can not make you carry any more currency in your pocket, nor can it make any customer of the bank take any currency because it happens to have a credit somewhere.

Senator HITCHCOCK. Let me put a case this way: Suppose a bank out West has reached its legal capacity, and borrowers come to it for additional loans, and it finds that by applying to a branch of the United States bank it can discount paper on a very low basis. It will make the loans, because the discount rate is so low as to enable it to make an adequate profit.

Mr. VANDERLIP. The discount rate of the Federal reserve bank will never be lower than the current rate that the depositing bank is loaning to its customers, presumably. It would be a very extraordinary condition under which you would find the discount rate lower than the current rate. The function of this bank is to be a place of last resort to go to after banks have found, because of

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changed conditions, they have taken too much commercial paper. It offers a means to turn commercial paper into a liquid reserve.

Senator HITCHCOCK. Take your bank. Suppose there is a strong demand for money, and you have been loaning freely, obtaining 4½ and perhaps 5 per cent, and you reach a point when you want to discount some paper. Suppose they refused to discount for you at less than 6 per cent. What would you do?

Mr. VANDERLIP. We will discount at 6 if we find we are running below our reserve. We would not do it in order to loan at 5½.

Senator HITCHCOCK. Suppose they made a discount rate of 3 per cent, what would you do?

Mr. VANDERLIP. If they made a discount rate of 3 per cent it would be certain we could not loan at 5½ per cent. That situation can not exist, because our neighbors would also have a rediscount rate of 3 per cent.

Senator HITCHCOCK. If you could discount your notes at 3 per cent you certainly can accept those loans that come over your counter?

Mr. VANDERLIP. At 5½ per cent; yes. But water would run up hill as quickly as such a situation would exist. It can not exist.

Senator HITCHCOCK. Has not that been the history in Germany? Whenever abroad there has been a strong period of exploitation of business and industry Germany has been developing and her foreign trade has been growing; that the German bank has rediscounted heavily at the Reichsbank, and the Reichsbank has finally reached a period of expansion?

Mr. VANDERLIP. Has reached a period, undoubtedly, where it has a large amount of rediscounts, but has always sustained itself by advancing the discount rate until we have found the German banks borrowing in the New York market at times at 9 per cent. We have loaned to first-class German banks at 9 per cent.

Senator O'GORMAN. Do you expect, then, that this system of rediscount will be used by a member bank for the purpose of making new loans, or will it be devoted entirely to procuring the money to keep up the required reserve?

Mr. VANDERLIP. It will be its function to keep up the required reserve.

Senator O'GORMAN. Now, with that limited field of activity on the part of the Federal bank, will it be able to make this money that will be required for its maintenance and pay 5 per cent, if that be the dividend provided for, to the stockholders?

Mr. VANDERLIP. It will be able to employ $350,000,000 at 3 per cent, less the 1½ per cent tax, and to loan $350,000,000 circulating notes, as we have provided that amount of one-year Treasury notes. It will be able to go into the open discount market and buy paper indorsed by any member bank at whatever rate is ruling. It will be able to go into the foreign discount markets and buy prime bankers' bills at whatever rate is ruling there.

Senator HITCHCOCK. Would you explain how the bank can issue $350,000,000 of notes? Perhaps you will let me ask some questions to develop it. You say a bank with 100 millions of capital?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose that is all put in in gold.

Mr. VANDERLIP. Yes.

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Senator HITCHCOCK. You then propose that it shall take, we will say, over $300,000,000 of 2 per cent bonds; and you say issue $300,000,000 of its notes?

Mr. VANDERLIP. It will issue them as rapidly as the notes that the bonds are sustaining are retired; that is, as rapidly as an equivalent amount of national-bank notes are retired.

Senator HITCHCOCK. Now, then, it must keep a 50 per cent reserve against those notes. How is it going to get that 50 per cent reserve?

Mr. VANDERLIP. It will have 100 millions of capital, presumably $150,000,000 of Government deposits. I have not the figures in mind, but let us say four or five hundred millions of deposits of reserve banks.

Senator HITCHCOCK. It must keep, though, a 50 per cent reserve against the Government deposits and also against the other deposits.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Now, then, what has it to loan in that case, if its capital is more than absorbed by the reserve required against the notes? The notes are $300,000,000, and there will be $150,000,000 reserve there, at the outset. If the Government deposits $150,000,000, that would require another 100 million of reserve.

Mr. VANDERLIP. No; seventy-five.

Senator HITCHCOCK. $75,000,000 in reserve; and if the banks deposit, say, $300,000,000, that would require another $150,000,000 in gold reserve.

Senator O'GORMAN. Did you not say the banks might deposit about $400,000,000?

Mr. VANDERLIP. I should think they would deposit about $400,000,000. The statement of the bank would be about this: It would have capital, $100,000,000; Government deposits, $150,000,000; and bank deposits, let us say, of $400,000,000.

Senator O'GORMAN. Making a total of $650,000,000.

Mr. VANDERLIP. It would have deposits of $550,000,000, against which it would have to keep $275,000,000 of gold. It would have $375,000,000 of gold free.

Senator HITCHCOCK. How does it get that $375,000,000?

Mr. VANDERLIP. Capital, $100,000,000, Government deposits, $150,000,000, and bank deposits, $400,000,000.

Senator HITCHCOCK. How can all the banks—all the banks could not pay in that much gold. How could you require the banks to make their deposits in gold?

Mr. VANDERLIP. They would pay in that much gold—gold or lawful money. They might have to rediscount some. I am presuming, in setting up this statement of the bank, that on the start they all pay it in and rediscount nothing.

Senator HITCHCOCK. You have a need for $275,000,000 in gold reserves right off.

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Against your notes.

Mr. VANDERLIP. You have $375,000,000 of free gold or lawful money.

Senator HITCHCOCK. You have $375,000,000 cash?

Mr. VANDERLIP. Of cash.

Senator REED. You can loan that cash to the banks and rediscount paper with it?

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Mr. VANDERLIP. Let us say you loan $100,000,000 to the banks; then you would have $275,000,000, and you would only need $175,000,000 as a gold reserve against this $350,000,000 of notes, and you will have $100,000,000 of free cash remaining.

Senator HITCHCOCK. You figure it will not be necessary to procure gold in any way except through the sale of capital stock——

Mr. VANDERLIP (interposing). The deposit of the Government and the deposit of the banks.

Senator HITCHCOCK. And that that would procure sufficient gold for the initial issue of $350,000,000 in notes?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. Will interest be paid on Government deposits?

Mr. VANDERLIP. Oh, no; not under any circumstances would interest be paid. Now, Senator Hitchcock, if the bank did find itself short, it could sell some of these one-year exchequer notes either in the domestic market or abroad. They would be freed from segregation to secure the note issue as rapidly as the Federal reserve bank discounted for other banks and got rediscounts in hand to put under the note issue.

Senator O'GORMAN. Does any other Senator desire to ask any questions?

Senator BRISTOW. I have been very much interested in this, Mr. Vanderlip. I have been in favor of a Government bank, such as you have described, controlled by the Government, the stock owned by the people and not by the banks, which was entirely independent of the banks and in shape so as to serve the banks when they needed it, and that this service will be extended under conditions which the law prescribes, and any bank that complied with those provisions as outlined in the law should have the right to the aid which it needed in time of stress as a matter of right. I have been in favor of that because I believe it is necessary in order to maintain the democratic banking system which we have, so as to render all of the banks independent of any monopolization of credit. I do not think that there is that independence now that ought to have been. I do not agree with the opinion which you advanced in your last hearing, that anybody who had good security could get credit at the banks. I think that depends upon the interest of the bank, its depositors, and the directors, and if some one should come and want credit that came in conflict with the interests of some of the patrons of that bank that were powerful and had enough influence with it, it would be denied, not because it was not good but because it interfered with some other business. Now, naturally I am interested in the view—I know you are not for a Government bank, managed by the Government, for the same reasons I have indicated, which are reasons that prompted me.

Mr. VANDERLIP. I believe those reasons do not exist, and I challenge you to present a single case where there has been such a discrimination in any important way in New York. I never have heard of it. It may exist, but I do not believe it does exist, and I know that it does not exist as a general thing. But that is neither here nor there.

Senator BRISTOW. We had one gentleman before the committee yesterday who told us his story, which I believe to be substantially true in some particulars.

Senator O'GORMAN. Did you credit the whole of it, after Senator Weeks's statement?

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Senator BRISTOW. No.

Senator WEEKS. I am sorry that the Senator from Kansas believed it, because I denied it explicitly.

Senator BRISTOW. The Senator from Massachusetts denied his statement as to one of the banks, but not as to the others.

Senator WEEKS. If the Senator from Kansas will recall, I asked the witness if the corporation of which he was complaining had any deposit in any banks where his deposits were, and he replied in the negative in each case.

Senator BRISTOW. I remember distinctly those questions, and I think they were very ingenious and plausible; but, nevertheless, I think the shoe machinery company is powerful enough to prevent a man from getting credit if it interferes with their business.

Senator WEEKS. I think that is likely, but I do not think it has ever been done.

Senator NELSON. Would you limit the deposit to banks?

Mr. VANDERLIP. Banks and the Government positively to be the only depositors.

Senator NELSON. And would you limit the discounts to the banks?

Mr. VANDERLIP. Unquestionably. I would permit them to have no domestic transaction that did not bear the indorsement of a member bank.

Senator NELSON. The deposits and discounts must all be carried on with banks and not individuals?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Would you permit it to go out and buy securities of any kind?

Mr. VANDERLIP. No securities except the bonds of the United States and its insular possessions; and, really, the bank ought to have no obligations of that sort except short time ones. I would be quite willing to prohibit the bank having any obligation of any kind, even of the Government, which ran over a year, except the first issue of 2 per cent bonds, which would at once be changed to exchequer notes.

Senator O'GORMAN. You have alluded to some great differences between the plan you suggest and the plan embodied in this bill, and I think the Senators recognize the difference between the two plans. With respect to one, I want to see if I understand you correctly, and that is, while under the plan proposed by the pending bill the banks will have a controlling interest in each one of the proposed 12 regional banks——

Mr. VANDERLIP (interposing). They will elect six of the nine directors.

Senator O'GORMAN (continuing). Under your system, which you recommend and suggest, the banking interests of the country will have no representation of any kind, from the top of the system in Washington down to the most humble position in any one of the agency banks.

Mr. VANDERLIP. Absolutely none at all; no more than it has in the Treasury or in any other department of the Government.

Senator O'GORMAN. Every official would get his authority either through the President or through some one appointed by the President of the United States?

Mr. VANDERLIP. Yes, sir.

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Senator O'GORMAN. Is there anything else to be asked of the witness?

Senator BRISTOW. Yes; I have a number of questions I wanted to ask. Continuing the matter which we were discussing, Mr. Vanderlip, it of course would be unnecessary for you and I to proceed into an argument as to the control of credits by these great institutions of the country. I think Mr. Moffitt, in the financing of his railroad, was handicapped by the banks of New York who refused him the credit he was entitled to, because of the powerful interests he was antagonizing, and not because he was not promoting a railroad that was just as good a railroad as those who were fighting him. And, I think, in my own State, that the railroad enterprises have been killed not because they were not good, sound, and economical, but because they interfered with the interests of the Santa Fe Railroad, the Union Pacific, the Southern Pacific, and other lines that run up there.

Mr. VANDERLIP. Do you regard the building of a railroad as a proper function for a commercial bank?

Senator BRISTOW. Banks that would be a part of this system finance railroads and handle their bonds and sell them. That is done by the banks that would be part of this system or any system that is created. But that is simply an illustration.

But if those are the reasons which have prompted me, that is to preserve the democratic independence of our banking system, which I think is the best system in the world, because it gives opportunity to men to go out into the banking business and make a success on their own initiative; and this is one of the fields of activity in our country that is not monopolized, except when you get into the larger matters of credit. And I want to preserve that democratic independence. Now, I was interested, therefore, in the reasons that led you, holding views so radically different from mine, to finally come to the same conclusion I do.

Mr. VANDERLIP. I would say that I never would have reached this conclusion, I believe, had it not been for the views you hold. I was profoundly influenced in my mind when I was before this committee the last time by what seemed to me a general opinion that tended toward this sort of a solution. I was given special impetus to study the matter by the opinions you expressed—not at the hearing, but afterwards—outlining almost exactly the plan that I have tried to explain—not in detail, but in a general form. It was the interest of yourself and of other members of this committee that has led me to put almost continuous study on this idea for nearly all of the time since I was last before this committee.

Senator BRISTOW. Do you believe that such an institution as has been outlined here would preserve the independence of our country banks—the 25,000 banks that are now doing an independent business?

Mr. VANDERLIP. I do.

Senator BRISTOW. Do you not think it is a very desirable thing that it should?

Mr. VANDERLIP. Extremely so.

Senator BRISTOW. Well, you say "loan only banks." Why not loan to individuals in order to establish the rate?

Mr. VANDERLIP. And then, after a while, have the Government issuing notes to individuals. There you go. [Laughter.]

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Senator NELSON. And would not that, Senator Bristow, compete with your little country banks?

Senator REED. I suggest that the Senator from Kansas and Mr. Vanderlip have another private conference, so that we may derive still more benefit. [Laughter.]

Senator BRISTOW. Well, now, tell me the danger. I would like to know the danger of this bank discounting paper in the open market?

Mr. VANDERLIP. I can hardly conceive a greater danger to our whole Government than the creation of a Government organization which might loan directly to individuals. I can hardly conceive of there ever having been thought of such a machine for the control of politics or for the aggrandizement of a body of men than to put in their power such a great aggregation of capital as this and allow them to deal directly with individuals and to extend them credit.

Senator O'GORMAN. Do you think that bank would be overwhelmed with applications if that was done? [Laughter.]

Mr. VANDERLIP. I am quite sure it would. And there would be no relation of credit and deposit balance between the borrower and the bank such as we are establishing by law here—between the depositing banks and the central bank. Here we are requiring that the reserves shall be kept within the vaults of the banks themselves and in the vault of the central reserve bank. That is the very sinew that the central reserve bank has to loan. It is inconceivable to my mind that there could be safely created such a machine as this that would be permitted to deal directly with individuals.

Senator BRISTOW. You think, then, as I understand, that it would be very dangerous for a reserve bank, a bank created to serve that purpose, and thereby strengthen the independent banking system of the country—for it to go and loan that money to individuals; you think that would destroy the very purpose for which it was created?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. And make it impossible to serve it?

Mr. VANDERLIP. Yes, sir; and be filled with collateral dangers.

Senator O'GORMAN. And discourage banks from entering the system if the accommodations of the central bank were to be extended to the public at large?

Mr. VANDERLIP. I have no conception of government that would permit the Government to enter into business in this way.

Senator O'GORMAN. I do not understand that Senator Bristow recommends this. He only wanted to get your views.

Senator BRISTOW. Well, I wanted to understand its dangers. It has been urged, you know, that it would be necessary or ought to be.

Now, I do not know whether I got a very clear notion as to the requirements that would be necessary for a bank to have in order to avail itself of the benefits of this central reserve bank. It would become a part of the Federal system and be under its protection and entitled to the aid which this bank could give. You would extend it first to national banks, then to State banks and trust companies, if I understood properly, provided that the requirements of the national bank and of the trust companies and of the State banks should be the same, so that they would all be on an equality.

Mr. VANDERLIP. The requirements as to capital, examinations, and reserves.

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Senator BRISTOW. Yes; and you would modify the national banking law so as to enable the national bank so as to enlarge their activities in certain States so as to compete with certain State institutions and be on an equality with State institutions?

Mr. VANDERLIP. I would, so as to prevent national banks from going out of the national system, taking out State charters, and then joining this new organization.

Senator O'GORMAN. Right there, if you will permit me one question, that bears on what was asked by Senator Bristow: What would be done by the national banks that, for any reason would not care to come into the system, if it should be optional?

Mr. VANDERLIP. Any bank that refused to keep its reserves according to law would have to get out of the system.

Senator O'GORMAN. Then you would make it compulsory that every national bank would have to keep part of its reserves in this Federal bank?

Mr. VANDERLIP. I certainly would.

Senator O'GORMAN. So that, to that extent, it would be compulsory?

Mr. VANDERLIP. No more compulsory than the present reserve requirements.

Senator REED. Just about as much.

Mr. VANDERLIP. No; not nearly so much in amount as the present requirement.

Senator SHAFROTH. Mr. Vanderlip, how much money, under the system you have proposed do you think it would be safe to issue?

Mr. VANDERLIP. Just as much as you could cover with the proper sort of rediscounted paper and with a 50 per cent gold reserve; and always have, really, something more than 50 per cent reserve, because that would be the minimum permitted by law as a general reserve of the bank.

Senator SHAFROTH. Can you estimate about what, in your judgment, that would be—the maximum?

Mr. VANDERLIP. If the whole plan were adopted, there would first be $350,000,000, which would replace an equal amount of national-bank notes. At the present time I think there would not be over $200,000,000 in addition to that, and that much only at the season of the year when there was a demand for the largest amount of circulation. With the growth of the country, with the development that would surely follow such a sound banking scheme, I can imagine that amount might grow to a very considerably larger volume. I would hope to live long enough to see it 1,000 millions.

Senator REED. Have you consulted or talked with other bankers or financiers about this plan of yours?

Mr. VANDERLIP. I have.

Senator REED. How have they received it?

Mr. VANDERLIP. With great favor. I have talked with very few.

Senator REED. How do you believe it would be received by the banks? Do you think they would accept it, or do you think we would have another "Boston convention"—I do not speak of that unkindly; but it was an opposition convention.

Mr. VANDERLIP. It is difficult for me to say how they would receive it at first. I think they would be somewhat shocked at the idea of

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complete Government control. When they came to understand the safeguards that it is proposed to throw about that, the character of the control which would flow from the method of its appointment, its term of service, and so on, I believe that they would accept it with great favor. They certainly would be relieved from the compulsory features of the bill that is now before you. They would be relieved from this extremely unsatisfactory but necessary provision for forced loaning by one Federal bank to another. And, more than everything else, they would be relieved, I believe, to find that the circulation was to be bank-note money and not a fiat obligation of the Government.

Senator REED. You spoke about requiring the banks to underwrite a portion or all of the stock, except such portion as the Federal Government might take. How would that be worked out, in a practical way?

Mr. VANDERLIP. In a practical way, the banks would be compelled to underwrite a prorata proportion, based upon the relation of an individual bank's capital to the total capitalization of all national banks.

Senator REED. How compelled?

Mr. VANDERLIP. By the act.

Senator REED. And then if they did not?

Mr. VANDERLIP. If they did not, they would have to get out of the system. Now, I do not recommend that plan, if you think you can float the stock to the public without it or if you are willing to have the Government stand in the gap and take any stock that the public should fail to subscribe for. There is no desire at all to have the banks do this. They would not regard it as a desirable thing to do. They would not want to retain the stock. And the only reason whatever for proposing such a scheme would be to insure the success of the public subscription.

Senator REED. As I understand your plan, you would first open the subscriptions to the public?

Mr. VANDERLIP. Yes, sir.

Senator REED. On a competitive basis, giving the preference to the smaller subscribers?

Mr. VANDERLIP. Yes, sir.

Senator REED. If, then, there was, by a given date, not enough offered you would then have a provision in the bill that at that time it would become the duty to take a certain proportion of these bonds?

Mr. VANDERLIP. Yes, sir.

Senator REED. And to pay for them at their face. Now, you spoke of underwriting.

Mr. VANDERLIP. I would not do it quite that way, because, if it became obvious that it was going to be a failure—if that subscription ran for 30 days and on the twentieth day it became evident that the public was not going to take stock and that the banks would have to do so—you might have a scramble right then to get out of the national system. I would compel them to make the underwriting obligation.

Senator REED. In the first instance?

Mr. VANDERLIP. In the first instance. I would compel them to agree to take all of that stock, provided the public did not take it; but they would get none of it that the public was willing to take.

Senator REED. Then you would provide, in this bill, that by a given date the national banks of this country must file with the Federal

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Government an obligation binding each of them to underwrite—to accept that portion of these bonds which their stock bore to the entire amount of the capital stock——

Senator O'GORMAN. In the national banks.

Senator REED. In the national banks. And that in the event of their failure so to do, their charter should be arrested and their business wound up.

Mr. VANDERLIP. It would be equal to that.

Senator REED. If they did that, then you would further provide that the banks had so underwritten the Government would offer this stock to the general public, and so forth—we need not go into the details.

Mr. VANDERLIP. Yes, sir.

Senator NELSON. And that the banks could then only get what the public did not take.

Mr. VANDERLIP. That would be all.

Senator NELSON. I suppose in this plan you would adopt the same quality or the same rules as to the paper that could be discounted as there are in the bill before the committee, substantially.

Mr. VANDERLIP. Substantially the same.

Senator NELSON. The same quality of paper?

Mr. VANDERLIP. Yes, sir; self-liquidating paper—that is, paper arising out of commercial transactions.

Senator O'GORMAN. Mr. Vanderlip, Senator Weeks has a question or two he would like to ask you.

Senator WEEKS. Suppose we provided for the engraving on the notes of this reserve bank something like this—I am led to ask this question on account of your discussion of issuing a bank note rather than a Treasury note:

United States of America. National reserve bank note. This note is secured by a gold reserve equal to 50 per cent of its face value by Government bonds or commercial paper equal to its face value by a first lien on all of the assets of the reserve bank and will be redeemed on presentation at the reserve banks, or any branch thereof, or at the Treasury of the United States.

Would that be a bank note or would it be a bank note with the Government guaranty?

Mr. VANDERLIP. It would be a bank note with a Government guaranty of redemption.

Senator WEEKS. Do you think it would be unfair to arrange the guaranty of redemption—assuming that we provide in the law that the bank shall keep the Treasury properly supplied with funds to guarantee the payment of any notes that may be presented at the Treasury.

Mr. VANDERLIP. I do; unnecessary and involving the Government in a possibly dangerous obligation.

Senator WEEKS. Well, do you think that would be sufficient as I have written it?

Mr. VANDERLIP. If the Government redeems them, it is as great a danger as it would be if they were the obligations of the Government.

Senator WEEKS. Of course, we are going to provide that the banks shall provide the means for the Government redeeming the notes.

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Mr. VANDERLIP. Very well, if you will so state on the face of the note.

Senator O'GORMAN. It would be stated in the bill that we pass.

SENATOR WEEKS. Yes; it would be stated in the law.

Mr. VANDERLIP. You ought then to state on the note that they will be redeemable by the Government, if the Government is in funds provided by the banks for the purpose. Then that would be all right. [Laughter.]

Senator REED. That would be worse than saying nothing. [Laughter.]

Senator O'GORMAN. Is there any other question any Senator desires to ask of Mr. Vanderlip?

Senator HITCHCOCK. I do not quite see yet, Mr. Vanderlip, where you are going to get your gold reserve.

Mr. VANDERLIP. I would like to figure that out with you.

Senator HITCHCOCK. I wish you would put in writing in the record the statement of how a bank would start in business when it had $150,000,000 of Government deposits, bank deposits of $300,000,000, and outstanding notes of $300,000,000.

Mr. VANDERLIP. I should like to do that. I should like to ask if it will be helpful to put in the record the plan as I have it, very briefly outlined?

Senator O'GORMAN. If there is no objection, the paper now in Mr. Vanderlip's hands will be incorporated in the record. And when will you be able to send the memorandum desired by Senator Hitchcock, Mr. Vanderlip?

Mr. VANDERLIP. I shall hope to do so within 24 hours.

Senator HITCHCOCK. Mr. Vanderlip, the only means this bank would have for securing additional gold for a reserve as its business grew would be the use of these Treasury notes, would it not?

Mr. VANDERLIP. Or its obligations; it could sell its own obligations.

Senator HITCHCOCK. To whom?

Mr. VANDERLIP. To anybody who would buy them—any foreign money market. It could sell its obligations secured by rediscounted paper.

Senator O'GORMAN. I think that will be all, Mr. Vanderlip.

(The statement or plan referred to by Mr. Vanderlip is as follows:)

The Government is to grant a charter to the Federal reserve bank of the United States, with capital stock of $100,000,000, the charter to extend for a period of 50 years.

The head office is to be located in Washington, and 12 branches to be located in the cities selected by an organization committee, and subbranches wherever designated by the board of the Federal reserve bank.

As soon as practicable after the passage of the act the President is to appoint a committee of five, to be designated as the "Federal reserve bank organization committee." This committee will divide the country into 12 commercial districts, and designate one city in each district as the seat of a branch of the Federal reserve bank, and generally be charged with the responsibility of organization.

The stock of the Federal reserve bank may either be subscribed for entirely by the Government, with funds raised by the sale of bonds or offered for public subscription, the success of such subscription to be insured by requiring all national banks to be liable for the purchase of their pro rata proportion of any stock not taken by the public.

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The stock shall have no voting power, and no rights of any kind shall attach to it except to receive dividends. There need, therefore, be no restriction on its purchase or sale or accumulation, either by banks or individuals.

The Federal reserve bank will be wholly under the management of a board of seven directors, to be appointed by the President, with the advice and consent of the Senate, with terms of 14 years, but the first board to be classified and the term of one director to expire each two years.

The bill should provide that the President will select men qualified by experience and training for the proper discharge of the duties imposed and make no appointments in order to confer political rewards. At least three of the members should be recognized to have had wide financial and banking experience.

Appointments are to be distributed geographically so as to give due weight to the commercial sections of the country.

The President, with the advice and consent of the Senate, will designate one director as governor and another as deputy governor, and the governor, or in his absence the deputy governor, shall act as chairman of the board and be the chief executive officer of the bank.

Members of the board to automatically retire at the age of 70.

The board of the Federal reserve bank shall appoint for each branch an executive committee of seven members. The bill will contain the same general directive clauses as to their character as in the case of the board itself, including the provision that at least three of the members of the executive committee shall be recognized to have had wide banking and financial experience. The term of office of the members of the executive committee will be seven years, but in the case of the first members appointed they shall be classified so that one director shall retire each year. One member of the executive committee will be designated chairman and one vice chairman, and the chairman, or, in his absence, the vice chairman, will act as chairman of the committee.

All actions of the executive committees will be subject to the approval of the board of the bank. Each executive committee will elect a president and other executive officers to conduct the business of the branch, the men filling these offices to have no official or financial relation with any other bank.

The earnings of the bank shall, in case the Government subscribes to all the stock, be first devoted to an accumulation of a surplus of 20 per cent, and thereafter one-half of the earnings will be devoted to a further increase of the surplus until it reaches 50 per cent, and the other one-half go to the Government. After the surplus has reached 50 per cent all the earnings will go to the Government.

In case the public subscribes to the stock the net earnings will first be devoted to paying a 6 per cent cumulative dividend, then to an accumulation of a surplus equal to 20 per cent of the capital, after which one-half of the earnings will go to the Government and one-half be devoted to the accumulation of a further surplus until the surplus reaches 50 per cent of the capital, and thereafter all the earnings beyond the dividend requirement will go to the Government.

All earnings received by the Government will be devoted to the retirement of the Government debt.

The customers of the bank shall be the Government and qualified member banks, which will include all national banks and may include State banks and trust companies.

The Government shall deposit all of its general fund with the bank and constitute the bank its fiscal agent.

The reserve requirement for national banks will be so changed as gradually to transfer all reserves away from correspondent banks now acting as reserve agents, and after this gradual transfer has been fully accomplished all reserves will be held in the vaults of the member banks and with the Federal reserve bank. The reserve requirement will be the same for all member banks and shall be ultimately 12 per cent.

The reserve to be held by the Federal reserve bank shall never be less than 50 per cent of its demand liabilities, including note issue, in gold or lawful money.

The board of the Federal reserve bank may, in an emergency, suspend all reserve requirements for 30 days, and continue such suspension for periods of 15 days.

The Federal reserve bank may rediscount for member banks paper self-liquidating in character, to be defined by the act. It shall not rediscount for any one bank an amount exceeding the capital and surplus of such bank.

The bank may buy in the domestic market from member banks, nonmember banks, and individual self-liquidating paper under conditions to be defined in

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the act, bearing the indorsement of a member bank, and may buy in the foreign markets prime banker's bills.

The bank may also deal in gold coin and bullion and in obligations of the United States Government and its insular possessions.

The board of the Federal reserve bank shall establish a minimum rate of discount, which shall be uniform at all branches and subbranches, and which shall be changed from time to time as conditions demand.

While the minimum discount rate shall be the same at all branches and to all banks, that minimum rate will only apply to the rediscounts of a bank up to an amount equal to a fixed percentage of its capital and surplus; thereafter such bank shall be charged a uniform progressively increasing rate upon discounts until said discounts shall have amounted to a maximum permitted by the act, fully equal to the capital and surplus of said bank.

As fiscal agent of the Government the Federal reserve bank shall be charged with the duties now imposed upon the Treasurer of the United States and the Bureau of Redemption in the Office of the Comptroller of the Treasury in respect to the custody of bonds securing national-bank notes and the redemption of such notes. The 5 per cent redemption fund now in the general fund of the Treasury shall be transferred to the Federal reserve bank as a special trust fund and shall be held intact and shall not count as a part of the reserve of the bank.

The Federal reserve bank shall be authorized to issue its circulating notes. Such notes shall be secured by the segregation of rediscounted paper, as described in the act, equal to 100 per cent of such notes outstanding or one year exchequer notes of the United States Government hereinafter provided for, and by a reserve in gold equal to 50 per cent. The notes shall have the same qualities as the present national-bank notes, shall be redeemable at any branch on demand in gold, and shall be the obligation of the bank. There shall be no restriction upon the issue of notes by the bank when the notes are fully covered by gold coin or bullion, it being intended that to the extent that the outstanding notes of the bank are not fully covered by gold they shall be secured by 100 per cent in rediscounted paper, or exchequer notes, and by a reserve in gold equal to 50 per cent.

Gradually and over such period as the Federal reserve board may decide upon, the Federal reserve bank shall offer to purchase 2 per cent bonds of the United States deposited to secure circulating notes of national banks at par and up to an amount equal to one-half of such bonds deposited with the Treasurer of the United States as security for national-bank note circulation. It shall pay for these bonds by assuming the responsibility for the redemption and retirement of the national-bank notes secured by them. Upon acquiring these bonds the Federal reserve bank shall receive from the Government of the United States in exchange for the 2 per cent bonds an equal amount of one-year exchequer notes bearing 3 per cent interest. The Federal reserve bank shall give an undertaking to the United States Government that it will renew such one-year exchequer notes each year at maturity for 20 years. These notes will be made to mature at various periods during a calendar year. So long as these notes are outstanding the Federal reserve bank shall pay to the United States, out of its earnings and before any dividends are paid upon the stock, a tax of 1½ per cent on an amount of circulating notes equal to the amount of exchequer notes outstanding.

The bill should provide for a national clearing house.

The charter rights of national banks should be so enlarged as to permit banks to have branches within the city in which they are located, to establish branches abroad and to exercise general trust company functions to be defined in the act.

National banks shall have the right to accept drafts of a character to be defined up to an amount equal to one-half of their capital.

State banks and trust companies may be admitted to membership by conforming to the same capital, reserve, and inspection requirements that natural banks are obliged to meet in similar localities. The Federal reserve board shall have power to examine any member bank.

The circulating notes of the Federal reserve bank shall be a first lien on all the assets of the bank.

The Federal reserve bank shall have a first lien upon the assets of member banks for any indebtedness due from them.

As far as feasible the Federal reserve bank shall be exempt from the payment of all Federal and State taxes except taxes upon real estate. As far as feasible the stock of the Federal reserve bank and the dividends thereon shall likewise be free from all Federal and State taxes.

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(Mr. Vanderlip, at the request of the committee, also submitted the following:)

WASHINGTON, D. C., *October 24, 1913.*

Hon. ROBERT L. OWEN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

SIR: In compliance with the request made by the members of the committee at my hearing yesterday, I am sending you a statement of the Federal reserve bank after a transfer of reserves from correspondent banks.

Such a statement, of course, can not be made with accuracy, nor can any figures be compiled with accuracy that will show the effect upon the reserves and upon the deposits of national banks, as there are too many variable elements to be considered.

The statement of the Federal reserve bank might be as follows:

ASSETS.	
Cash from stock	$100,000,000
Cash from banks	356,000,000
Cash from United States	150,000,000
Total	606,000,000
Exchequer notes	350,000,000
LIABILITIES.	
Capital	100,000,000
Government deposits	150,000,000
Reserve deposits	356,000,000
Total	606,000,000
Circulating notes	350,000,000
RESERVE REQUIRED.	
Against deposits	253,000,000
Against notes	175,000,000
Total	428,000,000
Excess	178,000,000

It will be observed that the bank's holdings of cash will be sufficient to provide the minimum reserve of $253,000,000 against its total deposit liabilities, a minimum reserve of 50 per cent against $350,000,000 of notes issued in retirement of an equal amount of national-bank notes, and still have in excess of $178,000,000.

It is probable that banks in central-reserve cities and, perhaps to some extent, banks in reserve cities would find it necessary to rediscount at the Federal reserve bank in order to meet the drafts made upon them by correspondent banks removing their reserve balances. I would estimate that rediscounts of $100,000,000 would permit that to be done without undue strain upon the banks of reserve and central-reserve cities. It is obvious that the transition from the present system to any new system which would impound reserves in the vaults of member banks and in the Federal reserve bank should necessarily be made slowly and with great caution, and it would seem to me desirable that the board of the Federal reserve bank should be given latitude as to the various periods during which this transition should be made.

The figures that I have used are based on the abstract of the condition of national banks in answer to the call of June 4, 1913, as I did not have the later abstract at hand. Figures made up from the later abstract would vary slightly, but in a general way the foregoing will indicate the possible position of the reserve bank.

Respectfully, F. A. VANDERLIP.

STATEMENT OF JACOB S. COXEY, OF MASSILLON, OHIO.

Senator O'GORMAN. Mr. Coxey, will you state your name, your residence, and your business activity?

Mr. COXEY. My name is Jacob S. Coxey.

Senator O'GORMAN. And what is your residence, Mr. Coxey?

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Mr. COXEY. Massillon, Ohio.

Senator O'GORMAN. And your business activity?

Mr. COXEY. I am in the stone-quarry business.

Senator O'GORMAN. Have you read the pending bill?

Mr. COXEY. I have, sir.

Senator O'GORMAN. Kindly state to the committee your views in regard to it.

Mr. COXEY. As I view this bill, I take it, you are trying to arrange a currency system that will transact the commerce of this country. But I think you should take into consideration the burden under the present system and under the proposed system that will be placed upon the producers of this country in obtaining the funds to exchange their products.

There are three Government functions, and this, the means of exchange, is the greatest of the three, that are necessary for the exchange of the commerce of the country. The first one is the means of communication. This one the Government has retained; that is, the postal system, and is operating that system at cost to the people. They engrave and print the postage stamps and furnish them at cost to the people. John D. Rockefeller, with all his corporations, if he needs 10,000 postage stamps for the use of those corporations has no advantage over the man who is tearing that brick building down over across the street when he needs only 1 postage stamp.

That the postal is a Government function, and that is being furnished at cost to the people, and when I say the stamps are being furnished at cost to the people the stamp simply represents the cost of the transmission of the mail that it is put upon. After it has done that it is canceled and has performed its functions.

Now, when we come to the second one, the means of exchange, you have granted franchises to private corporations. You have been creating, and do propose to create, under this bill the money at cost to these corporations, and then when even you, the creator, the Federal Government, needed or will need any of this money, as, for instance, you needed it in the building of the Panama Canal, you issued several hundred millions of dollars of interest-bearing bonds that were nontaxable, sold them to the banks, and the Government borrowed from the banks its own money and is now paying interest for the use of its own money. This system seems to me to be absurd.

When we come to the producers of the country, let us examine their burden. Last year President Taft called the governors of the various States together and he stated to the governors the necessity of establishing State banking institutions in order to lessen the burden that was placed upon the American farmer. He said to the governors that there were 12,000,000 American farmers, and that they were producing annually $9,000,000,000 of products upon a borrowed capital of $6,040,000,000, for which they were paying in interest and commissions in order to obtain that money 8½ per cent. This makes a total burden of $513,000,000 annually, taken from the statement of Mr. Taft, which burden is placed upon the tiller of the soil, who produces the products we are consuming in this country.

Senator WEEKS. Do you think those figures as you have given them to us are accurate as to the rate of interest?

Mr. COXEY. Yes, sir; the average rate of interest is 8½ per cent.

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Senator WEEKS. I have heard those figures, and I do not know a single State, even in the South, where that rate was charged.

Mr. COXEY. There are Senators here from Western States where rates as high as that are charged, and I think they will bear me out in that statement.

Senator REED. The average rate in my State of Missouri is about 5½ per cent.

Senator BRISTOW. It runs from 6 to 7 per cent in my State of Kansas.

Senator SHAFROTH. In mining sections of my State of Colorado it runs as high as 1 per cent a month.

Mr. COXEY. In the State of Ohio it is from 6 to 8 per cent; 8 per cent is the average.

Senator O'GORMAN. What changes would you propose in the pending bill?

Mr. COXEY. I want to show you first where the burden lies under the present system and will not be lightened under the pending bill. President Taft called attention to the burden upon the tiller of the soil of $513,000,000 annually. I see from the bank statements that the other producers outside of the farmers are paying for the use of that money and bankers' credit which the Government is creating at cost to the banking institutions, besides legalizing 85 per cent of the banks' credit, which they, the bankers, are levying a toll upon to exchange the products, because the bank credits are exchanging the products from the producer to the consumer, exactly the same as the real money. I find from the bank statements that there are about $17,000,000,000 of deposits and $13,500,000,000 of loans out of those deposits, and one billion and a half of real money in the banks as a foundation for those loans. That is nine of bankers' legalized credit to one of real money. Now, an average of 6 per cent upon that $13,500,000,000 is nearly $800,000,000 annually for the use of those banks' credits and money to exchange the products from the producer to the consumer.

Now, the banks, in order to inflate their credits higher do as one bank president from Columbus, Ohio, told me last spring, that he wanted to use his bank reserves and he went to New York—he told me this in New York at the Waldorf-Astoria Hotel—he said, "Our daily balance of legal reserves in New York amounts to about $100,000," and he went to four different banking institutions and tried to get it through their noddle—that is the expression he used—that they would make more money by carrying out his plan, and his bank would make more money if they would make a loan to his bank of $100,000, upon which they would pay 4 per cent, and the New York bank agreeing to make the loan, but the proceeds of that loan should be held there with the New York bank as their, the Columbus bank's, legal reserve, and then that the New York bank should pay them 2 per cent upon their daily balance. That would be making a profit to the New York bank of 2 per cent and make it cost the Columbus bank 2 per cent, and it would allow the New York bank to loan out 75 per cent of that loan to their customers there at the market rates and then redeposit 9 per cent of the reserves of the 25 per cent in the reserve bank, they to receive 2 per cent on this reserve. That allowed the Columbus bank to withdraw the $100,000 of their cash reserves from New York, which the Columbus bank did loan at Co-

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lumbus at 6 per cent. The Columbus banker got that through, and that is the way he is doing to-day, utilizing his reserves and extending his bank credits in that manner.

Now, the question comes as to the remedy I will suggest here. You must arrange under this bill to not only furnish the money necessary for the exchange of the products and the commerce of this country, but to furnish the money for all public improvements and for the building and equipping of our railroads. It will take over a billion of dollars annually for the equipment for our railroads.

Under the present system those railroads must issue bonds bearing interest and sell those bonds to the banks in order to borrow this money. Under the present system we must do the same so far as public improvements are concerned. Take, for instance, the public highways. At a road convention last fall, at Atlantic City, I spoke upon that question, and I said the most important thing is the financing of the highways; and that Atlantic City road congress was inclined to ask the Government for Federal aid. I said it is not Federal aid we need, but it is a Federal duty. When this Government imposes a tax of 10 per cent on State issues of currency, it prohibits its different subdivisions—the States, cities, counties, and townships—from issuing a currency in order to relieve any stringency and to make any public improvements. When they do that, then it is the duty of the Federal Government to furnish this money at cost for all public improvements by allowing the States to issue their noninterest-bearing bonds to run for 25 years, and then deposit these bonds with the Secretary of the Treasury, when it shall be mandatory upon the Secretary of the Treasury to issue the face value of the bonds in full legal-tender money.

Senator NELSON. Notes of the Government?

Mr. COXEY. Real money. I contend that the only real money is the fiat of the Government. Money is simply an idea of Congress enacted into law. It is a representative of value, and should never have a value of or in itself. And as it passes from the Government under this system, if these bonds were deposited with the Government and the face value of them would be issued in full legal-tender money, the cost of the engraving and distributing of this money would be charged against this issue, and that would not exceed over 1 per cent. Ninety-nine per cent would be forwarded to its subdivisions, which they would have to use for the purpose of making public improvements.

Now, under this plan you have the State, county, township, or municipal noninterest bonds deposited as security for this issue of legal-tender money. Then they start the people to work to make improvements, and as the service is rendered or the material is furnished this money is turned out, and it then represents that service or that material and that value created.

As to the redemption or repayment of this money, levy a tax as you do now, and instead of paying 4 per cent interest return 4 per cent annually to the Government, and as it is returned and retired annually it can be canceled. It has performed its function, and in 25 years you will have paid off the noninterest-bearing debt of all the subdivisions of this General Government and there is no bonded debt left at all, as the money has been furnished at cost, the same as postage stamps are now.

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Senator REED. Suppose the people do not take that money?

Mr. COXEY. They would be very glad to take it when it is made legal tender for debt. There should be no money issued that would not be a full legal tender for all debts.

Senator O'GORMAN. You may proceed, Mr. Coxey. You were speaking of the city of New York, and I was somewhat interested in that.

Mr. COXEY. The city of New York has a bonded indebtedness of about 1,100 millions of dollars. They are not paying off the principal; they are simply levying a tax rate in order to pay the interest, and they are pyramiding the principal.

There was an issue within the last year in regard to the building of the subway. They needed $200,000,000 to do that. They should have passed this law, and if this law were put into effect the city of New York could have issued its noninterest-bearing bonds for $200,000,000, running for 25 years, and could have forwarded those bonds to Washington and have had the face value of those bonds issued in full legal-tender money, deducting 1 per cent to pay for the engraving and printing and distributing by the Government. They would have had $198,000,000 to pay for all these subways, and then out of the revenues of the subways they could return to the Government annually $8,000,000, and in 25 years the entire bonded indebtedness would be paid off. Now, then, they propose issuing, and are now issuing, $200,000,000 of 5 per cent bonds, which they will sell or have sold to the banking syndicate, and they will pay interest for 50 years and still owe the principal.

I claim that this is a correct principle, Mr. Chairman. It is the duty of the Government, I contend, this being a Government function, that all money necessary for all public improvements and utilities should be furnished at cost to the people, the same as the postage stamps are now.

Now, I have illustrated to you the plan of public improvements. When it comes to the plan of furnishing the money at cost to the producers to exchange their products there should be a Government bank established in every municipality of over 1,000 population. In towns under 1,000 and over 500 population this money should be handled through the post office. These banking institutions—take, for instance, in the town where I live. We have five banking institutions. The economical way of handling that would be to have one Government bank, with a sufficient volume of money on hand there for the needs of the community. It should be the same in every municipality of over 1,000 population. That money should be furnished to the people at a tax of 2 per cent. It will cost one-half of 1 per cent to pay for the operating expenses of the bank, the furnishing of the money, insuring the property pledged, and all necessary expenses. That deducted from the 2 per cent will leave a net revenue to the Government of 1½ per cent. That means for the total amount of money loaned by the Government a total revenue to the Government, after deducting expenses of operation, of $15,000,000 upon every billion dollars of loans.

You can see from the statement of President Taft and from the bank statements that there are about $20,000,000,000 now being loaned by the banking institutions to the people in the shape of $9 of bank credits to $1 of real money for the exchange of our commerce. If

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we take and gradually substitute this $20,000,000,000 of legal-tender money that should be full legal tender for all debts and substitute it in place of the same amount of bank credits being used now this would establish a banking system which would give a revenue of $300,000,000 annually from this source, besides saving to the producers $1,200,000,000 annually in interest charges.

Senator SHAFROTH. What security would you have for the obtaining of money under those circumstances?

Mr. COXEY. The same as the banks now take. I will illustrate with my own business. I quarry stone and grind it into sand. I supply some of the principal steel works of the country, and have been supplying the steel works of the country for 32 years. When I ship out a carload of sand to-day we get the railroad weight to-morrow, and we make an invoice against the party to whom we have shipped the sand. We attach a draft and bill of lading to the invoice, take it into the bank, and the banker takes his rake-off of 8 per cent and credits me with the balance. I make that draft due and payable on the 20th of the month following the month of shipment. If it is shipped to-day, that account will be due on the 20th of next month, and I make that draft for that number of days and they discount it and place the balance, after deducting the discount, to my credit.

When they remit for this—they may remit direct to the bank or they may remit to me, but in every case that remittance is taken in and the draft taken out. If it is not paid on the day that it is due, it runs on and the interest is charged up to me. That is one system.

Under that system the banks are furnishing the means to exchange the products; they are furnishing in this case the working capital—the money with which to do business—because we have first the money for the investment in the enterprise which is necessary. In a case of this kind the bank furnishes the working capital, but they get their interest in Ohio of 8 per cent for doing it. That is one means.

Another means would be for the people to bring in their tax duplicate or tax receipt and loan direct to all people upon their taxable real and chattel property.

This Government fixes a value upon your property and levies a tax upon that property, and compels you to pay it, and therefore the Government ought to be compelled to furnish you the money at cost upon it in case you needed it for the exchange of your commerce.

Take, for instance, the farmer in the West. There comes a time when he wants to turn his corn into beef or turn his corn into pork, and he can go into the bank and put up his tax receipts to the bank and borrow enough money to purchase the cattle or the hogs to turn that corn into beef or into pork, and then as he ships it out he can cancel his obligation to the bank.

Senator NELSON. Mr. Chairman, I would like to suggest that we are running pretty late. It is now 10 minutes of 6.

Senator O'GORMAN. How much longer will you be likely to take?

Mr. COXEY. If there are no questions from the committee, there is nothing further that I desire to say.

Senator NELSON. Now, what have you to say about this bill?

Mr. COXEY. I think it should be made to take into consideration and lessen the burdens of the borrower. You do not propose to readjust the interest rate in this bill at all. Here is an interest rate of at least 6½ per cent all over the country.

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Senator NELSON. Do you approve this bill?

Mr. COXEY. No, sir.

Senator NELSON. What are its radical defects?

Mr. COXEY. In the first place, I do not believe that any money should be issued unless it is made a full legal tender for all debts, and issued direct by the Federal Government.

Senator NELSON. What next?

Mr. COXEY. And that it should be taken out of the control of the bankers, who control the commerce of this country.

There is a little item that I have in my vest pocket here that I cut out of the New York Times last Sunday, which shows that there is very little car buying. Now, the average man reading that probably would not see much in it. It shows what the railroads purchased last year in cars. They purchased last year 235,000 cars. This year they have purchased for the first nine months only 88,000, a falling off of over 60 per cent.

Senator O'GORMAN. Why is that?

Mr. COXEY. I have an idea what it is. I can give you my own reason for it.

Senator O'GORMAN. Of course that is all we want.

Mr. COXEY. The gamblers in New York had gotten last year's stocks up to a high point, and then they commenced to unload, and they have sold and sold and sold them out at the high prices. Now, then, they are commencing to break the market, and my contention is that the people that control the money volume also control the transportation of this land and control its commerce in the palm of their hand. They can make times good or they can make times bad, because they have the interlocking system of directors in all the railroads and banking institutions, so that they can order the railroads to buy cars and other equipment, and this makes times good, or they can order those railroads to stop buying, and when they stop buying it simply stagnates the great manufacturing plants of the country. They cut off the orders from the steel plants, and that throws hundreds of thousands of people out of employment. My business in the last four months has been cut in two. It is only 50 per cent of what is was last year at the same time, and simply from this fact. Now, the railroads of the country need the cars, but the railroad directors and the money interests have ordered the railroads to stop placing further contracts for material, and in doing that it is bringing on a stagnation of business all over the country, and there will be hundreds of thousands of people out of work just through that fact. Now, that should not be allowed to go on, and therefore, while it is not germane to this bill, yet I am of the opinion that we should own, operate, and control the railroads.

Senator O'GORMAN. The same as we ought to own and control the banks?

Mr. COXEY. Yes, sir.

Senator NELSON. You think the Government should control all banks?

Mr. COXEY. Yes.

Senator NELSON. You think all banks should be controlled and run by the Government?

Mr. COXEY. Yes.

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Senator NELSON. Wouldn't that make a pretty big army of officeholders?

Mr. COXEY. I am not afraid of an army of officeholders. We have a pretty large army now. They have never scared me any.

Senator NELSON. Now, what other defects are there in the bill here?

Mr. COXEY. The main defects are simply these: That you are not going to reduce the interest rate. That is the principal thing. It is the burden that is placed upon the producer's back that should be lightened, and this will not lighten it.

Senator NELSON. Would you have these notes redeemable in gold?

Mr. COXEY. No, sir.

Senator NELSON. What would you have them redeemable in?

Mr. COXEY. I would have them redeemable in the products of labor and through taxation.

Senator NELSON. What would be the basis of issue for these notes?

Mr. COXEY. The basis of issue of the notes should be legal-tender money issued, based upon State, county, township, and municipal bonds, and for the commerce of the country the notes would be issued upon the collateral that the people would put up.

Senator McLEAN. What would the total reach?

Mr. COXEY. Whatever the necessities of the people would be.

Senator McLEAN. You say there are about $20,000,000,000 of obligations out now.

Mr. COXEY. And my idea is that instead of having the bankers do this for us and charging an exorbitant toll we should utilize our own credit and get it at cost.

Senator NELSON. Your scheme is very interesting, and I would suggest that you prepare a skeleton bill giving us an idea of the legislation that you think ought to be enacted and leave it with the committee. I understand that you believe the Government should take over all the banks?

Mr. COXEY. No; I believe that the Government should establish banks itself.

Senator NELSON. You believe that the Government should establish its own banks?

Mr. COXEY. Yes. The first thing the Government should do would be to build a bank in every town, the same as the post office, and they should issue to pay for them legal-tender money. I told President Roosevelt——

Senator NELSON (interposing). You would not have that money redeemable at all?

Mr. COXEY. Only through taxation, as it comes in through the revenues of the Government.

Senator NELSON. You would not issue Government bonds, then?

Mr. COXEY. No; no bonds at all. There never should have been a single interest-bearing bond issued by the Government.

Senator NELSON. Well, now, your scheme is very interesting, and I wish you would prepare a skeleton bill and file it with the committee. That is what other gentlemen have done who have come here with plans of their own, and we can judge of it better when you put it into concrete form. You are a man of a good deal of business experience and I can see that you look at it from the standpoint of the borrower.

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Mr. COXEY. Yes; I belong to that side. I have been paying 8 per cent interest for the last 35 years.

Senator NELSON. Then you are the class of man that we want to hear from, rather than the bankers.

Mr. COXEY. Senator, that is the position that I took when I tried to get a hearing here.

Senator Norris, of Nebraska, requests that I state how goods purchased in foreign countries would be paid for in case the Government issue full legal-tender money under my proposed plan.

Just the same as goods are paid for under the present system, viz, if goods are bought abroad and shipped to this country, usually they have drafts attached to invoice and bill of lading, which is sent through some bank to the purchaser, who then pays the draft either by his check or cash. This releases the bill of lading and he obtains the goods. The bank then remits to the foreign banker that which he, the foreign banker, desires. It may be foreign exchange or it may be gold or silver bullion or other American products or securities. Money between countries has no particular significance. It can only go to the United States line. If the banker desires gold or any other product, it must be purchased at the market price, just the same as if you want a draft to pay £100 in London.

That which most concerns us is to arrange a system to exchange our own products at cost and we will have to settle foreign trade balances as we have been doing for the last 50 years, with commodities such as gold, silver, steel, cotton, and other American products and securities.

Senator NELSON. I think, Mr. Chairman, if he will file with us a skeleton form of his bill we can then go over it.

Senator SHAFROTH. And put in any suggestions that you want to make.

Senator O'GORMAN. Without objection, that will be done. We will now adjourn until 10.30 to-morrow morning.

(The witness furnished the following for insertion in the record in response to the above request:)

Mr. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE: A request was made of me by Mr. Nelson and the chairman that I incorporate my ideas in a skeleton bill, which you will find attached. The first one is to furnish a money medium to all of the people at cost through a system of Federal banks established in all municipalities, towns, and villages over 1,000 population and through post offices under 1,000 and over 500 population; these loans to be made upon their real and chattel property, evidenced by the tax receipt and duplicates in the various localities to the amount of the assessed value thereon; also on cattle, hogs, sheep, horses, all farm products, and lumber, ore, minerals, coal, stone, sand, and all raw materials of every nature and description, as well as all manufactured products and plants, the charge or tax for these loans to be at the rate of 2 per cent per annum, payable semiannually. In case of long time, 25-year loans, which should be made so as to enable the farms to be occupied and tilled and the workers in our cities to obtain homes and an opportunity given the farmers and workers to live decently and pay for their farms and homes, and allow the enterprising citizens of the United States an opportunity to develop the resources of this country, therefore the rate of return of the principal of such loans should be no less than 4 per cent per annum, the principal, in whole or in part, to be payable on or before 25 years. Such reasonable safeguards should be taken by the Government officials granting such loans as to insure the return of the principal of such loans as well as the tax of 2 per cent upon the same. The amount to be loaned upon the raw and unfinished material should be determined by the amount of the actual cost in labor and material expended upon the same, and upon the finished products, if in transit,

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the invoice value thereof. In case of wheat, cotton, corn, and other farm products and all finished and raw products in warehouses loans should be made to the face market value thereof.

The second one is to provide for public improvements and employment of the citizens of the United States, to encourage industry and produce prosperity, and to procure money to purchase and pay for public utilities, and for the redemption of such money.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever any State, Territory, county, township, municipality, or incorporated town or village deeming it necessary to make any public improvements and give employment to unemployed citizens of the United States, or to procure money for the purchase of or construction and operation of State capitols and all State institutions, railroads, ship canals, waterways, harbors, levees, bridges, ditches, tunnels, telegraphs, telephones, public roads or highways, courthouses, street car lines, waterworks, gas and electric-light plants, schoolhouses, public halls, libraries, market houses, sewering and paving streets, public parks, or any other public utility so as to furnish employment for all surplus or unemployed citizens in beautifying and improving the country when there is a surplus production or no demand for labor in production at living wages, they shall deposit with the Secretary of the Treasury of the United States a noninteresting-bearing 25-year bond and not to exceed one-half of the assessed valuation of the taxable real estate, exclusive of all improvements thereon, less all outstanding and existing indebtedness in said State, Territory, county, township, municipality, or incorporated town or village, and said bond or bonds to be retired at the rate of 4 per cent per annum.

SEC. 2. That whenever the foregoing section of this act shall have been complied with it shall be mandatory upon the Secretary of the Treasury of the United States to have engraved and printed Treasury notes in the denominations of $1, $2, $5, $10, and $50 each, which shall be a full legal tender for all debts, public and private, to the full value of said bond, and deliver to said State, Territory, county, township, municipality, or incorporated town or village 99 per cent of said notes and retain 1 per cent for the expense of engraving, printing, bookkeeping, disbursing, and taking care of this department.

SEC. 3. That on and after the passage of this act every State, Territory, county, township, municipality, or incorporated town or village may deposit their noninterest-bearing bonds in compliance with this act in order to give employment to any idle man or woman applying for work, and the rate shall be not less than $1.50 per day for common labor, and not less than $3.50 per day for team and labor, and that eight hours per day shall constitute a day's labor under the provisions of this act, the same rate to be paid to both men and women.

SEC. 4. That any State, Territory, county, township, municipality, incorporated town or village issuing noninterest-bearing bonds under the provisions of this act shall levy and collect an annual tax on all taxable real estate, exclusive of all improvements thereon, of the State, Territory, county, township, municipality, incorporated town or village depositing noninterest-bearing bonds sufficient to pay into the United States Treasury each year not less than 4 per cent of the total amount received from the United States Treasury until the whole amount shall have been paid, and that whenever these Treasury notes are returned to the Secretary of the Treasury at the annual payments of 4 per cent they shall be retired, canceled, destroyed, and not again reissued. In case either gold, silver, or any other lawful money shall or may be sent in lieu of the Treasury notes issued on any noninterest-bearing bond deposited under the provisions of this act the Secretary of the Treasury shall hold or retain such lawful money aforementioned until the Treasury notes issued on noninterest-bearing bonds deposited by State, Territory, county, township, municipality, or incorporated town or village shall come in or be presented through the regular channels of business with the Secretary of the Treasury when he shall release the lawful money so held and retire, cancel, and destroy as hereinbefore mentioned.

SEC. 5. That this act shall be in full force and effect from and after its passage and all acts and parts of acts in conflict herewith be and they are hereby repealed.

(Whereupon, at 5.55 p. m., the committee adjourned to meet at 10.30 o'clock a. m. Friday, October 24, 1913.)

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FRIDAY, OCTOBER 24, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators O'Gorman (acting chairman), Hitchcock, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and McLean.

Senator O'GORMAN. Mr. Kent, will you state your full name to the reporter?

STATEMENT OF FRED I. KENT, VICE PRESIDENT OF THE BANKERS' TRUST CO. OF NEW YORK.

Mr. KENT. My name is Fred I. Kent.

Senator O'GORMAN. And your banking experience and activities?

Mr. KENT. I was connected with the First National Bank of Chicago until 1909, since which time I have been one of the vice presidents of the Bankers' Trust Co. of New York.

Senator O'GORMAN. Where do you reside?

Mr. KENT. In New York City.

Senator O'GORMAN. And you have been engaged how many years in banking activities?

Mr. KENT. About 27 or 28 years.

Senator O'GORMAN. You have been asked to come here to give any views you care to offer with respect, particularly, to the subject of foreign exchange and any kindred subjects. Are you familiar with the bill now before the committee?

Mr. KENT. Yes, sir.

Senator O'GORMAN. What general observations do you care to make on the subject to-day?

Mr. KENT. Understanding that that was what you desired, I desire to make a preliminary statement that I think will serve as a foundation upon which the committee may ask me questions, if they so desire.

Senator O'GORMAN. Yes.

Mr. KENT. One very important and principal reason why it is necessary that a proper banking system be established in the United States is our present lack of properly concentrated effort to protect or gold supply in times of need.

In the fall of 1907 the banks engaged in the foreign-exchange business imported, including arrivals in January, about $107,000,000 in gold. But there was a period of time extending a little over 48 hours during which there was hesitation upon the part of the bankers as to how to act. This uncertainty resulted in the stoppage of the purchase of foreign bills for a sufficient number of hours to multiply the uneasiness that was spreading throughout the country.

If there had never been a refusal or hesitation on the part of any banker in the country to purchase drafts drawn against cotton, grain, meat, etc., the great congestion that occurred in the credits drawn against such commodities would never have happened. If we had had a central bank in the United States at that time empowered to do a foreign-exchange business and purchase gold and bullion and

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rediscount for bankers, the panic would unquestionably never have developed.

In the first place, the banks themselves would not have been afraid to purchase the exchange, as they would have known that they could sell it to the central bank if unable to use it, or, in the case of domestic shipments, that they could have rediscounted the bills at the central bank.

In the second place, the central bank itself would have been in active operation making purchases of bills either from the banks, if it had only had power to buy bills from them, or otherwise in the market, and from the banks.

The strained conditions that were developing could have been recognized and anticipated, and there would never have been one moment during which any dealer in our commodities would have been at a loss to know whether he was going to be able to finance his sales.

With a system of 12 regional banks, such as are contemplated in the present bill under consideration, there is considerable doubt as to whether conditions would not have been worse rather than better, for the expansion would undoubtedly have gone further before a break came, and it is doubtful whether divided regional banks could operate with any greater certainty and security in the foreign market than the regular banks which were then dealing in foreign exchange.

If, instead of 12 regional banks there had been 4, it is also doubtful whether they could have accomplished anything more than was done by the foreign exchange banks which imported the $107,000,000. There is a possibility, however, that the momentary hesitation in the purchase of bills which vitalized the under current of fear might have been avoided. One reason why four regional banks would not have been as effective as a central institution would lie in the fact that there would of necessity be competition between them, and questions of profit and loss would inevitably come up when it came to the point of buying gold.

Supposing these four regional banks were situated in New York, Chicago, New Orleans, and San Francisco, we should probably find that the New York regional bank would purchase foreign exchange in the New York market, which would cover commodities of many descriptions; we should find that the New Orleans regional bank would purchase cotton bills; that the Chicago regional bank would purchase meat bills; and that the San Francisco regional bank would purchase Oriental exchange. The New York institution, because of its situation in the principal import and export city of the country, would be the natural one to import gold. In order to be effective in its undertaking, it might be necessary to take off of the hands of the New Orleans and Chicago regional banks the exchange that they were carrying. If this were true the question of rate might become a cause of considerable friction between them.

For instance, if the New Orleans and Chicago regional banks purchased, say, 60-day sight bills on London at 4.84½, and carried them for, say, for 30 days, and the market demand exchange dropped in the meantime, because of the conditions that had developed to, say, 4.84, the New Orleans and Chicago banks would meet with a heavy loss if they turned their 60-day sight bills purchased under such circum-

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stances over to the New York regional banks at the market rate of the day. This would have represented a rate of 4.84, less 30 days' interest at the prevailing London rate, which might easily have made the value of the bills only 4.81½. If therefore the New Orleans and Chicago banks turned their bills over to the New York regional bank, they would have lost the use of the money for 30 days, and in addition 3 cents a pound, or $3,000 for every £100,000 delivered by them. They might argue that if they could hold these bills until maturity, the demand rate might recover and that consequently they might receive a proper interest on their investment. The New York regional bank would not, of course, be willing to pay any more for the bills than the market warranted, and if the Federal reserve board in Washington attempted to straighten out the squabble, valuable time would be lost that might endanger the whole position.

If the Federal bank ruled against the New Orleans and Chicago banks and forced them to sell their exchange at a loss, it would unquestionably make them feel as though the New York regional bank had been favored, which might prevent a proper desire to cooperate in the future. If the New York institution were forced to pay a higher rate for the bills than the market warranted, it would naturally feel abused, and its managers could properly say that there was no reason why the New York bank should bear the burden of bringing in gold, which was of value and necessary for the good of the whole country.

In the case of a central bank, the purchase of foreign exchange could be made anywhere in the United States and could be handled as the needs of the moment seemed to require. The credits for all bills purchased could be passed through the New York branch of the central bank at once. This institution would then be in a position to operate as the market seemed to require and would undoubtedly be able to protect itself from being caught with quantities of bills that would represent a large loss if turned into gold. The same conditions would be true in the case of balances held abroad. If four separate regional institutions carried their own balances, they would not be worth as much to any one of them in case of necessity, and if the gold operations were to be carried on by the New York bank and it required the balances of the other three regional banks in order to properly protect the country, friction might again develop, as the regional banks outside of New York might refuse to sell their exchange at the low rates that might prevail, unless forced to do so. In the case of one central bank such balances would all be under the control of one manager and could be used to the best advantage.

Balances in account with foreign banks might at times be the principal asset that the regional banks in this country would have to purchase gold, for they could not carry sufficient time bills in their portfolio at all times of the year to give them very much power if trouble should develop at certain seasons. This is true because a very large percentage of the exports from this country from, say, the middle of August on to, say, the middle of February are in 60 and 90 day sight bills, whereas the balance of the year the percentage is very much smaller. The lightest months of export are those of May, June, July, and August, and practically the only 60 and 90 day sight bills that are purchaseable during those months are finance bills issued

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by bankers who expect to cover them with shipments against grain and cotton which mature in the fall. The same reasons which would cause the issue of the finance bills by other bankers might make them unprofitable for regional banks to purchase and carry to maturity.

If the regional banks pay no interest on deposits, they could well afford to carry large balances with European banks and accept the rates of interest that such banks pay upon balances. These rates would probably vary from 1 per cent to, say, 4 per cent at different periods of the year in different years. Such balances could be used to buy bills of exchange in the foreign bill markets, when the return could be improved by so doing. Buying of this nature would not in any way compete or conflict with the business of the ordinary American foreign exchange bank.

If we had had a central bank in 1907, we unquestionably could have borrowed gold of the Bank of France against the deposits of bills or other security in the same manner that the Bank of England did, and so have directly relieved our situation, and much sooner than was otherwise possible. Foreign interests at that time would have been very glad, indeed, to have advanced gold under such circumstances, if they had had any bank of great responsibility to deal with that represented this country. The individual banks all did their part, but they could not operate with the same effectiveness that a central bank could have done had it been in existence, as their power was divided, and each proposition had to be based largely on the question of profit, even though it is true that the banks of New York paid out at that time many thousands of dollars in order to obtain gold and currency which they shipped to country institutions without such costs.

If we have 12 regional banks, no one of them could have sufficient capital and power to command the credit that would be necessary in order to have direct dealing with the European central banks, whereas in the case of a central bank it would command such respect that it could take part with the great European banks in protecting each other. Even one of four regional banks might not be large enough to meet the requirements. This might be true even if such bank were larger in capital and deposits than the European central banks, for those managing the foreign institutions would always recognize the fact that the four regional banks were only as strong as the power of the Federal board to hold them together, because they would know that in case of crisis in this country such board would require the New York regional bank, for instance, to loan to any of the other regional banks, and if this were done because of inflation in some other portion of this country, the foreign banks would be the first to take fright. With a great central bank, properly managed, the United States, in being able to take part with the great European banks in relieving strained situations that might occur in different localities, would be in position to command help for this country when it might need it and other countries did not.

In the case of world stringency every country would, of course, have to look out for itself, and the question of where gold went would depend largely on trade balances and relative financial conditions. It would seem wiser for this country to maintain the free-gold position that prevails in England rather than the close position of France or Germany.

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Senator HITCHCOCK. Will you explain what you mean by the "free-gold position" in England and the contrary position in France?

Mr. KENT. Banks throughout the world and investors realize that when the Bank of England rate goes up high enough for it to make it profitable for them to invest in bills on the English market, if it is necessary for them to ship gold in order to obtain credits to use for that purpose, they can get it back whenever they may wish. In the case of France, they could not do so, because the Bank of France might pay out in silver instead of in gold. And in Germany that would not be true, because if the Reichsbank should give the hint to the other German banks that it did not desire to have gold shipped out of Germany it would be almost impossible to get it.

Senator HITCHCOCK. And for that reason, then, they are more ready to respond to an increased rate of discount in England and ship their gold in there, because they know it can be secured back again?

Mr. KENT. Yes.

Senator HITCHCOCK. Upon proper commercial action.

Mr. KENT. Exactly. And I think this country should be on the same basis.

Senator HITCHCOCK. I want to get you to put in the record that process which results in bringing additional gold to England as soon as the rate is raised. Now, suppose the Bank of England raises its rate from 4 per cent to 4½ per cent, does that mean that a large capitalist on the Continent can get a better return on his money in Lonodn than he could before the action of the Bank of England?

Mr. KENT. Yes; and I have that explained a little further on in my statement in a way that I think will answer your question.

Senator HITCHCOCK. Let me put this further question:

Then, if he has a credit in a London bank, all he has to do is to notify them to buy paper for him?

Mr. KENT. Yes.

Senator HITCHCOCK. But if he has not a credit there he must ship gold to London in order to make the loan?

Mr. KENT. Yes; unless exchange can be purchased in his country.

Senator HITCHCOCK. Yes.

Mr. KENT. At better rates than it would cost to ship gold.

Senator HITCHCOCK. And that is the method by which the Bank of England attracts gold to the country, is it?

Mr. KENT. Yes.

Senator HITCHCOCK. Now, can that same proceeding be made possible in this country?

Mr. KENT. It can; and I will endeavor to explain how.

England profits through its position because it can command gold from all parts of the world when required, as those who ship it know that they can get it back when occasion demands; whereas, in France and Germany there is no such freedom. We do not wish to place ourselves in a position where gold can not be obtained from us if others have the right to it, for it is one that carries essential weaknesses. We could not, of course, do this in any event without default, if the exchanges were going against us.

Senator HITCHCOCK. Let me interrupt you once more. Nevertheless, the fact is that the rate of the Bank of France is lower than the rate of the Bank of England, and more steadily maintained.

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Mr. KENT. Oh, it is only taken advantage of in France.

Senator HITCHCOCK. But borrowers get money at a lower rate in France than they do in England.

Mr. KENT. Yes; that is true. But it applies more to the commercial business of France; it does not attract gold. If the Bank of France wanted to attract gold it would either have to raise its rate or pay for gold as it has done in the past.

Senator HITCHCOCK. Well, the Bank of France has more gold than the Bank of England.

Mr. KENT. Yes. But it is probably considered that it has enough gold or it would raise its rate. But of course it can maintain its gold reserve, because it can pay out in silver.

There might be times that it would be advisable to delay such shipments when we could not do so without injury to our credit, but there might be other times when we might prefer not to ship gold, that it would be most inadvisable not to do so. In other words, we should not establish a central bank or regional banks with any expectation of fighting for gold, but more with the idea of being in position to cooperate with the other nations and to use our own resources to the best advantage.

It must not be expected that our bank rate will be as effective internationally when our new banking system is established, nor for many years after, as is the case at present with that of the Bank of England. One reason for this is because our exports and imports, as well as those of many other countries, are financed by drawings upon English banks.

For example, take our exports. We will say that $10,000,000 in 60 and 90 day sight bills are purchased by the foreign exchange banks in New York during a certain day; that the Bank of England rate is 4 per cent, and that the rate for money in New York is 4 per cent, and for the purpose of explanation will consider the demand rate of English exchange at a low enough point to justify the proposition.

Now, if the Bank of England raises its rate from 4 to 5 per cent, and the private rate of discount, which is the one that would be applied to the $10,000,000 in export bills referred to, followed the Bank of England rate and was raised from 3⅝ to 4⅝ per cent, the banks which purchased the bills instead of discounting them at 4⅝ per cent might prefer to hold them until maturity, as they could expect a better interest earning than would be possible if the money were invested in this country.

Senator HITCHCOCK. Well, now, just explain that a little further, will you please? What bank would purchase those bill—New York banks?

Mr. KENT. New York banks, Chicago banks, New Orleans banks, Philadelphia banks, one or two banks in Pittsburgh——

Senator HITCHCOCK (interposing). Those bills consist of credits in London, do they?

Senator NELSON. No.

Mr. KENT. I can describe it better, possibly, by telling you of an actual bill. Suppose a seller of cotton in Dallas, Tex., has a credit opened by a buyer in Liverpool for cotton the equivalent of about £10,000.

The Liverpool buyer authorizes the seller in Dallas to draw upon, say, the Bank of Liverpool (Ltd.), at 60 days sight to cover the cost

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of the cotton. The Dallas seller draws such a bill, takes it to the bank in Dallas, and attaches to it bills of lading for the cotton and such other papers as are necessary.

Now that seller of the cotton becomes also a seller of foreign exchange, because he has his bills drawn at 60 days' sight on the Bank of Liverpool (Ltd.) for £10,000.

Senator NELSON. With a bill of lading attached?

Mr. KENT. With a bill of lading attached.

Senator NELSON. A commercial bill?

Mr. KENT. Yes. He wishes to obtain his money at once. In order to get the best rate he usually applies to brokers. Those brokers go to all the New York banks, the Philadelphia, Chicago, or New Orleans banks, possibly, that are buyers of exchange and ask them for the best rate that they will pay for this £10,000 bill of exchange drawn at 60 days' sight on the Bank of Liverpool (Ltd.). The seller of the exchange will accept the best rate.

Now, this bill might be a part of this parcel of $10,000,000 that I am speaking of. The bank that purchases that bill wants to make all it can out of it, naturally. It has two operations before it—it can either discount that bill in London at the rate of discount prevailing there and obtain demand exchange, which it can sell, and in that way bring its money back into New York, or it can hold the bill to maturity and then sell the exchange.

Senator HITCHCOCK. Well, then, the lower the rate of interest in London at that time the higher the price they could get for the bill?

Mr. KENT. Of course, it would also depend upon the price of demand exchange, other things being equal. I think if I go on a little further I can explain it more fully.

Senator NELSON. Right here I want to ask you this question, if it is not true that there are only three ways in which we can import gold here. One is by commercial bills, another is by finance bills, and the other is by actual shipment. Is not that true?

Mr. KENT. Well, actual shipments must be paid for by something.

Senator NELSON. I know; but I mean gold is brought here either on finance bills, commercial bills, or shipped.

Mr. KENT. Or, you may say, by balances abroad.

Senator NELSON. Well, that comes through bills of exchange, unless the gold is actually shipped.

Mr. KENT. Originally; yes. That is, balances may be built up by banks in this country with their correspondents abroad by means of commercial bills that they may use to purchase gold.

Senator NELSON. Yes.

Mr. KENT. And I will take that question up also.

Now, if these same banks required demand exchange in order to keep their balances good, it might be profitable for them to ship gold to make such balances rather than discount the bills.

Senator HITCHCOCK. That is another reason, then, why raising the discount rate in London draws gold there.

Mr. KENT. Yes.

Senator NELSON. Let me ask you this question here: Before you can discount that bill that must be accepted by the drawee, must it not?

Mr. KENT. Yes, sir.

Senator NELSON. That is, the London bank.

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Mr. KENT. The bank in Liverpool would have to accept the bill. But you can secure discount upon it before its arrival; that is, the bank which purchases that bill of exchange might arrange with a discount company in London by cable for a rate at which the bill would be discounted upon arrival. Then the bill will be sent for acceptance and immediately turned over to the discount company, and they would deposit the proceeds with the London correspondent of the bank that had purchased the bill.

Senator NELSON. Yes. But where a bill of lading is attached to the bill of exchange it is not necessary to deposit any security. The bill of lading pays for the bill of exchange.

Mr. KENT. Yes. But the bill of lading is given up to the acceptor bank.

Senator NELSON. Why, of course; and that is where it gets the money out of it.

Mr. KENT. That is its security to protect it from the party for whom it accepts the bill?

Senator NELSON. Certainly.

Mr. KENT. Some bills at 60 days sight are drawn upon merchants, and then it is the custom not to deliver the bill of lading upon acceptance, but only upon payment.

Senator NELSON. Yes.

Mr. KENT. Now, if the bank rate were raised by a central bank in New York City, foreign bankers would not have any bills drawn upon us at 60 and 90 days that they would be tempted to hold to maturity.

The result would be that the rise in our bank rate, in so far as it changed the international situation in our favor, would apply only to stop the withdrawals of bank balances that foreign banks might have in this country, provided their arrangements enabled them to obtain a higher interest rate on such balances in case of a rise in the bank rate and such moneys as they might wish to loan upon securities in this market, if the security rate were affected, or purchase bills in our bill market, should such a market be successfully established.

Foreign banks, however, would not be sufficiently conversant with the bills in this market for some time to warrant them in making purchases to any large extent, but they might be glad to buy domestic bills from the central or regional bank with its indorsement, provided its standing were sufficiently high to warrant them in doing so.

Some of the banks might borrow funds from foreign banks, paying them special rates of interest, because they might be able to use such funds themselves in the purchase of commercial paper, leaving a profit in between. This would be the reverse of some of the transactions that have been made in Germany, more particularly since French funds were withdrawn from that country after the crisis in Morocco.

Under the new bill it is contemplated that American banks will be authorized to accept drafts drawn upon them against import of commodities drawn at 60 or 90 days' sight. It will unquestionably take some years to change a sufficient amount of drawings from sterling drafts to New York drafts to be of any appreciable value in making our bank rate effective, for foreign shippers will undoubtedly fight it more or less.

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On the other hand, Germany and France have succeeded in having quite a large total of drafts drawn upon their banks, even though their markets for gold have not the freedom that would be true in this country. Such being the case, it will probably depend more upon whether our importers are willing to cooperate and demand New York acceptances than upon any real feeling abroad, for the whole proposition will come down to one of competition, and the foreign seller will be inclined to take New York acceptances if it means a loss of his sale otherwise.

Senator HITCHCOCK. Now, will you explain what you mean by "New York acceptances"?

Mr. KENT. I mean acceptances that might be drawn on New York banks to pay for imports in place of acceptances which are at present drawn on European banks. For instance, suppose we import $10,000 worth of coffee from Brazil. When that coffee is shipped the seller there demands of the buyer in this country that he furnish a letter of credit. That letter of credit is issued in favor of th seller in Brazil, and it is drawn upon a bank in London. The bank in London, in effect, is authorized to accept that bill at 60 days' sight and pay it out of the funds of the bank in this country which issues the credit for the buyer—that is, at maturity.

Now, a large proportion of our imports are brought in under credits drawn upon London in that manner.

Senator HITCHCOCK. And accepted by London banks?

Mr. KENT. Yes; accepted by London banks and charged by the London bank to the American banks when the acceptances mature.

Senator HITCHCOCK. How does an American bank come into that? You say the draft is accepted by a London bank?

Mr. KENT. Yes.

Senator HITCHCOCK. Well, how do you bring the American bank into the transaction?

Senator NELSON. By the letter of credit.

Mr. KENT. The letter of credit. The American bank authorizes the London bank to accept it and charge it to the account of the American bank at maturity.

Senator O'GORMAN. Right there, will you also indicate why, in this transaction affecting Brazil and the United States, resourse must be had to the aid of the English banking system?

Mr. KENT. The banks in Brazil and the people in Brazil are familiar with the London banks. They have also a use for London exchange. And it is a custom that has grown through a series of years, that is based partly on the fact that the English gold market is a free market and partly on the fact that British trade is the largest trade in the world.

And what we wish to accomplish in authorizing American banks to accept is to give them an opportunity to do their part—that is, to take one side of it. At present the English banks finance the exports, or they accept against the exports, and they also accept against the imports. We are willing that they should accept against the exports but we think we should be in a position to accept against the imports.

Senator HITCHCOCK. When you speak of "exports" you mean exports from that country?

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Mr. KENT. No; from this country.

Mr. O'GORMAN. And imports to this country.

Senator NELSON. Now, there is a letter in the record from an importer of coffee at Minneapolis, which I introduced, describing just exactly this thing as Mr. Kent describes it.

Senator HITCHCOCK. Is it a fact that there are no banking interests in New York now that give acceptances or sell acceptances?

Mr. KENT. I do not know of any.

Senator HITCHCOCK. Well, there are very large banking houses there that have a world-wide reputation.

Mr. KENT. It is rather against the policy of American banks to accept, even when they seem to have the authority, because——

Senator O'GORMAN (interposing). How about the large private bankers that we have in New York and throughout the country? Do not they do it?

Mr. KENT. They have never been able to work up American exchange to a point where they could do it to any great extent. They would need the cooperation of all the banking interests in this country in order to do it.

Senator HITCHCOCK. Well, take the London houses that accept. They are not banks of deposit, are they?

Mr. KENT. Some of them are. The Bank of Liverpool is an accepting bank; the London City and Midland Bank (Ltd.) is an acceptance bank. Those are both banks of deposit. There are many private banks that accept also.

Senator NELSON. The joint-stock banks there have authority to accept?

Mr. KENT. Yes; they can accept.

Senator HITCHCOCK. But, as a matter of fact, that is not their practice. They buy and sell them; they do not give them.

Mr. KENT. Oh, yes; the London City and Midland Bank (Ltd.) and also the Lloyds bank, and the Parrs Bank and many others do it.

Senator NELSON. There are three classes of acceptors: These joint-stock banks; then merchants accept, and then there are what they call private accepting houses.

Mr. KENT. Yes.

Senator HITCHCOCK. Well, I was told by a London banker, who visited this country recently in connection with the peace movement with Lord Alverstone, that it was not the custom of any bank of deposit in England to sell acceptances or give acceptances.

Mr. KENT. That is a mistake.

Senator HITCHCOCK. But that it was largely done by private houses, and by men of known wealth, and that banks of deposit were more apt to give those acceptances than they were to sell them.

Mr. KENT. They buy them and sell them. I have acceptances now in my portfolio, given by all of those banks I have mentioned.

Senator HITCHCOCK. Well, are those acceptances a source of considerable profit?

Mr. KENT. The question of profit does not seem to me to have much bearing upon it. That profit might be on an average of three-sixteenths of 1 per cent on the total, taking into consideration those acceptances that are issued for prime concerns, and those that are issued for others.

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Senator HITCHCOCK. When a bank issues acceptances, does it take security?

Mr. KENT. Often; that is an arrangement that it has with its own customer; that is based upon the standing of that customer.

Senator HITCHCOCK. It may or may not take security?

Mr. KENT. Yes; in case of drafts drawn against cotton, the bills of lading are delivered to the accepting bank. Now, if the accepting bank wishes to deliver these bills of lading against trust receipts, to the party for whom it is accepted, it can do so if it satisfied to do so. Otherwise it might hold the bills.

Senator NELSON. You see when a bill of lading accompanies a draft, that is the security for the draft.

Senator HITCHCOCK. Yes; I understand. I want to get at the fact whether an accepting bank receives security as a rule; whether there is any practice of that kind.

Mr. KENT. No; that is all a private arrangement between the foreign bank and its customer; and it undoubtedly is handled both ways, exactly as it is in this country. In this country we have shipments come in that are delivered to the party for whom the letter of credit is issued, before the draft matures. And those goods are delivered under trust receipt. But in other cases the goods are not delivered before payment. Of course all of those credits at present are drawn upon London banks, and the London banks are the acceptors.

Senator O'GORMAN. Mr. Kent, let me ask you a question here: Is the importance of the English banks with respect to foreign exchange promoted largely by the regular mail service between this country and England?

Mr. KENT. Unquestionably, to a large extent.

Of course that commission profit is not so much. But that is not the principal value of being able to accept. The principal value to England in being able to have its banks accept those bills is due to the fact that payment must be made in London for all of those bills. Consequently, they are attracting money to London, and that money will come to London before the bills mature, if the interest rate is a more profitable one to the banks that have to meet the bills from foreign countries than it is in their own country, and I consider the principal value of that acceptance power to lie in causing the money to go toward the centers, rather than the commission charge, which is really small.

Senator NELSON. Does it not arise, too, from the fact that the party primarily holden on a bill of exchange, the acceptor, resides in that country? The party primarily liable on the bill, in case you have to enforce its collection, resides in England. Is not that of some consequence?

Senator O'GORMAN. That is not the case in the coffee proposition that Mr. Kent was telling about.

Senator NELSON. Oh, yes; the acceptor on the bill resides there.

Senator O'GORMAN. Oh, yes; you are right.

Mr. KENT. You can see what that would mean in the case of this Brazil matter. This draft is drawn in Brazil at 60 days' sight, on a London bank, for the account of an American bank. The American bank must arrange to meet that bill at maturity. Consequently

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it must have funds in London. That makes a demand for London exchange, and that is a help toward making England the great financial market it is.

Senator HITCHCOCK. Your judgment is that, no matter what we do in this country, it will only be by a gradual process that we can build up such a system in New York as exists in England?

Mr. KENT. Yes. And, as I say, it would be a matter of competition; and the foreign seller would be inclined to take New York acceptances, if it means the loss of a sale otherwise, provided, of course, that the acceptance is drawn upon a bank whose standing is sufficiently high to warrant his banker in negotiating the bill of exchange.

That is, an acceptance issued by some small bank in a small town or city that was unknown abroad would probably not be accepted.

Senator WEEKS. Could you make an estimate of the amount of commissions paid by American importers to London banks on account of these acceptances which otherwise would not be paid at all or would be paid to American banks?

Mr. KENT. I question if that would be much more than a million dollars. It is a little difficult to get a basis from which to figure, because part of our imports are not handled by commercial letters of credit. Some of them are handled direct. And when it comes to dividing up our total imports of over a billion dollars into those which are accepted and those which are not, and then figure, say, an average percentage that you might think was being charged by London for the whole, it would be merely a guess estimate, you see. But it is not such a large amount. I do not think it is worthy of consideration.

Senator WEEKS. How much do American banks keep on deposit in London in order to maintain this policy?

Mr. KENT. Their deposits vary according to the interest rates in London and the interest rates in New York, to a certain extent. For instance, take it now: The Bank of England rate is 5 per cent, and the London joint-stock rate that they pay upon balances is 1½ per cent under the Bank of England rate. That would mean 3½ per cent. Now, if the bank could get 3½ per cent upon its balances in London, and it had money it did not care to loan on time, but wished to have in its control, it would receive more for that money in London than it could on the New York Stock Exchange—for instance, upon a 3 per cent basis—always providing, of course, that the demand rate of exchange is such that there will be no loss in exchange. For instance, suppose a bank in New York purchased £100,000 at 4.87 to increase its balance in London. That means $487,000. Suppose it has that balance in London for, say, 10 or 15 days, and the demand market drops to 4.86, and then it needs its money back in New York, it will lose $1,000, less the interest it received. So when it comes to putting money on demand interest, the demand rate of exchange must be considered very closely.

Senator WEEKS. If there were American exchange in South America, so that the South American bank could draw direct on New York, the American importer would be able to save the commission which he pays to the London bank, would he not?

Mr. KENT. I hope not. He should pay the New York bank.

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Senator WEEKS. Does not the New York bank charge a commission anyway?

Mr. KENT. Yes.

Senator WEEKS. It would not charge any larger commission, would it?

Mr. KENT. It would if it could, naturally. It would be a question of competition.

Senator HITCHCOCK. Let me ask you. I do not qute understand the case you cited of a New York bank having put $1,000,000 on deposit in a London joint-stock bank. It would receive, you say, 3½ per cent interest on that deposit at the London joint-stock bank, and the London joint-stock bank would be lending that money out at a higher rate?

Mr. KENT. Oh, yes; undoubtedly; it could not be paying 3½ per cent if it did not.

Senator HITCHCOCK. At what rate would it lend it?

Mr. KENT. At present, 4⅞.

Senator HITCHCOCK. And that is based on the Bank of England rate of 5 per cent?

Mr. KENT. Yes; that is the private rate of discount. It is the rate that is applied to prime bankers' bills in the London market. It follows the Bank of England rate up and down. Sometimes it is a little over the Bank of England rate, but very seldom. Usually it is something under the Bank of England rate. And when it comes down 1 per cent under the Bank of England rate that rate is usually reduced unless the Bank of England feels it is not a safe situation and does not wish to reduce its rate. Then it may go out into the market and borrow itself in order to make its rate good.

Senator HITCHCOCK. So one of the effects, when the Bank of England raises its rate, is to increase the deposits of banks on the Continent and in New York in the various joint-stock banks?

Mr. KENT. Yes. And even if it did not actually increase those deposits, it might be the means of retaining them.

Senator HITCHCOCK. Holding them?

Mr. KENT. Yes; holding them.

One important question that must be decided before the bill is passed is whether the regional bank can go out into the market and purchase foreign bills of exchange or whether it must buy them of member banks with the indorsement of the member banks. If the regional bank is allowed to go into the market, it will have a great advantage over other banks, because its money will not cost it anything as it will pay no interest on its deposits. This being true, an unfair competitor would be placed in the market that is already drawn too fine for the sake of safety. Competition has reduced the profit to bankers buying foreign bills which bear a contingent liability even after they are discounted from nothing to one-sixteenth of 1 per cent. It does not seem a proper transaction for a banker to assume a 60-day liability with an average insurance profit of one-thirty-second of 1 per cent and with the possibility of that being turned into a loss if the exchange rate goes against him.

The market having been cut in such a manner, the regional bank, if compelled to buy its exchange from member banks, or with their indorsements, could do so with such small difference over what it

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would have to pay direct in the market that it could more than afford it in order to secure the cooperation of the outside banks, and also to have their indorsement and not to be required to look into the standing of the individuals and firms who were drawing the bills. The value of this cooperation must not be underestimated. There is no doubt whatever that neither the Bank of England, the Bank of France, nor the Bank of Germany could make its discount rate effective if the other banks in those countries did not cooperate with them. For instance, the amount of money in the London market is so many times the resources of the Bank of England that it could not borrow sufficient in the market of itself to make its rate effective, if it did not have the cooperation of the other London banks. As soon as the Bank of England rate is raised, or as soon as other London bankers realize that the Bank of England wishes to obtain control of the market, because the private rate of discount may have dropped too far below the bank rate, they at once raise their rate.

Again, take the Reichsbank, in Berlin. It unquestionably could not have increased its gold holding by $100,000,000 during the last few months without the aid of the other German banks. A portion of such increase was undoubtedly obtained through the issuance of small notes (20 and 50 mark notes), but that only took gold out of the pockets of the German people, whereas a large part of the increase came from importations, mostly from London. There is every possibility that the Reichsbank purchased finance bills of numbers of German banks, probably indirectly, in order to obtain the credit to purchase the gold, and if it expects to be able to hold gold with the knowledge that the foreign trade of Germany was working around in such manner as to enable them to meet the borrowings at maturity.

Senator HITCHCOCK. You say the Reichsbank undoubtedly purchased finance bills?

Mr. KENT. Yes; or may have had some other German bank operate for it, possibly the Deutsche Bank.

Senator HITCHCOCK. Will you explain what you mean by "finance bill"?

Mr. KENT. A finance bill in this case would be a draft of, say, the Bank for Handel and Industry, in Berlin, drawn upon its London bank, say, at 90 days' sight, and against the credit the German bank had established with the English bank. If the Deutsche Bank acted for the Reichsbank, and the Reichsbank did not wish to buy this finance bill itself, the Deutsche Bank could go in the market and buy these finance bills from the German banks.

Senator HITCHCOCK. What motive would the Reichsbank have in having the Deutsche Bank act as an intermediary?

Mr. KENT. I do not know. They might have preferred to have some other bank handle it for them.

Senator HITCHCOCK. The chairman inquires what reason could the Reichsbank possibly have for not desiring to appear in the open market as the purchaser?

Mr. KENT. Well, if they purchased a bill of a German bank drawn upon a London bank, it would be single-name paper until it was accepted by the London bank.

Senator HITCHCOCK. Or until it had indorsement. I see. That is very reasonable. Now, then, when the Reichsbank buys those accept-

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ances or those finance bills from the Deutsche Bank, what does it pay the Deutsche Bank for it?

Mr. KENT. In a credit on its books.

Senator HITCHCOCK. What benefit does the Deutsche Bank get from that credit?

Mr. KENT. The Deutsche Bank may use that credit in the market.

Senator HITCHCOCK. In procuring notes from the Reichsbank—currency?

Mr. KENT. They probably would not secure notes, except for such amount as they might desire actual currency. It is the credit they would probably use.

Senator HITCHCOCK. Of course they use the credits either in the shape of notes or gold.

Mr. KENT. Or drafts upon it.

Senator HITCHCOCK. Yes. Now, then, up to that time the Reichsbank has given the credit upon its books and received a draft on London which is due in 90 days.

Mr. KENT. Yes.

Senator HITCHCOCK. In what way does the Reichsbank use that finance bill or draft?

Mr. KENT. If the Reichsbank used it itself, and I question whether it did—I think very likely it handled it through some other bank—it would use that to build up a credit with its London correspondent. It would send the bill to London and discount it in the London market.

Senator HITCHCOCK. For gold?

Mr. KENT. Discount it in the London market and have the proceeds of that discount credited to the deposit with the correspondent in London until the correspondent had a sufficient cash balance so that it could purchase gold in the market and pay for it from that cash balance.

Senator HITCHCOCK. By which it would either enable the Reichsbank to draw gold from London or enable it to avoid sending gold to London if the balance is against it.

Mr. KENT. Yes.

Senator HITCHCOCK. I do not see that that brings any more gold to Germany than would be brought to Germany if the Deutsche or the Industril Haendlung Bank, you referred to, had done that same thing.

Mr. KENT. No; it would not, but the Riechsbank is the protector of the gold reserve, and it takes the initiative when it is considered wise to increase its gold reserve. The manager of the Reichsbank gave notice, I think, something like a year ago, maybe in December, that he was going to increase the gold reserve and he started out to do it in every way he could, but I am not sure that this is one of the ways.

Senator NELSON. The deposit of gold in London to the credit of the Reichsbank in Germany is the same as though the Reichsbank had it in its vault.

Senator HITCHCOCK. Yes; but it would not bring any more gold to Germany, than if the Deutsche Bank had done the same thing.

Mr. KENT. The Deutsche Bank does not have to keep gold; it does not have to keep a reserve. Enough reserve is provided by the

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Reichsbank. The Deutsche Bank would not care for gold, except as it wanted to have credit in Germany at the Reichsbank.

Senator HITCHCOCK. There is cooperation, as I understand, between the 30 or 40 banks of Germany and the Reichsbank.

Mr. KENT. Yes.

Senator HITCHCOCK. They cooperate with it and acknowledge its leadership.

Mr. KENT. Yes. They have to do it to a certain extent, because if they wish to rediscount their bills they have to go to the Reichsbank for their credit, the same as any London banks take their bills to the Bank of England when they have to have money.

Senator O'GORMAN. Mr. Kent, if the London market learned that the Reichsbank was trying to increase its gold reserve, would the London market be able to take advantage of that knowledge and increase its rates in London?

Mr. KENT. Why, it did so. The Bank of England raised its rate to 5 per cent just a short time ago, probably to protect itself from Germany.

Senator O'GORMAN. Now, instead of the Reichsbank indicating its desire to increase its gold reserve, would the London market attach any importance to an apparent effort on the part of some of the smaller German banks to secure gold?

Mr. KENT. The London market would realize at once that gold was being obtained in Germany.

Senator O'GORMAN. I do not fully understand, yet, why the Reichsbank undertakes some of these movements to procure gold through what we may describe in an American phrase—through the use of a dummy bank.

Mr. KENT. The Deutsche Bank, for instance, has a London office and is consequently in a much better position to operate in the London market than the Reichsbank would be.

Senator O'GORMAN. I see. And just as soon as the London market ascertained that the Deutsche Bank was trying to get gold——

Mr. KENT (interposing). They would realize it was for the Reichsbank in Germany.

Senator O'GORMAN (continuing). It would realize it was for the Reichsbank?

Mr. KENT. Certainly. So that it is not used to cover it up. The gold purchased in the market, when it comes from South Africa, is sold to the highest bidder.

Senator HITCHCOCK. Mr. Kent, a few moments ago you spoke of French funds being withdrawn from German banks at the time of the trouble in Morocco, and relations between France and Germany were strained.

Mr. KENT. Yes.

Senator HITCHCOCK. Were those French funds on deposit in the German banks at interest?

Mr. KENT. Unquestionably so, to a certain extent. These German banks have a system under which they pay a higher rate for deposits that are placed with them on the last day of the month and left with them until the last day of the following month, or the second or third month following, than they do on deposits that are in use. And the reason is that under their industrial system, they are able to turn those over to the industrial concerns at higher rates than they pay.

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For instance, just now the German banks are paying about $4\frac{9}{16}$ and $4\frac{5}{8}$ per cent for money left with them from the 31st day of October to the 30th day of November, whereas on other deposits they are paying probably only about 3 per cent.

Senator NELSON. Demand deposits?

Mr. KENT. Demand deposits.

Senator HITCHCOCK. You are not speaking of the Reichsbank?

Mr. KENT. No; that has nothing to do with the Reichsbank.

Senator HITCHCOCK. It is the 30 or 40 other banks?

Mr. KENT. Yes.

Senator HITCHCOCK. Now, what French institutions made those deposits?

Mr. KENT. Probably banks like the Credit Lyonnais and the Comptoir d'Escompte and others of that nature, and it may have been money of the smaller banks. It was all a question of interest, and when the money was withdrawn by France, Switzerland stepped in and loaned and America stepped in and loaned.

Senator O'GORMAN. Loaned to whom?

Mr. KENT. Loaned to Germany, and those funds took the place of the funds withdrawn by France.

Senator HITCHCOCK. I remember at that time of hearing that the French institutions when withdrawing those funds did not want to produce a crisis, and so when they withdrew from Germany they deposited in Switzerland with a view of having Switzerland transfer funds to Germany.

Mr. KENT. That might possibly have been done, but I do not know that it was. Of course, the German banks had notice these funds would be withdrawn—that is, in this way: Suppose that about anywhere from the 19th to the 22d or 23d of the month the German banks had advised the French banks that had deposits with them that they would pay them a certain rate of interest on money that was maturing at the end of that month. If the French banks refused to accept that rate, then the German banks would know that that money would probably be withdrawn on the last day of the month. They would therefore see if they could obtain it from some other source, and in this case they made direct offers to New York.

Senator HITCHCOCK. What would be the method of withdrawal?

Mr. KENT. Checking on the account.

Senator HITCHCOCK. French banks would draw checks on the German banks and then what would they do with them?

Mr. KENT. They might sell them in London. If exchange between Paris and Berlin were such that they could not sell them there, they might sell these checks in London; that is, they would sell marks on Germany to the English banks.

Senator HITCHCOCK. Or they probably did sell in Switzerland, very largely?

Mr. KENT. They may have done so. Probably they sold some to Holland.

Senator HITCHCOCK. But they would not send them with a demand for shipment of gold?

Mr. KENT. They did not demand shipment of the gold, because they knew they would not get it.

Senator O'GORMAN. Why not?

Mr. KENT. Sir?

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Senator O'GORMAN. You say they knew they could not receive the gold if they asked for its shipment. Why?

Mr. KENT. If the Reichsbank gave the impression to the other German banks that it did not want gold to go out, it would be pretty difficult to get it, and therefore the French banks would not want to insist upon it.

Senator O'GORMAN. Let me ask here. Would the German banks repudiate their obligations to the French banks?

Mr. KENT. No; they would not. It would not have to go to the point of repudiation. The exchange would be used by France where it could best sell it. For instance, if it could sell part of it in London and part of it in Amsterdam and part in Switzerland at a better rate than it could obtain the gold—that is to say, suppose the German banks say, "We will ship you gold, but we will charge you 1 per cent for it."

Senator HITCHCOCK. The fact is, then, that the deposits of the French banks with the German banks were withdrawn from Germany?

Mr. KENT. Yes.

Senator HITCHCOCK. And the French banks, in order to get it, had to draw a draft and sell it in the market?

Mr. KENT. Yes.

Senator HITCHCOCK. And take whatever discount was involved?

Mr. KENT. Yes. Of course, I do not know exactly the amount that was handled in this way, because the French banks do not give that out, and neither do the German banks. I could see how it could have been done, but I do not know the actual operation in this case.

It will be just as necessary in this country for the bankers to cooperate with a regional bank in order to make its rate internationally effective as it is abroad. With a number of regional banks, instead of a central bank, this feature would also become more difficult to control, for the bankers in, say, Chicago and New Orleans, under circumstances previously recited, might be as much opposed to seeing their local regional bank lose money or be compelled to operate against its will as the managers of the local regional banks themselves.

Taking all of these matters into consideration, it would seem, first, that a central bank is what we require for every reason in connection with the protection of our gold supply, and, second, that such bank should purchase foreign exchange only of member banks or with the indorsement of member banks, in order to have their complete cooperation, which would be necessary. It must be appreciated and understood that the effectiveness of the bank rate and of the operations of the central bank or regional banks can only be gradual and that the height of power for good can not be reached until the banks of the world understand that it is being and will continue to be conservatively managed and that it can be trusted not to endeavor to force its way too strongly against the natural currents of trade.

Senator SHAFROTH. Now, I would like to ask you a question or two with relation to this rate of discount that is fixed or is to be fixed by these banks or by the Federal reserve board. As I understand it, in order to get gold into the country they raise the rate of interest?

Mr. KENT. Yes.

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Senator SHAFROTH. Now, that, of course, does an injury to the people who want to borrow at a low rate, does it not?

Mr. KENT. It is always a tax on the trade of the country to have the rate put up.

Senator SHAFROTH. Isn't there any way by which it would be cheaper to get this gold into our country than by raising the rate of interest?

Mr. KENT. I think not.

Senator SHAFROTH. We have been getting our full share of gold in the last 40 years, haven't we? And we have had no bank that can fix the rate of discount.

Mr. KENT. That is true, except that with the system we have at present, or the lack of system, it is impossible for us to look ahead and prevent gold going out, maybe, when we might otherwise be able to. If we had a central bank, the question of the cost to the public, then, would be represented by this: That with a central bank, using this rate to attract the gold when it seemed necessary, the higher interest rates would probably prevail for a shorter time than they have done under our past system. In raising the rate at times you may prevent a high rate being carried for a long period. The Bank of England, for instance, raised its rate to 5 per cent recently, apparently because it was thought in England that that would prevent enough more gold going out so that the bank might not be required to raise its rate to the point where gold would be attracted. That is, if by raising its rate to 5 per cent it stopped the outward flow of gold, it would be cheaper for the country to pay that 5 per cent for a time than to let the gold go and then have the country have to pay 7 per cent to get it back.

Senator SHAFROTH. How much paper is affected, in your judgment, in this country, or would be affected if we had a raising of the rate of discount?

Mr. KENT. Only the paper that was discounted after the raise of the rate and until it was lowered again.

Senator SHAFROTH. How much do you think that would be?

Mr. KENT. Well, it would depend partly on the length of time the rate had to be maintained at the higher point and partly on the time of year.

Senator SHAFROTH. Would it be as much as on a billion of dollars?

Mr. KENT. It might be, but it would depend something on the time of year. At certain periods of the year 60 and 90 day bills are drawn more largely than at other times of the year.

Senator SHAFROTH. Then wouldn't that make a very expensive method of getting gold into the country?

Mr. KENT. It does not if the discount rate is handled properly.

Senator SHAFROTH. That is, if it goes down promptly.

Mr. KENT. Yes, sir.

Senator SHAFROTH. I can very easily see how all banks would cooperate with the central bank or central power in raising the rate of discount, but I should think the banks would feel, if the higher authority would say, "The rate must go down," that they would begin to try to hold the rate up. It is human nature.

Mr. KENT. How could they if the central bank were loaning at 4 per cent and had sufficient power, was a large enough bank, to loan a

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large amount of money—how could the other banks be loaning at four and one-half?

Senator SHAFROTH. But this operates only when there are discounts, as I understand—the loaning of money of the Federal reserve bank. But it seems to me that the banks could say, "Well, now, they have raised this rate, why can not we get our interest at this rate?" It seems to me it would have a tendency to make them cooperate with each other to prevent a lowering of discounts, all of which would be a detriment to the people who have to borrow money from the various banks in the country.

Mr. KENT. On the other side, if we had a central bank we would become, in time, a world financial power, and our bank rate would have to be based partly on conditions in other parts of the world. If we reduced our bank rate because the managers of the bank were familiar enough with all the conditions in the world to think it was desirable, if the banks in this country endeavored to hold for a higher rate, money would come in from Europe and take the place of the money the banks here would have to loan.

Senator SHAFROTH. Do you think that the power to control the discount rate would become effective unless the Federal reserve banks had the right to go out in the market and power to deal with the public?

Mr. KENT. I think it could be. It might be possible that it would be better for the Federal reserve bank to be able to go into the market for domestic bills. It would easily develop after the banks were established, and in a very short time, and whatever conditions seemed necessary could be met. You must always remember, and I want to emphasize what I just said about becoming a world financial power, just as soon as we have a bank that the other banks in foreign countries can look to as an institution that has proper power and proper standing that they can deal with, then we are going to be in a position to command foreign money, and if our rates get too high here then foreign money will come in. In time we are going to have acceptances outstanding, and foreign banks are going to be in the position then that our banks are now. When they have 60 and 90 day acceptances they can discount them or not, as they wish, and foreign banks will hold them when profitable if our acceptance proposition is made effective.

Senator SHAFROTH. The only time I remember when the Government attempted to get gold or prevent the outflow of gold was during the Cleveland administration in 1895 or 1896.

Mr. KENT. Yes.

Senator SHAFROTH. And at that time they sold bonds. Of course there were two objects in view, one was to replenish the deficit in the Treasury and the other was to maintain the gold reserve. Now, do you regard that was more expensive or less expensive to the entire people?

Mr. KENT. It was more expensive for this reason: The gold had gone out of the Treasury through the presentation of greenbacks, and then the greenbacks were put out by the Government again and used once more to withdraw gold, so that the original issue of bonds which brought in $50,000,000 of gold, as I remember it, did not accomplish anything because gold went right out again. And when Mr. Morgan went to New York and conferred with Mr. Cleveland on the matter

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he was able to show conclusively that we must have foreign gold come in to fill up the Treasury rather than to have American gold.

Senator NELSON. And that bond sale to Morgan & Co. covered not only gold coin but gold bullion?

Mr. KENT. Yes.

Senator SHAFROTH. That contract was made in gold bullion—so many ounces?

Mr. KENT. Yes. And Mr. Morgan, as I understand—I was not in New York at that time—was able to stop shipments that were already tagged for Europe, because he sold some of these bonds to these people at a price that made it more profitable to invest their money in that way than to ship their gold to Europe.

Senator SHAFROTH. I can readily see that is some expense, although this money was taken down to the Federal Treasury. But its principal reason for going out was because the general expenses of the Government had been more than the income.

Mr. KENT. Yes.

Senator SHAFROTH. But the question I want to direct your attention to (and your testimony is very enlightening to me), is the relative cost—whether it is better for the Government to stand this expense and thereby save to the people the increased rate that would be established by reason of the decree of the bank or decree of the Government that the rate should be high.

Mr. KENT. The expense to the people was very great at that time, if I recall correctly, and money rates were up very high.

Senator NELSON. It is estimated J. P. Morgan & Co. cleared between $9,000,000 and $10,000,000 on it.

Mr. KENT. So that the people had a greater expense then than probably would be necessary with a central bank that had the respect of the world.

Senator SHAFROTH. You know that even a little raise in the interest rate on more than a billion dollars would make an enormous amount of money coming out of the people.

Mr. KENT. That rate would not affect anything that had been already discounted.

Senator SHAFROTH. No; that is true, but the discounts every day are enormous.

Mr. KENT. Do you not think, for instance, if a 5 per cent discount rate held, say, for a month, and by having put the rate up to that point the bank was able to put it down again to 4½ at the end of the month, it would cost the people less than if gold were allowed to go out until the people were paying 6 or 7 per cent for two or three months?

Senator SHAFROTH. But there is no certainty that they would pay 6 or 7 per cent, because that would check enterprise itself.

Mr. KENT. But that is the way it has worked in the past, as I recall it.

Senator SHAFROTH. Yes. But here is one feature about it that does not seem to me exactly perfect, and that is that there may be a consultation of interests in keeping this rate up instead of down. I can see that the banks want to get just as much interest as they can legitimately and properly, and to loan a person who would pay a higher rate of interest. For that reason, it would seem to me, it is

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not absolutely where the borrower is upon the same footing as the lender.

Mr. KENT. In reply, I repeat again that money would come in from foreign countries if our banks try to make the rate higher than it normally should be.

Senator SHAFROTH. I just wanted to get a little light on the subject.

Senator NELSON. You have not finished your statement, have you?

Mr. KENT. Yes; I have finished it. I do not know whether there are any other questions you would like to ask.

Senator NELSON. The international balances of trade have to be settled in gold, do they not?

Mr. KENT. If you will include the invisible balance of trade also, they do; yes.

Senator NELSON. I mean the commercial balance of trade.

Mr. KENT. No; it does not necessarily have to be settled in gold.

Senator NELSON. I did not mean in actual coin, but I mean on a gold basis. You understand that?

Mr. KENT. Certainly.

Senator NELSON. That is the same, isn't it?

Mr. KENT. Yes.

Senator NELSON. That is the same thing; that is, what we sell to Europe they pay for on a gold basis.

Mr. KENT. Yes.

Senator NELSON. And what we buy from Europe we pay for on a gold basis, do we not?

Mr. KENT. Yes, sir.

Senator NELSON. Now, then, if the value of an acceptance—the value of an American acceptance either of a central bank or any bank in this country—was, in commercial value, equal to a London acceptance, we would be in this condition, would we not, that drafts drawn on our houses would circulate with as great facility as drafts drawn on London houses?

Mr. KENT. Yes; provided that American exchange was as desirable as London exchange.

Senator NELSON. Now, let us look at the question: Suppose our New York acceptances were as valuable in the commercial world as London acceptances, the people of Europe, shipping goods to America, would draw on the American banks, would they not?

Mr. KENT. Yes.

Senator NELSON. And it would be accepted?

Mr. KENT. Yes.

Senator NELSON. And when we ship our goods to Europe we would draw on the London bank, say, and it would be accepted?

Mr. KENT. Yes.

Senator NELSON. So you have two sets of acceptances—for our imports you have American acceptances and for our exports you have London acceptances?

Mr. KENT. Yes.

Senator NELSON. Now, those acceptances would be like commercial paper in the clearing house, would they not?

Mr. KENT. Yes.

Senator NELSON. One would offset the other in the gold market?

Mr. KENT. Yes; as far as they were equivalent.

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Senator NELSON. Yes. Those acceptances, pro and con, one would offset the other?

Mr. KENT. Yes.

Senator NELSON. So that the balance of gold to be settled is the difference between those bills of acceptance?

Mr. KENT. Yes. And that balance would be settled in many ways.

Senator NELSON. And it is that fluctuating balance of trade that makes the rate of exchange to some extent?

Mr. KENT. Yes; that is true.

Senator NELSON. If upon that settlement of balances, if upon that clearing of these bills of exchange, pro and con, it turns out they owe us a balance, the exchange is in our favor, is it not?

Mr. KENT. Yes. Of course, you understand, Senator, that there is what is called the invisible balance of trade that sometimes might offset the commercial balance of trade?

Senator NELSON. Oh, I understand that. But, for the sake of the illustration, I do not refer to the invisible balance. What has made the flow of gold here, given us such a power of gold, is that in all these series of years as a rule the balance of trade has been in our favor.

Mr. KENT. Yes; about $500,000,000 a year.

Senator NELSON. And that, taken in the whole series of years, has brought the gold here and operated to keep it here?

Mr. KENT. It has operated to keep it here, certainly.

Senator NELSON. So that we only had to settle with Europe to make up the balance they had against us in gold.

Mr. KENT. Yes. Now that you are only speaking about the commercial balances of trade——

Senator NELSON. The point we have to make in our system by legislation and practice is to make the value of an American acceptance, I will call it, an acceptance of a central bank or our banks here—make the value of our acceptance as good as the London acceptance?

Mr. KENT. Yes.

Senator NELSON. That would solve the problem, would it not?

Mr. KENT. That would help very materially.

Senator NELSON. Would not that be the solution of it?

Mr. KENT. I do not think it would, because those acceptances would not be as good as London acceptances unless other things had been accomplished.

Senator NELSON. But if a coffee merchant in Brazil knew an acceptance on New York was as good as an acceptance on London, he would take it just as quickly on New York?

Mr. KENT. Yes.

Senator SHAFROTH. I want to ask you whether you have any statistics showing the amount of this invisible balance of trade?

Mr. KENT. Yes. Those statistics are very hard to get, and various estimates have been made by foreign-exchange men and students. For instance, in the first place we pay Europe a large amount in dividends and interest. It has been estimated that Europe carries from $2,000,000,000 to $6,000,000,000 in our securities. Say the average is about $4,000,000,000. Now, if you figure the average rate we pay on that $4,000,000,000 as 5 per cent, that would mean $200,000,000 we would have to pay annually. Then, of course, we would undoubtedly be receiving from foreign countries dividends and interest on foreign

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securities which our people held, but that would probably be very much less than the payments.

Senator SHAFROTH. Have you seen any estimate of what they are?

Mr. KENT. Possibly $50,000,000.

Senator SHAFROTH. Then there is the tourist travel.

Mr. KENT. The tourist travel has been variously estimated at $100,000,000 to $500,000,000; I think probably it is nearer $250,000,000.

Then there is the question of freights. A large portion of our foreign trade is carried in British vessels and also a large portion in German and French vessels.

Senator NELSON. There, again, is a question that confronts us. The stocks of a good many of these foreign lines are owned by Americans.

Mr. KENT. Yes; but probably a very small percentage.

Senator NELSON. In some lines there is very much.

Mr. KENT. Yes; take the International Mercantile Marine. If you make the proper deductions there I think the total may possibly come to $50,000,000. It has been estimated as being very much higher, but I think it would be about $50,000,000.

Then there is the money that is sent abroad by immigrants that come to this country. For several years after they arrive they usually send home money to pay for land over there or settle debts or send to friends and relatives, and that amount has been estimated variously at from $150,000,000 to $400,000,000. I think likely it comes to about $250,000,000 or $300,000,000.

Senator O'GORMAN. Within what period?

Mr. KENT. Within a year.

Senator HITCHCOCK. How can that estimate be correct? That seems to be a tremendous sum.

Mr. KENT. $300,000,000?

Senator HITCHCOCK. Yes; that is $1,000,000 a day.

Mr. KENT. We have about a million immigrants come over every year, and if 1,000,000 people are combining to send a very little it mounts up very fast. You must remember that many of them continue to send money after they have been here two, three, four, five, six, or seven years.

Senator HITCHCOCK. On an average, what amount of money do they bring with them?

Mr. KENT. That, we know, of course, is at least $30 each, but they send back that $30 ordinarily the first year, I think. Those amounts are really very large. Of course, they are in small remittances, but I think they come very nearly to $300,000,000. Of course, that is an estimate to a certain extent, because the remittances are made in so many different ways. Some go through the United States post office, some through the express companies, some through the national banks, and some through the State banks, and some through private banks.

Senator HITCHCOCK. It was $50,000,000 on dividends and interest.

Mr. KENT. That is the other way; that is coming to us, so that would make a net of maybe $150,000,000.

Senator SHAFROTH. Against us?

Mr. KENT. Yes. You see those figures can not yet be ascertained with any degree of exactitude. Suppose you take the fluctuation of American securities back and forth between Europe and this country

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during a year. There is no one that is able to tell whether Europe holds more of our securities at the end of a given year than at the beginning of that year. Those things change. For instance, I think it was in March, 1907, if I remember correctly, Europe sold us a large amount of securities and we were obliged to remit for them. I think that in the latter part of that year they also sold securities here. That is always a danger in a way. If foreign countries become afraid of our monetary system and begin to sell their securities to us, we shall have to pay for them. That is another reason, it seems to me, why we must be very, very careful about changing our banking system, and be as certain we are right as possible before we do so. If we put in any system here that is going to cause fear on the part of foreign investors, they are going to sell our securities, and there is not any question about it.

Senator O'GORMAN. Let me ask you this, Mr. Kent. Is not the comment of the foreign financial papers respecting our proposed legislation favorable?

Mr. KENT. I do not know whether you would call it favorable or not, because it is so mixed. They approve some things and others they do not. They all seem to recognize the fact that many changes may take place. The Economist, in London, has been publishing a series of articles on the proposal, but they are more or less academic, and I am not sure but what they are taking the opinions of people on this side.

Senator HITCHCOCK. What comment have they made on the decline in value of United States bonds?

Mr. KENT. That has been merely academic. I have noticed articles about it in a number of those papers, but they do not seem to consider it of much moment at the present time.

Senator SHAFROTH. They have not declined nearly as much in price as the British consol, from 142 to 76.

Mr. KENT. Yes. Of course, they have not the circulating privilege in connection with them——

Senator SHAFROTH (interposing). Except that $90,000,000 which the Bank of England issues upon uncovered gold.

Mr. KENT. Yes. But the Bank of England is able to use those consols that it holds effectively, because if it wants to make its bank rate effective it will borrow on those consols in the London market, and in that way absorbs the funds that are there.

Senator SHAFROTH. The usual rate in the United States—I do not mean in New York City, but the usual rate throughout the United States—is higher than in Europe generally, is it not?

Mr. KENT. Yes.

Senator SHAFROTH. And that always attracts investments from Europe here?

Mr. KENT. Undoubtedly; yes.

Senator SHAFROTH. And consequently that has a tendency to regulate the inflow of gold toward us?

Mr. KENT. Certainly; and that is one reason why Europe has purchased our securities. That is, of course, the rate is higher to a large extent because our country is a newer country and is not as well settled, and the risks are greater in an unsettled country than they are in other countries.

Senator SHAFROTH. And the rate must be higher?

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Mr. KENT. Yes; as an insurance against the risk. Now, some of the foreign countries lend money upon land in Argentina, and others are lending it upon land in Canada, but it is very difficult to get any of their money for land in the United States, because our rates are lower than they can obtain in those places.

Senator WEEKS. Mr. Kent, can you tell us what we can put in this bill that will create American exchange in South America and enable us to finance our South American business direct through New York?

Mr. KENT. It seems to me that if you established a central bank and authorized national banks, under proper conditions, to accept 60 and 90 day sight drafts, and also authorized the establishment of branches of banks in foreign countries, that it will all right itself naturally. I do not think it is necessary or advisable to include in the bill establishing a bank regulation for the operations that are going to take place. The simpler you can make it the better. Then those that are managing the bank will meet each condition as it arises, and they will be in a position to meet each condition as it arises, and they will not have to break any law to do it. We do not want any banking system that will necessitate our breaking a law every once in a while if some condition arises that we must protect. I am therefore in favor of the simplest possible form of a banking law, with as few regulations as is consistent with safety and conservatism, and with full power to the managers of the bank to do their business along conservative lines. I think that situation would be taken care of as it went on.

Senator WEEKS. You think the provision in the pending bill which enables national banks to establish branches would be a long step in advance?

Mr. KENT. That would help; but in the case of South America it would take longer, probably, to bring it about than in some other parts of the world, because our shipments to South America are very much less than their shipments to us. You see, we bring in about $80,000,000 or $90,000,000 worth of coffee from Brazil, and an immense amount of rubber from Brazil, and also sugar and other things, whereas they take very little in value in return, comparatively speaking. That is, there is a large difference in our balances of trade. And it is all handled through London and Germany now, partly because the German banks have branches there, and the London banks have branches there, and they are consequently in a position to obtain that business.

Senator O'GORMAN. Do you believe that closer banking relations between the United States and South America would inevitably tend to an extension of our commercial relations with South America?

Mr. KENT. Oh, unquestionably. There may be little extension for a time. I believe the German banks lost considerable money when they first opened their branches there, and also the English banks, because they had to become familiar with the credits; but I think it would work out very nicely as time went on.

Senator O'GORMAN. Have you concluded your observations, Mr. Kent?

Mr. KENT. Yes, sir.

Senator O'GORMAN. The committee is very much indebted to you.

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STATEMENT OF BRADFORD RHODES, PRESIDENT FIRST NATIONAL BANK, MAMARONECK, N. Y.

Senator O'GORMAN. Mr. Rhodes, what has been your banking experience?

Mr. RHODES. Besides being president of the First National Bank, of Mamaroneck, N. Y., I am chairman of the board of trustees of the Union Savings Bank, of Westchester County, and was the organizer and for 25 years president of this institution. The national bank has a capital and surplus of $150,000. The savings bank is a mutual institution having no capital, the net earnings all belonging to depositors. I was also for many years editor and publisher of Rhodes Journal of Banking, and in 1895 purchased the Bankers' Magazine, consolidating the two publications. Shortly afterwards I disposed of my interest in this field. For three consecutive terms I served as a member of the assembly in the New York Legislature, being chairman of the banking committee each term.

Senator O'GORMAN. Have you read the pending bill as it passed the House?

Mr. RHODES. Yes; I have read the bill.

Senator O'GORMAN. You may make any observations you desire to make respecting it.

Mr. RHODES. I wish to say, Mr. Chairman and gentlemen, that these preliminary statements are made solely for the purpose of indicating my interest in banking matters, embracing both the theoretical and practical sides. With your permission I should like to first present briefly my views on the pending banking bill, and shall then be glad to answer any questions you may wish to ask. That our existing system of banking needs overhauling, I think is too obvious to require discussion; that the bill now before your committee attempts to meet the problem in a comprehensive and statesmanlike manner is also, I think, equally clear.

In Boston, some weeks ago, at the session of the American Bankers' Association, of which I was New York City's vice president, I made that statement about the first hour after I arrived there to the editor of a paper, and he thought I must be somewhat of an advanced thinker on banking lines. I said, "No; I am a country banker, and I believe that the foundation of this Federal reserve system is to our advantage."

The independence of our separate banking units has been one of the most powerful factors aiding in the agricultural, industrial, and commercial development of the United States. No other system of banking, in my judgment, whatever may be its special excellences, tends so strongly to promote the growth of business as does the independent American bank, intensely interested in the upbuilding of the enterprises of its own community and many of whose officers and directors are themselves engaged in carrying on those enterprises.

To preserve the independence of our banking units should be one aim of whatever legislation may finally meet the approval of the Congress.

But it is not enough to preserve such independence, for we have learned by repeated experience—some of it costly and bitter—that for the separate banking unit as well as for the individual member of society there come times when collective action is indispensable. In

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society this is an age of wise cooperation, and it must become so in banking if our really admirable financial institutions are to be efficient servants of American commerce and industry.

The familiar story of the bundle of twigs that could not be broken when bound together, but readily snapped when separated, aptly illustrates the vital defect in our banking as conducted for many years.

In fact, we have been extricated from the difficulties incident to our financial panics through resort to the principle of cooperative action, but invariably have resorted to it too late to do more than check the final destruction, instead of invoking this remedy in the incipient stages of the disaster, or employing it in a manner that might have checked at the outset the tendencies that lead to panic.

When the conflagration was raging the banks have united, through their clearing-house associations, to stay its ravages, and their action when thus taken has proved beneficial. But we need some method upon which surer reliance may be placed, a cooperative system carefully and deliberately planned and operative at all times. Such a system, I believe, is provided for in the pending bill, which unites all the banks for their own defense in time of danger and for the protection of those who deal with them.

Banking is a quasipublic function, its operations vitally affecting all business activities. The power of the banks as grantors of credit is so large that sound public policy demands that it be subject to the watchful oversight of the Government and to wise and just control. It seems to me that bankers who fail to recognize this fact are not sufficiently alive to the tendencies of the times.

The adherence to Government bonds as a basis of bank circulation has heretofore rendered it impossible to impart any marked degree of elasticity to the note circulation. The bill now before you wisely departs from this policy.

Those familiar with banking problems through long study and experience have perceived the substantial identity between a bank note and a bank deposit, agreeing that when a bank grants a credit it is of little moment to the bank whether the person receiving such credit shall receive the evidence of it merely in the form of a credit in a pass book against which checks may be drawn or in the form of obligations of the bank printed as circulating notes, the matter to be determined by the convenience of the person obtaining the credit. The further fact has been perceived by experts, namely, that if all bank credits, including notes, were daily redeemed through the clearings, banks might be freely intrusted with the privilege of issuing their notes, even without lodged security of any kind, the precaution of a moderate safety fund, a first lien on assets, and other simple requirements being ample to assure the safety of the notes.

Of course, under the modern system of deposits and checks, the volume of bank notes will always be vastly inferior to the volume of checks employed in the transfer of credits.

But while the facts just cited in reference to bank circulation are commonplaces to experts, they are unknown to the public at large.

For more than 50 years the American people have been familiar with no other kind of currency except that bearing the stamp or guaranty of their Government. They have come to regard this

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guaranty as an essential element of the quality of the paper circulation. Business habits long established are not easily altered by statute.

Few calamities would be greater than to have our people suspect the goodness of their currency. It would result in universal distrust, a feeling equivalent to that which comes during an earthquake, when even the solid earth seems slipping away beneath one's feet. We can not run the risk of having our currency open to suspicion, and this risk can be avoided in no practical way except by a Government guaranty such as this bill provides.

Sentiment may play an important part in popularizing a new currency system, and it is often stated that sentiment is simply an expression of the common sense of the common people.

But while these notes are obligations of the Government, they are issuable only to the banks, upon the deposit of approved collateral and the setting aside of an adequate reserve against them. These provisions and others guard against the inflation which often accompanies the free issue of notes by governmental authority, and confer upon the new currency the substantial advantages of a carefully guarded asset bank note, plus the responsibility of the United States Government, thus combining the chief desiderata of a bank-note circulation—safety and flexibility.

I would suggest that the notes be made redeemable in gold rather than in lawful money. Since "lawful money" is substantially exchangeable for gold, we gain nothing by putting this intermediate step between the notes and gold, and I think we should gain much by declaring the notes themselves to be gold obligations. It is, in fact, an evidence of our good faith and our ability to pay when we put all our circulating medium on a gold basis.

The principle of massing our bank reserves in a series of regional banks is bound, I think, to work a vast improvement in our banking situation. That we need reserve banks more adequately equipped than those now existing is strikingly evident. The Federal reserve banks, with large capital, with the power to rediscount and to procure notes as needed, will be in a position to render services of vast importance to the banks of the country.

By creating a rediscount market this bill releases the banks of the country from restrictions which have frequently rendered it impossible for them to furnish adequate credit facilities, and have made it necessary for their own protection to curtail loans, thus entailing hardship upon the business community. It should not be forgotten, also, that this bill reverses our present policy of basing our banking system upon stock-and-bond collateral whose value shrinks frightfully in the face of unusual calls for money and links it with commercial paper whose value is more stable and whose volume more fairly corresponds to the fluctuations of business.

The rediscount privilege will make it practically possible for banks to supply all demands for legitimate commercial loans and at the same time will enable a solvent bank always to convert its liquid assets into currency, thus avoiding the necessity of suspending cash payments. Should this bill become a law and be accepted in good faith by the banks, with a determination on the part of the Government to deal justly with the banks, it is inconceivable that the

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country should again experience such bank panics as marked the years 1893 and 1907. To avoid the distress which these disturbances occasioned seems to me worthy of the efforts of all the bankers of the United States, even if we have to give up some of our prejudices and long-cherished notions about banking legislation.

As a savings-bank officer for a quarter of a century and one to whom the utility and beneficence of the savings banks strongly appeal, I wish to make a special plea in behalf of these institutions. They are the bedrock of our financial system, inculcating habits of thrift among their depositors, who by absolute self-denial not only provide the means of protecting themselves against the encroachment of disease and the oncoming of age, but gradually to take the steps leading from dependence to a competence, if not to affluence. The savings of these depositors, averaging less than $450 each, comprise in the aggregate a sum vast enough to be of immense importance in carrying on that part of the country's industry which is dependent upon the safe investment of capital in mortgages, public-utility securities, and the obligations of States and municipalities.

Savings deposits represent usually the small balances between income and outgo which individuals are enabled to accumulate by the practice of economy, and justice to these individuals no less than sound state policy should impel us to see that the investments of these savings are religiously safeguarded from the hazards of commercial ventures, and treated as a separate fund, to be carefully invested in accordance with well-defined principles.

The savings banks of New York and of the Eastern States generally, operated on what is known as the mutual plan, have established a record for safety, economy, and efficiency that gives them a unique position among the financial institutions of the country. There are 630 of them in the United States, with aggregate deposits of $3,608,657,828.11 divided among 7,851,377 depositors, giving them an average of $459.62 each.

For many years the losses incurred by these banks have been so small as to be almost negligible, and they have established a record for safety hardly surpassed by banks anywhere.

This result has been due to the careful provisions made by the State legislatures respecting the character of the investments and to the further fact that the officers of these banks have complied strictly with the law and have been faithful to their trusts.

It is questionable whether the mutual savings bank system is adaptable to all parts of the country. The slow growth of the system west of the Alleghenies leads to the conclusion that it is not; but of one thing there can be no doubt, namely, that the same rules which have been found necessary to the safe handling of savings deposits are universally applicable—indeed, that they are indispensable to the security of this class of deposits.

I should like later on to refer to the provision of the bill in regard to savings departments in national banks, contenting myself for the present by expressing the hope that Congress may never consent to the lowering of the standard fixed by the successful mutual savings bank system. I wish to state that I see no objection to the establishment of savings departments in national banks in those States, or even in the towns not having savings banks already established, but that in all cases where national banks are permitted to establish sav-

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ings departments the savings deposits shall be separated from the ordinary commercial deposits and invested in precisely the same manner as such deposits are now invested by the regularly constituted savings banks.

It must not be forgotten that savings deposits in commercial banks, unless surrounded by adequate safeguards, are liable to be a source of grave danger, especially in times when banks are subject to unusual demands, for at such times the savings depositors are apt to show apprehension and demand their money, thus subjecting the bank to a general "run."

In concluding this general statement, I wish to say that while the pending bill may not be ideal, it does fulfill the reasonable expectations of the people for a wise coordination of the banks of the country under such governmental control as will assure the protection of the public without injustice toward the banks. The bill does not attempt to carry out impracticable theories, but takes careful note of conditions as they are, including the institutions of the country, the habits and predispositions of the people, and mindful of all these complex elements which have made banking legislation so difficult, it seeks to weld our disjointed banking units into a harmonious system, embracing many of the principles tested by world-wide trial. The enactment of this measure, after such amendment as may be agreed on as a result of wise deliberation, will, in my judgment, immeasurably strengthen our banking system and immensely contribute to the welfare and prosperity of all our people.

I desire, Mr. Chairman, to submit, in connection with this general statement which I have made, a very few suggestions in regard to the bill itself, which I have read with some degree of care.

At the outset it may be well enough to have the Federal reserve board constituted as now provided for in the bill; but later on it will probably be found that the duties of their positions will be so onerous that the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency will not have time to attend to their duties as members of the board.

I would suggest that after the first year of their existence the Federal reserve banks send to the President a list of 12 names, out of which he shall select three members of the Federal reserve board in place of the two Cabinet officers and the Comptroller of the Currency.

The reserve requirements of the Federal reserve banks should call for gold instead of "gold or lawful money."

Redemption of notes should be in gold.

Reserves against the notes should be kept in gold.

I would favor making the capital requirements $5,000,000 for banks desiring to establish foreign branches. Generally banks operating abroad have a capital much in excess of $1,000,000. There are also doubts as to the propriety of allowing banks with such small capital to engage in branch banking, particularly in a foreign country. Branches result in expansion, and if the branch is situated abroad it is less easy to keep it under supervision than if located in the country where the parent bank is domiciled.

The making of real estate loans by national banks is of doubtful propriety, since it tends to put in fixed form investment funds that

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should be kept in liquid shape. Most bank deposits are payable either on demand or after short periods. Farm loans, while good in themselves when carefully selected, even at 12 months hardly mature quickly enough to make them a desirable and quick bank asset.

If, however, the national banks are permitted to establish savings bank departments, segregating their savings deposits, real estate mortgages would be a highly satisfactory form of investment. This would make it possible for the national banks to perform an additional service in communities where there are no regularly constituted savings banks. The creation of a department for local investments would also tend to keep deposits employed at home instead of sending them away to the large cities for temporary employment.

I wish to commend the provision for the separation of the assets of the commercial and savings departments of national banks, and to emphasize the necessity of a high standard of investment of savings deposits being prescribed by the Federal reserve board; also that the creation of savings departments in national banks be limited to those places where savings banks do not already exist. On the ground of comity alone, the Federal Government would perhaps refrain from setting up a new institution to compete with others already operating satisfactorily under State laws and meeting the demands of the people. I feel sure that those who are familiar with the success of the mutual savings banks would regard it as unfortunate if the national banks should be empowered to compete with them. But a useful purpose would be served by authorizing savings departments in national banks in those communities now lacking adequate savings facilities, with the proviso always that the savings deposits shall be segregated and as carefully invested as are those of the regular savings banks.

You gentlemen probably know that only about 17 per cent of our people save money. Out of our 90,000,000 people, only about 17 per cent save anything, while over in Germany, or even in little Switzerland, they are better savers than we are. And even in debt-ridden Japan their folks are better savers than we are, and a larger number of them save than the people of the United States. That is a matter of record.

Refunding of the 2 per cent bonds should be on such basis as will save the banks from loss on their investments. Purchase of the bonds by the banks has been a leading factor in keeping up their prices. Now that the Government is to deprive the bonds of one of their chief advantages—the sole right to be used as a basis of bank-note circulation—it should see that no loss falls upon the banks by this action.

The outstanding bank notes should be retired more speedily than is provided for in the bill, so that the country may sooner get the benefit of the elastic note circulation which the bill authorizes.

Gentlemen, that is all I have to say in a formal way. I have here some memoranda in regard to banks of all sorts.

The number of savings banks in the United States in 1892 was 1,059; in 1902, 1,036; and in 1912, 1,922. The number of depositors in 1892 was 4,781,605; the number of depositors in 1902 was 6,666,672, and the number of depositors in 1912 was 10,010,304.

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The amount of savings deposits in 1892 was $1,712,769,026; the amount of savings deposits in 1902 was $2,750,177,290; and the amount of savings deposits in 1912 was $4,451,818,522.

And this is an interesting fact, that the average due each depositor in 1892 was $358.20; in 1902 it was $412.53, and in 1912 it was $444.72. That is the amount which was due each depositor.

I have some other figures here, Mr. Chairman, which, with your permission, I would like to have inserted in the record.

Senator O'GORMAN. Without objection, they may be inserted in the record.

(The memoranda referred to are as follows:)

National banks in the United States (7,488):	
Capital	$1,056,345,786
Surplus	725,333,629
Undivided profits	259,549,156
Circulation	724,459,849
Individual deposits	5,761,338,731
Total resources	10,876,852,343
State banks (13,381[1]):	
Capital	459,067,206
Surplus	177,307,042
Undivided profits	94,066,902
Individual deposits	2,919,977,897
Total resources	3,897,770,826
Mutual savings banks (630[1]):	
Surplus	248,983,429
Undivided profits	66,440,676
Individual deposits	3,608,657,828
Total resources	3,929,091,986
Stock savings banks (1,292[1]):	
Capital	76,871,811
Surplus	31,052,596
Undivided profits	23,154,694
Individual deposits	842,897,859
Total resources	993,631,303
Loan and trust companies (1,410[1]):	
Capital	418,985,771
Surplus	424,313,939
Undivided profits	136,428,039
Individual deposits	3,674,578,238
Total resources	5,107,444,382
Private banks (1,110[1]):	
Capital	22,348,040
Surplus	9,333,680
Undivided profits	4,250,634
Individual deposits	152,494,618
Total resources	196,940,397
State, savings, and private banks, loan and trust companies (17,823[1]):	
Capital	977,272,830
Surplus	890,990,687
Undivided profits	324,340,946
Individual deposits	11,198,606,443
Total resources	14,124,878,897
All banks (25,309[2]):	
Capital	2,033,618,616
Surplus	1,616,324,316
Undivided profits	583,890,102
Individual deposits	17,959,945,174
Total resources	25,001,731,240

[1] Comptroller's report, 1912. [2] On dates given.

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Number of savings banks in the United States, number of depositors, amount of savings deposits, and average amount due each depositor, 1892, 1902, and 1912.[1]

Year.	Number of savings banks.	Number of depositors.	Amount of savings deposits.	Average due each depositor.
1892	1,059	4,781,605	$1,712,769,026	$358.20
1902	1,036	6,666,672	2,750,177,290	412.53
1912	1,922	10,010,304	4,451,818,522	444.72

[1] Comptroller's report, 1912.

Senator NELSON. You must not overlook this fact, Mr. Rhodes, that out in the West the farmers and small merchants have use for their money in the development and improvement of their farms and all that sort of thing. They are not like the people in the East, who are more limited in scope, and they have no opportunity to save their money except by putting it in savings banks. The people in the West put that money in active use in improving their farms, putting up more buildings, and doing all that sort of thing; and that is why we do not make the showing of savings deposits. We save it and realize much more out of it than you do in the savings banks.

Mr. RHODES. Do you not think if you had savings banks in Minnesota you would learn to save money? The school children, the working people, the housemaids—would they not learn to save money if they had savings banks to put it in?

Senator SHAFROTH. They do have banks out there to put it in.

Mr. RHODES. Savings banks?

Senator SHAFROTH. Oh, yes; savings banks all over the West.

Mr. RHODES. There is only one in Minnesota that I know anything about.

Senator NELSON. We have one good mutual bank in Minneapolis.

Mr. RHODES. I know it well. I knew Mr. Moulton before he died.

Senator BRISTOW. Why should not a boy who wants to save his money save it and buy a calf or a horse? I think he would use more judgment about that.

Mr. RHODES. I think so; much depends on the boy.

Senator NELSON. Is it not an ethical question? Is it a wise thing to teach children so much of the spirit of Mammon—get them to feel that this is only a world in which to make money?

Mr. RHODES. I believe the only way to make a good citizen is to make a good saver. If he is a good saver, he will make a better father and a much better citizen than otherwise.

Senator NELSON. Is there not the danger that he will make Mammon his only god?

Mr. RHODES. I do not believe that.

Senator SHAFROTH. You think this money should all be made redeemable in gold and not in gold or lawful money?

Mr. RHODES. That is my belief.

Senator SHAFROTH. If we should not pass this bill, would you believe in our enacting a law requiring the national banks to redeem the bank notes in gold?

Mr. RHODES. No.

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Senator SHAFROTH. Did you ever hear of a banker who was willing that the national-bank notes should be made redeemable in gold?

Mr. RHODES. That is what they want to do.

Senator SHAFROTH. National-bank notes?

Mr. RHODES. They are practically based on a United States bond, which represents gold money.

Senator SHAFROTH. The national-bank notes are redeemable in lawful money, are they not?

Mr. RHODES. Yes.

Senator SHAFROTH. The Aldrich bill was perfectly satisfactory to the bankers, was it not?

Mr. RHODES. Fairly so.

Senator SHAFROTH. They made their notes redeemable in lawful money?

Mr. RHODES. Yes.

Senator SHAFROTH. Do you not think there is a good purpose to be served in having this money redeemable in lawful money when that lawful money is redeemable in gold, less the reserves required, and therefore the greater ability of the Government to maintain the gold standard?

Mr. RHODES. It is about as broad as it is long, anyway, because we are all on a gold basis. I recollect that a few years ago there was a Secretary of the Treasury here in Washington who redeemed the silver certificates in gold in the Treasury Department here—paid gold for them over the counter—and technically they are redeemable in gold.

Senator NELSON. Would it not be so with the currency? The reserve-national-bank note is redeemable in lawful money, and then is not that lawful money redeemable in gold? Does that not keep us on the gold standard?

Mr. RHODES. It is an intermediate step.

Senator NELSON. Is not that intermediate step necessary in order to prevent large gold reserves. If we are going to have 12 competing points, we are going to require three or four times the amount of gold that is to be hoarded.

Mr. RHODES. Why not?

Senator SHAFROTH. Because the reserves have got to be so much more.

Mr. RHODES. Each pool by itself, as it were, in a separate place?

Senator SHAFROTH. That may be, but it is also redeemable at the Treasury, all of it at the Treasury, and when you make this currency redeemable at the bank in gold and then also at the Federal Treasury of the United States, you can readily see that it will take a great deal more money. Then, again, take the Government's reserve. We have been upholding in gold about $346,000,000 of greenbacks and $740,000,000 of bank notes, and it has only taken $150,000,000 of gold, and if you scattered this gold reserve through these centers you are making a competition against the Government itself.

Mr. RHODES. That is possible, but we must remember the sentiment of the people. Everybody in the United States, all of us, think we are on a gold basis.

Senator SHAFROTH. We are.

Mr. RHODES. We ought to keep up our gold standard in good faith.

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Senator SHAFROTH. Why do not the bankers want the same thing when they have a bank currency out?

They have a bank currency—that is, $740.000,000 of currency—but none of them would consent that those notes would be redeemable in gold, because they have to keep the gold there to meet them. When the Aldrich bill came in, the bank provided there being a bank of bankers, they provided that it must be paid in lawful money; they did not mention gold. They made it payable in lawful money alone, and they did it, why? Because they know it is easier to maintain the gold standard. They know if you make too much pressure on a limited quantity of gold in this country it is going to have a tendency to keep gold in our vaults.

Mr. RHODES. That is true, in large measure; but, as I said before, the best illustration——

Senator SHAFROTH (interposing). Let me ask you this question: Of course we had no trouble in paying gold, except when there is a run on the Treasury for gold?

Mr. RHODES. I do not want any gold in my pockets.

Senator SHAFROTH. Now, in case of panic, by the cooperation of these Federal reserve banks and the United States Treasury, can not the redemption take place in such a way that it would be a great advantage in having the gold currency redeemable in the other currency and the other redeemable in gold?

Suppose I have a Federal reserve note of $1,000, and we find there is a run upon gold, and the Federal reserve board says we must cooperate with the reserve banks, and a man comes to a Federal reserve bank in New York and he says, "I have a Federal reserve note of $1,000, and I want gold." The board says, "We have not got gold, or, if we have, we do not choose to pay it, because that is payable in lawful money, but we will give you the lawful money, and you can send it to Washington and you can get gold." So he takes the lawful money, and the bank of New York says, "If there is going to be a run on gold, we will lock that $1.000 note up in our vaults so we can not get any more on that money."

So the man sends it to Washington, and he demands his gold on that lawful money, and the Government says, "Certainly, here is your gold." The Secretary of the Treasury says, "If we are going to have a run on gold we will take that $1,000 in lawful money and lock it up."

You have by means of $1,000 practically redeemed, or at least temporarily, $2,000, and you could not do that if all of it was made payable in gold, because the man who had $2,000 would get it, and the man who had $1.000 in lawful money would get it. Is it not an advantage when there is a run for gold in this country to have that means, not of disturbing the gold standard, but of strengthening the gold standard?

Mr. RHODES. The discretionary power?

Senator SHAFROTH. Upon the part of the bank.

Mr. RHODES. Of course, they exercise the same in principle in some foreign countries. It is an arbitrary matter. It is purely arbitrary on the part of the reserve board in Washington.

Senator SHAFROTH. Of course, if they have plenty of gold they pay gold, and it would be only in times of stringency when there is so much hoarding that this would be invoked.

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Mr. RHODES. It is not very likely. The people of the country have more money in their pockets than we think—the common people—and this system you are endeavoring so faithfully to perfect here will make banks so popular that the hoarding of money will never be resorted to by any people, no matter how ignorant they may be.

Senator HITCHCOCK. The next witness, I suppose, will be Mr. Willis.

Senator BRISTOW. There is one question I want to ask. I want to inquire whether Mr. Conant has yet submitted to the committee his suggestions for a Federal reserve bank? When he appeared before the committee some two or three weeks ago we asked him to submit a plan for a Federal reserve bank, and we also asked Mr. Vanderlip, Prof. Jenks, and Mr. Dawson to submit such a plan. If Mr. Conant has not yet sent the committee his plan in writing, I would like to ask that when it is received it be printed in the hearings along with the plans submitted by Mr. Vanderlip, Prof. Jenks, and Mr. Dawson, so that we may have them all together. I think that would be a great assistance to the committee.

Senator HITCHCOCK. That can be done, and I am sure it would be very helpful to the committee to have them all together.

Senator BRISTOW. This question has been handed to me to propound to you, Mr. Rhodes: What is the specific new feature of the pending bill that you deem most valuable?

Mr. RHODES. Well, Senator, that is a very difficult question to answer. Of course, I am not a big banker. I am a country banker, although I associate much with big bankers in my territory, but I verily believe, from my standpoint, that the meat of this bill to the average country banker is its attempt to allow country bankers to get money quickly.

Senator BRISTOW. The discount provision?

Mr. RHODES. The discount provision. I think that is about the best of it. I am not afraid of the Government supervision. I say the more supervision the better. A good bank is not afraid of supervision; it wants supervision. Uncle Sam can come to see us every day of the week and charge what he pleases. I am speaking on behalf of my own bank now. Personally, I would like to have a Government bank with the circulating medium.

Senator HITCHCOCK. I think it is so nearly 1 o'clock now that we had better not try to start with Mr. Willis until after recess, and we will meet again at 2 o'clock this afternoon.

(Thereupon, at 12.45 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Willis, we will hear you now.

STATEMENT OF HENRY PARKER WILLIS, OF NEW YORK, N. Y.

Senator HITCHCOCK. State for the record, Mr. Willis, your name, occupation, and residence.

Mr. WILLIS. My name is Henry Parker Willis; I am a newspaper writer in New York City.

Senator HITCHCOCK. Mr. Willis, you are employed upon a financial journal, are you not?

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Mr. WILLIS. Yes, sir; the Journal of Commerce of New York.

Senator HITCHCOCK. You have been a student of banking and currency subjects for some time?

Mr. WILLIS. Yes, sir; for about 15 years or so.

Senator HITCHCOCK. You have had something to do with the genesis of this bill, have you not?

Mr. WILLIS. About 18 months ago, Mr. Chairman, that is to say, about the 1st of April, 1912, a subcommittee of the House Banking and Currency Committee, of which Hon. Carter Glass was chairman, asked me to cooperate with them as an expert adviser, and I was appointed in that capacity. I continued working with them during the last session of Congress, and then was reappointed at this session of Congress in the same relation to the full committee, and am acting in that capacity now.

Senator REED. I did not understand the last part of your statement.

Mr. WILLIS. I say I was appointed about 18 months ago in an advisory capacity to the subcommittee of the House Committee on Banking and Currency and then was reappointed in the same capacity by the full committee at this session, and am occupying that relation to the House Committee on Banking and Currency at the present time.

Senator HITCHCOCK. Have you had any practical experience as a banker, Mr. Willis?

Mr. WILLIS. None whatever.

Senator HITCHCOCK. You have not been in business at all?

Mr. WILLIS. No, sir.

Senator HITCHCOCK. Have you ever held any chair in a college or university?

Mr. WILLIS. I was some years ago professor of economics in Washington and Lee University, later professor of finance in George Washington University, and still later dean of the college of political science there. I did my post-graduate work at the University of Chicago, and took my doctorate at that institution, presenting a thesis on a financial question, "The history of the Latin monetary union," which I had prepared after study in European universities. After that I was secretary or expert assistant to the Indianapolis Monetary Commission. and had general charge, in conjunction with Mr. L. Carroll Root, of the preparation of their report and of the bill which they recommended to Congress.

Senator HITCHCOCK. What, in substance, was that bill? Can you briefly outline it?

Mr. WILLIS. Yes.

Senator REED. Did you say you were secretary to the monetary commission?

Mr. WILLIS. I did; yes, sir.

Perhaps, Mr. Chairman, I could get at your question better by telling you what this commission was. The Indianapolis Monetary Commission was a voluntary body organized by a convention of boards of trade, which met for the purpose of recommending legislation designed to correct the district evils in the currency and banking system, I think, in 1897. That commission was appointed at the instance of this general convention of boards of trade.

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Senator REED. Did you mean 1897 or 1907?

Mr. WILLIS. 1897. This commission was created as a result of this general union of boards of trade, and did its work during 1897 and 1898. It finally recommended a bill to Congress, it having, however, as I have said, no official quality. The substance of that bill was this, I should say: First of all, the creation of an elastic banking currency; second, a definite declaration in favor of the gold standard of value; and third, the introduction of certain changes into the Treasury organization, calculated to bring about a segregation of the trust funds which were held behind the greenbacks; that is, to take them out of the general fund of the Treasury; and various other relatively minor modifications. Nothing was done with this bill at the time, as you are aware.

Senator REED. When was that bill reported to Congress?

Mr. WILLIS. As I said, the commission was an unofficial body, but the bill was placed before Congress, probably in the autumn of 1898.

Senator NELSON. Where was it introduced, in the House or the Senate?

Mr. WILLIS. I think more attention was given to it in the House than in the Senate.

Senator HITCHCOCK. Did it provide for a banking currency?

Mr. WILLIS. It provided for an elastic-note currency, with provision for getting rid of the bonds, and basing the issues on commercial paper.

Senator HITCHCOCK. It was an asset currency?

Mr. WILLIS. An asset currency; yes, sir.

Senator REED. Do you know who introduced that bill in the House of Representatives?

Mr. WILLIS. My recollection is that it was introduced by Representative Jesse Overstreet, of Indiana.

Senator REED. It was known as the Overstreet bill?

Mr. WILLIS. I think it was. That is my recollection. As I left Washington after the work of the commission was done, I did not follow the legislative details.

Senator HITCHCOCK. You had something to do with the drafting of that bill?

Mr. WILLIS. Yes, sir; I had expert charge of the work.

Senator HITCHCOCK. You have had, therefore, considerable experience in the work of preparing legislative matters?

Mr. WILLIS. I think I might fairly say so; yes, sir.

Senator HITCHCOCK. Referring to your present connection with the House Committee on Banking and Currency, you took up your work in 1912, and are still employed by the committee?

Mr. WILLIS. Just so; yes, sir.

Senator HITCHCOCK. Have you a copy of the draft of the bill as first made by you?

Mr. WILLIS. The bill presented by the committee was prepared under the direction of the chairman, Mr. Glass, and such work as I have done has been that of an advisor and investigator, cooperating at each stage and carrying out the directions that were conveyed to me by the chairman. Whatever authentic drafts of the different stages through which the bill passed there are, are in the possession,

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so far as I know, of Mr. Glass. There were a good many successive drafts on various points.

Senator HITCHCOCK. Can you give the committee an idea of what the first draft provided?

Mr. WILLIS. I think, substantially, the same as the present bill, except that many minor details were changed, of course, perfected, as we went along.

Senator HITCHCOCK. Were there 12 regional banks?

Mr. WILLIS. Yes, sir.

Senator HITCHCOCK. With a Federal board of control?

Mr. WILLIS. I am not sure that that name was given to the board.

Senator HITCHCOCK. A board to be appointed by the President?

Mr. WILLIS. A board of control; yes.

Senator HITCHCOCK. A board that was a board of public officials, appointed by the President?

Mr. WILLIS. There were also banking representatives in the earlier draft of this bill, some banking representatives.

Senator REED. On what?

Mr. WILLIS. On the board of control.

Senator HITCHCOCK. How many banks were provided for?

Mr. WILLIS. I do not know that I recall exactly. The first draft of the bill, in any perfected form, became public at some time during last June. It was given out then to the newspapers from some source, and the data are all given there. I think it would be better, probably, to refer to that.

Senator HITCHCOCK. In the newspapers?

Mr. WILLIS. It was given out and was printed by them.

Senator HITCHCOCK. Some of the members of this committee want to get an idea of how this bill had developed.

Mr. WILLIS. The bill has been developed, as I have said, Senator, with the cooperation of the Committee on Banking and Currency, by a gradual process of study, extending over about 18 months; and as far as my relation to it is concerned it has been, as I have said, that of an advisor and investigator. I have done what I could to advance the work, doing what ordinarily falls to one acting in that capacity, carrying out the instructions of the chairman at each stage of the process, consulting with him and doing what I was instructed to do.

Senator HITCHCOCK. What was the size of the board, Mr. Willis?

Mr. WILLIS. It seems to me—I dislike, Senator, to give this data simply from memory, and can speak only subject to the qualification that I am speaking merely from memory, because there have been so many different changes and drafts—that in this draft which became public, and which was the first perfected draft, there was provision for two representatives from each of the regional banks; that is, a so-called commission was appointed, or elected, rather, and then a given number of Government executive officers were ex officio members of that body. That made a rather large body of, perhaps, 25 or 30 men.

Senator HITCHCOCK. If there were two from each regional bank, there would be 24 of them.

Mr. WILLIS. Well, in this bill I speak of, I think the number of banks may have been 15. That was the first number hit upon.

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Senator REED. That would be, then, 30 men directly representing the banks?

Mr. WILLIS. Yes.

Senator REED. Then you added to that bank representation of 30 the Secretary of the Treasury and who else?

Mr. WILLIS. I think the same officers who are mentioned in the present bill, the Comptroller of the Currency and the Secretary of Agriculture.

Senator REED. So the Government would have three representatives and the banks would have 30 representatives?

Mr. WILLIS. May I continue there?

Senator REED. Yes.

Mr. WILLIS. This board was merely an advisory or consultative body which elected an executive committee, and that committee was vested with all the powers of the advisory body. In the executive committee, which, I think, consisted of nine members, there were three ex officio Government officers, and I think three who were chosen by the banks, and three who were designated by the President of the United States either from this commission or outside of it. A provision was made, however, that bankers who became members of the executive committee should resign all banking connections. The effort was to get a board which fairly represented the business interests of the country and the Government to act jointly.

Senator REED. Was that the stage in which this bill was before it was submitted to Senator Owen?

Mr. WILLIS. I beg your pardon?

Senator REED. Was that the stage in which this bill was when the draft of it was submitted to Senator Owen?

Mr. WILLIS. I can not recall in detail, as I say, the exact stages through which the bill went. Senator Owen went over different drafts of the measure as we went along, and cooperated in shaping the terms of it.

Senator REED. At one time was there not a discussion or argument between Senator Owen and yourself in regard to the proposition as to whether the Government was to have the ultimate control or whether the banks were to have the ultimate control?

Mr. WILLIS. I do not recall such a discussion, Senator. Let me say at this point, however, that my feeling at that time was that it would be desirable to have certain banking representation on this board. I thought that by so doing we could get into closer touch with the banks of the country, and would have their advice, etc.; that if the membership of the board were partly selected from the best bankers, then called upon to resign their banking connections, their connections with banking institutions, so that they would become the servants of the public, you would have a stronger board for practical purposes than otherwise you would have. That was the view of Mr. Glass, as I understood it, and was a view in which I concurred.

As he worked further on the subject, I think he came to feel that the board should consist entirely of public appointees. When that idea was suggested to me, Mr. Glass and I had some discussion of the matter, I recall. I do not remember in detail what it was. I think I said to him that it seemed to me that the entire elimination

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of bankers from the board would tend to lose us a good deal of support for the bill, and might result in weakening the plan in practical operation.

That view was not accepted; but the form of the commission or board was made what it is. And since then I have devoted a good deal more of study to the thing, particularly in view of the rather extensive public criticism that has been visited upon the mode of control; and I think that the board, as now provided, consisting exclusively of public officials, as it does, is a good one and one that can be trusted.

Senator O'GORMAN. Are you still of the opinion that Cabinet officers should be members of the reserve board?

Mr. WILLIS. I think, Senator O'Gorman, that the Secretary of the Treasury, by all means, should be, even if his connection with the board were merely pro forma, in order to give him an active connection with this board; for although it is true that the form of the bill as now presented contemplates the taking of the general funds of the Treasury, the commercial funds of the Treasury, out of the Treasury and the placing of them in the banks, it is a fact that the disassociation of the funds from the Treasury would not be completely effected for a good while, and the immediate cooperation of the Secretary of the Treasury would be very necessary at every point. I therefore——

Senator O'GORMAN (interposing). Well, would not the board, consisting of public officials, always have the cooperation of the Secretary of the Treasury?

Mr. WILLIS. Yes.

Senator O'GORMAN. Even though he were not a member ex officio of the board?

Mr. WILLIS. I think that is perfectly true. At the same time, perhaps partly for sentimental reasons, I should prefer myself to see the Secretary of the Treasury a member. As to the other two officers——

Senator O'GORMAN (interposing). Right there, if you will permit me to ask another question: It has been suggested to us at different times, as a reason for the exclusion even of the Secretary of the Treasury, that this board should not be what we describe as a political board, but as far as possible it should be divorced.

Mr. WILLIS. Yes.

Senator O'GORMAN. From partisan suspicion or activity.

Mr. WILLIS. Yes.

Senator O'GORMAN. And it has been said, in that connection, that a President usually selects for Cabinet positions men who have been active politically.

Mr. WILLIS. Yes.

Senator O'GORMAN. And that we may not always have as valuable a Secretary of the Treasury as we have at the present time.

Mr. WILLIS. Well, I agree fully with that view in general. But I believe from what I have seen of our Secretaries of the Treasury during a series of some years observation here, that the Secretary of the Treasury is usually able to disassociate himself from purely commercial considerations; and I do rather strongly feel that he should be a member of this board. I see no reason why the Secretary of Agriculture should be a member of it.

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Senator O'GORMAN. Why did you suggest that the Secretary of Agriculture should be a member in the first place?

Mr. WILLIS. Well, I do not know that I did, Senator O'Gorman.

Senator O'GORMAN. Oh, I beg your pardon.

Mr. WILLIS. Senator Hitchcock also spoke of my having suggested various things—as if I had necessarily suggested or favored every point in this bill. Let me say at this point, right here, that I believe it to be a good one, recommend its enactment, and am heartily in sympathy with it; but that there are a good many things in the bill that I do not agree with.

Senator O'GORMAN. Well, now, it is in that connection that I want to ask a few questions. I am not much concerned about the genesis of this bill.

Mr. WILLIS. Yes, sir.

Senator O'GORMAN. I am not concerned about the authorship of it, but as you are a student of banking and currency I would be glad to know whether you would make any suggestions at this time looking to the modification of the bill?

Mr. WILLIS. I should be glad to do so; and I had intended to take that up when I was diverted to the early work on the bill, etc. If it be your pleasure and that of the chairman, I will take that up now.

Senator O'GORMAN. Very good.

Mr. WILLIS. I said a moment ago that it seemed to me that this bill was a good one, and that I heartily recommended its enactment. I repeat that, and I also repeat that I think there are some serious defects in the bill at the present time, and that there are some technical defects in it; and I believe further that there are certain concessions or changes that might well be made in the measure for the purpose of meeting criticisms that have developed, and for the purpose of strengthening it before the public without materially interfering with its general objects.

I will now turn, with your permission, to the points that strike me as rather serious defects in the bill.

In getting this bill into successful operation I think it will be necessary to have the banks which are engaged in operating the system act harmoniously, and so far as possible, in strong sympathy with the plan. I say, if it be feasible to get that under reasonable conditions.

In the second place, I think it is very desirable, in order to get that cooperation from the commercial banks of the country, that they should be in a measure protected to an extent that will enable them to continue as active commercial banks.

Now, in this bill as it stands to-day provision is made for allowing State banks and other banking institutions to become members of the organization upon practically the same terms as national banks. That means that instead of measuring up to the strongest unit in your system you are rather inclined to measure down to the weakest. In other words, the bank which is organized under the least stringent and the least satisfactory laws is the one that can come into the system, get the advantage of what it holds out, and at the same time extend its business broadly under the less stringent laws to which it is subjected.

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Now, the national banking system, as you are all aware, has to-day as its striking characteristic the note-issue function.

Under this bill it is to be expected that that note-issue function will be gradually eliminated, and that at the end of 20 years it will disappear.

Under those conditions what would be the reason why a bank should organize as a national bank, rather than as a State bank? It seems to me that there will be no such reason, except the mere prestige of the name "national," and the somewhat closer relationship, possibly, between the national bank and the Treasury and the Government, than would exist between the State bank and the Government.

It has been stated by not a few critics of this bill that it would probably tend to extinguish the national system, so that in the last analysis you would have a corps of 12 reserve banks, or as many as you decide upon, presiding over groups of member banks organized under the laws of the States. I think that that, like all extreme or general statements, is probably pretty far from the truth; but I also think that the tendency would be quite strongly in that direction. I do not think that should be allowed to occur.

Senator O'GORMAN. Do I understand you to say that, in your judgment, the adoption of this bill as it now stands would be likely to induce a number of the national banks to surrender their charters?

Mr. WILLIS. No, sir; I did not say just that. What I meant to say, Senator O'Gorman, was that I thought that new banks—men who were contemplating going into the national banking system—would be more likely under this bill to organize with State charters than they would with national charters; certainly in many parts of the country.

Senator O'GORMAN. Well, would not the same reasons that would induce men embarking in banking enterprises to take out State charters also be likely to induce some of those who held national charters to surrender them and change into State banks?

Mr. WILLIS. There would be that tendency; but, of course, it would be held in check by the existing situation as to bonds.

Senator O'GORMAN. Well, what is your suggestion?

Mr. WILLIS. I will come to that more fully later. Now, to sum up my first objection, I think that in this bill State banks in order to be eligible for membership in the system ought to conform to the same limitations upon business as national banks.

Senator REED. Now, let me understand you on that point——

Senator NELSON (interposing). Then they would not come in at all.

Mr. WILLIS. The State banks would not?

Senator NELSON. No.

Senator REED. Let me understand this, because it is a matter of very great importance. Would you, then, add to the powers of the national banks a provision making them broad enough so that they could exercise substantially the functions now exercised by State banks and trust companies, or would you let the present national act stand substantially as it does and prescribe the character of business which could be done by the State banks and trust companies upon coming into the system?

Mr. WILLIS. I was just coming to that point, Senator Reed.

Senator REED. Very well.

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Mr. WILLIS. That is my second point. I mentioned two very serious defects in the bill. May I just take that up in my own way?

Senator REED. Certainly.

Mr. WILLIS. Secondly, I recommend the entire elimination of the savings-bank section as now given in this bill, so that a national bank would be restricted to its present line of business.

Senator REED. Well, that was not in your bill when it was introduced?

Mr. WILLIS. In what bill, Senator Reed?

Senator REED. It was not in the bill when it was first introduced, was it?

Mr. WILLIS. The savings section was introduced shortly before the bill was reported to the House.

Senator REED. I say, it was not in the bill when the bill was introduced in the House?

Mr. WILLIS. No; I think it was not.

Senator REED. It was added by the caucus, was it not?

Mr. WILLIS. My memory, Senator, is that that was done while I was not present. But I am speaking merely from memory. My memory is that it was added in the committee, during the preliminary work in the committee, and then ratified by the caucus.

Senator REED. Yes. Very well.

Mr. WILLIS. Now, those two changes, I think, should be made in the bill with a view to making this corps of banks a strong body of institutions, organized for the purpose of doing a strictly short-term banking business.

Senator NELSON. Would you limit the statement to that also?

Mr. WILLIS. I should make them conform, Senator, in every respect, so far as it could be legally done, to the restrictions upon the national banks.

Senator NELSON. Of course we could provide as to that, that they could not come in except under that condition.

Mr. WILLIS. That is what I have in mind.

Senator NELSON. And you think we ought to do that?

Mr. WILLIS. I do.

Senator NELSON. Then you would fence them out pretty effectually from the system?

Mr. WILLIS. Well, I do not undertake to pass judgment on that. I think a good many of them would come in just the same, because the strongest State banks are, of course, to-day just as strong as many of the national banks. But that is a matter of opinion wholly, and I would not attempt to hazard anything more than a conjecture about it.

Senator O'GORMAN. Let me ask you a question right here. If we are attempting to improve and extend our national banking system, why should we attempt to make a provision which will relate to State banks? Why should we not confine our effort to an improvement of our national banking system—if it be sufficiently attractive? And after we accomplish the improvement, it may induce State banks to surrender their State charters and come into the system. I would like to know why we should attempt in this measure, with the constitutional limitations on our power, to legislate for State banks?

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Mr. WILLIS. Well, that is practically the idea that I have sought to express.

Senator O'GORMAN. Well, do you mean we ought to eliminate what is now in the pending bill with respect to State banks and trust companies coming into the system?

Mr. WILLIS. No; I think they should be permitted to come in, if they are willing to conform in every reasonable respect to the national banking act.

Senator O'GORMAN. Well, you encounter the difficulty, then, suggested by Senator Nelson, that a State bank is permitted to enjoy functions which you would curtail and limit in the case of a national bank.

Mr. WILLIS. I should say to the State banks that they should stay out of the system if they are not willing, in every respect, to come up to the national banking standard. To sum this up, my feeling about the proposed plan is that it should provide a strong, select corps of commercial banks, bound by the most rigid requirements of modern banking practice, to keep their assets in a fluid condition and to live up to stringent examination and investment standards.

Senator O'GORMAN. Yes. You may proceed.

Mr. WILLIS. Now, I said I thought there were technical defects or blemishes in this bill.

Senator O'GORMAN. Pardon me; before you proceed to technical defects, have you now exhausted what you conceive to be the serious and substantial defects?

Mr. WILLIS. Those are, to my mind, the points in which the bill is seriously at fault; yes, sir.

Senator O'GORMAN. Well, then, will you briefly recapitulate the serious, substantial defects?

Mr. WILLIS. First, the admission of State banks subject to their existing conditions of law and operation.

Second, the weakening of the national system by the introduction of a savings section which would enable the national banks to compete, in a way, with State banks, and to tie up a considerable part of their capital in other than purely fluid funds.

I might add there—and this I do with much less certainty—that it has occurred to me that there might be some purpose served in permitting the organization of national trust companies, the same to be organized by the stockholders of national banks, and by them only, and to be operated for the purpose of taking over such business as did not properly fall within the sphere of a national bank, upon condition——

Senator O'GORMAN (interposing). You mean that would not fall within the sphere of a commercial bank?

Mr. WILLIS. Yes, sir; upon condition that such banks should thereupon disassociate themselves from the present relations they bear to State trust companies organized in the same way—a kind of joint ownership of stock plan——

Senator NELSON (interposing). Would you have them related?

Mr. WILLIS (continuing). Of which there are, I understand, about 300 cases in the country.

Senator NELSON. Would you have these trust companies, then, as appendages of national banks?

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Mr. WILLIS. They would be that; yes, sir.

Senator NELSON. Well, what is the difference between appending a trust company to a national bank and appending a savings bank to it?

Mr. WILLIS. The difference is, as I understand it, that in this savings question there is no sufficient segregation or differentiation between the savings department and the commercial, but they are simply departments of the same corporation. My feeling in the matter is that a banking corporation organized under the national law should be solely devoted to commercial business, and should be organized for the purpose of carrying on that business in such a way as to make it a suitable member of this system.

Senator NELSON. But would you allow the same set of men that run the national bank to organize a company in the next room to that, or in the building close by, a trust department as an attachment to it?

Mr. WILLIS. But organize it under a separate charter, with different liability, and with a different kind of inspection, subject to complete differentiation of assets and possibly not allowed to have any direct dealings in the way of deposits or discounts with the bank itself.

Senator NELSON. Would you allow the same set of officers and directors?

Mr. WILLIS. I think I should allow the same set of directors, possibly. I would not say with certainty about that. As I stated in the first place, I mean that merely as a means of meeting the apparently widespread demand for a provision enabling national banks to do in some way the business which at present is either driven away from them by the stringent requirements of the national-bank act or else is carried on by them under the fiction of separate organization of trust companies under State laws.

Senator SHAFROTH. In the State from which I come, Colorado, a savings bank can do a general mercantile business.

Mr. WILLIS. Yes.

Senator SHAFROTH. But when the bank fails the savings deposits are reserved in toto, and the depositors have a first lien upon all the assets.

Mr. WILLIS. I see. That is, they are preferred creditors.

Senator SHAFROTH. Yes; preferred creditors. That complicates very much the affairs of a failing bank.

Mr. WILLIS. Yes; I see.

Senator SHAFROTH. Because one side contends that the giving of interest on their deposits really ought to make them deferred; whereas, upon the other side, they say that these savings depositors are poor people that are putting their money in, and that therefore they should be preferred. I have generally favored segregation, myself.

Mr. WILLIS. Well, I believe in that—the complete segregation of liability.

Senator HITCHCOCK. Mr. Willis, had you finished your enumeration of the chief defects of the bill?

Mr. WILLIS. I have, sir.

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Senator HITCHCOCK. Then, I want to draw attention to the fact that after this bill was reported in the House there was a very decided change in the market for United States 2 per cent bonds.

Mr. WILLIS. Yes; I know.

Senator HITCHCOCK. And I want to ask you whether you think that the bill adequately provides for our national credit?

Mr. WILLIS. Well, Senator Hitchcock, may I reserve that point until later? That is a topic that I thought of taking up fully a little later on. With your permission I should like to deal with that later.

Senator HITCHCOCK. But I would like to ask you at this time whether you think that result was due to a defective condition in the bill.

Mr. WILLIS. Do you mean the decline in the Government bonds?

Senator HITCHCOCK. Yes.

Mr. WILLIS. I have thought somewhat upon that question. I do not think that it was. But I do think this, that the 2 per cent bonds are in an artificial condition. Their market is largely artificial, and always has been. I think that any great change in legislation that does not make an absolute, unmistakable, positive provision for the redemption of those bonds at par—that is, I mean in the near future—may lead timid holders of those bonds to throw them on the market and thereby bring about a depression in their price; and while I, of course, can only advance an opinion on the subject I think that is what occurred in this instance.

Senator HITCHCOCK. Well, you do not believe, do you, that national banks that intended to stay in the system as proposed in this bill would market their bonds?

Mr. WILLIS. Very few bonds in actual volume were marketed, Senator Hitchcock.

Senator HITCHCOCK. No. But you believe, certainly, that the only bonds which were marketed were marketed by banks which were going to denationalize themselves, because they could not accept the terms of this bill, do you not?

Mr. WILLIS. Not necessarily, I should say. There are always banks that are getting rid of their bonds, selling them; and it might easily have been the case at that time that the banks were disposing of bonds for the purpose of retiring circulation.

Senator HITCHCOCK. Well, under the existing law they are not permitted to retire more than a very small proportion of their circulation.

Mr. WILLIS. Certainly; that is true.

Senator HITCHCOCK. But if they denationalize themselves they will naturally retire it all?

Mr. WILLIS. Yes; they would retire all their circulation, and they would sell their bonds if they could get a good price for them. I can conceive of the bonds being at a price where it would be better worth their while for the holders of them to continue to hold them, rather than sell them on the market, as an investment security. Have I answered your question?

Senator HITCHCOCK. In part you have. But I wanted to ask whether you felt when you finally approved the House bill—as I believe you did—whether you felt that it took into account the fact that there were some 4,000 national banks in the country which prac-

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tically derived no benefit from this bill at all, although they were required to give up one-tenth of their capital under it.

Mr. WILLIS. Well, I did not feel then, and do not feel now, that those banks derive no benefit.

Senator HITCHCOCK. Well, do you know of any bank having less than $100,000 in capital, doing business in a country community, which is not able to get all the rediscounts it desires under the present system?

Mr. WILLIS. I should not like to name any individual bank of that kind. I do not think I could.

Senator HITCHCOCK. No; but you are aware that throughout the West and the South there are thousands of banks which at certain seasons of the year already rediscount their paper with their reserve agents?

Mr. WILLIS. Certainly.

Senator HITCHCOCK. And, of course, this bill gives them nothing they have not already got.

Mr. WILLIS. I can not agree with that.

Senator SHAFROTH. In times of panic it does.

Mr. WILLIS. I could not take that view of it.

Senator HITCHCOCK. Well, are you familiar with the condition of these small banks in the country towns as they are at the present time?

Mr. WILLIS. I have devoted as much attention to that as I reasonably could. As I told you, however, I have not had a technical banking experience and would not pretend to——

Senator NELSON (interposing). Do you know the character of deposits of these small country banks?

Mr. WILLIS. I think so.

Senator NELSON. What are they?

Mr. WILLIS. Let me see if I understand your question.

Senator NELSON. Do you know the character of the deposits of these small country banks in a rural community—the nature of their deposits?

Mr. WILLIS. Well, I presume that they are made there in part by persons who have funds that they want taken care of and in part by local tradesmen and farmers going there to obtain discounts on their notes.

Senator NELSON. Are you aware of the fact that the bulk of the deposits in these small country banks are time deposits drawing interest?

Mr. WILLIS. I know a very large volume of such deposits exists.

Senator HITCHCOCK. You are familiar with the fact, now, that through the West, at the present time, and in the South there are possibly thousands of national banks which perhaps would denationalize in case this bill passes as it has come from the House?

Mr. WILLIS. I have heard that stated, Senator, without knowing exactly how much basis there was for it. Personally, I may say at this point that I do not think it would be physically possible for these banks to do that in any considerable number—any large number.

Senator HITCHCOCK. Will you state the reasons?

Mr. WILLIS. The reasons why they would not denationalize?

Senator HITCHCOCK. Yes.

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Mr. WILLIS. In the first place, an effort on the part of such a bank to go out of the national system would cause it a rather heavy loss on its bonds.

Senator HITCHCOCK. Now, is not that fact what has caused the depreciation of the bonds?

Mr. WILLIS. I do not think so, Senator. I do not think that has been the cause of it; but, of course, I merely am expressing an opinion.

Senator HITCHCOCK. Suppose I told you I had received letters from 130 national banks in the State of Nebraska, outside of Omaha, most small national banks, and that 70 of them advised me they would denationalize if the bill passed as it came from the House?

Mr. WILLIS. Yes?

Senator HITCHCOCK. Taking that as a standard, how many small national banks do you think would denationalize throughout the United States?

Mr. WILLIS. Well, I should say unquestionably that that number of letters represented a very strong disposition on the part of the banks to denationalize. I should add, however, to what I said a moment ago, in addition to the question of the loss on bonds, there is this further idea——

Senator HITCHCOCK (interposing). Let me stop you right there. Do you assume that Congress will pass a bill which will permit the 2 per cent bonds to go below par?

Mr. WILLIS. I do not assume anything at all.

Senator HITCHCOCK. Do you think it would be right for Congress to do that?

Mr. WILLIS. I think it is right for the Government to make proper provision for its debts, whatever that may be.

Senator HITCHCOCK. Suppose those banks did denationalize and retire their currency, would not that produce a stringency in the circulating medium?

Mr. WILLIS. That is the point I wanted to speak of a moment ago.

Senator HITCHCOCK. Was that danger taken into account in framing this bill?

Mr. WILLIS. Fully.

Senator HITCHCOCK. Was it felt any banks would denationalize?

Mr. WILLIS. Under this bill, Senator, the bank, of course, which wishes to denationalize is subject to the same conditions as at present; that is, it has to leave currency—lawful money—with the Treasury to the amount of its outstanding circulation. Now, under this bill provision is made for the depositing of those amounts in the Federal reserve banks. The Government, presumably, then would deposit all of those funds now classed as general assets in such banks. Now, let us assume for the sake of the argument that all national banks left the system. Assume, further, that these banks have $750,000,000 of bonds or of currency based on bonds. I think that is a little large, but we may use it as a round number.

Senator SHAFROTH. $735,000,000.

Mr. WILLIS. $735,000,000. It is evident, then, that the banks would have to leave with the Government $735,000,000 of lawful money, except in so far as they might have their own notes, which they would turn in. Now, the banks have to-day, say, in round numbers, $950,000,000 of reserve money. In other words, an effort to do that would

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be out of the question. The banks could not do it, because they would be turning over to the new reserve banks the great bulk of their cash, if it be assumed that any banks at all went into the reserve system, so as to permit the organization of the reserve banks. Answering your question in another way, it was recognized, Senator, when the bill was framed that if it appeared that the banks were not willing to enter the system in large numbers, so as to make it effective and workable, it would practically be necessary to provide for the taking up of the stock of these reserve banks, to some extent at least, by the public at large, in order to get them organized and set them going promptly.

Senator HITCHCOCK. That was provided for in the bill?

Mr. WILLIS. It was not; no, sir. But it was considered—fully considered. You asked me if that was gone over, and I said "yes."

Senator HITCHCOCK. The matter I wanted to have you discuss was whether any account was taken of the effect upon circulation by the denationalization, possibly, of 7,000 banks.

Mr. WILLIS. The conclusion we reached, Senator, was if the reserve banks were organized, as it was supposed they would be, on some basis, such retirements of circulation as might be effected by the deposit of lawful money would be offset, as the funds would be put back into circulation immediately through the redeposit of that lawful money in the reserve banks, where it would at once constitute a basis for rediscount. Do I make plain what I mean?

Senator HITCHCOCK. How could you have organized 12 reserve systems, with a minimum of $5,000,000 capital each, if any considerable number of banks denationalize?

Mr. WILLIS. As I said a moment ago, Senator, it was thought then, in case any reason appeared for thinking many national banks would go out of the system—which I personally did not feel and have never been convinced of—that if that did occur it would be necessary to have the stock of the reserve banks thrown open to subscription by the public in order to do just what you indicate—that is, to get them started with a generous capital Have I covered the point?

Senator HITCHCOCK. You have; but I do not see, then, that the retirement of perhaps $100,000,000 of national-bank notes would be provided for. It seems to me there would be a violent shrinkage of the currency and possibly a panic resulting through the refusal of many banks to join the system.

Mr. WILLIS. I will say this, Senator: In my opinion it would be an exceedingly unfortunate thing to have a great many banks leave the system. If by any reasonable means that can be avoided, it should be avoided, because the success of this system will depend in very large measure upon the existing banks, or a considerable number of them, joining and loyally helping to put the thing into operation. This bill is not a central-bank bill in the ordinary sense of the term, but it is a bill creating a series of reserve holding agencies. That is the distinguishing feature of the bill.

Senator NELSON. But why do you propose this discrimination in the matter of bank reserves? In the country banks, as defined here, they must immediately deposit a portion of their reserves with the reserve bank.

Mr. WILLIS. Yes.

Senator NELSON. Country banks?

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Mr. WILLIS. Yes.

Senator NELSON. Other banks have 60 days in which to do it. Why do you make that discrimination, that country banks must deposit the reserve immediately in these regional banks, while all the banks in the reserve cities and central reserve cities have 60 days in which to do it?

Mr. WILLIS. I do not so understand the bill.

Senator NELSON. You read it and see.

Senator SHAFROTH. Even in that case, Senator, the bank has a year to determine whether it will come in, and it can be getting ready.

Senator NELSON. To come in?

Senator SHAFROTH. Yes; to come in.

Mr. WILLIS. May I finish my statement? I was saying that the bill provided for a series of reserve-holding institutions. Now, it will be successful in large measure according to the degree in which it gets the reserves of the bank. If they do not come in, but leave the national system and become State banks, then, of course, there will be no obligation on them to deposit their reserves there. In other words, if you then threw open the subscription of the stock of those banks to the general public you would then be creating a system of Government banks—public banks. Now, I do not think that would be a desirable thing to do, unless you are driven to it.

Senator HITCHCOCK. You do not favor the idea of a Government bank?

Mr. WILLIS. I do not mean to say that in this connection. If you want me to take that up now—I am getting involved in a good many broad questions—I will; but I was going to defer that until later. May I do that?

Senator HITCHCOCK. Certainly.

Mr. WILLIS. I think, then, it is highly desirable to get as many banks as can reasonably be induced to do so to come into this system at the start, in order that the system may begin business with an adequate volume of reserves in the banks, ready for use in cooperative work for the maintenance of their credit.

Senator HITCHCOCK. I had a question or two I wanted to ask you that I omitted formerly. I wanted to ask whether you were the only expert who assisted the committee in framing the bill?

Mr. WILLIS. I think I am the only man who occupied an official status in that way. We called in before the committee a good many men of very high expert authority, who testified upon different points as they came up, and told what they thought about given subjects.

Senator HITCHCOCK. Would you object to telling the committee whether Prof. Laughlin, of Chicago, approved the substance of this bill, in its fundamentals?

Mr. WILLIS. I do not know anything about that. I have never heard him say.

Senator O'GORMAN. Were there any hearings before any committee at the time this bill was formulated?

Mr. WILLIS. Not so far as I know, Senator, except those of last winter. You mean in the House?

Senator O'GORMAN. Yes. The first time hearings were had with regard to this bill, and its provisions, were the hearings before the Senate committee?

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Mr. WILLIS. I so understand it.

Senator O'GORMAN. During the last five weeks?

Mr. WILLIS. I so understand.

Senator HITCHCOCK. You do not know that Prof. Laughlin had assisted the committee in any way?

Mr. WILLIS. I am quite sure he did not. At least, if he did so, it was not within my knowledge.

Senator NELSON. You said you were the only official expert. Who were the nonofficial experts that appeared before you when you were framing the bill?

Mr. WILLIS. Their names are given in the hearings. I could hardly give them all, Senator, but some of the principal ones were Mr. A. B. Hepburn, of New York, who I think was chairman of the American Bankers' Association Commission; Mr. Paul M. Warburg; Prof. Laughlin, of the University of Chicago; Sir Edmund Walker, a Canadian banker, from Toronto; and a considerable number of other well-known bankers. Their names are all of record in the hearings. Then, in addition to that, the chairman of the committee sent out a large number of lists of questions and inquiries, and so forth, to capable men, and their answers were at his disposal in making up his mind on what ought to go into the bill. So that I think a pretty full attempt was made to find out what the community thought on each important point as the work was done.

Senator O'GORMAN. In passing, I want to ask if I understand you correctly. The bill as prepared, as I understand it, was the result really of a collaboration of a number of people. Did you regard it as the best plan that could be devised at the time it was presented to the House?

Mr. WILLIS. Under all the circumstances, Senator, of every kind, I felt then and I feel now, in all sincerity, that this plan is probably as good, subject to reasonable changes and improvements, and so on, as could be obtained.

Senator NELSON. You admit it could be improved?

Mr. WILLIS. I have already pointed out, Senator, two or three points which call for change, and I am going to indicate others.

Senator O'GORMAN. I understood you a while since to say that after further study and consideration, and as a result of the public criticism of the bill as offered in the House, you now see where the bill could be materially improved and you are proceeding to give some of the suggestions along those lines?

Mr. WILLIS. No; not that, Senator. I think I said that as a result of further study, and so forth, I had come to feel that the placing of the reserve board entirely in the hands of Government appointees was a safe thing to do, and, on the whole, a way of handling the situation that was not open to criticism, all things considered. With reference to these other matters I am mentioning now, a number of them are points that I have felt for years ought to be included in any such bill.

Senator O'GORMAN. Were they included in the bill as offered in the House?

Mr. WILLIS. Certainly not, and they are not there now.

Senator O'GORMAN. Did you advise their insertion at that time?

Mr. WILLIS. I did; yes, sir.

Senator O'GORMAN. Your advice was not accepted?

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Mr. WILLIS. They were not included in the bill.

Senator O'GORMAN. They were not acted upon?

Mr. WILLIS. They are not in the bill, as a matter of fact. Now, as to the technical defects or blemishes in this bill, while a number of these might be mentioned, the only ones I think pressing are these:

First, as to the redemption feature. I have thought all along that redemption should be made in gold, or the equivalent of gold, such as gold certificates, and that the language "gold or lawful money" was probably not wise. This country is now on a gold basis, and I think it is best to make the redemption direct in gold or gold certificates for those notes.

Senator O'GORMAN. You would strike out "or lawful money"?

Mr. WILLIS. I should; yes. That language strikes me as being likely, possibly, to lead to some trouble. In a sense the difficulty is not serious; certainly not under ordinary conditions, because I believe that lawful money redemption—which was accepted by the bankers in the monetary commission's bill, by the way—would ordinarily be sufficient.

Senator O'GORMAN. In passing, if you will permit an interruption, it is apparent the bankers have learned something with respect to improving the banking system, even since the recommendations of the monetary commission.

Mr. WILLIS. I always thought that feature of the Aldrich bill, along with many other features, was open to serious objection. Now, if you put that in there, and probably whether you put it in or not, I think the Government should be given the power to get gold for redemption purposes by selling bonds, as it does now in connection with the greenbacks.

Senator NELSON. There is no such direct power in the bill now?

Mr. WILLIS. There is not; no, sir.

Senator NELSON. And no other law by which they could sell bonds for this purpose?

Mr. WILLIS. I think that it is a question whether they might not sell them under the existing law.

Senator NELSON. Under the law of 1900?

Mr. WILLIS. Yes; because ultimately, Senator, the redemption would fall back on the fund behind the greenbacks, for which they are authorized to sell bonds.

Senator NELSON. They could sell to redeem them, but not to redeem these?

Mr. WILLIS. But these would be redeemed in lawful money, and lawful money means greenbacks. In other words, they would redeem in lawful money, which would be redeemed in gold, which would mean it was redeemed by the $150,000,000 gold fund, which would mean that the Government had power to reconstitute that fund by selling bonds, which would mean, in the last analysis, it had power to provide for the notes under this bill if it had to. Under ordinary circumstances I do not think such a situation would ever come about, but I think it is better to avoid that criticism, since you practically have gold redemption there now, and simplify that provision by requiring their direct redemption in gold.

Senator HITCHCOCK. What objection was there to having a simple provision for a gold redemption in the House discussion?

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Mr. WILLIS. I think that was discussed a good deal on the floor, Senator. I do not remember all of the arguments, but as nearly as I remember the only argument that impressed me seriously in that connection was this, that if you are going to do that, sincerity would dictate that you go further and retire the greenbacks, and it was supposed that was a thing Congress was not supposed to be ready to do. There was a multitude of arguments on the subject, but I can not recall them all now.

Senator HITCHCOCK. Why would it be necessary to go further and redeem the greenbacks if you made an arrangement to redeem these notes in gold?

Mr. WILLIS. If you will pardon me, I did not say it was, but you asked me what argument was mentioned, and I said that was the one that impressed my mind chiefly. I do not think it is a conclusive argument, as you see from the recommendation I have made.

Senator HITCHCOCK. The present greenbacks are redeemable in gold.

Mr. WILLIS. Yes.

Senator HITCHCOCK. Why were not these new notes made redeemable in gold? I am referring now to your consultation on the bill.

Mr. WILLIS. I think they should be.

Senator HITCHCOCK. Did the bill originally provide for that?

Mr. WILLIS. I think not. I would not be positive on that point, but I think the lawful-money redemption was put in there on the ground that it was in the Monetary Commission bill and therefore represented something that had been indorsed by the banking interests and to which they certainly would not object.

Senator HITCHCOCK. That is one thing I wanted to draw your attention to. The statement has been made before this committee by one of the witnesses that the banking interests largely influenced the original make-up of that bill.

Mr. WILLIS. What bill do you mean?

Senator HITCHCOCK. Of the bill in the House, with which you were connected.

Mr. WILLIS. Yes?

Senator HITCHCOCK. And that Prof. Laughlin, president of the Citizens' League, which was composed of bankers, was consulted, along with yourself, and the bill was finally made to his approval.

Mr. WILLIS. Now, Senator, may I ask for the name of that witness?

Senator HITCHCOCK. Yes; that is Mr. Shibley.

Mr. WILLIS. I thought so. And I would like to say something about that. Prof. Laughlin was called before the committee just as others were called.

Senator HITCHCOCK. Let us first get the facts. Is he president of the Citizens' League?

Mr. WILLIS. No; I do not think he has any connection with it now. He never was president, so far as I know. He was a kind of representative, or perhaps had the position of chairman of the executive committee. I do not remember as to that.

Senator HITCHCOCK. You mean he represented the Citizens' League?

Mr. WILLIS. I do; yes.

Senator HITCHCOCK. And the Citizens' League was an organization of bankers for the promotion of banking and currency reform?

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Mr. WILLIS. It was an organization, nominally at least, of everybody who wanted banking and currency reform.

Senator HITCHCOCK. The bankers put up the money for it?

Mr. WILLIS. I have heard so a good many times.

Senator HITCHCOCK. It was stated they spent some several hundred thousand dollars in this agitation which resulted in this bill.

Mr. WILLIS. I think that was testified to by Prof. Laughlin himself before the Pujo subcommittee.

Senator HITCHCOCK. On January 8 of this year Prof. Laughlin appeared before the subcommittee of the Democratic House Committee on Banking and Currency?

Mr. WILLIS. Yes.

Senator HITCHCOCK. That was the subcommittee for which you were the expert?

Mr. WILLIS. Yes.

Senator HITCHCOCK. He described himself as "at the present time chairman of the Citizens' League for the Promotion of a Sound Banking System."

Mr. WILLIS. Yes? Do you want me to continue that a little further, Senator?

Senator HITCHCOCK. If you care to. Inasmuch as it has already been testified to before the committee——

Mr. WILLIS. I read that testimony, and I felt it was very unfair.

Senator HITCHCOCK. Unfair to whom?

Mr. WILLIS. To everybody. And, if you will allow me, I will state the facts about that. When the hearings were held, I think it was the wish of the chairman to have as many national groups represented in the hearings as possible; and to that end a good many were invited, but some of them never, I am sorry to say, put in an appearance. That is to say, the presidents of various organizations, manufacturers and so on, were invited to come. Some came and some did not. I remember the president of the Federation of Labor was invited to come, as were others in like position, but did not. Among the organizations that were to be represented was the American Bankers' Association and the National Citizens' League. The National Citizens' League was represented by Prof. Laughlin, I think, and Mr. J. V. Farwell, if my memory serves me right. Prof. Laughlin urged a plan of his own, and then subsequently placed in the hands of the committee a draft of a bill which he said represented his views. Now, in order to test the statement of Mr. Shibley, all that is necessary is to take Prof. Laughlin's testimony and read it and then take the bill that the committee finally reported and compare it with Prof. Laughlin's bill—that is, the bill he prepared. I think you will find there was no resemblance whatever between the two, except the same family resemblance there is in all bills on banking reform in their general features. For instance, it has been repeatedly stated that this House bill resembles the Aldrich bill. It does do that, so far as it contains certain fundamental ideas which are found in all these bills. It also resembles the Fowler banking bill and various others. Now, as I recall the Laughlin bill, it was a bill of the same general type as all of these others, but, of course, it had its own special features. I do not recall that any of those were adopted or incorporated. The bill has never been made a secret of,

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so far as I know, and I have here a copy of it, which I would be glad to place at your disposal.

Senator HITCHCOCK. Would you please place that in the record?

Mr. WILLIS. I should prefer not to do that, if you have no objection, Senator. The chairman of the House committee might allow that, but it was filed in the House committee and I do not think I would have the authority to do it. But my copy of it is at your service, if you wish to see it—you and the other members of the committee.

Senator HITCHCOCK. The reason I sugested that is because of Mr. Shibley's testimony.

Mr. WILLIS. Let me say, most emphatically, that the statements referred to have no foundation whatever, but are unjust to everyone, as I said before. Prof. Laughlin is a known expert and authoritative writer on these subjects. He represented a pretty large organization and was therefore given a suitable hearing before the committee. That was his only connection with it.

Senator O'GORMAN. Did not he approve of the Aldrich bill?

Mr. WILLIS. I think he aproved a great many ideas in it, if I remember correctly.

Senator O'GORMAN. Did not he give the entire bill approval?

Mr. WILLIS. I should not say so.

Senator O'GORMAN. I have the impression he did.

Mr. WILLIS. It may be so.

Senator HITCHCOCK. Let me quote Mr. Shibley's statement in a few lines, as a text for you to discuss. He says, "he outlined," that is, Prof. Laughlin, "a proposal for a currency and banking system that is almost exactly what became the administration bill."

Mr. WILLIS. Right there, Mr. Chairman, may I repeat that the outline of almost any one of these bills is similar to the outline of every other, just as there is a general resemblance between human skeletons. The differences come in when you begin to deal with the actual clothing of them with flesh and blood.

Senator O'GORMAN. Is it possible Mr. Shibley had in mind that as the Aldrich bill provided for an organization controlled by the bankers, that your initial bill provided for an organization in which the bankers would have a very substantial representation?

Mr. WILLIS. Well, I do not know what was in his mind, of course. What I do know is that it is not a fact that any one organization, or outside individual more than any other, was instrumental in outlining or framing this bill, so far as I have any knowledge or belief.

Senator O'GORMAN. I think it is fair to say to you that none of the committee, so far as I am aware, disagrees with you on that proposition.

Mr. WILLIS. And, in further support of that, I offer to place at the disposal of the committee my own copy of the bill that was suggested by Prof. Laughlin.

Senator HITCHCOCK. That will hardly be necessary, and your statement might be enlightening, somewhat.

Mr. WILLIS. Do you care to have me go on now with the technical defects?

Senator O'GORMAN. Yes: we want the benefit of your criticism of this bill.

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Mr. WILLIS. I think the language in this bill relating to the redemption fund for Federal reserve notes, which is to be held in the Treasury, ought to be clarified and strengthened, and I think that the redemption fund should always be held in the Treasury in sufficient quantity to insure the regular redemption of any notes that may come in there. At present it is 5 per cent. I have been uncertain, from the start, and I should think that everyone would feel more or less uncertain, as to the adequacy of that 5 per cent. Now, to remove that, I believe that the Federal reserve board, if you should enact this bill or something like it—the Federal reserve board should be given power to require reserve banks to maintain such proportion of their 33⅓ per cent reserve as may be necessary in the Treasury. That is, instead of having it a flat 5 per cent, to have it whatever experience may dictate. It might run as high as 10. Experience would be necessary in order to find out, I think, exactly how much of that should be kept in the Treasury. Experience would indicate about how many of these notes came to the Treasury instead of going straight home. That, I think, is a somewhat important matter, in order that the Government might never be embarrassed through unnecessary delay in redeeming these notes. It is the more important in view of the fact that under the bill all commercial funds of the Government are to go into the reserve banks, so that it is thrown back upon this fund and must have enough of that to make the redemption successfully and promptly.

In the next place—a matter I think is probably more important than any of the other defects—the language of section 14, which relates to rediscounts, is unsatisfactory. It provides that—

> Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or may be used, for such purposes, etc.

I can not help feeling that the language "or the proceeds of which have been used, or may be used, for such purposes" opens a door of danger that perhaps would not be availed of but might be, and I should like to see that language stricken out and the rediscount section strengthened correspondingly.

Senator WEEKS. Let me ask you a question about the rediscount of notes. Why should any of these notes in the ordinary course be presented at the Treasury for redemption?

Mr. WILLIS. Well, Senator Weeks, I think it is doubtful, as I said. I think it would be a matter of experience to find out how many would be. May I answer that indirectly? Why need any national bank notes be presented to the Treasury for redemption?

Senator WEEKS. Because that is the only place you could redeem them.

Mr. WILLIS. You could send them directly home. Now, I have heard of a bank's making up a bundle of notes for redemption and, out of "banking comity," including in that bundle a number of notes issued by a bank across the street. It sends them to Washington and has them redeemed there, and the Washington authorities send them back to the bank across the street. Of course, I have no personal knowledge of such a case, but I have heard such stories told.

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Senator WEEKS. I do not think that is a remarkable story. There are bundles of bills coming back to the Treasury that have never been opened—new bills.

What I wanted to call your attention to was that there will be branches of the reserve bank or reserve banks all over the country. The member banks, if there are such, will do business directly with the branch with which they are connected, or with the bank with which they are connected, and they naturally would send their bills to those banks for redemption. I do not see why they should send them to the Treasury.

Mr. WILLIS. Senator, I do not see any very serious or important reason why they should, but I think it is very hard to predict absolutely the course of commercial events, and I think it would be unfortunate if we should find ourselves with a law that did not provide a definite gold fund there, although there was plenty of gold somewhere.

Senator WEEKS. I think you are quite right about that.

Senator POMERENE. I am not sure that I understand. What is the particular vice you complain of in the phrase "or the proceeds of which have been used, or may be used, for such purposes"?

Mr. WILLIS. Because that introduces, Senator, an element of doubt or uncertainty into the judging of this paper.

Senator NELSON. It is pure guesswork, is it not?

Mr. WILLIS. Yes; I think it is too hazardous. I think the rediscounted paper, Senator—in line with my former statement about the necessity of making the banks strictly commercial institutions—should be only the cream of the paper; that is, paper growing out of bona fide commercial transactions.

Senator O'GORMAN. Would that be a sufficient description of commercial paper—paper that has grown out of commercial transactions?

Mr. WILLIS. I have had great difficulty, Senator, in framing a description of commercial paper, and I suppose everybody recognizes that difficulty. You will notice that in this bill the provision was made that the Federal reserve board shall have the right to determine or define the character of the paper.

If you happen to recall, after the Aldrich-Vreeland bill was adopted there was found to be in that bill a provision about two-name paper, I think, the idea being to get the cream of the paper. Experience speedily showed that in some parts of the West the best paper was single-name paper, so that Secretary MacVeagh, if I recall, gave out a rule that two-name paper was paper one of whose names was that of an indorsing bank; which I never felt was the real intent of the law, as I understood it. Now, I think that was a country as big as this, and with business interests as variable as they are, it is a pretty hazardous thing to try to introduce a definition of commercial paper into a law, and if you do not have that, then one would suppose it should be left to some proper administrative authority to settle. Hence the provision referred to here.

Senator HITCHCOCK. Let me ask you a question. Suppose a general merchant in a western town of 4,000 population goes into a bank and borrows $2,000 in order to discount a bill of goods that he is buying and get the cash discount. He draws his note for 90 days

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so that he will be able to make his sales of the merchandise purchased before the note matures. Is that commercial paper?

Mr. WILLIS. Will you kindly state that again?

Senator HITCHCOCK. A merchant in a small town, purchasing a bill of goods, desires to get the cash discount. He goes to his bank and borrows $2,000 for 90 days——

Mr. WILLIS (interposing). Securing it how?

Senator HITCHCOCK. Without security; it is his note.

Mr. WILLIS. Yes.

Senator HITCHCOCK. Is that commercial paper?

Mr. WILLIS. It is in the ordinary acceptation of the term.

Senator HITCHCOCK. Is it under the terms of this bill?

Mr. WILLIS. I think the language as used could be interpreted to cover that.

Senator HITCHCOCK. It is intended to cover that kind of paper?

Senator NELSON. The merchant is substituting the bank in place of the seller of the goods.

Mr. WILLIS. Certainly. It is undoubtedly paper that he can use in that way.

Senator HITCHCOCK. Now, suppose a man in a town goes into a bank and borrows $2,000 for five months in order to help pay for some cattle he is buying to fatten. He makes the maturity of his note five months because before that time he will sell his cattle. Is that commercial paper?

Mr. WILLIS. That is another question of definition.

Senator HITCHCOCK. Did you intend to have that covered by this bill?

Mr. WILLIS. I think that the introduction of this language here was intended to cover that, without doubt, and a good many other classes of transactions of even broader scope.

Senator POMERENE. Senator, allow me to suggest this language here: "Notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes."

Senator HITCHCOCK. Yes. Now then, if that is intended to cover it, why did you limit it to 90 days when many of the transactions out West and down South cover from four to five months?

Mr. WILLIS. I think I can say without violation of any confidence that that was a matter of very serious consideration and of a good deal of difference of opinion. After looking over all the data that could be had and consulting with the Treasury Department, I think those who were in charge came to the opinion that there would be an abundant supply of this 90-day paper in the country. Secretary McAdoo sent out certain blanks to banks more recently, asking them how much there would be——

Senator HITCHCOCK (interposing). That was not done at that time?

Mr. WILLIS. Certainly not; but we did at that time get all the data there were, and the later investigation has borne out our conclusion.

Senator HITCHCOCK. Did you call in country bankers to find out what paper they actually handled?

Mr. WILLIS. Country bankers were before the House committee; yes, sir.

Senator HITCHCOCK. Who were they?

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Mr. WILLIS. I can not remember their names now. May I add that there was a large correspondence with country bankers?

Senator HITCHCOCK. We have had a number of country bankers here, and I have had a large personal correspondence with country banks in my own State, and the almost universal testimony is that the demand they have for rediscounts is at the time they are making five and six months' loans, and that that paper is unacceptable under the terms of this bill.

Mr. WILLIS. May I add one thing right there? As I said a moment ago the conclusion was reached that there was a sufficient supply of the 90-day paper in the country. For that reason it was believed that enough of a vehicle was provided for letting out the funds of these Federal reserve banks into general use, and the conclusion was reached that if there were a sufficient medium for letting out those funds everybody that was entitled to discount, whether his paper was technically rediscountable at the Federal reserve bank or not, would get the benefit of it. Do you follow what I mean?

Senator HITCHCOCK. He would get it indirectly from his city correspondent?

Mr. WILLIS. Yes.

Senator HITCHCOCK. Does this bill contemplate that a country bank will still have its city correspondents?

Mr. WILLIS. It does not distinctly say that it will have its city correspondents, but there is nothing in it to prevent that, and my own opinion is that in some cases that would continue to be the practice.

Senator HITCHCOCK. What has developed, as a matter of fact, Mr. Willis, is that the country bankers almost with one voice say that they get no benefit out of this bill, that 10 per cent of their capital is taken and their reserves impounded and taken away from the banks where they can get discounts, and that is the reason they propose to denationalize unless the terms of the bill are changed.

Mr. WILLIS. Well, as I said before, Senator, if you reach the conclusion as a positive fact that the terms of this bill are such that the banks can not come in and do their service to the community, then, of course, the bill is not going to perform its work and ought to be altered to such extent as to bring about participation on the part of the banks.

Senator SHAFROTH. Do you not think, however, that many of these statements and declarations are made for the purpose of obtaining concessions in this bill, and that they will come into the system?

Mr. WILLIS. I think that is human nature; just as, in the case of previous legislation, we have had statements and predictions of absolute panic and disaster contingent upon the adoption of some piece of legislation. In this case—without meaning to be in any way insincere or unfair—I think the attitude of a man who is going to be subjected to business inconvenience—and any great measure of this kind is likely to produce a great deal of business inconvenience—is to take a dark view of the situation.

Senator SHAFROTH. And to make threats as to what he will do.

Mr. WILLIS. To look pessimistically at the future. I think anybody is prone to do that—the banker no more than anybody else.

Senator HITCHCOCK. Perhaps you had better proceed, Mr. Willis.

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Mr. WILLIS. I think those are all the technical defects I care to mention. Of course, scattered through the bill there are places where the language could be improved.

Senator McLEAN. Have you had your attention called to the plan suggested by Mr. Vanderlip before this committee yesterday?

Mr. WILLIS. I have only read what the newspapers said this morning.

Senator McLEAN. Have you read enough about it so that you are in a position to criticize it?

Mr. WILLIS. I should not like to do that upon a mere reading of an outline. In a moment, if you will allow me, I shall speak of that general type of plan.

Senator McLEAN. Yes.

Mr. WILLIS. Now, I think there is a third group of changes that might well be made in this bill. They are changes that are not necessarily an improvement from an abstract standpoint, in my judgment, but they are changes that are likely to render it easier to get the system started, perhaps, and make it less burdensome.

The first is in regard to the subscription to the stock. It seems to me that the present subscription required—that is, 10 per cent paid up—has been complained of quite a good deal. I think perhaps it may be more than is absolutely necessary. If it is desired to make a reduction in that and cut it down somewhat, I think that could reasonably be done.

Then the question has been raised whether the subscription to the stock should be absolutely compulsory, and whether it should be confined to banks. If there is danger of a good many banks leaving the system at first, or not coming into the system, then it seems to me that the public might well be allowed to participate in the subscriptions. That is, it might be stated that if within a reasonable length of time the total capital stock had not been subscribed—that is, enough to bring it up to the required minimum capital—by banks, the remainder should be open to general public subscription.

Senator HITCHCOCK. Mr. Willis, why should these banks own the stock at all?

Mr. WILLIS. Why should the member banks own it?

Senator HITCHCOCK. Yes.

Mr. WILLIS. I think there is no good reason for having them do so, except to interest them in the scheme and get them to take a more active part in running it.

Senator HITCHCOCK. The banks are not to be run for profit.

Mr. WILLIS. You mean these reserve banks?

Senator HITCHCOCK. Yes.

Mr. WILLIS. No.

Senator HITCHCOCK. Why should these other banks that are organized for profit be permitted to take any interest in it? They do not do it in any European country.

Mr. WILLIS. I do not think you can give any abstract reason why they should not.

Senator HITCHCOCK. Can you give a concrete reason?

Mr. WILLIS. Concretely, it has been supposed in all these plans, I think, that by letting the banks control their own reserves in this way you would get them to take a more immediate and active interest in

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the starting of the system. I might say that was the practical reason.

Senator HITCHCOCK. As a matter of fact, would there not be a great advantage to the American system of banking if we could add $100,000,000 to the banking capital of the country, instead of simply taking it off at one place and putting it in at another?

Mr. WILLIS. That is a matter I intended to speak of. The private subscribers, of course, would have to get their money somewhere. They will get it by drawing on their deposits in banks, so it will come to about the same thing—the banks will have to provide the money.

Senator HITCHCOCK. There is a vast difference between their taking their own funds and having their customers withdraw theirs.

Mr. WILLIS. Does it not come to about the same thing in its effect on the reserves of the banks?

Senator HITCHCOCK. I want to ask you this: Suppose there is a community which has three banks of $1,000,000 capital each and another bank of $1,000,000 capital is established there. Does not that add $1,000,000 to the banking capital of that community?

Mr. WILLIS. It has to be obtained from some source.

Senator HITCHCOCK. But does not that add $1,000,000 to the banking capital of that community?

Mr. WILLIS. It does, if it is drawn from some outside community.

Senator HITCHCOCK. Regardless of where it is drawn from. It may be taken out of building operations or safety deposit vaults——

Mr. WILLIS (interposing). If that is done it adds to the banking capital.

Senator HITCHCOCK. Would it not be a good thing if we could add $100,000,000 to the banking capital of the United States?

Mr. WILLIS. Certainly, if you could be absolutely sure of getting new capital.

Senator WEEKS. Let me suggest this, too, Mr. Willis: If the banks subscribe to the stock themselves they are reducing their capital that amount. If their customers draw money out of the bank and subscribe for the stock the bank is reducing its liabilities that much.

Senator SHAFROTH. But if you had outside capital come in the directors would have to be changed. It would not be right for the banks to name them. There would have to be a different system of electing directors.

Senator WEEKS. That is easy enough.

Senator SHAFROTH. This whole system is intended for the benefit of the banks, and that being the case, it seems to me the theory——

Senator HITCHCOCK (interposing). We have been led to believe this was not for the benefit of the banks, but for the benefit of the people.

Senator SHAFROTH. It is for the benefit of both, but at the same time there is not any question that the right of a bank to go and cash its paper at any time is a great advantage to the bank, and inasmuch as it does relieve them in their banking situation and make it more safe for them, and at the same time make it more safe for the people, it seems to me the bankers are the ones that ought to put up the money.

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Mr. WILLIS. Now, there is another suggestion that I make with some hesitation, but in view of all that has been said I believe it would be a desirable change. Under this bill a bank can have a year to decide whether it is going to join or not. In view of the apparent unfriendliness of a good many banks toward the system, I believe that is rather too long. A bank can decide a good deal more quickly than that what it wants to do, and I incline to the opinion that that period—that is, the period in which it must decide—should be shortened a great deal in order to enable those who are charged with the organization of this scheme to know as early as possible how much they can count on. I do not mean I would shorten the time within which a bank has to give up its charter, but I think I should materially shorten the time within which the bank had to reach a conclusion. Just how short that period should be is a matter of opinion.

Senator NELSON. You mean by that that they may decide within a short time whether they will come into the system or not, but they will have a year to go into liquidation?

Mr. WILLIS. A year before they will be compelled to change their charters.

These, gentlemen, are the principal changes or concessions, if you call them so, that I thought of suggesting.

Senator NELSON. I called your attention a moment, perhaps out of place, to the fact of the discrimination in the deposit of reserves of the member banks with the regional banks. The country banks are required to deposit their proportion of the reserves immediately in the regional reserve bank, while the banks in the reserve cities and central reserve cities have 60 days in which to do it. That is, the country banks must plank down their share immediately, while the other banks, the big banks, have 60 days. Do you not think that is an unjust and unfair discrimination against the country banks?

Mr. WILLIS. If that is the meaning of it, I do.

Senator SHAFROTH. I think, Senator, the reason there was a discrimination made there is because the country banks usually carry a higher percentage of reserves in their own vaults; and the city banks having to be drawn on for such a large amount it was contended, I think, that they should have a little more time to replace the amounts that are withdrawn.

Senator NELSON. I call your attention to paragraph (a) on page 36:

> If a country bank, as defined by existing law, it shall hold and maintain a reserve equal to 12 per cent of the aggregate amount of its deposits, not including savings deposits hereinafter provided for. Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults; and for a period of 14 months from the date aforesaid at least three-twelfths——

I call your attention there to the three-twelfths; for a period of 14 months from the date aforesaid they are to keep that.

Mr. WILLIS. Yes.

Senator NELSON. Now, turn to the next page and you will find in line 22: "After 60 days from the date aforesaid, and for a period of one year, at least three-eighteenths and permanently thereafter," etc.

Mr. WILLIS. Yes.

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Senator NELSON. Now, you see in the one case the big banks have 60 days in which to deposit three-eighteenths, while the others must deposit three-twelfths immediately.

Mr. WILLIS. I see what you mean, Senator; I did not understand when you first spoke of it. The idea was this: You notice that the country bank is let down at once from 15 to 12 per cent. You see, its reserve then is released instantly.

Senator NELSON. But the city banks are released from 25 per cent.

Mr. WILLIS. At that time, but they have to provide this 3 per cent; they have to furnish it right away.

Senator NELSON. That is not true as to all country banks.

Mr. WILLIS. What is not true?

Senator NELSON. That they are assuming they furnish it to the country banks.

Mr. WILLIS. I think the natural course of events under that provision, Senator, would be this: A is a country banker with $100,000 of deposits outstanding. Under existing law he has to keep 15 per cent reserve. Now, we will assume he is down to the legal minimum; he has $6,000 in cash in his vaults, and he has $9,000 on deposit in Pittsburgh, we will say. Now, this bill is passed. Under this law he has to keep 12 per cent, of which 3 per cent has to be in the reserve bank. Now, the natural thing for him to do would be to sit down and draw a check on his Pittsburgh correspondent and forward it to the reserve bank.

Senator NELSON. But you overlook the fact that a great many country banks keep most of their reserves at home. You are assuming that they keep everything above the 6 per cent in other banks.

Mr. WILLIS. Yes, sir; but the figures show that the great majority of them do do that. I have no doubt, Senator, that in this case and a great many other cases throughout the bill there would be individual instances of hardship and injustice.

Senator NELSON. Why should not these country banks have 60 days in which to deposit the three-twelfths as well as the big banks have 60 days to deposit their three-eighteenths?

Mr. WILLIS. You have to make a start in your shifting of funds at some time.

Senator NELSON. But you should not make a start by making the little banks the victims.

Mr. WILLIS. As I said before, Senator, if that is true in any considerable number of cases——

Senator NELSON (interrupting). Did you observe this when you framed the bill?

Mr. WILLIS. This section was changed more or less in committee, and I think there is no harm in saying that the language here used is not precisely the language that I myself would have used. I do honestly say, however, that there is, so far as I can see, no general hardship inflicted on the country banks that is not inflicted on others.

Senator REED. Now, let us say the country bank, having already a portion of its funds in the reserve bank, will draw those funds out. That will impose a burden upon the reserve bank, and therefore the reserve bank ought to be allowed an additional time in which to pay its own reserves?

Mr. WILLIS. Yes, sir.

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Senator REED. Did it ever occur to you that if you required the country banks to deposit at once, that that simply hastens the hour when the reserve bank would have to produce that money, and, therefore, that you did not help the reserve bank a bit by that process?

Mr. WILLIS. You mean when the present correspondents would have to produce the money?

Senator REED. Yes. In other words, to use an illustration, it is going to be required that you contribute $50,000 to a certain fund, and that I shall contribute $25,000, and I have $10,000 of my $25,000 with you.

Mr. WILLIS. Yes.

Senator REED. Therefore, the assumption is that I will draw on you immediately. Now, if you say to me I must contribute that immediately, I must therefore demand from you immediately?

Mr. WILLIS. Yes.

Senator REED. And just in proportion as you make me pay quick, I make you pay quick. I do not see what you gain.

Mr. WILLIS. I see what you mean. It is quite possible that the language there is not satisfactory.

Senator REED. It is true that the country banks do deposit, in the aggregate, a considerable portion of their reserves with the ordinary reserve banks of reserve cities, is it not?

Mr. WILLIS. Yes.

Senator REED. And it is true that the reserve banks in the reserve cities keep large deposits in the central reserve cities?

Mr. WILLIS. Yes.

Senator REED. This bill—it is also true that each dollar of bank money—money that is in banks, carries, on the average, about $8 of credits, is it not?

Mr. WILLIS. I think so; yes, sir.

Senator REED. Now, if the country national banks have in their vaults $1,160,000,000 of the money of other banks, which is largely the reserves of other banks, and they are required to suddenly remove those moneys from those banks, where are the banks going to get that vast sum of money?

Mr. WILLIS. Senator, that is a very pertinent question, and I think if there is one thing in a great piece of legislation like this which is more important than another, it is this—that this is probably the most important question in the whole bill.

If you have looked into the report made by the House Committee on Banking and Currency on this subject, under the head of reserves, you may have noticed there the computations which are made there. To sum those up briefly, it seems to me that the whole problem comes down to this: Is the total amount of cash needed under the new legislation greater or less than the total amount of cash needed to-day? The cash has got to come from somewhere, and if it is not available, it would have to be imported or else drawn out of ordinary circulation. The computations there seem to me to show that, allowing for the release of Government funds which would be deposited in the banks, although they are now tied up in the Treasury, the banking community would find itself about where it started, after it is put through.

Senator REED. After it is put through?

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Mr. WILLIS. Yes.

Senator REED. I am not talking about after it is put through. I undertand perfectly well that if this $1,160,000,000 of money that is now deposited with the national banks was safely transferred to the vaults of the Federal reserve banks there would be just as much banking capital available then as there is now, because after that had been done the banks of the system could rediscount their paper and secure cash.

I am talking about the process of formation. Let me illustrate it. I think these figures which I am going to quote are substantially correct, although they may be very far from the exact figures. I may be confused about them in my memory, but I am not going to wait to hunt them up, but they will serve for the purpose of illustration.

I think the banks in Kansas City alone have of country bank deposits about $52,000,000. Of that sum, I think, about $35,000,000 represents the reserves of country banks; and of that $35,000,000, under the provisions of this bill, there would have to be transferred about $22,000,000 into the Federal reserve bank by the country banks. That would necessarily imply a withdrawal by the country banks from the banks of Kansas City alone of that $22,000,000, in order that they might be prepared to send it on to the regional reserve banks.

Mr. WILLIS. Will you allow me to interpose there?

Senator REED. Yes.

Mr. WILLIS. Your regional bank would probably be located in or close to Kansas City?

Senator REED. The probabilities are--I just guess that there will be one at St. Louis.

Mr. WILLIS. Yes.

Senator REED. And not closer. Of course, it ought to be in Kansas City, because it is close to Kansas, and because it does more business than any other town of its size in the world.

Senator HITCHCOCK. Except Salina, Kans. [Laughter.]

Mr. WILLIS. I quite agree with you, Senator Reed.

Senator REED. Those are the cold features, too. But this $22,000,000 now is loaned out to business men in Kansas City.

Mr. WILLIS. Yes.

Senator REED. It is loaned to business men in Kansas, in Oklahoma, and in all that section of the country, to cattle men, to merchants, and to every class of people. And it carries, as I understand, this banking capital carries a vast amount of credits.

Mr. WILLIS. Yes.

Senator REED. Now, if there is no place for the banks of Kansas City to get that money from except two sources, and one is to contract their loans and the other is to withdraw a part of the money from eastern banks, which, of course, bring trouble to them—if that was to go on over the entire country, taking in Cleveland, Cincinnati, Omaha, San Francisco, and Los Angeles—and there is no use naming the list, because your mind will grasp it—what do you think would happen?

Mr. WILLIS. Senator, I think the conditions produced in that way would be so inconceivably worse than any business disaster we have ever had in this country that they could not be spoken of in the same breath.

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Senator SHAFROTH. If it all had to be done at one time?

Mr. WILLIS. Precisely.

Senator REED. I am coming to what has to be done.

Mr. WILLIS. May I make a comment right there?

Senator REED. Yes.

Mr. WILLIS. I think you said they could look for aid from two sources, first, the curtailment of loans, and second, by withdrawing it from eastern banks.

Senator REED. Yes.

Mr. WILLIS. I would suggest a third source, and the one which I believe if one were an active banker he would avail himself of. The banker would probably go to the regional reserve bank, or the Federal reserve bank—I prefer the latter term—and secure from it a rediscount of paper in his possession to such an extent as conditions would warrant. He would then retain such cash as he had as a basis for further operations.

Senator REED. You have not made any provisions in this bill for the rediscounting of paper until the bank is organized and ready to do business, and as a condition precedent to the opening of its doors for business you have required the deposit of this money with it.

Mr. WILLIS. You mean to say that the deposit has to be in hand before the bank can do business?

Senator REED. You require, first, payment of the money. You do not say the payment of the money or deposit of securities?

Senator NELSON. Your theory would lead to allowing them in depositing their reserves to deposit commercial paper instead of cash?

Mr. WILLIS. To such an extent as the reserve bank thought it wise to permit.

Senator NELSON. Does the bill permit that?

Mr. WILLIS. Yes; it does.

Senator NELSON. Instead of putting in the cash they can discount paper for that?

Mr. WILLIS. In so far as the reserve bank chooses to permit that.

Senator REED. You say the bill permits that? Will you cite me to the clause?

Mr. WILLIS. I can not cite any one clause, but the provisions are these: A bank has to keep a specified amount of reserve—call it 12 per cent in the case of the country bank. That reserve is to consist to the extent of five-twelfths of actual cash, which under existing law may be counted as legal reserve held actually in the bank's own vault (you will find that provision on page 36, beginning at line 20). Then the bill is specific, and it says:

and for a period of 14 months from the date aforesaid at least three-twelfths, and thereafter at least five-twelfths, of such reserve shall consist of a credit balance with the Federal reserve bank of its district.

Senator REED. That is another question. I am talking about the primary organization.

Mr. WILLIS. May I just finish that?

Senator REED. Certainly.

Mr. WILLIS. The words "the date aforesaid" refer back to the first line or two of section 20, where it says:

That from and ofter the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal

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reserve bank has been established in any designated district, every banking association within said district which shall have subscribed for stock in such Federal reserve bank shall be required—

And so forth.

My interpretation of that language is this: The banks must first put up the capital necessary to organize this Federal reserve bank. When the capital is in hand and the institution is ready to open its doors the Secretary of the Treasury announces the fact that it is ready to do business. And then, and from that time forward, the country bank must have five-twelfths of its reserve on hand in cash in its own vaults and three-twelfths on hand in the form of a credit balance on the books of a Federal reserve bank, we will say, at Kansas City.

The Federal reserve bank in Kansas City is opened, and the country banker somewhere near has taken stock in the Federal reserve bank. He has received his certificate of stock and has contributed, we will say, $10,000 to pay for it. On the 1st of October, 1914, let us say, he receives a notice from the Secretary of the Treasury that the Federal reserve bank is ready to do business. It is necessary for him then to comply with the law. I should think that would mean that by return mail, or as soon as reasonably convenient, he would do one of two things—send to the Federal reserve bank a certified or a satisfactory check or would otherwise remit, or else he would see the Federal reserve bank and get it to give him a rediscount of satisfactory paper to the amount he needed.

Senator REED. How would you do it under this bill? Here is the language, Mr. Willis:

That from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal reserve bank has been established in any designated district, every banking association within said district which shall have subscribed for stock in such Federal reserve bank shall be required to establish and maintain reserves as follows:

(*a*) If a country bank as defined by existing law, it shall hold and maintain a reserve equal to 12 per cent of the aggregate amount of its deposits, not including savings deposits hereinafter provided for.

That 12 per cent is certainly the legal reserve now referred to and is of the same character of the legal reserve now referred to, to wit, it must be cash on hand, and that cash must be gold.

Senator NELSON. Or lawful money?

Senator REED. Or lawful money. Now, it says:

Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults; and for a period of 14 months from the date aforesaid at least three-twelfths and thereafter at least five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the 12 per cent hereinbefore required may, for a period of 36 months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided, consist of balances due from national banks in reserve or central reserve cities as now defined by law.

Now, we have a law and it requires the bank to keep a certain per cent of cash in its own vaults, or in the vaults of reserve banks, and now it requires the deposit with the Federal reserve bank of a portion of the reserve, which it says must be a credit balance. It also uses the same term " credit balance " with reference to the money now

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deposited with other banks, and that has never been construed to mean that they could put up notes. It is also construed to mean that they must have that much cash to their credit, and I do not think there is any question that this has to be cashed.

Mr. WILLIS. I feel very sure that that latter point is in accord with existing practice.

Let us imagine to-day that a bank is notified by the comptroller that it is $10,000 short in its reserve. Let us suppose that bank has the necessary amount of cash in its vaults—that is, 6 per cent—but its reserve balance with its reserve agent is below the necessary amount, so that its return to the comptroller is insufficient. There is nothing to prevent, in my understanding, subject to correction—there is nothing to prevent this bank, under this bill, from getting that reserve in this way if it desires. It goes to its city correspondent and asks for a loan, say of $10,000. The city correspondent asks it to supply satisfactory collateral, which is furnished, and thereupon the correspondent credits it with $10,000 on its books. In that case it has a deposit with its city correspondent, and has filled up its reserve to the required amount. The Federal reserve bank would do just the same thing, as I understand it, that is now done in that way by the city correspondent. You see what I mean?

Senator REED. Of course the city correspondent, being a regular bank for all purposes, can loan to another bank a certain amount of money, but when it has so loaned, the money becomes the money of that other bank, and is held as cash.

Mr. WILLIS. And the same would be true of these banks.

Senator REED. But you have not gotten past the difficulty at all of the contraction which occurs during the primary organization of these banks. Do you not think this bill ought to be amended so that that money is paid in more gradually?

Mr. WILLIS. That is a point I have gone over many times with a great deal of care, and here again I think there is no harm in stating that at one time the bill contained a provision for the gradual payment of deposits into the Federal reserve banks. It should also be stated, however, that at that time the amount of the total reserves required was larger than it is now. The reserve was released later down to the level where it now stands, and intermediate stages were eliminated.

Answering your question specifically, I think there would be no serious harm, and there might be some benefit in spreading this operation gradually over a longer period in just the way you suggest; but I do honestly believe, from the computations that have been made, that the reserve provisions as given here now would not cause a contraction, unless the banks became overanxious and attempted to hoard money for some unexplained reason so that there was a shortening of credit. That might occur, Senator, under any condition, if the banks took it into their heads to do that.

Senator REED. We are making a reason for it. We do not want to make one of the conditions.

Senator HITCHCOCK. I would like to ask you, Mr. Willis, how the Federal reserve bank would be able to maintain a 33⅓ per cent reserve if its deposits were paid in paper?

Mr. WILLIS. Of course, Senator Hitchcock, the bank under this plan would start off with its capital. It has to maintain a 33⅓ per

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cent reserve. Assuming that the total capital of all these banks was $100,000,000—and it would be a little more than that if all the national banks went in—then they could grant discounts of $200,000,000. It would also have very shortly Government deposits which would be in cash, and would enable it to extend its discounts somewhat further.

Of course I do not want to say anything to indicate a belief that all its holdings would simply consist of these rediscounts. I say it might do that, and I think it should do it in all those cases where it was necessary to lighten the requirements in any given section in order to enable the banks to comply with the law without contracting the supply of loans in that district. Just how much that would be no one can state absolutely.

But what is very important, Senator, is to make absolutely sure that the total amount of money called for at any one time in the process of putting this into effect is not greater than the total amount of money required to comply with the reserve requirements to-day.

I have said to Senator Reed that I do believe that that condition is fulfilled by the existing provisions. If, however, on further evidence or additional study, this committee feels that the period of transfer would cause a hardship in the form of contraction of loans, I am absolutely in accord with what has been suggested—that is, that the process should be spread out over a longer period and be carried through more gradually.

Senator REED. What do you say about 10 per cent of the capital of banks which shall be contributed in order to get a billion dollars of credits? Does not that necessarily involve a contraction on the part of the banks in order to transfer that fund over?

Mr. WILLIS. Senator Reed, of course every investment of capital involves the application of that capital to a specified purpose. A hundred million dollars, taking the general capital commitments of the country as a whole, is not a large sum. If you take the total capital issues of the country for a year, $100,000,000 is not a great sum, and I think that considering the provisions for the release of reserves it could be effected without any hardship upon the country. I am fully in accord with the statement made by bankers, that they will get less money—that is, their income will be less on the investment which they make in this way, even if they get fully 6 per cent thereon, than it would be if they were allowed to go on using this money in loans at the rate at which they are now lending.

Senator O'GORMAN. Would it be practicable to reduce this 10 to 5 per cent?

Mr. WILLIS. Senator O'Gorman, I suggested a few moments ago—I think you were out of the room——

Senator O'GORMAN (interposing.) I was present, but I did not hear your suggestion.

Mr. WILLIS. I suggested that while I thought the 10 per cent was not too much, that I did not think it would do serious harm to cut it down somewhat.

Senator O'GORMAN. Let me ask you what would be the objection to having the public furnish the capital for these regional banks?

Mr. WILLIS. That question was raised before, and I will answer that very frankly. That question is one which has given me a good deal of concern, also.

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These banks are not central banks, in the sense in which that term is rightly used. They are organizations of reserve holders. Now, the more you let the public in and the more you let the banks out, the more these reserve banks approximate to the status of ordinary banks, and the more they get away from the status of reserve-holding associations of banks. In my judgment, it is very desirable, absolutely desirable, if possible, if you can do it, by any reasonable arrangement that conforms to public opinion, to get the banks to go in and take up the stock, because they will be, I think, more interested in the situation, and will come in more freely and will cooperate in the operation of the institution afterwards.

Senator O'GORMAN. Do you not think it would be more attractive if the banks were able to get the benefits without contributing anything except the deposit of their reserves?

Mr. WILLIS. It might be; but the system would lose its purpose in part as a reserve banking system.

Senator O'GORMAN. Let me suggest this, and I would like to have your opinion on it. We have reason to doubt, in view of evidence that has been presented before us, whether a sufficient number of national banks would in certain regions enter the system in order to enable the regional banks to have a $5,000,000 capital, as required by the pending bills. Suppose the public in those and in all other regions be invited to subscribe to the required stock for each regional bank, and then the benefits of rediscounts will be extended to the national banks, they, on their part, being required to deposit perhaps half of their reserves in the regional banks?

Mr. WILLIS. Yes. Senator, if that places their reserve in the regional bank so that it gets the reserve and is a reserve holder, I should see no harm in the plan; but I think it is a very desirable change, and I think it would bring about what has been sought by a good many people who have worked on banking bills—and was sought by the Aldrich bill, although in a very clumsy way—namely, the bringing in of the outside business community as a factor in the control of these banks, so that I am entirely in sympathy with the general suggestion you make.

Senator O'GORMAN. Roughly, we will assume that these 12 regional banks might require a capital of $60,000,000 to $70,000,000. What is your judgment as to the probability of the public contributing this money, with a 5 per cent dividend return, without any privilege of voting the stock?

Mr. WILLIS. May I ask you there whether you mean what would be the probability of their contributing if they were allowed to borrow at the bank?

Senator O'GORMAN. No; I leave that out.

Mr. WILLIS. Simply as a flat investment, you mean?

Senator O'GORMAN. Yes.

Mr. WILLIS. Of course, my opinion on that is not worth much. That is an investment question. From what I have seen of the situation, I believe the stock would be promptly taken up, because it would undoubtedly be what is called a gilt-edged investment of the very highest type. My opinion is that it would be taken up without any trouble at all.

Senator O'GORMAN. Then, if I understand you, your judgment is that this bill might be improved by allowing the public to furnish

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the capital of these regional banks rather than requiring the individual national banks to supply it?

Mr. WILLIS. Provided that the banks were to keep their reserves with the reserve banks.

Senator O'GORMAN. Yes; that is part of the proposition.

Mr. WILLIS. I do think so.

Senator O'GORMAN. Well, would not the danger of the contraction to which reference has already been made be lessened if the money was furnished by the public rather than by these national banks?

Mr. WILLIS. I do not feel at all certain of that, because, as I said before, it seems to me that the funds will, in the last analysis, be drawn out of the banks.

Senator O'GORMAN. Out of circulation, in some way?

Mr. WILLIS. Yes; although it might be that a good deal would be drawn from State banks that would not come in anyhow. So I will answer your question specifically, by saying that I think there will be a little less danger.

Senator O'GORMAN. Well, now, having your opinion respecting that proposed change, what would be your view regarding a further change in the personnel of the officers of the regional banks, and instead of allowing the member banks within a region to really name six of the nine officers of a regional bank—and that suggestion was based upon the fact that they were to contribute the capital; under the suggestion I now convey to you they do not contribute the capital; that is contributed by the people—instead of having the member banks name those officers, why should not the reserve board here in Washington name the entire number of officers of the regional bank?

Mr. WILLIS. Name the entire nine directors, so that they would be under complete Government control?

Senator O'GORMAN. Absolutely a Government board.

Mr. WILLIS. And with the stock largely owned——

Senator O'GORMAN (interposing). Entirely owned by the people.

Mr. WILLIS. Entirely owned by the people?

Senator O'GORMAN. Yes.

Mr. WILLIS. Well, my feeling in that matter may be founded in part on sentiment, I suppose——

Senator O'GORMAN. What sentiment—charity?

Mr. WILLIS. I beg your pardon?

Senator O'GORMAN. What is the sentiment in your mind?

Mr. WILLIS. The sentiment that I think a man becomes more interested when he is responsible for doing something than when the Government does it for him. And I think if the public owned the stock in the way you speak of, that it would be very desirable that the public—that is, the stockholders—should directly elect at least a good many of the directors.

Senator O'GORMAN. Well, they would be, practically, through the Government naming the entire nine.

Mr. WILLIS. But the Government is a far distant entity; it is not very close to the ordinary man.

Senator O'GORMAN. Well, I hope it is a little closer to him than you seem to think it is.

Mr. WILLIS. I think the ordinary man would take more interest in these banks, and that the banks would be better run, if he has

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something to do with the appointment of the directors, than if the Government simply names a set of directors for him.

Senator O'GORMAN. Do you not think the public will be induced to place greater confidence in the regional bank if the Government reserve board in Washington should name the nine officers of the regional banks?

Mr. WILLIS. Well, I think that depends entirely upon how the officers manage them. If they do well, it might be so. But I think that is a matter of experience.

Senator O'GORMAN. Well, you do not see any particular objection to that then, do you?

Mr. WILLIS. The objection that I spoke of before, that I would personally rather see the people who own the stock and are directly concerned in the matter elect a due proportion of them—a fair proportion.

Senator NELSON. Would not that be getting dangerously near to the money power?

Mr. WILLIS. Would what be getting dangerously near to the money power?

Senator NELSON. To allow the bankers, or the men who have the stock, to elect the managers of the regional banks?

Mr. WILLIS. Well, I assume that Senator O'Gorman does not intend to allow these subscriptions to stock, if there were voting power with them——

Senator O'GORMAN (interposing). They would have no voting power at all.

Mr. WILLIS (continuing). To be held in a few hands, but that they should be more or less widely distributed.

Senator O'GORMAN. It is the idea that the stock be widely distributed throughout the various regions.

Mr. WILLIS. Yes.

Senator O'GORMAN. And that the ownership of the stock carries with it no voting power; that the owner will be confined, probably, to his 5 per cent cumulative dividend.

Mr. WILLIS. Yes. Well, I like the plan whereunder a man is called on directly to participate in the operation of the thing better.

Senator O'GORMAN. You approve now—I do not know whether you have always approved—of the idea that the Federal reserve board should consist exclusively of Government officials?

Mr. WILLIS. Yes.

Senator O'GORMAN. Well, if that be a good plan for the Federal board, why would it not be a good plan for the 12 regional banks?

Mr. WILLIS. Well, Senator, that is a very incisive question: and it is one that I want to speak of.

Senator O'GORMAN. Then, will you speak of it now?

Mr. WILLIS. Yes; if I may. It seems to me that the peculiar feature, or one of the peculiar features, of this bill, and one that commends the plan to me especially, is the fact that it keeps the control of the broad banking powers in the hands of the Government, while it leaves the actual transaction of banking operations to practical bankers in the district.

If you had a large central bank, as some have proposed, wholly under Government control, or even largely under Government con-

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trol, then you would have the Government directly "in the banking business," as the statement is. Now, I am aware that there are many people who do not look on that idea with any aversion. Personally I do not like it, and it does not seem to me to be in harmony with the general drift of things in this country. I prefer the idea of having the banking operations carried on by bankers, and controlled, within reasonable limits, by the people who have put up the cash with which to carry on the business; and to have the Government exercise such large, general banking powers as are necessary in the public interest to safeguard the welfare of the whole people.

The Aldrich plan, so called—the National Monetary Commission plan—would have had a central machinery, as well as the actual banking operations, very largely in the hands of the bankers, with what I thought was a too moderate degree of public control.

The proposed Government bank, operated by Government directors, seems to me to go too far in the opposite direction, since it vests the Government with the function of banking—doing actual banking, through its officers of course. I do not like that, and I do not believe that you will get as good results in that way as you will in the other way.

This bill has been criticized, I notice, in a good many quarters, as putting the Government into the banking business. It seems to me that it takes the Government out of the banking business. That is, it puts the funds of the Government into commercial use, and then lets the actual process of banking be carried on in these country districts by trained bankers, and it keeps Government supervision in the hands of Government officers.

As I stated before, I have felt in the past that a certain representation of bankers—perhaps without votes on the Federal board—was not objectionable. But I do think that, however you make up the Federal board, it should be predominantly under the control of the Government.

Senator O'GORMAN. Yes.

Mr. WILLIS. It should be an organization for the exercise of large powers of supervision and control; while I think that the individual banks should be narrowly confined to business operations, going ahead on their own initiative, so far as that does not conflict with the general welfare. That strikes me as the distinguishing feature of this bill.

Senator O'GORMAN. Do you not think that the people in a regional district who contribute the money under the plan I suggest to supply the capital for the regional bank would have the right to have the President of their country, or his representatives in the reserve board, select the managers for the regional bank?

Mr. WILLIS. You use the word "right"——

Senator O'GORMAN. Well, would not it be a fair expectation?

Mr. WILLIS. It is not an arrangement that I——

Senator O'GORMAN (interposing). Heretofore—if you will pardon me for completing my question—one reason principally, if not exclusively, given for having a banking representation in the regional institutions, was that the bankers would furnish all the capital, and that they were entitled to representation in its control——

Mr. WILLIS (interposing). Yes.

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Senator O'GORMAN. And for that reason, under the pending bill, they would receive a two-thirds control.

Mr. WILLIS. Yes.

Senator O'GORMAN. Now, if the other plan should be adopted, that the bankers will not furnish the money, and therefore they will be relieved from that embarrassment—and as I view it this would make the whole plan more popular with them than if it was the other way—the only people furnishing the money being the public, it would seem to be a very consistent and reasonable expectation that public officials should be in charge of such banks?

Mr. WILLIS. Well, the public officials would represent in that case the whole public.

Senator O'GORMAN. Yes.

Mr. WILLIS. Whereas the stock would be owned only by a part of the public.

My feeling about that is that it is fairer and better to have the directors elected by that part of the public which owns the stock—that is to say, to have the work of technical banking carried on by men representing that part of the public which owns the stock.

And if you ask me why, then I can only answer that that question is a broad matter of point of view, which runs through a great many things, and is not peculiar to this at all. I believe, myself, that you get better results through private enterprise.

Senator O'GORMAN. Then what excuse is there for this reserve board, organized as the bill organizes it?

Mr. WILLIS. The same excuse, it seems to me, that there is elsewhere, that unrestrained private enterprise goes to excess.

I do not regard the reserve board provided in the bill, as many people do, as an organization vested with enormous powers that are likely to be constantly used. It seems to me that the reserve board is little more, in ordinary times, than a sort of expanded or glorified Comptroller of the Currency. It has larger powers than he has. But this scheme is larger; and the scheme involves a good many activities that the national banks can not now engage in.

In my conception of the reserve board, when once it has been organized and put into operation, its activities would be very largely those of supervision, routine, comparison of conditions of credit here and there, and consultation with bankers from different parts of the country—and especially from the reserve banks—and the general working out of policies, smoothing out of wrinkles and securing a unification of work.

In times of panic or special stress, the reserve board has some reserved powers of a large nature, such as are given by the compulsory rediscount feature. But of course that is surrounded by so many restrictions in this bill that it could not be used, and would not be used except under very stern pressure, so that the reserve board, in time of panic or stringency, would be a very different organization from what it would be ordinarily.

Senator O'GORMAN. Do you not think, if the public furnished all the capital to regional banks, that the country banks, particularly, would be likely to be thoroughly satisfied with the system, instead of objecting as they do now?

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Mr. WILLIS. Well, I think it is awfully difficult to find out what a country bank will be satisfied with. [Laughter.] I have given it up.

Senator O'GORMAN. Do you not think the plan would be more popular with the country banks than the plan in the pending bill?

Mr. WILLIS. Honestly, I do not know. I suppose, when this bill was formulated—seriously, I suppose that the fact that the banks had to come in, and that when they got in had control of their own funds and reserves, was going to appeal to them. But now, as a matter of fact——

Senator O'GORMAN (interposing). Well, you understand, Mr. Willis, that the country banks lay great stress on two objections, which they urge very strongly: First, that because of the long maturities of the paper which they handle in their business, they will have but a modified advantage under the rediscount feature of this system.

Mr. WILLIS. Yes.

Senator O'GORMAN. And, in the second place, that you are going to deprive them of their right to exact exchange charges.

Mr. WILLIS. Yes.

Senator O'GORMAN. And those exchange charges, according to the testimony before us, amount in some cases to one-half of their net earnings?

Mr. WILLIS. With reference to that, I understand, first, what you say; I think that is a very concise and pointed statement of their objections. But, with all due respect to the country banks, and with all due allowance to the business inconvenience which this bill will inflict upon them, and which, in my judgment, any large plan of banking reform will inflict—we can not get any great thing without suffering—in spite of that, I do not believe that those two considerations are very good ones. The exchange feature of the bill we have not mentioned before——

Senator O'GORMAN. Well, the relieving of the country banks, and incidentally of other national banks, of the necessity of supplying the capital, will it not, to that extent, relieve the country banks of some of the burdens which this particular plan is intended to place upon them?

Mr. WILLIS. Well, that may be. I think you will find, however—this is merely an opinion, you understand, and I do not intend it in any invidious sense at all—but I do think that by the time you formulated that plan and got it before the country, there would be a new crop of objections to it springing up, and there would be some fearful flaw in it that would be found when you began to discuss it.

Senator REED. Let me ask you another question: You have never had any practical banking experience, have you?

Mr. WILLIS. In the sense of actually engaging in banking, no.

Senator REED. And among the men that were connected with the committee that made the draft of the bill was there an actual, practical banker?

Mr. WILLIS. Was there such?

Senator REED. Yes.

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Mr. WILLIS. Some of the members of the committee were bank directors.

Senator REED. Well, I mean a real banker?

Mr. WILLIS. What is a real banker?

Senator REED. When I say a "real banker" I mean a man that goes into a bank and manages that bank or helps to manage that bank.

Mr. WILLIS. The actual daily business?

Senator REED. Yes.

Mr. WILLIS. There was no man of that kind on the committee, so far as I know.

Senator REED. Has it occurred to you that these complaints of the bankers, which you say spring up constantly, may have sprung up not because of the stubbornness or meanness of the bankers but because the shoe that had been made for a No. 7 foot was required to be put upon a No. 10 foot, for instance, and therefore pinched?

Mr. WILLIS. With reference to that——

Senator REED (interposing). Now, I do not say that to reflect on you at all; but you say there is no way to satisfy them.

Mr. WILLIS. And nothing I say is intended to reflect; very far from it. But with reference to the work of the committee, Senator, let me say this: As we worked along—as the chairman of the committee worked along on this bill, technical points came up, you understand, from time to time. And I sincerely think that no technical point was acted upon without solving all reasonable doubts, so far as that could be done, by communicating with practical men. I can say to you, perfectly honestly, Senator, that I would not have been willing to be connected with this bill and with the work of getting it up, and would not have done so if I had not felt that the greatest care was being exercised at every point in getting it into as good shape as possible, and harmonizing it, so far as possible, with the views of practical men.

When practical questions came up of exchange, etc., the chairman of the committee did not hesitate to get the best advice that he could to the given provisions and as to how they would work; the views of the practical banker, then, were not ignored in getting this up.

As to the attitude of the banks toward it, you use a striking figure of speech. There are a great many feet in this country; some of them are sevens, and some other sizes. We can not fit them all; and yet we have to pass legislation that is uniform. And I do think that any great bill that is passed in this way will pinch some feet and let others have more room than they need. The question is whether, on the average, the great bulk of the feet will be comfortable.

Senator REED. Oh, no; I do not think so. I think that if I was in the shoe business I would try to make a shoe that would fit everything from babies to giants; or else I would advertise myself as limiting myself to one class of people.

I do not think that we have any right to draw a banking bill here for the purpose of benefiting a banking system and the country at the same time which will crush out of existence any class of banks.

Mr. WILLIS. Neither do I.

Senator REED. You say that the chairman of the committee, or somebody on the committee, obtained the views of practical bankers upon different phases of the measure. I have no doubt that was done.

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Mr. WILLIS. Yes.

Senator REED. And I am criticizing nobody.

Mr. WILLIS. I understand that perfectly.

Senator REED. But I am asking you now this question: Whether you got the views of the distinctly country banker—by which I mean the man running a very small bank in a small community—and if so, which one of those bankers said that the bank could live and thrive and get along without any exchange?

Mr. WILLIS. Well, Senator, that question was gone into fully, and I know there was a large correspondence about it. If you want me to discuss the working of that exchange feature of the bill, I will do the best I can in showing how it would operate. That is a point we have not touched upon thus far.

Senator NELSON. Over half of our banks—yes; two-thirds of them—are banks with a capital of $100,000 and less.

Mr. WILLIS. Yes, sir.

Senator NELSON. And we have over 2,000 banks of $25,000 capital.

Mr. WILLIS. Yes.

Senator POMERENE. How many banks of $25,000 capital?

Senator NELSON. We have over 2,000 with $25,000 capital, and those little banks are pinched worse than anybody else under this law; and they are the ones that have brought the banking facilities near to the people and gathered up the money from the stockings and bureaus, and everywhere else, and got into those little reservoirs. And they are the little reservoirs that have furnished capital for the big reservoirs.

And yet a good many of the features of this bill—and I call your attention here to the reserves—are a discrimination against them. It is a king of a "freeze out." And I do not wonder at it; you are not to blame; you have never been among those country banks; you do not even know the character of their deposits.

Mr. WILLIS. Senator Nelson, may I assure you that very special attention was given to the needs of the country banks and that every effort was made to get at their views and, so far as possible, to consider them? You have been kind enough to say that you do not blame me for it. Well, I am not responsible for it in any case. But those who were——

Senator NELSON (interposing). Oh, no; I do not blame you.

Mr. WILLIS (continuing). But those who were—the chairman of the committee and his coworkers—I do know gave very earnest thought to the needs of the country banker.

I believe that this bill, as I said before, is not going to be an easy thing altogether for all banks to put into effect, and there will be some hardship, I think. And I think the same thing is true of any other bill of similar scope. I do not believe you can get one that will change our somewhat antiquated and unsatisfactory system without doing that. The question is whether in so doing you are inflicting an unmerited hardship upon the banks; whether you are doing something you have no right to do and are taking away from them property rights which they have honestly and legitimately acquired and in which they ought to be protected.

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Senator NELSON. Do you know, Mr. Willis, as a matter of fact, that in the panic of 1907 a large proportion of these little country banks kept open shop and never suspended for a minute?

Mr. WILLIS. Yes; I do know that.

Senator NELSON. It was the big banks that suspended.

Mr. WILLIS. Yes; I know.

Senator NELSON. The little country banks kept open shop. And why did they keep open shop? Because they dealt with the people in their community; they had their money and they patronized the people that furnished them the money. Now, you are inflicting great hardships on them in this bill. And you do it for what you call the general good. You make those country banks a sort of sacrifice for your system.

Mr. WILLIS. Well, of course I do not think that. I do not mean to be dogmatic in the matter or to adhere too strongly to my views, but I honestly do not think that is the case. I have been trying to show you why I do not think so.

Senator O'GORMAN. Mr. Willis, have you expressed your individual views—your view as a student of banking and currency—as to whether the notes should be issued by the Government or by the banks?

Mr. WILLIS. I have not spoken of that yet, but if you desire it I shall be very glad to do so.

Senator O'GORMAN. We will be very glad to have your views upon that question.

Mr. WILLIS. My feeling about that is that as the bill is now framed——

Senator O'GORMAN (interposing). Oh, no; I am not asking about the bill as drawn, and I do not wish you to be influenced—if I may make a suggestion—by any part you may have had in its formation. I am only asking your judgment upon the question as a student of banking and currency.

Mr. WILLIS. Yes; In everything I have said I am speaking as an individual. I could not act, under the circumstances, in any other way.

Senator O'GORMAN. Do you think the Government should issue the notes?

Mr. WILLIS. If I were speaking in my confidential relation to the bill, I could not have made any criticism on this bill, but I assume you want me to say what I think as an individual.

Senator O'GORMAN. Yes: entirely.

Mr. WILLIS. And, speaking in that way, I do honestly think it is better to have the notes issued on the sole responsibility of the banks and without the Government participating in them, provided the notes are so amply and unmistakably protected that there can be no question whatever about their goodness.

In other words, I think the functions of the Government in connection with these notes, or with any other notes, is to make it absolutely sure, so far as it is humanly possible, that a note which is issued and goes into the hands of the public shall be good. If there is no other way to do that except by having the Government guarantee it. very well. But I think there are plenty of other ways. I

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think these notes, for example, would stand just as high in credit without the Government guaranty.

Senator O'GORMAN. Well, relatively, should the Government perform any greater function with respect to these things than it performs with respect to the pure-food law?

Mr. WILLIS. Well, that is a pretty broad statement. I mean that I do not think it ought to perform any greater——

Senator O'GORMAN (interposing). I understood you to say a moment ago—and I rather was disposed to accept the statement as substantially correct—that a government's function ought to be limited to seeing that the notes that are circulated are going to be paid—represent good security.

Mr. WILLIS. I will put it this way: I do not think its function is any greater than it is in connection with a properly administered pure-food law.

Senator REED. What would you do with the Constitution of the United States?

Mr. WILLIS. I would leave it where it is.

Senator REED. What do you do with it under the statement you have just made? There is something said in the Constitution of the United States about——

Mr. WILLIS (interposing). Coining money and regulating the value thereof?

Senator REED. Yes: and it does not say anything about the Government manufacturing food.

Senator O'GORMAN. Congress regulates that under other provisions of the Constitution: otherwise it could not do it at all.

Senator REED. Yes; under the "general-welfare" clause.

Mr. WILLIS. You come down to a general question now of "money" as distinguished from "currency." My feeling is that the notes are not money, but that they are one form of bank credit; and inasmuch as the notes are a form of bank credit, they should be manufactured and put out by banks under absolutely guaranteed and known conditions, with the most stringent kind of protection for those conditions and the most absolute guaranty that legislation can give that those provisions are honestly lived up to.

Senator NELSON. Would you not think 40 or 50 per cent reserves for the notes would be better than 33⅓ per cent—for the circulating notes?

Mr. WILLIS. You are asking me from an abstract standpoint?

Senator NELSON. Certainly.

Mr. WILLIS. Well, from a purely abstract standpoint, I think a well-managed bank ought to be left to regulate its own reserves.

Senator NELSON. I mean reserves for the notes; I do not mean for the discounted paper.

Mr. WILLIS. I think that if these banks are what we hope they will be and expect them to be, the amount of reserves they will hold will be greatly larger than 33⅓ per cent. But as human nature is fallible, and as the people of this country are accustomed to fixed reserves, I think 33⅓ per cent is a good minimum requirement.

Senator NELSON. That is for the deposits; but I am speaking of the reserves for the redemption of the notes—the gold redemption.

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Mr. WILLIS. So am I. I think in practice, on a good many occasions, it will get to be much higher than that, probably 50 per cent. I think the kind of men you are going to have in charge of these reserve banks will be men of such conservative nature that they will put the brakes on, just as the Bank of France does, and that the reserves will be larger than required.

Senator O'GORMAN. Then you do not approve of the Government-note provisions of this bill?

Mr. WILLIS. Well, Senator, I do not know that I would like to answer the question in just that form.

Senator O'GORMAN. Well, you need not do so. You have stated your preference for the banks issuing the notes.

Mr. WILLIS. Yes.

Senator HITCHCOCK. Some time ago, when Senator O'Gorman was asking you some questions concerning a plan to have the Government operate and control a great reserve bank, you objected to it upon the idea that that was the function of private enterprise. Do you think it is properly a function of private enterprise to care for and control the reserves of the banking system of a country, and to control the volume of currency of a country?

Mr. WILLIS. Well, I look on those as funds that are held in trust for the country. That is, the use of wealth, like the use of other things, is to be fulfilled and carried on in a way that is up to prevailing standards. If it is not good, some change should be made.

Senator HITCHCOCK. Well, agreeing that an individual bank is a private enterprise, subject to regulation——

Mr. WILLIS (interposing). I will say this, that that is a question of good results. If human experience and the operations of banking elsewhere give reasonable ground for thinking that you will have better results in the way that you speak of, then I think that ought to be done.

Senator HITCHCOCK. Well, that is not my question. We have in this country 25,000 banks and trust companies.

Mr. WILLIS. Yes.

Senator HITCHCOCK. Some are State banks; some are national banks. They are all organized under law, and they are private enterprises. We find by experience that it is necessary to in some way provide a system and compel those banks to keep their reserves in a certain way, under certain circumstances, and to connect with the care of those reserves the discount of paper for those banks, and the issuance of currency against that paper.

Mr. WILLIS. Yes.

Senator HITCHCOCK. Do you really think that that is a private enterprise which should be farmed out to private individuals and placed under their control; or is not that very act a governmental function?

Mr. WILLIS. No; I do not think so. in the way in which you put it. Put it that way and I shall have to answer no.

Senator HITCHCOCK. Yes.

Mr. WILLIS. Put it in the way I have expressed it—and it is my way of looking at it, whether correct or not—and I take a different point of view with respect to it.

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Senator HITCHCOCK. Well, I stated the fact merely. Take these banks; they will have their reserves, and they all have the need of placing somewhere those reserves and issuing against them the loans to the banks in time of need for the public benefit. Now, it certainly can not be denied that that is a public function. It can not be asserted that it is a private enterprise that should be farmed out to individuals to make money out of.

Mr. WILLIS. I would not farm it out to them, and this bill does not do so. In fact, it limits the amount of earnings which they can make in that way.

Senator HITCHCOCK. It creates 12 great corporations.

Mr. WILLIS. It is not right to criticize this bill on the ground, on the one hand, that it is so very severe on the banks and then, on the other hand, that it farms out to them a tremendous privilege out of which they are going to profit.

Senator REED. Nobody has said the bill was severe on the banks as a whole. They have spoken about it reaching certain banks; and then the question has been, in the formation, whether there was not a hardship to the country growing out of the formation.

Mr. WILLIS. I may have misstated that condition. My feeling is that that is a question of the best way to do things, the best way to get results. I believe you can get them best by having the technical operations carried on in the several districts by bankers.

Senator HITCHCOCK. It has been said, for instance, that the business of the Post Office Department could be carried on more economically and efficiently under private enterprise than under Government operation; but you would not think of giving up that function to private enterprise, would you?

Mr. WILLIS. That is a special thing, provided for in the Constitution.

Senator HITCHCOCK. There is not any doubt about this under the constitutional powers; the question is whether it is a public or private enterprise, and I understood you to say that in your opinion it is a private enterprise.

Mr. WILLIS. Not quite that, Senator Hitchcock, if I may modify the idea. I mean that the best results in the performance of the function may be obtained by committing the details to private individuals, which is, I think, a somewhat different point.

Senator NELSON. Mr. Willis, would not this system, in the case of an emergency—this reserve system of the bill in the case of a financial stringency or emergency—absolutely break down if you did not give the central board the power to compel one regional bank to discount for another?

Mr. WILLIS. Absolutely break down.

Senator NELSON. It would? Then, after all, have you not a single central system by virtue of that?

Mr. WILLIS. No, sir; I do not think so. What you have in that case is the exceptional use of certain essential powers of the central system when they are specially needed, as distinguished from the continual use, the regular use. of those powers as a matter of everyday business right along.

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Senator NELSON. There is another question I want to ask you. As I understood you a while ago, you intimated substantially, in answer to questions, that you thought that when it came to the matter of paying in these reserves by the banks who entered the system, instead of paying the cash they could come there and discount their paper and do it in that way?

Mr. WILLIS. To some extent, yes.

Senator NELSON. Yes; and you said the bank was completely organized when the stock had been subscribed?

Mr. WILLIS. Ready for business.

Senator NELSON. Yes. But how would the bank with that stock subscription have any gold to start with, unless you made a part of that subscription payable in gold? The banks might pay it in any kind of lawful money.

Mr. WILLIS. And that would be immediately convertible into gold. That is a very pertinent question; and I would like to say that, in my opinion, the contribution of capital for this stock will constitute a direct draft on the lawful money of the country and, if they choose to make it so, a direct draft on the gold of the country.

Senator NELSON. Well, then, if the banks—we will assume now that all of the subscribing banks pay in their stock subscriptions in Treasury notes, in what we call "greenbacks"——

Mr. WILLIS. Yes, sir.

Senator NELSON. How, then, could the bank have any gold to start with? It would have to turn around to Uncle Sam's Treasury and say, "I want the gold on these."

Mr. WILLIS. That is theoretically possible; not practically. I do not believe any such thing would occur.

Senator NELSON. Why?

Mr. WILLIS. Because the reserve banks would get their cash from existing banks.

Senator NELSON. Well, how would they pay it in? In what currency would they pay it in?

Mr. WILLIS. Under the bill now they could pay it in lawful money.

Senator NELSON. They could pay it in silver dollars, could they not?

Mr. WILLIS. I had not thought of that; but I should think they could.

Senator NELSON. They could pay it in silver dollars, or in greenbacks. And they could not even pay it in gold certificates, could they?

Mr. WILLIS. Well, it may be that theoretically they could not, but in practice they would get it in in the same kind of money as any other enterprise.

Senator NELSON. Gold certificates are not money; they are not legal tender in the sense that greenbacks are.

Senator REED. Have you finished, Senator Nelson?

Senator NELSON. Yes.

Senator REED. Then I want to ask Mr. Willis a question. Mr. Willis, you recognize the fact, do you not, that this entire plan is somewhat theoretical; it has never been put into practice, in just

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this shape, at least, in any country, and therefore there is some chance for difficulties to arise that can not be anticipated?

Mr. WILLIS. I will answer that by saying that I do not think that anybody, or all the bankers of the country, could get up a plan whose actual working could be absolutely forecast. And let me add that, in my opinion, this plan contains no element that has not been tested in experience and indorsed by the best judgment of bankers—experienced bankers—and found to be both theoretically and practically applicable.

Senator REED. Well, I do not care to argue that. I just wanted to ask that one question. I was only asking it preliminary to another question.

Now, I will take your answer as far as it has gone—and I do not mean to cut you off, but we are getting along toward adjourning time.

Mr. WILLIS. Yes; that is all right.

Senator REED. It being true that no such system has ever been established—there are kindred systems?

Mr. WILLIS. Yes.

Senator REED. There are similar systems. But no kindred system has ever been established upon a basis such as we have in this country.

Mr. WILLIS. Yes; I understand.

Senator REED. Do you think there would be any impropriety in starting with two or three banks instead of the whole twelve?

Mr. WILLIS. Well, I have thought a good deal about that, and that is one point I wanted to speak of—the number of the reserve banks.

I think the essential thing there is to have the number flexible, so that it can be increased or diminished as experience dictates. In the bill as it now stands a provision is contained that there may be an increase of banks whenever a certain number of member banks apply for it. If you could cut down the number considerably below its present level, I think that provision ought to be made a little more flexible, so that if the banks of this country desired, they could, without any material difficulty, upon manifesting a real disposition for it, secure the creation of another of these reserve banks in any part of the country.

I will go further than that, Senator: While this number of 12 was put in here after very careful consideration, after the drawing of maps covering the whole of the country and dividing it tentatively into districts, and after the compilation of careful statistics to see how it would work, I fully agree with you that the number is more or less a matter of judgment, and that time will be required to show whether it is the correct number or not.

Senator REED. There is nothing magic about the number 12, is there?

Mr. WILLIS. Not at all. I have thought this, that it might be fair to leave the number blank; that is to say, leave it to the organization committee to find out, after careful study and investigation, just what the number ought to be. That is a matter I have been working on for some time.

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Senator NELSON. Just one question here before you go on: Would it not be safer to start in in a small way, with a very few banks, and then work up to a greater number than to start with a large number and have to work down?

Mr. WILLIS. I should not like to agree to that in such a broad form, Senator. But may I just finish that statement of mine?

Senator REED. Certainly.

Mr. WILLIS. As to this number, I would go further than that and say I believe the banks of the country, taking them as a whole and ascertaining really the general banking sentiment, can be trusted as to the number of these banks that are actually desired—taking the banking and business sentiment of the country as a whole. Now, this organization committee which is provided for in the bill has a tremendously important function. There are no statistics now—no data—upon which these districts can be reasonably laid off. Of course, the problem of laying them off is essentially a problem of finding out the exchange relations between the several banks now existing and putting them into the same district in direct relation with one another, so that there will be as little break in the business conditions as possible.

Senator NELSON. Is it not a question of ascertaining the seasonal demands for currency?

Mr. WILLIS. That is one of the elements in it.

Senator NELSON. Is not that the most important?

Mr. WILLIS. Only in one way. Now, this organization committee has that function to perform, and it is an exceedingly difficult one, calling for very careful scientific work, and it is one that has to be done, unfortunately, rather rapidly. It would have to be done in any case. I believe that a strong, capable organization committee, properly advised by skilled exchange experts, could best do that.

Senator O'GORMAN. Let me ask, are you contemplating an organization committee outside of the reserve board?

Mr. WILLIS. That is provided for in the bill.

Senator O'GORMAN. Is that outside of the reserve board?

Mr. WILLIS. Entirely so; yes.

Senator O'GORMAN. Why should not the members of the reserve board be all that is necessary to create this?

Senator SHAFROTH. Three of them are the same.

Mr. WILLIS. Senator Shafroth reminds me that three of them are the same.

Senator SHAFROTH. The Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency.

Senator O'GORMAN. Do you see any objection to having authority to create the regional banks vested in the reserve board of seven men, whoever they may be?

Mr. WILLIS. It is vested there now.

Senator O'GORMAN. I gathered from your statement that a part of the committee on organization——

Mr. WILLIS (interposing). No; I am recommending that it should be allowed to——

Senator NELSON. The committee is to be composed of those three officials of the reserve board.

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Mr. WILLIS. Yes. I would like to get that connected thought out, if I might. May I go ahead?

Senator O'GORMAN. Yes.

Mr. WILLIS. This organization committee will have an exceedingly important piece of investigation and work to do. Now, in the course of that work, laying off the districts, it would be desirable, if you had a perfectly unbiased scientific judgment at your service, that it should be left to that organization committee, on the strength of the information it gets, to say just how many of these banks are actually needed by the country—just how many of them can be properly provided for. Whether Congress would want to leave so great a power as that in the hands of this organization committee is not for me to attempt to conjecture. I think, personally, it would be safe to do that if a way were open for subsequent increases or decreases of the number of banks, upon suitable and proper application. I firmly believe that the best judges of the number of banks that are needed are the business and banking communities throughout the country, and I think that when their sentiment has been properly and thoroughly ascertained—by the way, it never can be thus ascertained through resolutions that are passed in a hurry and in the course of an afternoon by some organization—but when it has been ascertained I think it will be the ultimate criterion as to just how many of these are wanted. And I believe you will find that the business and banking interests in the different sections of the country will want to have a reserve bank of their own in every district within which there is enough banking capital and enough banking reserve to give the requisite strength.

Do I make that fairly clear?

Senator REED. I think your idea is perfectly clear as you have expressed it.

Mr. WILLIS. Yes.

Senator REED. I take it, then, it is a matter to be worked out and to be developed in your mind if we are to get the best results?

Mr. WILLIS. That would be the ideal thing. But because it was deemed necessary to put in the bill some number of reserve banks, that number was set at 12, after the most fair consideration that we could give to it.

Senator REED. I understand. Now, why not, Mr. Willis, provide that a system of reserve banks shall be established and start out by creating a reserve bank, and when you have that job done, or well under way, and have developed the situation, to start another reserve bank? In other words, if you are going to build a number of houses and do not know just how many you need, and do not know whether you need 1, 2, or 3, or 25 or 30, why not build 2 or 3 at a time and add to it?

Mr. WILLIS. Yes; I think that is a good idea, but I think a better one is to find out exactly how many are needed, how many there are demands for, after a careful survey, and then buy the material in wholesale lots and build all at once.

Senator REED. That is all right if you know how many we are going to have. But the first thing we have to do is to find how many are coming in. You have an indefinite number of banks. Is it not

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necessary to vest the power in this organization committee to work that problem out, and, as sensible and reasonable men, to proceed conservatively in the construction of this system instead of trying to do it all at once?

Mr. WILLIS. You have asked for an expression of opinion or judgment, Senator, on a legislative matter, which is outside of my ken.

Senator REED. No, it is not a legislative matter, but an opinion as to how that system could be best worked out. I am asking you, in justice to the present condition, would you then undertake to start 12 banks at once, or start in a different way?

Mr. WILLIS. I will answer your question by saying I think it would be safe to have this organization committee report to Congress the result of its finding within such length of time as necessary, say 60 or 90 days, and then for Congress to decide.

Senator NELSON. That could be done easily if we remain in perpetual session. [Laughter.]

Senator REED. We will undoubtedly be here for 60 or 90 days anyhow.

Mr. WILLIS. Undoubtedly, and Congress could pass upon the exact number of these reserve banks.

Senator WEEKS. What would you say to start one, with the hope that there never would be any more?

Mr. WILLIS. I should not like it, Senator, to be perfectly frank; no, sir.

Senator WEEKS. Do you know a first-class banker in the United States who is in favor of more than one reserve bank?

Mr. WILLIS. You say "first-class banker." That draws an invidious distinction.

Senator WEEKS. Can you name a single man, whose judgment is worth anything, who is a practical banker, who is in favor of more than one bank?

Mr. WILLIS. I should not like to do it offhand, Senator, and not unless I had permission to quote men; but I know there are.

Senator WEEKS. This committee has not been able to find any such man, and if you know of a man I wish you would give his name to the chairman.

Mr. WILLIS. I will say this now, Senator: I believe it is true that all kinds of production, theoretically, could best be carried on by a great central association. I say that if we had one bank for the whole world, for the economy of the reserves and looking at credits, and to do everything in due proportion, it would be best; but that is like getting universal money and general peace.

Senator O'GORMAN. You do not think universal peace improbable?

Mr. WILLIS. I am afraid I shall have to confess I do.

Senator NELSON. We could settle it at The Hague. [Laughter.]

Mr. WILLIS. I will go as far as this: I say I think in banking, as in everything else, the ideal thing would be to have one single central bank, assuming it was properly controlled and carried on in the best way for the public welfare, just as it should be. I think it would be well if we could have one single central bank for the whole world.

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Senator WEEKS. Let us talk about the United States.

Senator POMERENE. And one railway system for the United States?

Mr. WILLIS. Yes.

Senator POMERENE. And one telegraph system and one steel company. [Laughter.]

Senator O'GORMAN. Speaking of your last suggestion, regarding your central bank—and we hear some reference to a central bank occasionally—Senator McLean, I think, some time ago asked your opinion as to the central bank proposed here yesterday.

Mr. WILLIS. As I said, Senator, anything I say on that must be said with extreme hesitation, because I have not read the plan fully. I would rather turn in a memorandum on that.

Senator O'GORMAN. What would be your general impression about it?

Mr. WILLIS. My general impression is adverse to it, for the same reason I have been discussing with Senator Weeks and some of the members of the committee. It ultimately all comes back to my feeling that is not a good way to do things.

Senator WEEKS. I do not know how many banks we will have when we get through with this bill, but if we could start with one bank, my judgment is the people of the United States would never tolerate another, and you would wonder that you had ever expressed such an opinion.

Mr. WILLIS. In the past, Senator, I have felt the greatest deference for your opinion and valued it most highly, sir. I say that not as a matter of compliment but because it is a fact. But I do not quite agree with that view.

Senator NELSON. You said a while ago the plan of this bill corresponded in many respects with the systems of other countries.

Mr. WILLIS. Yes.

Senator NELSON. Do you know a system there where they have 12 regional banks?

Mr. WILLIS. Yes; I do.

Senator NELSON. Banks established under one head?

Mr. WILLIS. We have in Europe a central bank for each of the countries there.

Senator NELSON. Yes; each country; but I mean in any one country, any one Government.

Mr. WILLIS. There is no country in the world that has the extent of territory and breadth of business interests that ours has.

Senator WEEKS. How about Russia?

Mr. WILLIS. I do not want to put this country on a Russian basis, Senator. [Laughter.]

Senator HITCHCOCK. We have been trying to put the bill on a Russian basis.

Mr. WILLIS. That is beyond me. [Laughter.]

Senator REED. You would not hardly like to put it on a German basis either, would you?

Mr. WILLIS. I do not think I would, Senator. There is one thing I would like to say about this central-bank matter. While everybody admits in a general sort of a way that a central bank is a splendid

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thing, and so forth, I would answer Senator Weeks in this way: There is no argument in favor of a central bank that can not be adduced with just the same force in favor of any other centralized bank that covers enough territory and capital to furnish the necessary strength that grows out of cooperation.

Senator WEEKS. Absolutely; and that is just our trouble, too. Our laws have brought about a centralized system which is concentrated in New York. It is under private ownership and private control, and that is what we are trying to get rid of.

Mr. WILLIS. But now you want Government control.

Senator WEEKS. It is not that our present system has always worked badly, but we are trying to change that centralized system in New York.

Mr. WILLIS. Yes, sir; I believe that this system will do that. I may be wrong about it.

Senator BRISTOW. Mr. Willis, as I understood, your principal objection to a bank owned by the people of the United States by voluntary purchase of stock and controlled by the Government was that it put the Government in the banking business?

Mr. WILLIS. Yes.

Senator BRISTOW. And you objected to the Government engaging in business?

Mr. WILLIS. I do not like it.

Senator BRISTOW. In that connection you have been, in my opinion, confusing the central-bank idea with the idea that has been advanced here in the committee and which was indorsed yesterday by Mr. Vanderlip of a Federal reserve bank.

Mr. WILLIS. Yes.

Senator BRISTOW. Now, a Federal reserve bank, as some members of the committee have ben advocating, is not a central bank that is operated and owned and controlled by the banks of the United States.

Mr. WILLIS. I think that is a very excellent point, Senator, and I quite agree with you.

Senator BRISTOW. It is a Federal reserve bank that is to supplement the banking system of the United States.

Mr. WILLIS. That is absolutely true. I made that same point awhile ago, if you remember, in conversation with one of the other members of the committee. I agree with you.

Senator BRISTOW. It is to aid the banking business of the United States.

Mr. WILLIS. It is; yes.

Senator BRISTOW. It is not to absorb the banks themselves——

Mr. WILLIS. Not at all.

Senator BRISTOW. It is to be a reserve bank, a great reservoir, where any bank, whether the stock is $25,000 or $25,000,000, if it complies with the legal requirements, may come and secure help when it needs it.

Mr. WILLIS. Yes; but in doing that it has to carry on banking operations—it has to judge the paper.

Senator HITCHCOCK. The Treasury Department is doing that now, you realize.

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Senator BRISTOW. Yes; it is taking commercial paper now for deposits.

Senator HITCHCOCK. And not only that, but it is sending experts in every one of those national banks to judge of their commercial paper—to say whether it is good.

Senator WEEKS. Yes; not only doing that, but sending men who are not experts. [Laughter.]

Mr. WILLIS. Senator, I think those points are well taken, but I do not think that necessarily means the process is one we want to continue and perpetuate.

Senator BRISTOW. Now, I want to call your attention to the fact, and tell me if it is not somewhat a parallel: The Government owns a railroad—the Panama Railroad; the Government owns and operates it, and it is a Government institution. Do you not think it was necessary for the construction of the canal that the Government should own and control that railroad and steamship line?

Mr. WILLIS. Yor are an expert on the Panama Canal; I am not. I have heard it said it was.

Senator BRISTOW. In the connection with the operation of this railroad company and steamship line, the Government is running a steam laundry and an ice-cream factory, 30 eating houses, and 3 or 4 big hotels, as big as the Raleigh down here, and it is also running 40 or 50 grocery stores. Now, that has been found necessary in the construction of the Panama Canal.

Mr. WILLIS. My answer to that, Senator, is that if that is necessary, and there is no other way to do it, then I am prepared to subscribe to it. But I believe there is another and better way.

Senator BRISTOW. Won't you modify that by saying: "If this is the better way to do it?"

Mr. WILLIS. No, sir; I can not believe that.

Senator BRISTOW. You said there is no other way. Now, there are other ways.

Senator REED. There is no other way to do it down there.

Senator NELSON. Yes; they could have done it on the regional plan. [Laughter.]

Senator SHAFROTH. As a matter of fact, because of the cost and the probable losses, you would find that private enterprise never would have undertaken that.

Senator BRISTOW. No; I beg your pardon. The Government did that because it was afraid that private enterprise, in control of its construction, without any competitor, would take advantage of that and charge the people excessive rates. Now, it is proposed here, in order to break up the monopoly of the credit of the country, which this bill is undertaking to do, to let the Government establish a bank of a hundred million capital, invite the people of the United States to buy the stock and operate that bank, so as to preserve the independence of this democratic system we now have.

Senator REED. As soon as the argument between the Senator from Kansas and the Senator from Colorado is over, I move that we adjourn until to-morrow morning.

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Mr. WILLIS. I would like very much to be permitted to conclude this.

Senator REED. So far as I am concerned, I would be forced to leave at this time.

Mr. WILLIS. May I continue this?

Senator O'GORMAN. Yes.

Mr. WILLIS. Gentlemen, I will add this one point, if I may: A great deal has been said about the necessity of having the banks take up the Government bonds, refund them into 3 per cents or into short-time notes, and then use those notes for the purpose of getting gold on occasion. In my opinion, there is no necessity for any such plan as that, and I do not think it is a courageous way of dealing with the bond question. It would have the effect of tying up the funds of a regional or central bank, if the latter were organized, and keeping them from being placed in commercial loans. I think that is not in the bill now, and I think it would not be a good thing to do.

Senator O'GORMAN. What would be your suggestion?

Mr. WILLIS. Well, sir, my suggestion would be, if the committee does not think the banks have been sufficiently generously treated under this bill,—that is, if they do not think justice has been done them—then to do justice by having the Treasury get whatever money is necessary in refunding and refund at such a rate as may be desired. I do not like the roundabout way of dealing with such questions.

Senator O'GORMAN. I think earlier during the day you stated those 2 per cent bonds should be refunded at par at a reasonably early date.

Mr. WILLIS. I did not say they should.

Senator O'GORMAN. You thought it would be just?

Mr. WILLIS. I think I said that that was about the only thing I felt would absolutely certainly maintain them at par. That is what I think I said.

Senator HITCHCOCK. I want to say right here I think it is not the idea of members of this committee that the bonds must be maintained at par as a mater of justice or generosity to the banks, but as a matter of protection of the national credit.

Mr. WILLIS. I think that is a very reasonable distinction.

Senator O'Gorman asked me awhile ago, I believe, whether I approved of the note features in this bill, and then that question was withdrawn. I would like to say with further reference to that, Senator, that I think in the form in which the note section is now stated any objection that might come to us from those who hold the ideas that I have expressed is largely a theoretical objection and has not very much practical force, although personally I hold the theory of note issue that I explained.

That is all.

Senator HITCHCOCK. We will now adjourn until to-morrow morning at 10.30 o'clock.

(Thereupon, at 5.22 o'clock p. m., the committee adjourned until to-morrow, Saturday, October 25, 1913, at 10.30 o'clock a. m.)

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SATURDAY, OCTOBER 25, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10.55 o'clock a. m.

Present: Senators Hitchcock, O'Gorman, Pomerene (presiding), Shafroth, Hollis, Nelson, Bristow, Crawford, McLean, and Weeks.

Senator BRISTOW. I have a letter here from Mr. Larrabee, who appeared before the committee, and I would like to read it so as to have it incorporated in the record.

Senator POMERENE. Was he a former witness?

Senator BRISTOW. Yes; he appeared here, and this is a letter to supplement his statement, which he wrote after he arrived home, written from Stafford, Kans. He says, "I have been home several days," etc., and speaks of his enjoyable trip, and adds:

I am afraid that I did not make a strong enough impression on the committee in respect to the open-market operations of the regional banks. In the morning of the day I was there you will remember that a banker from Denver testified that he increased the reserve of his bank 12 per cent during the panic of 1907 by collecting outside commercial paper; and unless the new banks are permitted to go in the open market the business interests will be up against a violent liquidation in the event of financial disturbance. This was what happened in the panic of 1907, and concerns which sold their paper through brokers were compelled to liquidate heavily. Bankers will not buy paper when they have to discount it at once, and during the panic of 1907, owing to forced liquidation, wheat declined 10 cents a bushel, and there was a heavy decline in all lines of production. I have a suggested method to offer in handling the 2 per cent bonds. It is this: It amounts little to the Government who holds these bonds, whether it is the national banks or whether it is the new reserve banks, and I believe the national banks should be permitted to present their bonds to the reserve banks and receive in payment therefor the notes of the reserve banks, retiring their note circulation. This, of course, can be made optional to the present holders.

You can provide that the Federal reserve bank need keep no gold reserve for the notes then outstanding secured by 2 per cent bonds, which they should be obliged to deposit with the Secretary of the Treasury. There is no gold reserve behind these notes now, so there would be no more occasion, it seems to me, for the regional banks keeping a gold reserve behind national-bank notes that are based on United States bonds than there is of the national bank, under the present law, keeping a gold reserve behind such bonds.

They should, however, be required as are the present banks to keep a 5 per cent fund with the Treasury Department. With the bonds with the reserve banks the Government could refund them at the rate of 5 per cent annually, retiring that amount of bank notes. The only difference there would be is the reserve banks would issue the circulation instead of the national banks as at present. The Government would be left in the same position as though the national banks were compelled to keep the bonds. If additional currency at the reserve banks was issued above the amount secured by the 2 per cent bonds, they should be required to hold a gold reserve as the bill now provides.

In relation to the savings-bank section I notice—now, Senator Nelson, this point I would like your attention to to see if you think there is anything to it—

In relation to the savings bank section I notice the law makes an establishment in the savings section optional, and if it is left optional in the bill the

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objection passed by Mr. Tilton, of Pell City, Ala., falls to the ground. And if such section is made optional with each individual bank, it can not be objectionable and may be of some benefit to some banks.

That is all he says in regard to this. Now, is it optional, and if optional and the bank did not see fit to establish a savings department, could they go ahead with the time certificates as they do now or would they be forbidden?

Senator NELSON. I think they could go on unless we changed the law. There is nothing in the law that directly prohibits it, and it is a practice that has grown up.

Senator BRISTOW. Suppose the Comptroller of the Currency should decide that was a savings bank—that is, a savings account.

Senator NELSON. Then it might lead to trouble, but it is a practice that has been universal for years.

Senator POMERENE. My thought about that matter had been this: It seemed to be some question as to whether or not, under the national-banking law there was an authority to establish these savings departments, but it has been done by leave of the Comptroller of the Currency. Now, if you wanted to make certain that provision we could simply incorporate a section in this bill legalizing that which they had been doing.

Senator NELSON. Simply a provision in the bill that they shall continue to do as they have been doing.

Senator POMERENE. Yes.

Senator NELSON. And they ought to have the right.

Senator POMERENE. I think so.

Senator CRAWFORD. Mr. Bristow, in what way will his scheme for having these 2 per cents deposited with the regional reserve bank make matters either better or worse?

Senator BRISTOW. Why, it would save a contraction of the currency.

Senator CRAWFORD. But, supposing you leave these national-bank notes out just as they are, and not touch them at all. Why would not that accomplish just the same thing?

Senator BRISTOW. Oh, yes; certainly. But this bill proposes to retire them and then if the national bank does not come in under the provisions of the bill, there is a forced retirement.

Senator CRAWFORD. Yes; but we could change the bill so as to permit them to remain out. That would amount to the same thing.

Senator BRISTOW. Oh, yes; that would amount to the same thing; but this gentleman does not intend to come in unless the bill is very materially changed, and of course he wants to get rid of his bonds, but he won't sell them at a sacrifice. He said to me after he testified here he intended to keep his bonds. He says:

I will hold them. The United States Government, I do not believe, will repudiate its obligations, and I do not intend to sell below par, but I am going out of the system.

Senator NELSON. As the plan is, as I understand it, Senator Bristow, it is to have the new banks, the regional banks, take over these bonds bodily and issue this new currency on them?

Senator BRISTOW. Whenever a bank wants to get rid of its bonds, the regional bank, his idea is, shall take those bonds and issue to the banks——

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Senator NELSON (interposing). These new notes.

Senator BRISTOW (continuing). Currency.

Senator NELSON. That would still make that currency bond-secured currency.

Senator BRISTOW. It would still make the currency bond-secured currency, except it would be carried to the regional bank.

Senator WEEKS. Mr. Chairman, may I suggest to these gentlemen who are discussing this matter, that this is a matter they can discuss during the month of November, and that we take up these witnesses here who are waiting.

Senator BRISTOW. That is a good suggestion. I have a letter here from Senator Catron. He has written out to a number of bankers in his State, and sent them a copy of the bill and asked their views, and he writes and asks me if I will not have their views incorporated in the record. He sends me the replies of four banks. I do not know what they are, but I have them here.

(The letters referred to will be found at the end of the day's proceedings.)

Senator POMERENE. I presume there would not be any objection, and it is so ordered unless there is objection.

Senator WEEKS. Mr. Chairman, I have a letter from a Massachusetts banker making some suggestions. I have not been over them, and I do not know whether they should be included in the record, but if I find some new suggestions, I would like to have his letter incorporated in the record.

Senator POMERENE. If there is no objection, that will be granted.

Senator NELSON. I was going to suggest, Mr. Chairman, that inasmuch as Mr. Willis was asked to remain over for the benefit of Senator Reed, we take up some other witness until the Senator arrives.

Senator POMERENE. Have you any additional statement, Mr. Willis, that you wanted to make?

Mr. WILLIS. I have nothing, Senator, that I think is absolutely necessary. It did occur to me that before closing I would give the committee, with its permission, a brief statement of the points in this bill that I think should be absolutely retained in any bill that the committee, in its wisdom, may determine upon, if you care for them. I do not care to volunteer them.

Senator POMERENE. Yes. The witness will proceed.

STATEMENT OF PROF. H. PARKER WILLIS—Resumed.

Mr. WILLIS. This bill, gentlemen, as other bills of the same kind, is a bill which may be changed in a great many details, and good argument can be put up on either side; that is, in favor of one set of details as against another. That is largely a matter of business judgment and of adjustment to conditions.

As I said yesterday, the effort was earnestly made in the House to get what seemed like the best arrangement, but if subsequent developments or additional evidence which is adduced show that what was done was not the best, and that in certain particulars alterations should be introduced, then obviously those alterations it is the duty of the committee to make. There are, however, certain fundamental

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ideas in the bill that it seems to me should be held firmly in mind in the process of acting upon it, if it be acted upon, and that these can be stated pretty simply as a series of brief propositions. I think the first one is the idea that was elaborated upon yesterday to a considerable extent, namely, that of providing for a number of these banks.

Senator NELSON. Why is that fundamental? Instead of having one reservoir for reserves and for the issuance of bills, why is that fundamental? You did not explain that yesterday.

Mr. WILLIS. I tried to do so, Senator.

Senator NELSON. I do not recall any reason you gave for that.

Mr. WILLIS. I may not have done it perfectly. My discussion was broken a good deal by question, but my feeling about that is this——

Senator NELSON (interrupting). Before you go into that I want to call your attention to this: The two fundamental things, I think, in the bill are the conservation of the reserves, gathering those together, instead of having them in the condition they are now, and making them available, and the other is the issuance of currency based upon the commercial needs of the country founded on commercial paper with a sufficient gold reserve for their redemption. Now, those are the two fundamental propositions.

Mr. WILLIS. Yes.

Senator NELSON. The other proposition of regional banks or whether you make this a compound currency make it absolutely a promise of the banks with or without the guaranty of the Government I regard as nonessentials.

Mr. WILLIS. Yes.

Senator NELSON. The other two, the gathering up of the reserves and utilizing them, and the issuance of currency on the commercial needs of the country—they are the two fundamentals. Now, I would like to hear why 12 regional banks are fundamental.

Mr. WILLIS. May I first say, Senator, that I did not intend to say and do not go on record now as having said that I thought 12 were fundamental. I tried to insist yesterday and I do say now, with the greatest strength that I am capable of, that I think the number to be established is a matter that is worthy of very careful investigation and that while we did give—the House committee did give—as full and thoughtful study to that as it was capable of, did have maps drawn dividing the country into tentative districts, did compile statistics——

Senator NELSON (interposing). But that does not go to the root of the matter.

Mr. WILLIS. May I be permitted, Senator, just to finish that matter, with your permission?

Senator NELSON. Go on.

Mr. WILLIS. While the committee did do all that and did, as a result, come to the opinion that so far as it could reasonably and humanly conclude, 12 was about the right number, if additional information showing that is not the right number is in the possession of the committee, then the number should be changed. In other words, as I said yesterday, there is nothing sacrosanct or positive about the number 12.

Senator NELSON. But don't you see, Mr. Willis, you have not gotten at the fundamental reason?

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Mr. WILLIS. Because I have not been allowed to develop my statement.

Senator NELSON. It is not the question of numbers but why should it be a regional system instead of a single system, that you have not touched upon yet.

Mr. WILLIS. I tried to just a moment ago. I went over that yesterday. The question in the last analysis comes to this: What is the desirable unit of banking concentration? That is the real problem. Now, if it can be shown that it takes a country of just about the size of the United States and of just about the total amount of capital our banks have to provide the United States a desirable quantity of banking concentration or degree of banking concentration, then we ought to have only one bank. If, on the other hand, the evidence shows that such a bank as that would be unwieldy, overcentralized, in danger of subordinating the interests of one part of the country, possibly, to the interests of another, or, if it be found that in any area over which such a bank presides there are a number of business districts reasonably separate one from the other in their affiliations, in their type of credits, in their seasonal variations of crops and the like, then the argument is strong for giving each of those districts a separate banking organization which shall manage its affairs and provide the necessary cooperation to guard against depressions and panics and provide banks regularly with rediscounts.

Now, do I make that a sufficiently plain statement, Senator?

Senator NELSON. No; I do not think you reach the fundamentals.

Mr. WILLIS. Then tell me where I fail and I will try to do better.

Senator NELSON. The point is this: Why is a regional system safer and better than a main, central reservoir? I do not care what you call it, but why not have one reservoir instead of having 12? The bill admits that 12 is not good because it provides, as Mr. Vanderlip expressed it, for the piping of funds from one reserve to the other. Without that you admit your system would break down. You admitted yesterday without that provision compelling one regional bank to discount for another, your system would break down.

Mr. WILLIS. No, Senator. Some one asked me if I did not admit that, and I said that "With due regard to everybody else's opinion, I could not admit that," and I can not now admit it.

Senator NELSON. Then we might eliminate that from the bill with safety to the system?

Senator REED. You did put in, you or somebody put in the bill for some reason, a provision that the central board could order one bank to come to the rescue of another.

Mr. WILLIS. I think that is desirable, Senator, as an emergency proposition.

Senator REED. Now, let us see: If the system will stand without it, it certainly is a very radical thing to do. If we have 12 separate corporations, each owning their own capital, every dollar of their assets being their own, and you put in a requirement that without their volition or consent they may be compelled each to transfer their funds to the other, that of course is a very tremendous power and a very radical power. Now, is there any justification for it except necessity?

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Mr. WILLIS. I will answer perfectly frankly as to that, Senator. The justification for it is the same as the justification for the use of the police power, the same as the justification that gives the Government power to seize private property in time of war, the same as creates eminent domain on the part of the Government, the same as enables human society, as organized, to do any of the things which violate or run counter to the ordinary course of affairs for the safety of the whole of the community. It is the same thing that has led the clearing house, a purely private organization, in time of panic to get together and pool reserves, practically putting pressure—I do not say in any illegitimate way—but practically putting pressure upon every member of the organization to join with the others.

Senator REED. Your illustrations admit the whole of the argument—the right of eminent domain.

Mr. WILLIS. That is an analogy, Senator, of course.

Senator REED. The right of eminent domain is the greatest power the Government has.

Mr. WILLIS. Yes.

Senator REED. It is a life and death power, in fact.

Mr. WILLIS. Yes.

Senator REED. It has no justification, except supreme necessity.

Mr. WILLIS. Yes.

Senator REED. And never has been justified by a court except upon the ground of public necessity. Now, if you admit, therefore, that this provision is analogous to the right of eminent domain, you bottom it upon necessity; and when you bottom it upon necessity you admit Senator Nelson's hypothesis.

Senator NELSON. My hypothesis is that that very fact admits that under certain financial stress these regional banks can not stand alone. That is, each one of these regional banks is helpless; they must hie to the others to get help.

Mr. WILLIS. It would likewise be a fact if you had a central bank in this country—one single central bank. In time of stress conditions might become such, and indeed have become such, that such a bank is obliged to look to others unless the financial system is to break down and go to pieces. That has been the case in European countries—the banks of France and England have been friendly to one another and have stood together and have aided one another, although there was no power that could force it. Now, in this case, I do not like to speak of myself as admitting that such conditions are probable. I do not object to stating that they may exist. I say frankly that I think this is an emergency power, and I think the bill makes it evident it is to be used and can be used only in emergency. I fully agree with Senator Nelson that there are conditions which this was intended to meet under which difficulty might arise in some one part of the country, serious difficulty, in which it would be desirable to get help from other parts of the country. But I believe that with this power in the bill that help will come voluntarily.

Senator REED. Very well. I do not think we are very far apart. The amount of it is, you think, one of these regional banks might be weakened and might need help, and therefore you have put in the power to give that help; and you admit, of course, that necessity may arise (and we all hope it will arise very seldom and may even

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hope it will never arise), and the fact you put the power in is an admission of a possible danger.

Mr. WILLIS. Yes.

Senator REED. Now, I want to ask you this question: I wish you would tell us the difference there is, after all, between 12 separate banks tied together by a central organization and united by a power of that central organization to compel each to transfer its funds to the other and calling that central organization a bank and giving it 12 branches. What is the real difference?

Mr. WILLIS. That is a very pertinent question and goes to the heart of the matter. The difference I conceive would be simply like that between a centralized empire like Russia and, on the other hand, a nation like our own, in which local powers are lodged in local governments. The difference now, coming down to a business analysis, lies in the fact that whereas under a central bank plan the central body ordinarily normally and constantly interferes in, shares in, and directs the ordinary banking business operations of each one of its branches, under a plan such as is proposed in this bill, each business unit carries on its own affairs, provides for the conservation of its own reserves, and directs its own interests, referring to the others only in case of exceptional necessity and being governed by the central power only in those broader and more general ways that are deemed necessary to bring about a certain general unity in policy. To sum up that answer, then, in a word, the difference is that between central and local control, in either case there being a general unity of policies.

Senator REED. Now, nobody can go farther than I will go for the right of local self-government in all these matters that can be controlled by the people locally; but when you come to establishing a think like a post office, local control would be ruinous.

Mr. WILLIS. Yes.

Senator REED. And it is conceded here that it is our duty to provide a currency not for each State, but in the exercise of the Federal function to provide a currency and banking system for the entire country.

Mr. WILLIS. May I interrupt there?

Senator REED. Yes; just when I finish my question. Don't you weaken that system, that plan, when you interpose and mix up with it the idea of local self-government?

Mr. WILLIS. Answering that directly, Senator, I do not think so. Further, you notice we have provided with some elaborate care in this bill for exactly that unification of currency as distinct from the purely banking operations which involve the passing upon paper. The chief idea in this bill, the main idea, is just that of keeping within every district the power of passing upon its own paper—deciding what shall consttute the basis of credit—instead of having that decided somewhere else.

Under a central bank plan, as I understand such plans, the central bank would have the power to withdraw funds from one part of the country or to dispatch them there, and through its appointees to impose the stringent requirements of one part of the country as to commercial paper upon another. Now, we all know that human nature is about the same everywhere, and, in the last analysis, the

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goodness of our commercial system depends upon the goodness and reliability of the men who are behind it.

Senator NELSON. May I ask a question right there—I want to ask right here, in order to bring it to your attention: Under the currency provided for in this act, it is not issued on the order of the regional bank, it is only issued on the order of the central board. The regional bank must apply to the central board, to this central board here, and it says whether the currency can issue or not.

Senator REED. And whether the securities are satisfactory?

Senator NELSON. Yes.

Mr. WILLIS. The central board passes upon the question whether the securities that have been O. K.'d by the district authority—that is, have been examined by it, approved by it—are or are not worthy to stand behind a national currency to which the Government gives its indorsement and the central board further reserves to itself the power, if absolutely necessary, to say to a bank, "No more of this currency shall come out," and this currency, under the bill, issues only on the request of the regional bank, and that implies that it will issue only on the request of member banks and their customers who make application to it.

Senator CRAWFORD. Right there: I do not want to break in on your thought, but is it not sound that the issuing of currency should be controlled by the Federal board rather than by these banks that are engaged in discounting paper?

Mr. WILLIS. For the sake, Senator, of getting uniform currency.

Senator CRAWFORD. And for the purpose of controlling the volume and preventing inflation should not this Federal board control that issue?

Mr. WILLIS. It is desirable to prevent inflation; and to have that done by every means and at every point in the whole process here, has been earnestly sought. I believe this bill is infinitely ahead of the monetary commission's bill in its safeguards against inflation, and I believe it fully and thoroughly prevents such inflation, while, at the same time, enabling the business community to get what it needs when it has the backing for it.

Senator REED. Now, Mr. Willis, we are drifting away from the one thing I want to talk about for a moment.

Mr. WILLIS. Yes.

Senator REED. You believe, I take it, that the nearer we have local control and yet have a strong system, the better.

Mr. WILLIS. I do.

Senator REED. Now, let us see. Here is a system proposed by which there is a regional bank organized, and every bank within that district must become a member, and then that bank can get no relief until it has secured the approval of that regional board.

Mr. WILLIS. Yes.

Senator REED. And after it has the approval of the regional board the regional board must get an approval from the central board. Thus each bank's fate is made to rest not upon the security it is able to offer, but upon the volition of the bankers who happen to control the regional bank. Now, is that not a much less degree of independence in each bank than it would be if each bank had the right, under the law, to have discounted its paper, provided it came up to a standard and acted as an independent thing—not as an adjunct?

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Mr. WILLIS. Senator, answering the main point of your question first, which is the last point—that question has been discussed a good deal in the House committee, and I have devoted a good deal of attention to it. I think there is argument for giving the bank the right to have a certain amount of its paper discounted under limited conditions. I think, also, that the putting of that into the bill would create another outcry of opposition to it from bankers; and as I believe that all reasonable discounts will be granted under this bill, for the reason that it is to the interest of the banks to do it, and they themselves are operating the regional banks, I think it is not necessary, or on the whole wise, to put that in; although, if there were danger that any bank would be discriminated against and its life endangered in that way, I should want to see it in. Now, then, I do not believe there is any such danger as that, but I believe that the business interests of the banking community are strongly in favor of seeing to it that every bank that has good paper shall get accommodation and that there shall be no friction in the working of the plan. That situation has existed already under our very imperfect system and would exist in a much higher degree here, where, if there was the slightest injustice done to a bank, that bank could bring it to the attention of the Federal authorities and an immediate rebuke would result.

Senator NELSON. I want to call your attention to this fact, in the matter of discounts: Do these regional banks act as a sort of middleman? There has got to be a double discount.

Mr. WILLIS. Yes.

Senator NELSON. I come to you, a regional bank, and want to make a loan.

Mr. WILLIS. Yes.

Senator NELSON. You discount my paper.

Mr. WILLIS. Yes.

Senator NELSON. Now, you have to go, if you are short of funds, to the reserve bank?

Mr. WILLIS. Yes.

Senator NELSON. And you have to discount, so there are two steps in the operation.

Mr. WILLIS. Yes; that is true.

Senator NELSON. And each of those systems has to have a rake-off.

Mr. WILLIS. Yes.

Senator NELSON. That is, instead of the borrower getting the whole thing through his local bank, he gets it through the local bank as an intermediary of the regional bank. So there are two steps in the discount program. Your member bank borrows it from the regional bank, and then the member bank loans it to the individual.

Mr. WILLIS. Yes; your point is very forceful and well taken, Senator.

Senator NELSON. Now you have a middleman. Would it not be better to abolish that middleman in the matter of discount and let the local bank do the business direct—to get discounts direct?

Mr. WILLIS. I would rather put it the other way. If you can induce the bankers to have the regional bank deal direct with the public, so as to compete with them right along every day, it would be well. There is a great deal of argument for that.

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Now, as to this question of profit or "rake-off," what you say is absolutely true. My own opinion about it is, however, that the combined payment of profit or "rake-off" will, by competition, be kept down to the ordinary level for the use of capital, and that the member bank which makes a loan, knowing it has to meet that loan itself or go to the regional bank, will simply charge enough for its indorsement (for that is what it amounts to) to cover its expenses and the risk of loss in performing the transactions. I think the competition, which is to be perfect under this bill, because any new bank that organizes can come in, will keep that rate of interest down to a fair return upon capital, and I am firm in that belief because of the fact that under the existing system our banks, on the whole, have not had an unreasonable rate of return. The comptroller places it, I believe, at less than 10 per cent as the average rate of return on capital, which is not an unfair return, as such things go, allowing for business hazard and failure and all that sort of thing. That is my answer. I do not think it would be unreasonable, and I believe competition would keep it down. At the same time, I do think if you could persuade the banks and business interests, which have sprung up and are opposed to doing that, to let those regional banks do some business, at their discretion, with the public, thereby giving a very powerful whip hand over the member banks, you will tend to keep the rate of interest down. To get them to do that, I think, would be a difficult thing, and I doubt whether it could be accomplished.

Senator REED. Now, Mr. Willis, I want to get your idea about this matter: Suppose we were to organize this system along this line, that we are to provide 12 regional banks——

Mr. WILLIS (interposing). Or some other number.

Senator REED. I will take 12 as an arbitrary number.

Mr. WILLIS. Yes.

Senator REED (continuing). We would require the banks in these districts to underwrite the stock and then sell the stock of each of these regional banks to whomsoever would buy it, the Government of the United States taking a portion, so that the banks in the end would not necessarily have the capital invested. Then require the banks to keep their reserves either in their own vaults or in these banks?

Mr. WILLIS. At their own discretion?

Senator REED. Well, leaving a discretion, but perhaps not as to the entire fund. And then provide that these 12 banks should be governed by a board of directors selected, not by the banks but by the Federal Government?

Mr. WILLIS. Yes, sir.

Senator REED. So that there was no selfish interest controlling those 12 banks. What would be the objection to that system?

Mr. WILLIS. Well, that was the question that was asked me last night—I think by Senator O'Gorman. I think perhaps you were not here at the time.

Senator REED. If so, I did not hear it.

Mr. WILLIS. My answer to it was this: I firmly believe, perhaps wrongly, but I believe that the use of selfish interests under proper control in human life, in business relations, is a pretty desirable thing; and I think you will get better results in the operation of these banks by having them carried on subject to proper Govern-

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ment control in the interest of the public by the people who own them—who own the stock in them—and who are directly concerned in their operation, then you would in having it done entirely by public officials. You may say——

Senator REED (interposing). Well, suppose we were to have the banks have a minority representation on account of their deposits, the Government maintaining the majority; what would you think of that?

Mr. WILLIS. That would be less objectionable to me than the other.

Senator REED. I just want to get your opinion, because you want to get away and I do not want to keep you here very long.

Mr. Willis, have you any idea that the banks to-day—the great banks of the country—exercise a somewhat dominating influence over the financial market?

Mr. WILLIS. I do, of course, think so.

Senator REED. Have you any idea that that influence extends out throughout the country and reaches the large banks of the country?

Mr. WILLIS. I can not help thinking so.

Senator REED. Well, have you any remote or nebulous notion in your head that the banks are not going to control this system?

Mr. WILLIS. This system we have now?

Senator REED. Absolutely.

Mr. WILLIS. I have not only a remote and nebulous notion but a very distinct conviction, which may be nothing more than a conviction, but which I hold just as firmly as a man can hold a conviction based entirely on study, and so on, that under this system the banks of the several districts will be able to control their reserve funds and to keep them invested in the fluid securities of their own district, and not in stocks and bonds issued at a great distance from them, doubtless under proper control in many cases, but whose fluidity and soundness is in no way related to the fluidity and soundness of the paper of the district to which these reserves belong.

Senator REED. That, to my mind, is an utterly different question, and it is one that can be reached in an entirely different way.

Mr. WILLIS. Very likely.

Senator REED. They have got the right in this bill to prescribe the kind of securities that can be used by these banks or can be invested in—all of them.

Mr. WILLIS. Yes, sir.

Senator REED. And that is a different question. But I am talking now just about control. I will take, for illustration, the district in which I live. There is one bank in the district that is the banker for 720 other banks.

Mr. WILLIS. Yes.

Senator REED. There is another bank that I know of that is the banker for 600 other banks. Both of those happen to be in my town. In the city of St. Louis there are various large banks and trust companies that probably do business for and are the depositaries of more country banks than those I have named.

Senator CRAWFORD. Well, those are trust companies and State banks, as well as national banks?

Senator REED. Yes. Now, when these men come to a banker—when these bankers come to a great bank in a city—they come to

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him, first, because they have confidence in him as a banker; they come to him, second, because he is able to render them certain aid.

We have been told that there was a convention of bankers in Chicago that a few men absolutely dominated. We have been told that there was a convention of 2,000 or 3,000 bankers in Boston and that a few men mapped out the program for that convention and carried it through.

And everywhere power and influence works its way to success. I do not know what you think; but I have not the slightest doubt that I could pick out 12 men in the district that is to be established in the section in which I live and that 6 of those men at least will constitute the directors of the regional bank.

Mr. WILLIS. Well, I think, Senator——

Senator REED (interposing). And if that is true, who are they? They are going to be the great bankers of that district; they are going to be the very men that you say are now under the influence of the great financial powers.

Mr. WILLIS. May be, Senator, under that influence.

Senator REED. Well, men that you say are now probably under it.

Mr. WILLIS. Probably; yes.

Senator REED. Then, have you not made a machinery or devised a plan by which all of the bankers are to be united into 12 banks; so that it is therefore easier to control 12 banks than it was originally to control 7,000 banks?

Mr. WILLIS. With reference to that, I can only say that I do not think so and that I think the machinery of public control—the Federal board and the arrangement for Government participation in the directorates of these banks—is enough to prevent. But as I am perfectly free to admit, that is a question that is open to discussion. It is not really a banking question at all. It is the kind of question that you have so clearly outlined; and if, in your opinion, not enough has been done to guard against that danger of control then more should be done.

Senator REED. If we are not to require the banks to put up any capital: if we simply require them to aid in forming this system, then the Government would be perfectly justified in retaining the control of these regional banks, would it not?

Mr. WILLIS. I think, without reference to justification—because I think anything is justified in order to get the best results for the public welfare—that the best results—business results—are obtained either in the way indicated in this bill, or in some similar way. Understand me clearly; I am not a bigoted advocate of the details of this bill. As I tried to convince you yesterday, I think there are many places at which it can be improved, and I have indicated some of the most important ones on my own responsibility.

Senator REED. Well, do you think the plan I suggested would be workable? I will not ask you whether it is as good as this one.

Mr. WILLIS. Theoretically, I think it would be workable.

Senator REED. Do you know of any reason why it would not be practically workable?

Mr. WILLIS. Practically—that means the kind of men you get to operate it?

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Senator REED. No; I mean the formation of it. So far as running it is concerned, I can dismiss from my mind, because I think that can be accomplished.

Mr. WILLIS. Equally frankly, then, I think practically the success of it would depend a good deal on the way in which it was worked out, and the skill with which the details of the plan are developed.

Senator REED. Please let me ask you one further question. You have provided in this bill for the retirement, gradually, of the national-bank notes. Will you tell me how we now get the gold into our Treasury, which we have been enabled to pile up here as a reserve back of the——

Mr. WILLIS (interposing). The way in which the country gets gold——

Senator REED (interposing). Well, how do we get that into the Treasury?

Mr. WILLIS. Just in this way, I think—of course, that is a large theoretical question of international balance of trade——

Senator REED (interposing). No; I mean the practical way it gets into the Treasury.

Mr. WILLIS. Well, the way it gets in, I should say, is that the use of the paper currency, the certificates, is a good deal more convenient to people with our habits of using money, than the use of the gold——

Senator REED. (interposing). But we have to get the gold in the Treasury before we use the certificates, how do we get that gold in there?

Mr. WILLIS. A man takes the gold out of the ground. He takes it to the assay office, and then it goes to the Treasury to be coined. The man who is going to use it would rather have paper currency than gold. He therefore asks the Government to take the gold and give him paper currency for it. They hand out the gold certificates to him and the gold stays in the Treasury, and the gold certificates go into circulation.

Senator REED. Well, that is not the sole source of the gold supply of the Treasury.

Mr. WILLIS. Of course, we import gold from abroad, and we do not want to use it as money, as the English and the French do, and we get certificates for it.

Senator REED. Who imports it?

Mr. WILLIS. Anybody who has a claim——

Senator REED. Of course, we all know that that is one of the sources by which money gets into the Treasury. The miner goes to the assay office and says I want this gold coined; and then he takes the gold and says I want to get gold certificates for this instead of the coin.

Mr. WILLIS. Yes.

Senator REED. We understand that. But there is another source of it.

Mr. WILLIS. We get it through international balances of trade.

Senator REED. But how does that get into the Treasury?

Mr. WILLIS. Just in this way, I should say: The balance of trade in favor of this country is created through the purchase and sale of goods.

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Senator REED. But I am just assuming that gold is in this country. How does it get into the Treasury?

Mr. WILLIS. Just as I say: A bank or an individual has possession of the gold, and prefers the currency to the gold, takes the gold to the Treasury, leaves it there, and gets the currency for it.

Senator REED. Now, has that ever been done?

Mr. WILLIS. Do you mean an actual transaction?

Senator REED. Yes.

Mr. WILLIS. I could not point to an actual specific transaction, of course.

Senator REED. Well, Mr. Willis, is not this the way it is done: The Government collects vast sums of money at its ports; and it collects an excise tax?

Mr. WILLIS. Yes.

Senator REED. And that tax can not be paid in national-bank notes. The national-bank notes, therefore, are forced out of that use, and something must take their place; and, therefore, it must be gold or the equivalent of gold. So that there is being poured into the Federal Treasury because of that fact a stream of gold.

Mr. WILLIS. Yes.

Senator REED. And when it once reaches there it can be laid aside and gold certificates issued. Is not that the way it gets there?

Mr. WILLIS. Well, gold undoubtedly gets into the Treasury in that way; but I do not think that accounts for the bulk of the increase in the trust funds behind the gold certificates.

Senator REED. Would not that flow of gold be greatly retarded if we were to retire the national-bank issue of $700,000,000——

Mr. WILLIS. I do not think so; not in the slightest degree.

Senator REED. And we were to issue a Treasury note that was payable for duties and imposts?

Mr. WILLIS. I honestly do not think so.

Senator REED. Have you ever gone to ascertain the practical workings of this system we are now living under? One of the great sources of our gold supply has been due to the circulation of the bank notes.

Mr. WILLIS. Why, certainly, it is undoubtedly true that the bank notes circulate as they do because we have not cared for gold instead of them. We have had to supply the place of the pure gold currency which we would have had had bank notes been entirely absent; and we have supplied that by the use of the bank notes. That is certainly the case.

Senator REED. And the bank notes—is not this the practical operation of it: A banker, knowing that the gold has certain uses that the bank note does not have, in paying the money out over his counter will pay out the bank notes, and they circulate in the pockets of the people very largely?

Mr. WILLIS. Yes.

Senator REED. Consequently, when you want to pay the United States $10,000 in the way of duties, you go down to the bank. The bank has already gathered up the gold, and you say you want $10,000 in gold, and you carry that over to the customhouse, and you pay it into the customhouse, and the customhouse sends it into the Treasury and the Treasurer takes it and puts it over here in a pile and issues against it $10,000 of gold certificates; and thus we im-

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pound the actual gold. Now, is not that one great function that has been performed by the national-bank note?

Mr. WILLIS. I should not be inclined to attribute that function to the national-bank notes. Indeed, my feeling has been that the national-bank notes have driven gold out of the country. I feel that very strongly—that they have been at times very redundant in circulation—and that they have actually prevented the gold from being paid to the Government, when it otherwise would have been and should have been paid to the Government.

Senator REED. What do you think the circulation per capita ought to be in this country?

Mr. WILLIS. That is a question I do not think anyone can reasonably pass upon. It varies a good deal, and because it varies we need elasticity in the currency.

Senator REED. Would you think that in 1896 it was too little, or too much?

Mr. WILLIS. Well, that is a good while ago. I do not know what I thought at that time.

Senator NELSON. You mean 1906, do you not, Senator Reed?

Senator REED. No; I mean 1896.

Mr. WILLIS. I do not know what I thought at that time.

Senator REED. Did you at that time advocate the theory—the quantitative theory of money?

Mr. WILLIS. I never have believed in the quantitative theory of money.

Senator REED. You do not believe that the amount of money has anything to do with prices?

Mr. WILLIS. That is a little too strong a statement. It has something to do with it, but I do not believe it to be the sole regulator of prices.

Senator REED. Not the sole regulator, but is it not a great factor?

Mr. WILLIS. It is doubtless an important factor, but not the greatest.

Senator REED. Is it not the greatest single factor?

Mr. WILLIS. I do not think so. That is a very much controverted scientific question, Senator Reed.

Senator REED. Well, did you ever follow the fluctuation of prices and compare them with the amount of money in circulation?

Mr. WILLIS. Yes; I have made, I think, a pretty elaborate study of that.

Senator REED. Well, is it not true, as a matter of financial law, that, taking prices in the aggregate and not picking out a particular year, but taking a period of time great enough so that you can strike a fair general average, that the rise of prices has always followed the increase of per capita circulation?

Mr. WILLIS. I honestly do not think so. You ask me for an opinion, and it is my duty to tell you just what I think.

Senator REED. Certainly.

Mr. WILLIS. I do not think so. But I also add to that there is scientific opinion in favor of the view that you have expressed, but that, in my judgment, the weight of scientific opinion is against it—closing, then, with the statement that, while there is a great deal of evidence on behalf of both sides, my own studies of the

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subject have led me personally to the conclusion that the quantitative theory of money is not a sound, is not a tenable, one.

Senator REED. Then, if that is true, it will not make any difference how much per capita circulation we have out; as long as it is good money it will not affect prices.

Mr. WILLIS. Provided it is good money, and instantly redeemable, I do not think the mere quantity in circulation makes any difference.

Senator REED. One further question and I am through. Why do you provide in this bill that the Secretary of the Treasury must turn over all the money in the Federal Treasury, except the 5 per cent, and the moneys held on special deposit and must hereafter turn over all moneys acquired, to this system of privately owned, privately controlled banks?

Mr. WILLIS. Well, eliminating the latter part of that question, which I do not think is quite fair—that is, it would commit me, you know, to the belief that it was a privately operated system, which I do not think I can admit——

Senator REED (interposing). Well, not entirely; there is some control of it.

Mr. WILLIS. But answering the main branch of your question about the Government deposits I would say this: I believe that there is really no feature of our existing system that is so open to criticism and is so unique among the fiscal systems of the world as that by which the Government segregates its current receipts in money and withdraws them from use.

And I believe that in times past very serious hardships and wrong have been done to the country by withdrawing large sums in that way and then depositing them back in banks at other points. For, even with the best intentions in the world, under the most favorable possible conditions, it is not practicable to put the funds back exactly where they came from.

So that for those reasons I think it is better to have the funds remain steadily in commercial use instead of being drawn out.

Senator REED. Well, now, do you not argue too much on that?

Mr. WILLIS. Perhaps so.

Senator REED. You have a bill here that provides that these regional banks, under the direction of the central power of the Government, shall do identically that thing not only with the Government money but with the private moneys of the banks?

Mr. WILLIS. Certainly it was not believed that it would do that.

Senator REED. Well, the Federal Treasurer has collected the money that is due to the Government and belongs to the Government. He sees fit, because he believes it ought to be done, to deposit $10,000,000 with the banks of Chicago, and recently $50,000,000 with the banks of the West. It is his money—or it is our money; it is the people's money, and he deposits it. It is an arbitrary transfer of one's own funds from one place to another. And you say that is bad, because the money does not go back to the place where it originated?

Mr. WILLIS. Yes.

Senator REED. Very well, let us take this 12-bank system. The banks of New York, we will say, pay into the Federal Treasury a large sum of money. There is $100,000,000 there. There is a bank—a western regional bank, somewhere out in the West, that is in need

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of funds. A Government board orders the bank in New York to send $50,000,000 to that bank.

Will you tell me why that does not have every single vice that is in the system that now exists?

Mr. WILLIS. I will answer that perfectly frankly——

Senator REED (continuing). With the additional vice that you are taking private money against the will of the owners of that private money, whereas under the present system you are only taking Federal moneys and depositing them, exercising the right of a proprietor to put his money wherever he pleases?

Mr. WILLIS. I will answer that perfectly frankly, Senator Reed. In one view of the case I think your criticism is an absolutely just one; and I would be inclined to defend that power just as I did defend it before on the ground that it is an exceptional power, to be used only under exceptional and unusual conditions when all else has failed.

But I would make this one limitation, if you will permit, upon your statement, that the withdrawal that occurs in the latter case, you understand, under this bill is from commercial use and from one commercial district to another commercial use and to another commercial district, the funds being in continuous use at the service of the business community all the time, whereas now the funds are paid to the Government, a noncommercial body, are segregated in the Treasury, oftentimes to the extent of hundreds of millions of dollars, the surplus within recent years, I think, having run as high as $260,000,000, and they are held out of use there for indefinite periods.

Senator REED. Has there ever been a time when $262,000,000 has been in the Treasury? Has it not been in the banks of the country?

Mr. WILLIS. Under the Shaw administration, I think, the surplus ran up to about that figure, the funds being distributed between the Treasury and the various subtreasuries, but being out of commercial use. That is, the total surplus; but there was, of course, a certain part of it in the banks.

Senator REED. Yes; the major part of it was in banks, was it not?

Mr. WILLIS. I do not think so; not at one time, Senator Reed.

Senator BRISTOW. Excuse me for interrupting you; but did not Secretary Shaw distribute that surplus all over the country?

Mr. WILLIS. He kept distributing it, and calling it back again.

Senator BRISTOW. Well, he called it back as he needed it, did he not?

Mr. WILLIS. No; he often called it back when he did not need it; that is a matter of opinion, of course; I am not criticising anybody. But I think he often called it back when he did not need it.

Senator BRISTOW. To my certain knowledge, he sent thousands and hundreds of thousands of dollars out to the small country banks.

Mr. WILLIS. Oh, certainly he did that; and a good many of those banks deposited it in New York and other centers. But that is another question. I think, Senator Reed, in all frankness, that your criticism of that power is a perfectly fair one, with the limitation I have made.

Senator REED. Now, I have in mind another thing. I have in mind the stability of this Government. I am going to assume, for the sake

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of argument, that we came to a crisis when we were threatened with a great war. I am utterly opposed to passing any law under which the Federal Treasurer can not conserve in the vaults of the Government any money, no matter what the emergency is; no matter if this whole chain of banks was tottering to its fall; no matter what the condition that he must put that money in the banks; do you not think that power is too broad?

Mr. WILLIS. That is the matter that you mentioned yesterday. I am glad you recalled that to my memory. I think we might very well modify that so as to leave it discretionary with the Secretary of the Treasury. I see no objection to that.

Senator REED. Would you draw the provision, then, something like this? Would you express it—not in this language, but substantially like this:

That it is the policy of the Government to keep these moneys in the banks——

Mr. WILLIS (interposing). Certainly, that is right.

Senator REED (continuing):

But with a discretion vested in the Secretary of the Treasury, whenever for the public good he desires to retain it in the vaults?

Mr. WILLIS. Exactly so.

Senator REED. I do not mean that that would be written in the law in that way.

Mr. WILLIS. I understand; that is the thought.

Senator CRAWFORD. Then you would repeal the Independent Treasury act?

Mr. WILLIS. This bill does not repeal that.

Senator REED. I am obliged to go, now, Mr. Willis; but I am very much obliged to you.

Mr. WILLIS. I thank you, Senator Reed, for your courtesy.

Senator CRAWFORD. But it practically destroys it, does it not?

Mr. WILLIS. It destroys the working of it in ordinary business operations; yes.

Senator CRAWFORD. Mr. Willis, the member banks who subscribe to stock in the regional reserve bank and who want to rediscount paper, it is not contemplated that in all cases that they shall get currency for this paper, is it? Will they not, in a great many cases, take their assets over there and get a credit in that bank?

Mr. WILLIS. Certainly; yes.

Senator CRAWFORD. Well, unless this Federal reserve board has this absolute control over the issuing of currency, how in the world can the temptation be withstood of getting currency on all the commercial assets that these member banks want to lug over there, and in that way inflate the currency of the country?

Mr. WILLIS. Well, in a great many cases the banks would not want currency; they would rather have the credit and would draw checks.

Senator CRAWFORD. Well, there is a temptation, always, to get currency when there is any chance to loan it out and get interest on it.

Mr. WILLIS. The bank would just as soon loan out its credit.

Senator CRAWFORD. Then you think it is not necessary to have this check in the hands of the Federal reserve board on the tendency to issue too much currency?

Mr. WILLIS. Personally, as I explained yesterday afternoon, my theory is that the issue of currency, if it is amply protected, and if

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it is absolutely and unquestionably solvent and good, will take care of itself. But, for the sake of safeguarding it still further, because it is so important a matter, we ought to make assurance doubly sure; and I think it is well to leave a general oversight in the hands of the Federal reserve board.

Senator CRAWFORD. Well, the volume of this prime commercial paper, these liquid assets, is so enormous that if they could lug it to the reserve bank and get currency for it without limit it certainly would inflate the currency, under certain circumstances.

Mr. WILLIS. I do not think that is a danger.

Senator HITCHCOCK. Mr. Chairman, is there anything further?

Senator POMERENE. I think there is nothing further.

Mr. WILLIS. May I be excused, then?

Senator POMERENE. Have the Senators any further questions to ask? If not, Mr. Willis will be excused.

Mr. WILLIS. I thank the committee for its courtesy to me.

Senator POMERENE. We are obliged to you.

Senator HITCHCOCK. Yes: the committee is obliged to you.

Mr. WILLIS. If I can serve the committee in any way in passing upon any further point of doubt I will be glad to do so by letter. Have I the privilege of reading my testimony and correcting formal errors?

Senator POMERENE. Yes: you can arrange with the reporter about that.

Mr. WILLIS. In closing, I should like to add to my testimony a very brief statement of the points in which I believe that the bill should not be changed, no matter what alterations of detail may be introduced into it. When I began my testimony this morning I suggested that such a condensed review might be worth while by way of completing what I had to say, but since then the discussion has taken a wide range, and I have not been able to furnish the enumeration of the essential points spoken of. May I say in conclusion, then, that I believe the vital points to be retained in the legislation are as follows:

(1) First of all, it is necessary to have a number of reserve banks, and, above all else, to keep the way clear for increasing this number if necessary as different sections of the country desire. As I have said, I do not feel a positive certainty as to any given number, but I am positive that the number should be a reasonable one, corresponding to the general business and commercial division of the country.

(2) Secondly, I am earnestly desirous to see the autonomy and independence of each of these banks absolutely maintained, and to that end I think that extensive business between them, involving the keeping of large funds with one another, should not be permitted, and that the general course of their operations with one another should be closely supervised by the Federal reserve board.

(3) Thirdly, I esteem it absolutely essential to retain in the bill the provisions for open market operations upon at least their present scale of development. Otherwise the banks will not be able to make their rate of discount effective.

(4) Fourthly, it is absolutely and fundamentally essential that the banks shall keep their reserves either in cash in their own vaults

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or else in the form of credits with the Federal reserve banks in whose districts they are situated. The present system of pyramiding reserves, keeping balances with other banks which are counted as a part of the reserves of the banks to which they belong is wholly vicious, and should be terminated at as early a date as conditions will permit.

(5) Fifthly, the Federal reserve board should have enough power to make it a genuine force, particularly in cases of emergencies, and should always be in position to exercise within reasonable limits a powerful control over broad banking policy.

(6) Sixthly, the bill should provide for a uniform system of domestic exchange without any question or doubt. If possible, to effect this without undue hardship it should be based upon par collection of checks within reasonable limits.

(7) Seventhly, there should be no provision tending to overload the Federal reserve banks with Government bonds through any system of purchase or absorption or transfer. Such a provision would inevitably result in tying up the funds of the banks to a corresponding degree, thereby crippling them and preventing them from furnishing sufficiently effective or active assistance in the granting of rediscounts.

There are other essential and highly important provisions which should appear in any bill, but I regard the foregoing as so preponderating in importance that I have thought it worth while to segregate them for special attention.

Senator HITCHCOCK. I would like to read this telegram into the record; it is addressed to Hon. Robert L. Owen, the chairman of this committee, and it is signed by some 30 of the leading wholesale houses of Omaha, Nebr. It is as follows:

OMAHA, NEBR., *October 24, 1913.*

Hon. ROBT. L. OWEN,
Chairman Senate Committee on Banking and Currency,
Washington, D. C.:

The leading business of Omaha, in a called meeting here to-day, expressed their alarm at some of the provisions of the Glass-Owen currency bill, believing that it will have a blighting effect upon the business of jobbers, manufacturers, packers, stockmen, grain men, retailers, other lines of business, and farmers. They are actuated in making this earnest protest by the absolute certainty that the bill if enacted will bring about a very serious contraction of credits, not only in the West, but throughout the whole country. This is a vital effect of the bill, which can not fail to work hardships upon business concerns large and small. For instance, the banks of Omaha, under the operation of the proposed law, will lose from $7,000,000 to $8,000,000 of their deposits. In order to make up for this loss they must ask for a corresponding reduction in their loans, say about $5,000,000. This means that the business men of this section must reduce their lines of credit in their local banks all the way from 20 to 30 per cent. It is well known that the large business houses of the West carry lines of credit in Chicago, St Louis, Boston, New York, and in other large financial centers. Under the operation of the pending bill these lines of credit will be reduced for the same reasons that will impel their local banks to reduce such lines of credit. In all this vast region probably we would have but two regional reserve banks, leaving this section of the country very much handicapped for banking facilities. In the territory outlined there are now 17 reserve cities, which have been created by the Comptroller of Currency.

In response to the actual needs of business in the midwest the proposed law would seriously disturb the trade relations which have been built up through the natural growth and evolution of trade and traffic, a result which the West could not tolerate. These ill effects would, in the very nature of the case, have a secondary effect upon the retail merchants as well as stock growers, farmers, mechanics, and others. The wholesale contraction of credits which the bill would entail will inevitably work a hardship to the business men of all grades

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and the widespread retrenchment which must follow in consequence will also affect interests of the mechanic and laborer to a very serious degree. Kindly have clerk read this telegram to the committee.

F. Colpetzer, Geo. H. Kelly, J. B. Rahm, Glen C. Wharton, W. M. Burgess, W. D. Hosford, Geo. Brandeis, J. A. Sunderland, B. F. Marshall, C. W. Hull, T. C. Byrne, O. D. Kiplinger, H. S. Weller, C. H. Walrath, R. J. Dinning, G. C. Cunningham, T. S. Windheim, C. S. Hayward, F. M. Andreesen, F. L. Haller, F. J. Hoel, E. E. Bruce, David Cole, A. J. Vierling, R. B. Busch, J. B. Blanchard, W. L. Burgess, William Newton, F. E. Beiler, F. S. Cowgill.

Senator HITCHCOCK (continuing). I will say that those men who signed that telegram are the leading business men of the city of Omaha and represent very large interests.

Senator POMERENE. There has been given to me a letter from a committee of the New York Credit Men's Association, under date of October 23, 1913, voicing certain criticisms of the bill, and if there is no objection I will ask that this be incorporated in the hearings.

Senator NELSON. That is all right.

(The letter referred to is as follows:)

THE NEW YORK CREDIT MEN'S ASSOCIATION,
New York, October 24, 1913.

Hon. ROBERT L. OWEN,
Chairman Committee on Finance and Currency,
United States Senate, Washington, D. C.

MY DEAR SIR: Inclosed herewith I hand you copy of certain suggestions formulated by the banking and currency committee of this association with respect to "the Federal reserve act" now pending before your committee. I commend the same to the thoughtful consideration of the Senate Committee on Finance and Currency.

Respectfully, yours, A. H. ALEXANDER, *Secretary.*

[Inclosure.]

THE NEW YORK CREDIT MEN'S ASSOCIATION,
New York, October 23, 1913.

TO THE COMMITTEE OF THE UNITED STATES SENATE
ON BANKING AND CURRENCY.

GENTLEMEN: The committee on banking and currency of the New York Credit Men's Association, which association comprises 1,400 of the leading merchants, manufacturers, and bankers of New York City, expresses its conviction that the Federal reserve act now in the hands of the Senate Committee, when perfected, will prove of great value to the country. The committee takes the liberty of suggesting some modifications of several of the provisions of the bill, which it believes would not impair its efficiency but would render it more popular and useful.

First. The committee would be glad to see a smaller number of Federal reserve banks than 12, as named in the bill. We believe that a smaller number, with necessarily larger capital, would be quite adequate to properly carry out the objects of the act, and that the greater concentration of reserves would better meet the needs of the country.

Second. We see no unfairness in the request of the banks who furnish the capital of the reserve banks, that they should have some representation on the Federal reserve board or a voice in the selection of the members of the board, and recommend that the powers of the advisory committee should be enlarged.

Third. The notes of the Federal reserve banks, secured by a gold reserve of 33⅓ per cent and by good commercial paper, we believe will be an acceptable currency without the Government guaranty, and further believe that they should be payable in gold and not as provided—in gold or lawful money.

Fourth. If interest is paid by Federal reserve banks to any depositors it should be paid at the same rate to all depositors.

The committee commends to the favorable consideration of the Senate Committee on Banking and Currency the above suggestions. It further approves the report of the committee on finance and currency of the Chamber of Com-

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merce of the State of New York. and the brief submitted by the committee on banking and currency of the National Association of Credit Men, both of which documents we believe are in the hands of the Senate committee.

Respectfully submitted.

RICHARD P. MESSITER,
J. HERBERT CASE,
W. E. THATCHER,
B. S. HASKINS,
OTIS EVERETT,
Committee.

Attest:

A. H. ALEXANDER, *Secretary.*

Senator POMERENE. I also have here some resolutions passed by the Richmond Chamber of Commerce, and, if there is no objection, I will have them incorporated in the record.

(The resolutions referred to are as follows:)

COPY OF PREAMBLE AND RESOLUTIONS ADOPTED BY THE BOARD OF DIRECTORS OF THE RICHMOND CHAMBER OF COMMERCE, OCTOBER 21, 1913.

THE RICHMOND CHAMBER OF COMMERCE,
Richmond, Va., October 22, 1913.

Whereas the Richmond Chamber of Commerce has for some time past urged upon Congress the necessity for a revision of the currency and banking system of the country, it wishes to express its recognition of the importance of the recent action of Congress in formulating the pending bill, believing that the commercial and manufacturing interests are more directly interested in this measure than any other class of the people; and further, that the prosperity of the banks, not only in their soundness and strength, but also in their pronounced success, is a most important factor in the development of every industrial interest. It is, however, confidently thought that the bill now proposed will meet the requirements sought by the commercial and manufacturing interests much more efficiently if certain amendments or changes could be incorporated. The effect, in its opinion, of these amendments or changes will be that the banks would see their way clear to most heartily take advantage of all the good features of this bill, with the result that the country will be helped, especially in the South, which is so rapidly developing and must have more elasticity in its banking facilities to meet its requirements: Therefore be it

Resolved, by the Richmond Chamber of Commerce, That it most earnestly requests the Congress to adopt the following amendments or changes in the bill now under consideration:

First. That the number of the Federal reserve board shall be seven, three of whom shall be proposed by the reserve or regional banks.

Second. That the amount of stock that each bank shall subscribe to its respective regional bank shall be reduced from 20 to 10 per cent, and that the number of regional banks be reduced to not more than five.

Third. That the currency issued by the reserve or regional banks should be under Government supervision, but should be the obligation only of the reserve bank issuing the same and the member bank to which it is issued, and not a Government obligation or guarantee by the Government; also, that this currency, namely, the notes issued by the regional banks, should be redeemable in gold alone.

Finally, it is suggested that the provision for the segregation of savings-bank deposits and the use of these funds in certain specified forms of investment. might work a great hardship upon the commercial interests of this section, and for that reason this provision of the bill should be made optional or entirely eliminated.

W. T. REED, *First Vice President.*

Attest:
R. A. DUNLOP, *Secretary* .

Senator POMERENE. I will also say, in a preliminary way, that one week ago to-day Senators Martin and Swanson, of Virginia, were waited upon by a delegation of bankers from Virginia, and the

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Senators got in touch with Senator Hitchcock and Senator Weeks and myself, and they were informally heard before us; and it was suggested to them that they present any objections they might have, or any amendments they might propose, in the form of a brief to the committee. I have that brief here and if there is no objection that will be incorporated in the record of this day.

(The papers referred to are as follows:)

WASHINGTON, D. C., *October 18, 1913.*

The SENATE COMMITTEE ON BANKING AND CURRENCY.

GENTLEMEN: Pursuant to a suggestion made at an informal conference today between Senators Hitchcock, Pomerene, and Weeks of your committee, and Senators Martin and Swanson, of Virginia, and a committee representing the Virginia Bankers' Association, we respectfully submit for your consideration the accompanying memorandum of the amendments and modifications of the pending currency bill which we believe to be desirable.

In making these recommendations we have not endeavored to cover every section of the bill, our idea being to emphasize those portions of the measure that we feel especially affect our Virginia institutions.

Yours, respectfully,

GEO. R. B. MICHIE, *Secretary.*

A BRIEF SUMMARY OF MODIFICATIONS IN THE CURRENCY BILL SUGGESTED BY THE COMMITTEE OF THE VIRGINIA BANKING ASSOCIATION.

Stock subscriptions.—The stock requirements should not exceed 10 per cent of the capital of member banks. A larger subscription would, in the case of many small banks, cause embarrassment and injuriously restrict their operations. A suspended stock liability would create a feeling of uneasiness and anxiety.

United States bonds.—The Government created a market for low-rate bonds by giving them the currency privilege. Nearly all national banks purchased the 2 percents at a considerable premium on account of this privilege. A change in the currency system, which contemplates the withdrawal of this privilege, should carry a provision which will substitute for these bonds some security that will sell for 100 cents on the dollar. The credit of the nation requires it. Good faith demands it.

Savings departments.—The provision in the pending bill for the segregation of the savings deposits would lead to enormous contraction in commercial loans in sections like Virginia, besides placing on the banks the burden of heavy additional expenses, incident to the proposed segregation of capital, deposits, funds, and investments. These requirements, fraught with so much peril to our commercial, industrial, and agricultural interests, should be eliminated or so modified as to apply only to such banks as may elect to avail themselves of the 5 per cent reserve requirement for savings departments.

Dividends.—The first charge on the earnings of the regional reserve banks should be a fair dividend on the capital stock. The member banks furnish all the capital and are further liable for a sum equal to said capital. A reasonable dividend on this capital should not be jeopardized by interest on deposits by the Government or member banks.

Division of earnings.—On the basis of fair dealing, it would be difficult to defend any division of earnings, after the payment of dividends and the accumulation of the desired surplus, other than by apportionment among member banks and the Government, in proportion to the average credit balance maintained by each with the regional reserve banks. Any other plan would, in a measure, defeat the purposes of the bill, for while the earning capacity of the regional reserve banks should be secondary to the important functions to be performed by them, the active support and cooperation of the member banks are essential to the highest degree of efficiency; and member banks will certainly limit their deposits in regional reserve banks to the minimum legal reserves, unless they receive an equitable proportion of the profits. Conditions vary in different sections. While member banks, in some localities, will require rediscounts at certain periods, other member banks will, at the same periods, have funds in excess of the legal reserves. They should be encouraged to deposit

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this idle money in the regional reserve banks, enabling the latter to meet demands for rediscounts.

Maximum limit necessary.—If the principle of paying no interest on deposits should not prevail, it is most important that there be a fixed maximum limit to the interest that may be paid. An abuse of the discretion given the Federal reserve board in this particular might be disastrous. Excessive interest on Government deposits would tend to increase the rates of rediscount or might, to take an extreme view, amount to confiscation of the earnings and even the assets of the regional reserve banks.

Powers of the Federal reserve board.—The functions of the Federal reserve board should be well defined and its discretionary powers reduced to the narrow limits requisite for safety in emergencies and unforeseen conditions.

Respectfully submitted.

Caldwell Hardy, president Norfolk National Bank, Norfolk; Hugh M. Kerr, cashier National Bank of Commerce, Norfolk; Thos. B. McAdams, cashier Merchants' National Bank, Richmond; E. B. White, president Peoples' National Bank, Leesburg; Thos. P. Beery, cashier Peoples' Bank, Harrisonburg; Henry Easley, president Planters & Merchants' National Bank, South Boston; J. B. Fishburn, president National Exchange Bank, Roanoke; Nelson S. Groome, cashier Bank of Hampton, Hampton; Oliver J. Sands, president American National Bank, Richmond; Jos. M. Hurt, cashier Citizens' Bank, Blackstone; C. E. Tiffany, president Fauquier National Bank, Warrenton; J. F. Rison, president Commercial Bank, Danville; J. Wm. Miller, cashier Peoples' Bank, Pulaski; J. W. Bell, president First National Bank, Abingdon; Geo. R. B. Michie, president Peoples' National Bank, Charlottesville.

Senator POMERENE. I believe Mr. Edward E. Shields, representing a group of Pennsylvania bankers, is to be heard.

Senator REED. I have here a telegram from Mr. Festus J. Wade, president of the Mercantile Trust Co., of St. Louis, which I should like to read to the committee.

Senator BRISTOW. I think it ought to be printed in the record.

Senator REED. It will be remembered that Mr. Wade is one of the bankers who came here from the Chicago conference of bankers. It is addressed to the chairman, and not to me. It is as follows:

ST. LOUIS, MO., *October 25, 1913*

Senator R. L. OWEN, *Washington, D. C.:*

Serious consideration of any new bill at this late date will, in my judgment, be fatal mistake and injure banking and currency reform for years to come. I am quite certain, after the exhaustive inquiry of your committee and the advice and counsel that have been given you by various business men and bankers who appeared before your committee, you can amend Glass-Owen bill in such a way as to make it workable and practicable as well as acceptable to great majority of banks and trust companies throughout the United States. If you desire to delay banking and currency reform until another panic, I know of no better way you can do so than by advocating a new measure at this late date.

I sincerely hope you will rapidly bring in a unanimous report recommending proper amendments to Owen-Glass bill, and pass same as amended at present session.

FESTUS J. WADE.

STATEMENT OF EDWARD E. SHIELDS, SECRETARY GROUP 2, PENNSYLVANIA BANKERS' ASSOCIATION, WEST CHESTER, PA.

Senator POMERENE. Will you give your full name, address, and business?

Mr. SHIELDS. Edward E. Shields, secretary group 2, Pennsylvania Bankers' Association, West Chester, Pa.

Senator POMERENE. With what bank are you connected?

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Mr. SHIELDS. I am one of the officers of the Franklin National Bank, of Philadelphia; I am an assistant cashier of the Franklin National Bank, of Philadelphia; most of my adult life was spent with the First National Bank of West Chester.

Senator POMERENE. Will you please give the capital stock, surplus, and deposits of your bank?

Mr. SHIELDS. My present bank?

Senator POMERENE. The one you are now connected with.

Mr. SHIELDS. The capital stock is $1,000,000, the surplus is $3,000,000, and the deposits approximate $38,000,000.

Senator POMERENE. How long have you been actively in the banking business?

Mr. SHIELDS. By "actively," do you mean as an officer? My whole adult life has been spent in the banking business.

Senator POMERENE. That answers the question sufficiently. You may proceed.

Mr. SHIELDS. I thank you, gentlemen, for the opportunity of appearing before you.

It is not my purpose to give you my own views as to the proposed Federal reserve act. I have no thought of doing that, and I am not expected to do it.

My position is that of secretary to group 2 of the Pennsylvania Bankers' Association. I will explain about that association in just a word. The Pennsylvania Bankers' Association is divided into eight groups. Group 2 is composed of six counties in the southeastern part of the State, and, perhaps, is typical of the whole State, because of the diversified interests in its territory. It has commercial interests, as the city of Chester, being a city of much commerce. It has mining industries, such as the coal industries in Schuylkill County. It has large manufacturing industries, such as the iron industries of Coatsville, Pottsville, Reading, and Pottstown, and it has large farming interests, so that its activities are typical of the whole State.

I am sure you will want to know just why I am here and why I say to you what I am to say.

There came to me as secretary of group 2 an appeal to have a meeting of the members of the group, so that the members might have recorded their expressions in regard to this proposed act. The request came too late to have a meeting, and so the executive committee met and authorized me to issue the following telegram, which I did, night before last, in the shape of a night letter, to the members of the group, the total number of which is 138, I think. The telegram was as follows:

Executive committee, group 2, Pennsylvania Bankers' Association, instructs me to ask prepaid telegraphic reply Friday from an officer of your bank to following:

"Do you approve or disapprove proposed currency bill? Name principal objection, if any. Dependent upon answer committee may have hearing at Washington Saturday before Committee on Banking and Currency."

C. E. SHIELDS, *Secretary.*

Now, I have here a number of telegrams in answer to that telegram, which I would like to read. I will read as many of them as you may desire. They are from trust companies and national banks.

Senator POMERENE. Let me ask you what was your reason for asking for the objections to the bill and not asking for an expression of opinion as to the merits of the bill?

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Mr. SHIELDS. The executive committee of the association instructed me to send this telegram. I had no option in the matter. It says, "Do you approve or disapprove proposed currency bill?"

Senator POMERENE. I know; but later on you ask them to name their principal objections to the bill. Why would it not have been fairer if you had asked them to designate the merits of the bill as well as to state their objections?

Mr. SHIELDS. It might have been so, but I believe no harm has been done the bill because of the fact that they express in the telegrams both their approval and disapproval.

Senator WEEKS. Is it not fair to assume that they approve of those features to which they do not offer objections?

Senator POMERENE. That is possibly true.

Mr. SHIELDS. I am awaiting your pleasure in the matter of reading these, gentlemen.

Senator SHAFROTH. We have heretofore in cases of this kind, instead of encumbering the record with full copies of all telegrams, let the gentlemen select a few and put them in, and then state that you have so many more of the same tenor. I think we had one case in which a gentleman said that there were 315 who disapproved of the bill and the same number who practically approved of it, but the exact language of each one of those telegrams would, I think, unnecessarily encumber the record. Can you not classify them?

Mr. SHIELDS. I have them classified, and I can read a few which will be typical of all.

Senator BRISTOW. Let us hear some of them.

Senator POMERENE. I suggest you read those which are typical and not take the time of the committee to read them all.

Senator BRISTOW. Where they contain practically the same language, it would not be necessary to read them.

Mr. SHIELDS. They are much the same. I hope I will not do any injustice to any of them in making the selections. I have 13 telegrams from trust companies and 57 from national banks. Of the trust company telegrams, 2 give unqualified approval of the bill and 11 name their objections to the bill. Of the 57 telegrams from national banks——

Senator POMERENE (interposing). While dwelling on the trust company telegrams will you not read us two or three of them, in order to give us the objections which they raise?

Mr. SHIELDS. Here is one from the Chester County Trust Co.:

WEST CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

We are opposed to Glass-Owen bill for various reasons; our two main reasons because it segregates savings deposits and does not provide one central bank with branches. Regard favorably Vanderlip Senate bill.

J. E. RAMSEY,
President Chester County Trust Co.

Here is a telegram from the Lansdowne & Darby Saving Fund & Trust Co.:

LANSDOWNE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

This company is not fully in favor of the proposed banking law.

THE LANSDOWNE & DARBY SAVING FUND & TRUST CO.

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Federal Reserve Bank of St. Louis

The Merion Title and Trust Co., of Ardmore, Pa., through its president, says:

ARDMORE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove any bill tending to increase Government control of everything.

THE MERION TITLE & TRUST CO. OF ARDMORE,
JOSIAH S. PEARCE, *President.*

This is a short telegram from the Phoenixville Trust Co.:

PHOENIXVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove proposed currency bill in its present form.

PHOENIXVILLE TRUST CO.

The treasurer of the Bristol Trust Co., of Bristol, Pa., telegraphed as follows:

BRISTOL, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove of proposed currency bill unless amended in several particulars.

THE BRISTOL TRUST CO.,
WM. P. MCCOY, *Treasurer.*

Then I have here a telegram from the president of the Shenandoah Trust Co., of Shenandoah, Pa.:

SHENANDOAH, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove proposed currency bill; favor Vanderlip's new plan.

H. M. BRADEGAN,
President Shenandoah Trust Co.

The next is from the president of the Quakertown Trust Co.:

QUAKERTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

I foresee great danger should present currency bill pass.

J. S. HARLEY,
President Quakertown Trust Co.

The treasurer of the Bucks County Trust Co., of Doylestown, Pa., says:

DOYLESTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

This company disapproves the proposed currency bill; we disapprove of it generally; it is not a thoroughly well-considered bill.

BUCKS COUNTY TRUST CO.,
T. O. ATKINSON, *Treasurer.*

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Federal Reserve Bank of St. Louis

From the treasurer of the Kennett Trust Co., of Kennett Square, Pa., I received the following:

KENNETT SQUARE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove the proposed currency bill. Principal objection compulsory subscription to regional banks; would favor the Vanderlip plan.

THE KENNETT TRUST CO.,
J. W. JEFFERIS, *Treasurer.*

The Delaware County Trust Co., of Chester, Pa., sent the following:

CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We approve of currency legislation; we object to the small number of bankers in the management. Men of financial experience should have a majority representation.

DELAWARE COUNTY TRUST CO.

This one is from the Cambridge Trust Co., also of Chester:

CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Object to currency bill principally because it places absolute control of finances in hands of seven men, five of same politicians—only one of whom need be banker or business man.

CAMBRIDGE TRUST CO.

From the secretary-treasurer of the Coatesville Trust Co. I received the following:

COATESVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Difficult to speak for the company; higher officers absent and subject not been discussed; personally I favor bill; think, however, any new legislation should be subject to liberal initiative and referendum provisions to insure genuine popular control, and Federal board should be subject to recall.

ARTHUR HOOPES,
Secretary-treasurer Coatesville Trust Co.

Senator HITCHCOCK. Is that from Pennsylvania?

Mr. SHIELDS. That is from Pennsylvania; yes, sir.

Senator WEEKS. Where is that company located?

Mr. SHIELDS. At Coatesville.

Senator WEEKS. Where is Coatesville?

Mr. SHIELDS. In Chester County, sir.

Senator CRAWFORD. Is that from a banker?

Mr. SHIELDS. He signs himself secretary-treasurer of the Coatesville Trust Co.

Senator NELSON. He is certainly a progressive.

Mr. SHIELDS. It sounds very much like it.

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Federal Reserve Bank of St. Louis

The last of the trust company telegrams is from the secretary of the Schuylkill Trust Co., and says:

POTTSVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Approve, but generally we prefer one outlined yesterday by Vanderlip.

N. S. FARQUHAR,
Secretary Schuylkill Trust Co.

Now, I come to the replies from the national banks. I have a number of telegrams and some letters from the national banks in our group of the Pennsylvania Bankers' Association.

Here is a telegram from the Citizens Bank, of St. Clair, Pa.:

ST. CLAIR, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove as it stands. Objections: Do not believe Government should assume absolute control without giving members contributing capital representation on the Federal reserve board; do not believe it wise and safe to place such vast powers in the hands of the appointed Federal reserve board where the personnel need not necessarily be composed of either bankers or business men; not satisfied with the rediscount provision, the time limit being too short for country bankers; not satisfied with the provision that all reserve be carried in regional banks as it would work a hardship to the country bankers.

CITIZENS BANK.

I have also a telegram from the cashier of the Chester National Bank, which says:

CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove currency bill in present shape as to requirement of banks to subscribe to capital stock; also character of securities permitted for rediscount; think supervising control should be in hands of experienced bankers.

S. H. SEEDS,
Cashier Chester National Bank.

From the Merchants National Bank of Quakertown I have this:

QUAKERTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We oppose compulsory subscription to stock of regional banks. We oppose limiting dividend to 5 per cent. We oppose the reserve requirements. We oppose alternating examiners. We oppose the intention of segregating savings accounts with investments in specific securities.

MERCHANTS NATIONAL BANK OF QUAKERTOWN.

This telegram is from the cashier of the Grange National Bank, at Downingtown:

DOWNINGTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Have prospered with present system and under now existing national-bank act; we are decidedly opposed to the Glass-Owen currency bill.

GRANGE NATIONAL BANK,
U. S. BROADT, *Cashier.*

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Federal Reserve Bank of St. Louis

I received this letter from the cashier of the National Bank of Malvern:

MALVERN, PA., *October 24, 1913.*

Mr. E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.

DEAR SIR: Answering, we disapprove of the proposed currency bill. We believe that, should it become a law, among many objections which will arise will be the fact that banks in accommodating their patrons and in working for good welfare of the community, will be more handicapped in this mutually good line, because of the investigations and criticisms as to local accommodations; and also in the fact of the proposed necessity of separating the saving-fund deposits assets from the general assets, thus taking practically the saving fund part out of the loans made in general accommodations of customers—thus perhaps crippling them and impairing the bank's profits. We fear a political central reserve bank and the evil of its control. Our present currency system is good.

Most respectfully, CHAS. C. HIGHLEY.

I also received the following telegram from the cashier of the Downingtown National Bank:

DOWNINGTOWN, *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove Owen-Glass currency bill generally; particularly segregation of savings deposits and collecting items without exchange. Approve Vanderlip plan.

T. W. TOWNING,
Cashier Downingtown National Bank.

This telegram is from the cashier of the Union National Bank at Minersville, Pa.:

MINERSVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Opposed to new currency bill because no provision for redemption 2 per cent bonds at par, compulsory membership regional banks, and reserve requirements.

CHAS. E. STEEL,
Cashier Minersville National Bank.

From the cashier of the Yardley National Bank I received this telegram:

YARDLEY, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Urge committee to oppose proposed currency bill. Favor Vanderlip plan. Avoid radical legislation affecting credits.

JESSE E. HARPER,
Cashier Yardley National Bank.

The next telegram is from the cashier of the Wernersville National Bank:

WERNERSVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Opposed to currency bill, especially nature of Federal reserve board.

LEONARD M. RUTH,
Cashier Wernersville National Bank.

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Federal Reserve Bank of St. Louis

The Pine Grove National Bank telegraphed as follows:

PINE GROVE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

The Hon. E. A. Hayes's address; see Pennsylvania bankers' convention 1913. Book shows how we stand on currency.

PINE GROVE NATIONAL BANK.

The president of the First National Bank of Darby sent the following telegram:

DARBY, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

The First National Bank of Darby disapproves of the proposed currency bill now pending at Washington.

W. LANE VERLENDEN, *President.*

This telegram is from the cashier of the National Bank of Avondale:

AVONDALE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Approve general purposes of bill; object to savings-department clause.

J. HOWARD BROSIUS,
Cashier National Bank of Avondale.

Robert Fussell, cashier of the First National Bank of Media, Pa., sent the following telegram:

MEDIA, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We do not approve proposed currency bill; too much power if concentrated in a few, possibly politically controlled, hands.

ROBERT FUSSELL.
Cashier First National Bank.

The First National Bank of Birdsboro sent the following response to my inquiry:

BIRDSBORO, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We object to the proposed currency bill for the following reasons: Central reserve bank should be owned by United States Government; the segregation of bank deposits should not be compulsory.

FIRST NATIONAL BANK OF BIRDSBORO,
WM. LINCOLN, *Cashier.*

This telegram is from the First National Bank of Auburn, Pa.:

AUBURN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Do not approve proposed currency bill, especially clauses concerning circulation and Federal reserve board; would prefer Vanderlip plan in morning paper.

F. J. VESS.
Cashier First National Bank, Auburn, Pa.

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Federal Reserve Bank of St. Louis

Then I received this telegram from the Bridgeport National Bank:

BRIDGEPORT, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove currency bill, believing it means ruination for country banks.

W. H. KNEEDLER,
Cashier Bridgeport National Bank.

The First National Bank of Mahanoy City telegraphed as follows:

MAHANOY CITY, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove bill; opposed to make-up of Federal reserve board, refunding of twos, and proposed compulsory rediscounting, and some more.

FIRST NATIONAL BANK.

From the First National Bank of Perkasie I received the following:

PERKASIE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2. Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Opposed to reserve and board of control features of bill.

WALTER K. TERRY,
Cashier First National Bank.

The Parkesburg National Bank telegraphed as follows:

PARKESBURG, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove proposed currency bill.

M. F. HAMILL,
Cashier Parkesburg National Bank.

I received the following from the First National Bank of Newtown:

NEWTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove of the proposed currency bill in general, as it has many objectionable features. Believe it would be a serious thing for the country if passed.

H. B. HOGELAND,
Cashier First National Bank.

The following telegram was received from the Swarthmore National Bank:

SWARTHMORE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We are opposed to the Glass-Owen bill for various reasons. Our main reason is because it segregates savings deposits.

C. PERCY WEBSTER,
Cahier Swarthmore National Bank.

The First National Bank of Frackville sent the following:

FRACKVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Do not approve bill as a whole; commission should be appointed to draft necessary currency legislation. If present bill passes, would not care to continue as national bank.

ROBERT G. GARRETT,
Cashier First National Bank.

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Federal Reserve Bank of St. Louis

The president of the National Bank of Oxford sent this telegram:

OXFORD, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove proposed bill. Too many reasons to specify in telegram.

S. R. DICKEY,
President National Bank of Oxford.

From the First National Bank of West Chester I received the following:

WEST CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We are opposed to new currency bill. It is too radical and will make the readjustment of present methods too disturbing.

FIRST NATIONAL BANK,
S. P. CLOUD, *Assistant Cashier.*

This telegram is from the First National Bank of Cressona:

CRESSONA, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

Disapprove compulsory subscription to stock constitution Federal reserve board segregation savings departments.

E. D. MEIXELL,
Cashier First National Bank.

The following telegram is from the Farmers & Mechanics' National Bank, of Phoenixville:

PHEONIXVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

Opposed to bill in present form.

FARMERS & MECHANICS' NATIONAL BANK.

From the Tower City National Bank, I received the following:

TOWER CITY, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

We approve plan opposing the currency bill.

TOWER CITY NATIONAL BANK.

I received this letter from the cashier of the Hatboro National Bank:

HATBORO NATIONAL BANK,
Hatboro, Pa., October 24, 1913.

Mr. E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association.

DEAR SIR: We disapprove of the following features of the proposed currency bill:

Rate of dividends to be paid stockholders by the Federal reserve banks.
Elimination of exchange charges on country checks.
Five per cent reserve required with Federal reserve banks without interest.

Yours, truly,

HATBORO NATIONAL BANK,
WM. F. WILSON, *Cashier.*

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Federal Reserve Bank of St. Louis

This telegram came from the Peoples' National Bank, of Langhorne, Pa.:

LANGHORNE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

We are opposed to present currency bill; one of several objections is the segregation of our savings deposits.

THE PEOPLES' NATIONAL BANK OF LANGHORNE,
HORACE G. MITCHELL, *Cashier.*

The First National Bank of Reading telegraphed as follows:

READING, PA, *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association, Philadelphia, Pa.:

Do not approve. Principal objection segregation savings deposits.

FIRST NATIONAL BANK.

The Atglen National Bank sent the following:

ATGLEN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove currency bill; political features are objectionable; opposed to refunding 2 per cent bonds with 3 per cent; circulation privilege should be extended until bonds are paid; reserves should be withdrawn from depositories gradually, covering a period of, say, five years.

HORACE L. SKILES,
Cashier the Atglen National Bank.

The Farmers' Bank of Kutztown sent the following:

KUTZTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We favor proposed currency bill modified to some extent.

FARMERS' BANK,
A. A. FISTER, *Cashier.*

From the Reading National Bank I received this telegram:

READING, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Our principal objection to bill is segregation of savings deposits.

READING NATIONAL BANK,
HENRY J. HARRISON.

The First National Bank of Honeybrook sent the following:

HONEYBROOK, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We approve of the present currency bill now before Congress.

THE FIRST NATIONAL BANK,
P. G. HARTMAN, *Cashier.*

The First National Bank of Coaldale sent the following:

COALDALE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We approve of proposed currency bill.

H. F. BLANEY,
Cashier First National Bank.

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Federal Reserve Bank of St. Louis

I also received the following telegram from the president of the Chester Clearing House Association:

CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

The Chester Clearing House Association this day unanimously adopted resolution disapproving currency bill in its present shape.

J. HOWARD ROOP, *President.*

The Farmers' National Bank of Bucks County, Bristol, telegraphed as follows:

BRISTOL, PA., *October 23, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

This bank resents compulsion to subscribe to Federal reserve bank under conditions imposed, and if compelled to segregate assets for savings department, constituting two-thirds our deposits, will be forced to relinquish national charter as means of self-preservation and serving community properly. The proposed bill aims death blow at country banks that have prospered for 50 years under the old system, and is menace to safe banking everywhere.

CHARLES E. SCOTT,
Cashier Farmers' National Bank of Bucks County, Bristol, Pa.

This telegram came from the National Bank of Chester County:

WEST CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove of present bill; more time needed to thoroughly digest. Stockholders of reserve should have representation. Refunding of twos and threes should be optional. Object to saving-fund section.

THE NATIONAL BANK OF CHESTER COUNTY.

From the Delaware County National Bank I received the following:

CHESTER, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We are opposed to currency bill in present form, particularly compulsory feature of section 2 and segregation of saving-bank deposits.

THE DELAWARE COUNTY NATIONAL BANK.

From the National Bank of West Grove, Pa., I received the following telegram:

WEST GROVE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

The present bill with the changes recommended by the conference of country bankers at Boston on October 2, 1913, would be agreeable to us, though Vanderlip's latest plan of a central bank with branches would probably work out better.

MILTON C. PYLE.
Vice President West Grove National Bank.

The following telegram came from the Charter National Bank of Media, Pa.:

MEDIA, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We object to many features of the currency bill, especially to latter part of section 8, part of section 11, relating to Federal reserve board, and all of section 27.

J. LORD RIGBY,
Vice President Charter National Bank, Media, Pa.

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Federal Reserve Bank of St. Louis

I received the following telegram from the Farmers' National Bank of Reading:

READING, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Urge reduction of regional banks to five if central bank with brances is unattainable. Curtail powers of Federal reserve board, especially its power to require one reserve bank to rediscount another's papers. Provide a fixed tax on note issues. Change compulsory subscription of 20 per cent to voluntary subscription of 10 per cent. Change section which describes note issues as obligations of the United States incurred for the purpose of making advances to Federal reserve banks. Drop savings bank section, enlarge powers of advisory council. Reserve against notes must be gold, not gold or lawful money.

THE FARMERS NATIONAL BANK.

The Jenkintown National Bank telegraphed as follows:

OGONTZ (VIA PHILADELPHIA, PA.), *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We are opposed to currency bill in its present shape, principally on account of political control reserve requirement and segregation of saving-fund deposit.

JENKINTOWN NATIONAL BANK.

The Telford National Bank sent the following:

TELFORD, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

I disapprove of the proposed currency bill; principal objections, locking up a portion of our funds in reserve banks; the unfair treatment of United States twos, which we were obliged to buy above par; segregation of savings deposits; the great amount of securities now held by banks which will be forced upon the market.

VINCENT B. KULP,
Cashier, Telford National Bank.

I received the following telegram from the National Bank of Coatesville:

COATESVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

This bank most emphatically disapproves of the currency bill now before the Senate. We are opposed to Government control feature, and section 27, pertaining to savings deposits, should be stricken out.

M. W. POWNALL,
Cashier, National Bank of Coatesville.

I received the following telegram from the Sellersville National Bank:

SELLERSVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Our principal objections to the currency bill are the following: Failing to protect the 2 per cent bonds under all conditions, segregation of savings-fund deposits, setting apart 20 per cent of capital and surplus of savings-fund department, and the transfer of all reserve held in reserve city to regional bank; a reasonable part should be continued in present reserve city banks.

SELLERSVILLE NATIONAL BANK.

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Federal Reserve Bank of St. Louis

This letter came from the president of the National Bank of Chester Valley, Pa., located at Coatesville, Pa.:

THE NATIONAL BANK OF CHESTER VALLEY,
Coatesville, Pa., October 24, 1913.

Mr. E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

DEAR SIR: Replying to your telegram of the 23d instant relative to my approval or disapproval of the proposed currency bill, have to say that I disapprove and think that there should be no action taken until the new administration at Washington takes time to examine into the proposed changes thoroughly so that there may be no mistake. This can only be done by intelligent investigation.

My idea as a country banker is that our present law is good enough. It has stood the trial of half a century, and we think we know its defects. Why not remedy them without changing it for a system that changes everything and will have to be tried out before anyone can tell what the result will be? We want an elastic currency on special occasions, which is the most vital defect.

Yours, very truly,

H. J. BRANSON, *President.*

The president of the Perkiomen National Bank sent the following telegram:

EAST GREENVILLE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We strongly disapprove proposed currency bill.

F. L. FLUCK,
President Perkiomen National Bank.

I received the following telegram from the First National Bank of Orwigsburg:

ORWIGSBURG, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

This bank disapproves proposed currency bill; objections against proposed compulsory subscription to regional banks, segregation of savings deposits, exchange and reserve features.

FIRST NATIONAL BANK OF ORWIGSBURG.

From the Keystone National Bank of Reading, Pa., I received this telegram:

READING, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Do not approve currency bill as drawn at present. Objections, political control, furnishing excessive capital, and small remuneration, and authorizing regional reserves to lend our hard-earned money to other parts of the country not so well off.

JNO. H. MALTZBERGER,
Cashier Keystone National Bank.

The following telegram came from the president of the Union National Bank of Souderton:

SOUDERTON, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Do not favor bill as it now stands; should be amended; principal objections seggregation of funds, to place vast powers in hands of Federal reserve board, refunding 2 per cent bonds without circulating privileges; reserve banks should pay interest on deposits.

A. G. REIFF,
President Union National Bank.

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The cashier of the Farmers' National Bank of Boyertown, Pa., sent this telegram:

BOYERTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove any currency legislation at this time.

WM. D. DCHOENLY,
Cashier Farmers' National Bank.

The National Bank of Boyertown sent the following telegram:

BOYERTOWN, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Disapprove currency bill. Reasons, compulsory membership regional bank, method retiring 2 per cent bonds, segregation savings in national banks.

M. H. SCHEALER,
National Bank of Boyertown.

The president of the National Bank of Kennett Square telegraphed as follows:

KENNETT SQUARE, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove the proposed currency bill.

E. B. DARLINGTON,
President National Bank of Kennett Square, Pa.

From the Farmers' National of Oxford, Pa., I received this telegram:

OXFORD, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove of proposed currency bill as it now stands.

R. A. WALKER,
President Farmers' National Bank.

This is a telegram received from the cashier of the Ashland National Bank:

ASHLAND, PA., *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

Opposed to currency bill. Principal objection, board of managers rediscount privileges and carrying of reserves.

GEO. F. RENTZ,
Cashier Ashland National Bank.

The last of the national-bank telegrams is from the First National Bank of Hegins, and is as follows:

HEGINS, PA. (VIA TOWER CITY, PA.), *October 24, 1913.*

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.:

We disapprove. Government will be charging us out of our premium on bonds even though no guaranty will get par; we furnish capital and no voice.

VALENTINE W. QUIGEL,
First National Bank.

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(The witness at a later date filed the following additional telegrams for insertion in the record:)

READING, PA., *October 24, 1913.*

Mr. E. E. SHIELDS,
Secretary, care Franklin National Bank, Philadelphia:

The Penn National Bank, at Reading, Pa., disapproves of the currency bill in general. We disapprove of the segregation of savings and commercial deposits. We disapprove of banks being coerced to owning stock in a reserve bank. We suggest the Vanderlip plan.

A. J. BRUMBACH,
President Penn National Bank.

LANSDALE, PA., *October 24, 1913.*

E. E. SHIELDS, *Secretary:*

Principal objections to currency bill: Opposed to segregation of savings department; opposed to reserve funds being placed with regional reserve banks without interest; opposed to subscribe up to 20 per cent of our capital.

E. R. MUSSELMAN,
Cashier First National Bank.

OCTOBER 24, 1913.

E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association:

Disapprove of the Government having whole control of regional banks, the circulation change, and restricting investments as to savings deposits.

BYRN MAWR NATIONAL BANK,
J. W. MATLACK, *Cashier.*

SHENANDOAH, PA., *October 24.*

E. E. SHIELDS, *Secretary Group 2:*

Disapprove currency bill in present form for following reasons: Exchange two 2 per cent bonds for three 3 per cent bonds with no circulation privilege. Banks are not allowed enough return for the money they are compelled to furnish to capitalize reserve bonds. Banks are not allowed to draw from reserve banks below a minimum reserve amount. They should be allowed to draw all their reserve when they need it, as they can do now from reserve agents. Banks have not enough representation on the boards of reserve banks. Political appointments on the reserve boards should be cut down. One district can compel another district to rediscount paper. This should be optional with each district to a certain extent.

J. S. KISTLER,
President Merchants' National Bank.

THE ATGLEN NATIONAL BANK,
Atglen, Pa., October 24, 1913.

E. E. SHIELDS, *Secretary Group No. 2.*

DEAR SIR: Small local bank like ours is not interested in many of the features affecting a reserve bank. But we are unalterably opposed to surrendering the circulation privilege and exchanging United States twos, 1930, unless they be for 4 per cent or selling at par. We favor central reserve bank with branches. Stock owned by the public. It would seem fair to the reserve banks that their reserve accounts should be withdrawn gradually, say, a limit of three or four years.

Yours, very respectfully, T. J. PHILIPS.

THE NATIONAL BANK OF TOPTON,
Topton, Pa., October 24, 1913.

Mr. E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association,
Philadelphia, Pa.

MY DEAR SIR: Complying with your request for an opinion regarding the proposed currency law now before Congress, I beg to say:

I am in favor of the bill now under consideration not because of its obviously objectionable features, but in spite of them. I believe the small country banks—

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the kind you find in small cities, country towns, and villages—would fare better under a law such as this than they would under the Aldrich plan, which, with its process of elimination in the election of officers for the central reserve board, would be more responsive to the requirements of Wall Street than to banking interests and the needs of business generally. It seems apparent that if we do not accept the Owen-Glass plan we will some day be obliged to accept the Aldrich plan or something similar, and, as for me, I prefer the one now before Congress.

Very respectfully, A. H. SMITH, *Cashier.*

MERCHANTS' NATIONAL BANK OF POTTSVILLE, PA.,
Pottsville, Pa., October 24, 1913.

E. E. SHIELDS,
Secretary Bankers' Association.

Philadelphia, Pa.

DEAR SIR: In answer to telegram received asking to approve or disapprove the currency bill. In reply will say:

We object to the currency bill for the following reasons:

We do not approve of the feature requiring or compelling national banks to purchase a certain amount of stock; it should be optional.

We do not approve of the feature limiting the holders of such stock to a 5 per cent dividend.

We are opposed to requiring the deposit of a certain portion of the reserve without interest.

We favor 1 bank instead of 12, and think a fair representation on the board of directors should be given the stockholders.

We beg to remain, yours, truly, MERCHANTS' NATIONAL BANK,
C. H. MARSHALL, *Cashier.*

THE FIRST NATIONAL BANK,
Fleetwood, Pa., October 24, 1913.

Mr. E. E. SHIELDS,
Secretary Group 2, Pennsylvania Bankers' Association.

DEAR SIRS We are in receipt of your telegram, and in reply would state that we disapprove of the proposed currency bill as it stands to-day. One of the most objectionable features that we think is not just is that the banks should hold those United States Government bonds, 2 per cent, without the circulation privilege. The Government should redeem those bonds at par if they want to remove that privilege. There are other objectionable features which have been referred to so often that we suppose you have.

Hoping this bill may be amended so as to meet the approval of all concerned, we remain, respectfully, yours,

W. G. HARTMAN, *Cashier.*

PENN TRUST CO.,
Norristown, Pa., October 24, 1913.

Mr. E. E. SHIELDS,
Secretary Franklin National Bank, Philadelphia, Pa.

DEAR SIR: In reply to your telegram wish to say that being a State institution we have no decided objection to the currency bill, and have therefore no particular suggestion to offer whereby it should be amended.

It does seem on the face of it as if the banking interests would not be benefited by it and some suffer an injury if this bill should be passed, but we believe that the general purpose of the bill will be such a benefit to the commercial interests of the country at large, that it should be passed and any defects corrected later, rather than insisting upon certain desirable amendments being added at the risk of the bill not passing.

Yours, very truly, C. H. ALDERFER, *Vice President.*

Senator NELSON. How many telegrams did you say were from banks and how many from trust companies?

Senator POMERENE. He stated that at the beginning of his testimony.

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Mr. SHIELDS. I think I have 70 of them altogether. I classified them when I began my statement. I have no further desire to take up your time, Mr. Chairman.

Senator POMERENE. Have you anything further you desire to say?

Mr. SHIELDS. I have not, sir.

Senator WEEKS. Did you say that only two of the 70 replies were in favor of the bill?

Mr. SHIELDS. I said there were 2 favorable replies from trust companies and 2 favorable replies from the national banks out of a total of 70.

Senator HITCHCOCK. Are those country banks, so-called?

Mr. SHIELDS. Yes, sir.

Senator HITCHCOCK. Of what average size?

Mr. SHIELDS. I presume the average capital would be $200,000, and the average deposits would be, approximately, $1,000,000.

Senator NELSON. I call the attention of the committee to the fact that these telegrams disclose that these banks are doing what our banks are doing—a savings bank business.

Mr. SHIELDS. I recently took a trip in western Pennsylvania and observed the banking conditions very carefully, and I find that in nearly all the banks and trust companies they have savings accounts, on which they pay 4 per cent interest, while the banks and trust companies of eastern Pennsylvania have savings accounts on which they pay 3 per cent interest.

It has been a matter of surmise to me as to what would happen to them if this bill should become a law, for I assume that the investments which would be designated by the board would be high-class investments, yielding a low return in normal times. I was very much interested in noting the conditions in the western and eastern parts of the State.

Senator NELSON. Do they do this savings bank business through bank books or do they give certificates of deposits?

Mr. SHIELDS. Largely through bank books, I believe. That is the custom in eastern Pennsylvania. In some of the towns in eastern Pennsylvania and in many of the towns of western Pennsylvaia the entire loanable funds in the banks do not at times supply the local requirements; and if more than 50 per cent of their available funds—that is, the approximate percentage of savings funds in these banks—if more than 50 per cent are segregated, just what the local conditions will be is rather a guess, because the savings funds will not be available under the law for commercial local requirements.

Senator NELSON. Under your present system, while you do a savings bank business in these banks, you are all governed by the same reserves, and the funds are all pooled in the bank, are they not?

Mr. SHIELDS. Yes, sir.

Senator NELSON. And used for commercial purposes?

Mr. SHIELDS. Yes, sir.

Senator NELSON. Whether you get them in the shape of saving deposits or call deposits or check deposits?

Mr. SHIELDS. Just the same, sir.

Senator NELSON. So that they all become one general fund?

Mr. SHIELDS. Yes, sir.

Senator NELSON. We have the same thing out West; only I think we use more certificates of deposit.

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Mr. SHIELDS. Those are used to some extent in Pennsylvania.

Senator REED. What do you mean by a savings department? Do you simply refer to money that is put in on time, or do you refer to the conduct of the ordinary savings bank business?

Mr. SHIELDS. What I had in mind was the discrimination that some country banks make between their checking accounts on which they pay 2 per cent and the other accounts on which they pay 3 per cent?

Senator REED. Now, assuming that a bank has gone no further than to receive the deposits of customers on time, and is paying interest upon those deposits, but is not conducting a regular savings bank business as distinguished from the other, if this bill were to provide that banks should have a right to receive time deposits——

Senator NELSON (interposing). And pay interest?

Senator REED. And pay interest thereon, would that injure these banks? Would the bill injure the banks you refer to?

Mr. SHIELDS. Well, I presume it would; if you will allow me to assume that the trust companies are going to continue in the same community with the privilege of giving to the local requirements their savings funds, where the national banks would be denied the same privilege——

Senator REED (interposing). What do you mean by local requirements?

Mr. SHIELDS. The loans to manufacturer, merchant, and the farmer.

Senator REED. You did not understand my question.

Mr. SHIELDS. Perhaps not, sir.

Senator REED. Of course, you have such things as regular savings banks?

Mr. SHIELDS. Certainly.

Senator REED. They take in money, agree to pay it back at some period of time in the future. They loan it upon real estate; they invest it in a great many ways in which savings banks may and do invest their money. That is a savings bank, as I am using the term in this question.

Mr. SHIELDS. Certainly; you do not mean a trust company?

Senator REED. A trust company may do the same thing.

Mr. SHIELDS. It does.

Senator REED. In other words, the trust company conducts a regular savings bank business in some of its departments, frequently.

But these national banks you have been talking about have been doing nothing more, as I understand you, than to receive money on time deposits.

If we were to provide in this bill that banks could continue to receive money upon time deposits, paying interest thereon, and permit them to use it as they use demand deposits, would that avoid the difficulty you speak of?

Mr. SHIELDS, Would that still permit them to use any part of their savings funds?

Senator NELSON. Permit you to do what you are doing now.

Mr. SHIELDS. If it will permit us to do what we are doing now, I can not see how it would change the conditions very materially.

Senator REED. What you are doing now is this: Say I take $1,000 to you; you agree to pay it back in 90 days and pay me interest,

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and you would pay me a larger rate of interest for six months, and you use that money just the same as you use $1,000 Senator Nelson might put in on demand?

Mr. SHIELDS. Yes, sir.

Sentor NELSON. Subject to check?

Mr. SHIELDS. Subject to check; yes, sir.

Senator REED. You are not loaning it upon real estate, are you?

Mr. SHIELDS. No; the national banking act does not permit that.

Senator REED. I understand that. If you are permitted to go on and do that, you will not have any complaint?

Mr. SHIELDS. I can not see that the conditions would be changed at all. I have entirely assumed that that was not going to be permissible.

Senator NELSON. I think the bill is not compulsory in regard to establishing a savings department. You may do it: that is my recollection.

Mr. SHIELDS. It says:

That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department.

Senator NELSON. So that unless you make application for it, if we allow you to keep on doing what you are doing now you would not suffer?

Mr. SHIELDS. I can not see how it would change the conditions at all.

Senator NELSON. What struck me was this: We had the impression that the banks in the East were not doing it, at least to any extent. But it seems they are doing the same business which our banks in the West are doing.

Senator POMERENE. I have here a letter presented by Hon. Howard Sutherland, a Member of the House of Representatives from West Virginia, written by Mr. George M. Jacobs, president of the Peoples National Bank, of Fairmont, W. Va., relating to the bill under consideration, which he would like to have incorporated in the record. If there is no objection, it will be so ordered.

(The letter referred to is as follows:).

THE PEOPLES NATIONAL BANK OF FAIRMONT,
Fairmont, W. Va., October 15, 1913.

Hon. HOWARD SUTHERLAND,
Washington, D. C.

MY DEAR SIR: We are writing you to give our opinion of the effect the proposed currency bill will have upon the national banks of this State and to ask your advice and support in their behalf. We believe that there are three very damaging provisions in this bill which will be detrimental, not only to the banks but to the business interests of this State.

First. The requirement to set aside 20 per cent of our capital for the savings department would very seriously impair or tie up the capital of the banks, as the profits on savings accounts will not justify the extra expense of conducting a separate department by an additional organization which will be required.

Second. The national banks will also entail a very heavy loss in being required to deposit their reserve fund in the reserve bank without interest.

Third. Also the requirement of the national banks to invest 20 per cent of their stock in the reserve banks at a dividend of 5 per cent, as we pay 4 per cent interest on a very large amount of deposits, and could not afford to take stock in another bank paying only 5 per cent.

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We believe that these three features of the proposed law would very seriously handicap the national banks of this community. They would not only sustain a very heavy loss in earnings but their usefulness to the business interest of the community would be very seriously curtailed.

The result of such legislation would no doubt compel many of the national banks to surrender their charters and revert to State banks, and if the national banks would take this step and surrender their United States bonds, for which they paid above par, at the present market price, which is 94¾ per cent, you can readily see that a direct loss of many thousand dollars would be sustained by the banks of this State.

Frankly speaking, it is my opinion that the passage of this bill will practically ruin the national banks of this State. If we are forced to revert back to State banks, it means that the banks of every State will be operated under such divergent State laws as to make the banking business a very haphazard affair. Every State would have its own peculiar form of banking laws. We think a national uniform system of banking would be much more preferable if a law could be passed which would not be so disastrous in its effects.

Yours, very truly,

GEO. M. JACOBS.

Senator POMERENE. Mr. Starek, I believe, is the next witness on the calendar.

Senator HITCHCOCK. Mr. Chairman, Mr. Starek tells me that he feels there are some very important questions which may be asked him which he feels had better be discussed in executive session. It is now 20 minutes to 1 o'clock, and I want to suggest a recess until 2 o'clock.

Senator REED. I suggest that it would be better to hear Mr. Starek in executive session. There are no facts which he may have which I can imagine this committee is not entitled to hear in executive session.

Senator POMERENE. Shall we recess until 2 o'clock?

Senator REED. I move that, if there is no other witness to be heard, with the hearing of Mr. Starek's testimony these hearings do close.

Senator SHAFROTH. There is one more witness here.

Senator REED. Then let us hear him now and take up Mr. Starek's testimony this afternoon.

Senator POMERENE. Who is the other witness?

Senator SHAFROTH. Mr. Lassen.

STATEMENT OF ALEX. C. LASSEN, PRESIDENT OF THE LASSEN REALTY CO., OF NEW YORK.

Senator SHAFROTH. Will you please state your name and business?

Mr. LASSEN. I am president of the Lassen Realty Co., of New York. Formerly I was in the banking business, having entered it as early as 1879 as exchange clerk of the Bank of San Francisco. Since then I have been for 20 years editor and publisher of the Daily Financial News, of New York.

Yesterday I heard some queries addressed to Mr. Kent, and I thought I would give a little information along the same line that might be of use to the committee. Mr. Kent explained foreign exchange, but I think he failed to state the real reason why South American countries transact their business through London and not through the United States. Exchange operations, as a rule, are based on the rate of money. European markets are steady and low. The greatest of all industries abroad is the trade in money. The general rate abroad has averaged for some hundred years about 3 per cent. As soon as the United States can supply a money steadily at a

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rate as low as a foreign exchange will provide it, then we can get the trade of all of South America or any other country in competition with European countries.

The raising of the Bank of England interest rate is a lever to bring gold from abroad and also increase the income of English capitalists. England, France, Belgium, and Holland are all creditor nations—they have vast sums due them. The United States is a debtor nation. If the bank rate is raised abroad or in this country it tends to increase the cost of money.

The commerce of the United States is increasing at a tremendous rate. The value of property in the United States is estimated to represent a value of from 120 to 140 billions of dollars. The corporate 1 per cent income tax in the district of New York last year showed an increase of 31 per cent over the former year and the tax for the entire country showed an increase of 21 per cent.

If the development of the general country was at this same rate, the value of property increased 25 billions of dollars. This increase in one year was over one-third of all the value of property in the United States in 1865. The development and increase of business in the United States has been far more rapid than abroad. Clearances of London banks and branches in 1890 aggregated £8,960,170,000, and in 1909 £13,525,446,000, equal to an increase of about 63 per cent. In the same period clearances in the banks of the United States increased 272 per cent. Taxes and the many other uses for money have been increasing. Money is the dish that carries produce. It is a great measure of value.

As a merchant's business grows he provides more measures. If he does not, his business is retarded, embarrassed, and his measures are worked overtime. The dollars of this country are worked overtime. The American dollars are as good or better than any other dollars in any other part of the world, but there are not enough.

The experts, as a rule, that come here before you represent a special interest, who want to substitute a new form of money to be issued to them without cost and which they can loan at interest to the people of the United States. These special-interest bankers want to have impounded or retired the greenbacks, the best, the cheapest money ever issued. The greenback has saved the people of the United States, since it was issued some 50 years ago, as compared with the cost of national-bank notes, $4,000,000,000.

The issue is plain: Does this Congress want a money that will save the people as availed of not alone $4,000,000,000 but $40,000,000,000 the coming 50 years, or a Federal reserve money that is going to cost the Nation $40,000,000,000?

The value of money is in the stamp of the Government. Gold, silver, and paper have value as products, but the stamp of the Government gives them value as money. Centuries ago shells and wampum were used as money, but have since been relegated to the rear.

England has shown what can be done by simple legislation. It demonetized silver, and it has to a certain extent also been relegated to the rear. England has legislated against silver to her great advantage. The United States can legislate against gold to equal advantage.

The most of the men who have come before your committee have recommended a new money system. Where is there a single new,

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good proposition in the entire measure that can not be made in a more direct and better manner by simply adding to—amending—the present national-bank act? If, though, you deem you need a new system, then build on a good foundation. You need additional accommodations for the housing of growing departments of the Government. If an architect would come before you and say, "I can give you a splendid plan; will build a new system, an ideal Government building, a splendid section for each Government department. Each Senator will have a magnificent suite of apartments. We will tear down the present Government buildings in Washington. All present-established Government business will be housed in the new building. The Government will supply the money to do it, and when the building is done the Government will pay us rent for the building."

Such a proposition would not be any more absurd than the plan offered in the Glass-Owen measure. The cost to the Nation would not begin to represent a fraction of the cost to the people of the United States if you approve a measure like the Federal reserve bill recently passed by the House.

The foundation of a fiscal measure should rest upon a right principle. The Glass-Owen bill is wrong in principle. The Government should not enter any partnership with a baker, a lawyer, or a banker. No Government partnerships, especially a bank partnership. Don't let the tiniest seed of a Government partnership get into any measure that passes from the Senate. If you do it will grow, and awful rapidly. The bankers have a remarkable way of making people see just as they want them to see.

Some people who claim to be great champions of the people have come before you and told you the principle of this bill was good. It is bad, and would be so even if ten times as many said it was good.

There are many claims made by friends of the proposed Glass-Owen measure, such as holding out promises of "gigantic benefit to the country," "commercial stability," "preventing possibility of panic," "uniform low rate of interest," "serving equally well the people of the country and the banks."

Such statements sound well, but I challenge anyone to show a single good proposal in the measure that can not be made by amending the present national-bank act. The promises held out will not stand analysis; as a rule they are based upon a false premise. The present fiscal ills—if they may be called ills—are due to an inadequacy of the currency. We have not enough money.

It will destroy the good market for United States 2 per cent bonds and other United States bonds. The bill proposes to exempt all national bank property except real estate from taxation.

It will build up a partisan institution; a system of favor rather than of right; subserviency instead of independence.

The national banks of the country are to be forced to provide capital for the reserve banks, which in time are predestined to fall under the control of the great influential powers that have sponsored the Aldrich bill and are now back—concealed—behind the present measure. The great influence and audacity of these people is indicated when a Government partnership measure like the Glass-Owen reserve act is brought forward in the face of a positive declaration against such a measure by the people at the last presidential election.

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In addition to the gift, or, in modern vernacular, graft, heretofore mentioned, the Federal reserve act would lose 40 per cent of the tax upon present circulation and the benefit of a legitimate percentage upon future money issues, which should be secured without any partnership appendage.

The statements reflecting upon the national-bank system have, I believe, been made for the purpose of creating a sentiment against our present system, and to educate the people to the idea that it is bad and that a new measure is necessary.

I challenge anyone to show me a banking system that in any way equals that of our national bank. The system is magnificent; it can be amplified, improved, and made still more useful. Some of the national bank laws have become obsolete and the banking act should be amended, but properly and in the real interest of the people. Many new independent national banks would then be organized and grow up with the country, and State banks would rush to avail of its charter privileges.

Every desirable feature that is proposed in the Glass-Owen bill can be adopted in the national-bank act—in a simple, direct manner.

Senator REED. Are you going to tell us how?

Mr. LASSEN. Yes, sir.

Senator REED. Very well.

Mr. LASSEN. The need of the hour is a safe, ample currency. The first requisite is to determine how much it should reasonably be increased, and then how much should it be reasonably increased per year.

Then how to do it with the least disturbance to business in the most advantageous manner to the people of the United States—the best and cheapest manner.

At present our money consists of gold, silver, Treasury, greenbacks, gold and silver certificates, and national-bank notes. We coin all the gold we can secure; free coinage, beyond increase of money from this source, we are dependent upon national banks taking out circulation. The only way they can emit it is to deposit United States bonds against issues. The banks have availed of all bonds they could procure, therefore the field has to be extended or a new base of money provided.

The Glass-Owen measure proposes a "commercial paper" instead of a bond-secured currency.

This translated simply means that the banks are to use the notes, etc., discounted by them for their customers as collateral for loans of money from the Government and deposits of United States bonds dispensed with.

If this collateral is considered good, the Government can loan the money directly to present national banks——

Senator NELSON (interposing). You mean by that that we can authorize national banks, in addition to the currency they have now—bond-secured currency—to issue currency on paper money as this bill proposes?

Mr. LASSEN. Yes, sir.

Senator NELSON. I want to say there is a bill before the committee now that I introduced, carrying out your idea.

Mr. LASSEN. If this collateral is considered good, the Government can loan the money directly to present national banks, banks to guar-

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antee paper discounted and all the advantages and safety as is now proposed and absolutely in the control of the Government. The Government to charge a regular fixed tax upon such circulation—lawful money loaned.

The Secretary of the Treasury is doing practically this at present. He deposits money with the banks against collateral loans, United States bonds, and commercial paper, etc., and a fair interest charge is made for such "deposits."

This character of depositing might be extended. A Federal treasury board, maintained as part of United States Treasury, as proposed in article 11 of the Glass-Owen bill, could probably serve the Government profitably.

That is the one good thing you can use out of the Glass-Owen bill, gentlemen—that and some of the amendments.

What legitimate reason is there why the present mode of securing circulation by deposit of United States bonds should be discontinued? Certainly United States bonds are a better basis than commercial paper, acceptances, etc.

Senator POMERENE. Will the witness kindly suspend for a moment? It is now the hour for recess.

Senator SHAFROTH. I think we had better adjourn until 2 o'clock. Mr. Lassen, how much longer will it take you to finish?

Mr. LASSEN. About 10 minutes.

Senator CRAWFORD. Let us give Mr. Lassen time to conclude.

Mr. LASSEN. Why should the present national-bank notes be retired or the present banks in any way disturbed? The present national banking system, with a few changes, simple enactments, can be made the best in the world.

United States band-secured currency should not be discontinued. In the first place, money issued therefor is based upon the honor and integrity of the Government. There can be no question of its safety. The Government collects a tax of one-half of 1 per cent per annum upon such circulation. If the right to deposit United States bonds for circulation is taken away, the United States 2 per cent bonds, unless redeemed or otherwise cared for, will decline to 50 cents on the dollar. Without the circulation right, it would be impracticable for the United States to float new bonds on less than a 4 per cent basis. This would mean the loss of hundreds of millions of dollars to the United States.

Instead of retiring United States bonds as a basis for circulation, why should not the field be extended and State, county, municipal, and other public securities which have been approved on a high standard as savings-bank investments and which have also been approved and recorded by the Secretary of the Treasury, or, say, a Federal Treasury board, be made the basis for national-bank circulation? There are some billions of dollars of such good bonds. They are an excellent basis for a national-bank circulation. With such privileges such securities would advance in price and the present interest costs could be cut in half. Good public securities would soon be placed on a 2½ to 3 per cent per annum basis instead of 4½ to 7 per cent as at present. The general country would benefit and then enjoy a safe currency, predicated on a sound foundation.

Commercial paper should only be taken at emergency periods, and then only as the basis for Government deposits. Commercial paper

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is far different from a properly issued bond. A note may be "gilt-edged" to-day and worthless to-morrow. To authorize a "lawful money," as is proposed in the Glass-Owen measure, for hundreds of millions of dollars is the wildest money legislation ever heard of. Every dollar of our present legal-tender money can be put in as a basis for two additional dollars and it means $6,000,000,000 additional money.

Senator REED. What do you say it ought to be? Gold? If this were to be adopted, would changing the phraseology so that nothing but gold could be treated as reserve be a strengthening feature?

Mr. LASSEN. Senator, if you will allow me to take up gold after I am through with this, I shall take pleasure in treating that separately.

Senator REED. Very well.

Mr. LASSEN. Just think. But this act proposes to issue billions—practically the only limit is six or seven billion dollars of this "butter-and-egg secured money." Just think, this is to be "lawful money," and to be issued, but is not to inflate? To be guaranteed by the United States and redeemable in gold.

This money is to be a new kind of money. The banks are going to issue this money just as they issue the present moneys, but when we get a million dollars in the bank it is not going to inflate. Just think of it. It is a new style of money. If it is issued by the United States it is going to inflate, but if it is issued by the banks it is not going to inflate.

Rediscount money—generally representing an inadequate bank capital—is the most dangerous character of money inflation. In other words, if I were in New York and I heard a bank was rediscounting its paper, I should say it was overtrading upon its capital, that it was doing too big a business with too small an amount of capital, and I should want to withdraw any money I had in that bank, or put in a very small amount.

But the whole scheme of a Federal reserve bank, with its commercial paper basis money, is an impractical, cumbersome machinery, is simply a cover, to find a way to secure the privilege of issuing money and evade payment of as much tax upon circulation as possible, and then control the issue and maintain, instead of reduce, interest rates.

It is a system that if inaugurated will prove to the advantage of the few and the detriment of the people of the United States.

It will mean continued shortage of actual money and further extension of credits; for when there is a lack of real money people have to borrow credit to their cost.

It is not a good measure; it is a bad measure. It is said that it will avert panics. But if it is enacted the "big interests" can get up a panic with less preparation than ever before.

Senator REED. Do you think the "big interests" have ever gotten up a panic?

Mr. LASSEN. I have a copy of one of the last editorials I ever wrote for my daily paper, which I sent to President Roosevelt, with the request that he take some steps toward admonishing the national banks and the interests in the East, which I thought were then combining for bringing about that very panic which they did afterwards bring about.

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The new Federal reserve money is to be based on 33⅓ per cent of gold or lawful money. The Federal banks to have the right to issue three for one against present issues of gold and silver and legal tender notes. Say there is issued $3,000,000,000 additional lawful money and the "big interests" want to have another 1907; they will simply withdraw gold and legal tenders, and the reserve banks will have to call in circulation three for one. They will not be able to renew commercial notes, and the "crop failure" will be duly harvested.

The Federal reserve plan holds out many promises of the things it is to accomplish, but they are made without warrant. Primarily, it is based upon a false premise.

A firm foundation is the first essential for a banking measure. Then you can build a structure, put in your rooms, partition them off to suit the needs of the situation.

Some of the amendments proposed, mostly defeated, are good, but the measure as originally proposed is simply an impracticable, theoretical plan, seemingly devised to conceal the feature of Government-bank partnership in the issue of money.

There is no doubt that there is need of a great increase in the permanent money of the country. It has been the great need for 20 years. Had it been adequately and properly increased there would have been no panic in 1893 or 1897. The great immense fortunes that have been piled up, not as a matter of industry, but largely as profits from "reorganizing" wrecked corporations and manipulating the stock and other markets, would never have been brought to the proportions that now exist.

At the present time the deposits in the national banks aggregate about $7,000,000,000 and in State and private banks and trust companies $13,000,000,000, making an aggregate of $20,000,000,000. The national banks have to keep on hand in reserve cities 25 per cent, country banks 15 per cent, and State banks and trust companies have generally some similar regulation. If all banks and trust companies only kept a reserve of 10 per cent it would equal $2,000,000,000. If they kept on hand an additional amount to do general business with of 5 per cent it would equal $1,000,000,000. This would make a total of $3,000,000,000.

There is in the country of all kinds of money only $3,700,000,000, and of this there is tied up in the United States Treasury some $350,000,000. Deducting this and the $3,000,000,000 the banks have to keep as reserve and to do business with and there remains only $350,000,000—equal to $3.50 per capita—for the people of this country to do business with.

Owing to the scarcity of money, money is doing 20 times as much work at present, relatively, in this country as it is in any other country in the world. Money naturally flows like water, it is liquid; it flows where it can do the most work, be safest, and get the best pay.

In New York it does the general business of the country. The money Texas sends to New York is working for its Texas owners carrying the products of Texas. In New York it representatively does 10 times as much work caring for Texas cotton and other products as if simply held and loaned in Galveston or other cities. It pays for the merchandise going to Texas.

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It is the same with the balance of the country. New York is a vast clearing house for merchandise. As you restrict it you restrict the ability of New York to help the country. The percentage of speculative stock business and its bad effects are exaggerated. There may be some five or six hundred brokers interested in speculative stock business. There are 30,000 brokers in New York interested in caring for the purchase and sale of investment securities, cotton, wheat, corn, copper, silks, oils, gums, paper, fruits, nuts, exchange money, and the thousand other products and things that the people of the United States have to sell or want to have bought for them. Handicap these men, and the great sufferers thereby will be the South and West.

The great thing, the important thing, in the United States is to have more money.

Utilize what has been proved good. The country needs a fair increase in its currency—an ample currency issued on a safe, good security. It does not want a deluge of money resting upon the individual notes—promises to pay—of its citizens.

The present national-bank system is good. Continue to utilize United States bonds as a basis; amend the national-bank act so that approved savings-bank investments can also be deposited to, say, 75 per cent of their market values, not to exceed par. This will leave a margin of 25 per cent as safety. There are many billions of dollars of good State, county, and municipal bonds, and it is reasonable to believe that an adequate number would be gradually registered, approved, and deposited for circulation. With the right to issue circulation on such bonds, many national banks would avail of it. With proper basis, circulation issued by a small bank is as good as that issued by a large bank. A combination of large banks in nowise improves the situation. Reserve associations should not be necessary with an adequate measure.

Not alone is there basis for a good, ample currency which can be profitably taken out and circulated by the banks, but a large, substantial income made by the Government by a graduated charge of 1, 2, and 3 per cent per annum upon such circulation. National banks at present pay 2 per cent upon deposits of Government money, which are secured by deposit of approved bonds. Is it not reasonable to believe they will take out circulation when they can secure it upon even more advantageous terms?

The 7,300 national banks would compete and improve the market for public bond offerings. A demand would then be assured for all the Panama Canal bonds the Government desires to offer upon a 2 per cent basis. The Government on June 3, 1913, held $176,097,700.95 to be placed upon the market. In the United States there are some 25,000 banks. Every one of these banks can be made relatively as valuable and useful in its territory as the Bank of France is to France.

We need independent banks conducted on behalf of good business interests; no chain of banks; no "unification." The more independent a bank is, the less dependent upon another bank, the better it is; the more able it is to serve its constituency.

None of the present United States bond issues and legal-tender notes, silver and gold certificates, national-bank notes, need be in-

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terfered with; all continued as at present, without change. Furthermore, there is assurance that the rate of money will continue reasonable and stable. If the rate advances the banks can even take out circulation at a cost of up to 3 per cent. It can be retired as demand declines—elastic. The present commercial-money rate of 5 or 6 per cent would probably soon drop to a steady 3 per cent rate, the same as in France. Do you representatives of the people understand what this means? Do you know that it will cut the great burden that bears down on enterprise and industry?

Do you appreciate what this white man's burden is? It is interest. The yearly interest paid by the people of the United States is over five times the value of all the gold produced in the world in the same period. This interest, calculated at only 5 per cent per annum, is equal in value to all the wheat and corn and other grains raised in the country each year. It is one of the great factors in the high cost of living.

The Glass-Owen bill means a perpetuation—an extension of this burden. Amend the present national-bank act properly and United States bonds will immediately go above par again. Good State and county and city bonds will sell on a 2 to 3 per cent basis instead of as at present, 4½ to 8 per cent. Industry and enterprise will thrive. The measure will be for all, not for the benefit of a special few.

Do not inflict the Glass-Owen measure upon the country. If this terrible Government-bank partnership is once inocculated into our system it will first disorganize, then inflate, then ruin, then subjugate.

Does any Senator desire to ask me any question about the subject of which I have spoke?

Senator REED. Well, I suggest it is 20 minutes past adjourning time.

Senator CRAWFORD. Have you concluded your statement?

Mr. LASSEN. One of the Senators desired to ask me a question concerning gold. I have prepared a paper on that subject, and I shall be glad to answer any questions you may ask me.

Senator CRAWFORD. What is the pleasure of the committee?

Senator NELSON. Let us adjourn until 2.30 o'clock.

(Thereupon, at 1.20 o'clock p. m. the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. You may resume your statement, Mr. Lassen.

STATEMENT OF ALEXANDER C. LASSEN—Resumed.

Mr. LASSEN. Mr. Chairman, a little over 100 years ago, English capitalists who had due them large sums, payable in pounds sterling, decided they could enhance the value of their obligations by demonetizing silver and make such obligations rest upon gold alone.

In 1873 they had a similar law enacted in the United States which demonetized silver then quoted at $1.32 per ounce, which was practically on a basis of 15½ ounces of silver to one of gold.

Silver from that time until about 1897 declined and relatively gold advanced, to the great advantage of English capitalists and to the cost of the people of the United States, India, and other debtor countries. It was good for creditors, bad for debtors.

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Senator HITCHCOCK. Is this matter in reference to pending legislation?

Mr. LASSEN. I think it covers about the most important feature you have in your present measure.

Senator HITCHCOCK. I do not know how it is with other members of the committee, but I feel very anxious that we should confine ourselves distinctly to the pending legislation.

Senator CRAWFORD. What are you steering toward—the demonetization of gold?

Mr. LASSEN. I am steering toward the most important point in this bill.

Senator NELSON. We had better let him go on.

Senator HITCHCOCK. You may proceed, but make it as brief as possible.

Mr. LASSEN. England, it is estimated, has over $30,000,000,000 (£6,000,000,000) loaned out all over the world. The scarcer and dearer gold the better interest rates, tribute, or the more produce she can get for a pound sterling.

The United States owes, including investments, to Europe, including England, upward of $5,000,000,000.

As England's policy is to multiply use of gold, ours is to minimize.

England's plan to enhance gold by demonetizing silver has redounded to her great advantage. Our true policy is to use as little gold as possible, get as independent of gold as possible.

England has shown us what great results can be secured by simple legislation. Let us benefit by her great lesson.

England has minimized the use of silver; the United States should minimize the use of gold.

The world owes England pounds sterling, which means gold. The world is in an English gold trap. There is due England directly over four times all the money gold in the world, and it is impossible for the debtors to pay the interest, not alone the principal, which continues to mount steadily upward, to her great commercial advantage and profit.

Europe's and the world's moneys have to a certain extent been made redeemable in gold. Notes, mortgages, bonds likewise, as far as possible, also have been made payable in gold.

Each country that adopts the gold standard and each additional contract that calls for payment in gold tends to enhance the value of gold and ultimately benefit the owners thereof.

Governmental bonds issued by European countries are estimated to aggregate over $30,000,000,000. The interest at 5 per cent alone is $1.500,000,000 per year. Only a portion is being paid, balance refunded, and the principal is steadily increasing at a tremendous rate.

The total amount of money gold in the world is estimated at $10,000,000,000. The total world's production is estimated at $480,000,000 per year. Of this amount nearly four-fifths is used in arts, etc. It is estimated that less than $100,000,000 is available for coinage into money.

It should therefore be understood that England has the world short of gold, that it is in a gold trap, and that all legislation or promises to pay in gold tend to enslave the obligators.

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Senator CRAWFORD. What is the reason, if there is $480,000,000 of gold stock, and increasing every year, and is worth so much in the form of money, that four-fifths of it goes into other channels?

Mr. LASSEN. Two-fifths goes to India every year.

Senator CRAWFORD. Why does it not go where it is most profitable?

Mr. LASSEN. It does.

Senator CRAWFORD. If it is so profitable to use it for money, why is it not all coined into money instead of so much of it going into something else?

Mr. LASSEN. India's people have a religious desire to acquire gold and they absorb $200,000,000 of it a year. If you doubt my figures in regard to this——

Senator CRAWFORD (interposing). Oh, I do not doubt them at all.

Mr. LASSEN. I would refer you to Mr. Blumenthal's testimony in your record. He is one of the best authorities in the United States. You have his testimony in one of your earlier hearings.

Senator CRAWFORD. The fact that four-fifths of it goes into other channels must be evidence of the fact that it is worth more for these other uses than for money.

Mr. LASSEN. Yes; it is very valuable to fill teeth and an enormous quantity of it is used in that direction, and a great deal of it is used in the fine arts. So, finally, you have only $100,000,000 left for money.

Senator HITCHCOCK. Is it not a fact that money is becoming cheaper every year?

Mr. LASSEN. Pardon me?

Senator HITCHCOCK. Is it not a fact that money is becoming cheaper every year and prices are rising every year? It takes more money to buy the same thing.

Mr. LASSEN. That is not the result of your having more money, but that comes from a number of other reasons. Your taxation is a great deal larger and that is one of the great points. Your interest rates are very large. In this country you are paying to-day the highest rates you have paid in 20 years. I was in California last spring, and the State of California has $5,000,000 worth of bonds which it can not sell; $5,000,000 for public improvements.

Senator HITCHCOCK. You may proceed, Mr. Lassen.

Mr. LASSEN. The people of the United States at present have a means to cut away the net that would further bind them in this gold trap. Their obligations as a rule are payable in dollars and not in pounds sterling. We can legitimately legislate ourselves into freedom. We can go back to the same position we had in 1900, make all our legal-tender notes redeemable in gold or silver, or suspend payment in either when deemed to the interest of the Government. France and Germany have similar rights. The outlook is that with this provision all classes of our outstanding moneys will continue as heretofore. All interchangeable; notes into gold or silver as desired, but the Government protected against raids upon gold reserves.

Many hundred years ago shells and wampum were used as money, and there is equally as good reason, with a clear insight, why both gold and silver should also be relegated, as they have been, and money simply based, as our greenbacks, as legal tender, token, or "lawful money," irredeemable. "Greenback" money when good for custom-house duties and full legal tender passed currently with gold. It is

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the "legal tender" quality that gives value, and resting without being redeemable in gold or silver would prove as valuable in the future as a money as in the past 50 years. During this period the $346,000,000 legal tenders or greenbacks have saved the people (computed at 5 per cent per annum, which is far less than the cost of national-bank notes), the enormous sum of nearly $4,000,000,000, which is equal to probably nearly half the money gold in the world.

There is no advantage, commercial or otherwise, in making our money redeemable. It would rest as honorably and safely simply as token, "legal tender," or "lawful money."

Notes redeemable in gold when not backed up by actual gold place the issuer in the same position as the short seller of stocks or any other cornered commodity. A person that would knowingly sell or promise to deliver a stock or commodity that was already sold short to a far greater amount than existed would be generally looked upon as a reckless, irresponsible individual. It is far more idiotic for a nation to legislate, promise to pay in gold, when it is understood that that commodity has been cornered not alone to five times the amount in existence but to many times five times. In fact, the principal of the obligation is so great that the annual interest alone would absorb all the actual $10,000,000,000 money gold of the world; of course, this interest is not being paid off, but is mostly being refunded, added to the principal of the debt.

It may be claimed that our contract calls for us to redeem our outstanding moneys in gold. With a clause "redeemable in either gold or silver" or suspended at the discretion of the Secretary of the Treasury, all legitimate business requirements can be served the same as in France and Germany and we can keep faith and maintain parity of all our moneys. Our gold when taken abroad simply goes as bullion.

Should the United States adopt the above suggestion, France and Germany would probably soon awake to the great advantage of such a course and endeavor to unload their gold holdings, instead of hoarding as at present, with the result that England would have to absorb it to her personal cost; gold would naturally depreciate as silver has through demonetization.

While population, taxes, and commerce of the United States are increasing by leaps and bounds, the production of gold is relatively very small. There is a common error in the belief that the production of gold is increasing at a greater ratio than population and wealth. The entire yearly production of the world, if it could be secured to the people of the United States and was all converted into money, would only amount to $4.80 per capita. The entire product of the United States does not amount to 90 cents per capita. There is little prospect of any material increase. Therefore it can be readily understood that it is unreasonable to base any calculation or predicate an increase of currency upon gold coinage or paper money based upon gold reserve. Such enactment would result in a subsidence of development until gold production relatively increased.

Our per capita circulation, which is about $34, should be increased gradually in accordance with national development. Last year United States corporate income tax increased 21 per cent. It is not unreasonable to believe that this development has likewise extended in all lines of business throughout the country. If our money has

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increased proportionately, it should have increased $600,000,000. Instead of this there was really a decrease in the money per capita the last year.

Values largely depend upon quantity of money in circulation. Increased circulation, as a rule, means expansion and development; contraction, uncertainty and depression. The lack of money at present is causing a terrible strain upon all business, except where credit or money is loaned at interest.

The estimated property wealth of the United States is $120,000,000,000. The great handicap of the Nation has been an inadequate supply of money; it has resulted in a great Nation of debtors, tribute-interest payers. There is owed by the people of the United States to bankers the gigantic sum of upward of $30,000,000,000. The interest upon this amount at only 5 per cent aggregates upward of $1,500,000,000, or equal to twice the value of all the wheat raised in the United States within the same period—a year—or over three times the value of all the gold produced in the world the past year.

The lack of an adequate currency entails fearful tribute on commercial business and labor. The great prosperity of France is based upon a liberal currency, it having the equivalent of $30 gold, $11 silver, etc., equal to $41 per capita. This has resulted in practically a steady 3 per cent per annum interest rate for almost 100 years.

Sovereign money never hurt any nation; it has proved financial blood. We can secure it safely and honorably by reversing England's policy.

Senator HITCHCOCK. If that is all——

Senator REED (interposing). I just want to ask one question, Mr. Lassen, and that is in regard to your figures concerning the amount of deposits in the banks and the amount of reserves required by this bill. I would like to have you state that again. And I would add to my question the amount of money which you say would remain to circulate among the people.

Mr. LASSEN. The amount of deposits in the national banks is $7,000,000,000; the amount of deposits in the outside banks is estimated to be $13,000,000,000 more. That makes $20,000,000,000.

Senator REED. Whose estimate is that?

Mr. LASSEN. That is an estimate of Alexander Delmar. I have since read it in reports before your commission.

Senator NELSON. You are referring to deposits?

Mr. LASSEN. Yes.

Senator NELSON. Which do not represent actual money?

Mr. LASSEN. Oh, no; they are only deposits; they are payable in money, but they are only credits.

Senator REED. You stated the amount of money which is on deposit in the national banks and the amount of money which is on deposit in other banks. You did not state the amount of money, but the amount of deposits?

Mr. LASSEN. Yes, sir.

Senator REED. Of course, that money may have been deposited several times and represent credits.

Mr. LASSEN. When the national banks' total deposits call for $7,000,000,000, they are supposed to keep in cities 25 per cent reserve, and country banks 15 per cent reserve.

Senator REED. I understand.

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Mr. LASSEN. If you have only 10 per cent of it—that is, $700,000,000 and then you take an additional 5 per cent—you have $1,500,000,000. If you do the same thing with the State savings banks and trust companies, you relatively get an aggregate of $2,000,000,000. That is, the State banks and trust companies and the other institutions have to have at least 10 per cent cash on hand, whether they keep it as reserve or not, to provide for a contingency in the case of a call. Now, they have to have on hand, in addition to that, about 5 per cent, which fluctuates in the towns they are in, and it comes back to them at 3 o'clock every day.

Senator REED. That makes an aggregate of how much actual money to be consumed by the reserves and by this additional 5 per cent which you say they keep? How much actual money does that make?

Mr. LASSEN. $3,000,000,000.

Senator REED. What is the present currency?

Mr. LASSEN. $3,700,000,000, not including $350,000,000 held in the United States Treasury which is not in circulation.

Senator REED. Your argument is, then, that if all the banks came into this system and all of them complied with the conditions of this bill it would lock up in the reserves practically all of the money of the United States?

Mr. LASSEN. You could not begin to bring about your banking system at all. Before you have even inaugurated it, you would have broken half the banks of the United States.

Senator REED. I wanted simply to get your point. Would it relieve against that any if this was done gradually and rediscounting permitted so as to allow the money that would be held in the way of reserves to be reloaned to the banks?

Mr. LASSEN. I would say this, that unless you adequately increase your permanent money you are absolutely in such a strained condition now that your southern bankers, who were here a few days ago almost begging upon their knees to get help—and your western bankers were in the same position——

Senator NELSON. Oh, no. They were not in a bad position.

Mr. LASSEN. They were begging for money.

Senator NELSON. Oh, no. Minnesota was assigned $3,000,000 out of that amount. They took only $500,000. They did not ask for any, but they were assigned $3,000,000.

Mr. LASSEN. Owing to the very wise act of the Secretary of the Treasury in stating that he would give them relief, it relieved them from the need of calling this money, but had it not been for the wise provision of the Secretary of the Treasury there would have been a scramble among them for the little money furnished, and you would have had very hard times.

Senator NELSON. We would have taken care of ourselves out in the West.

Senator CRAWFORD. I think the bank examiner has been waiting here for some time.

Mr. LASSEN. I am through.

Senator BRISTOW. Before the committee goes into executive session, I have a letter here from Prof. Jenks, which I desire to read [reading]:

NEW YORK CITY, *October 24, 1913.*

MY DEAR SENATOR: I have been at work on the amendments to the currency bill providing for a central bank. Inasmuch as this involves to a considerable

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extent the rewriting of the whole bill, and I have had my university work on hand, it is not quite completed. But I shall be able to complete these amendments so as to get them into the hands of Senator Owen not later than Tuesday, quite probably on Monday.

I notice in the morning papers that Mr. Vanderlip has presented a bill along somewhat similar lines. A number of points, judging from the sketch in the paper, will be in agreement, but a number are quite materially different. When I first saw the announcement of this bill I had thought it might not be worth while for me to complete this work, but I think the points of difference are essential, enough so that it may be suggestive.

Very sincerely, yours,

J. W. JENKS.

Hon. JOSEPH L. BRISTOW,
United States Senate, Washington, D. C.

I have this in mind, that on Monday or Tuesday we will have these proposed amendments of Prof. Jenks, and I thought we could probably have him come before us and explain the provisions in his amendments and the relation of these provisions to other suggestions that have been made, and while we close the hearings to-day, I do not think we ought to forbid ourselves from talking with him.

Senator REED. I think the committee can at any time call for any expert it desires to call for, and I move, with that understanding, that the hearings be now closed, except to hear from Mr. Starek, the bank examiner, and that he be heard in executive session this afternoon.

(The motion was carried.)

Senator HITCHCOCK. Without objection, I desire to insert in the record a telegram addressed to the chairman from Mr. Charles N. Dietz, of Omaha, Nebr.

(The telegram referred to is as follows:)

OMAHA, NEBR., *October 25, 1913.*

Hon. ROBERT L. OWEN,
United States Senate, Washington, D. C.:

Noting newspaper account of meeting in Omaha and telegram sent you by 30 Omaha men, it was a case of the fox having charge of the chicken coop. Your currency bill is all right, and with it the greater good will come to the greater number of people. We hope you can put it through.

CHAS. N. DIETZ.

(The letters offered for the record by Senator Bristow are as follows:)

THE FIRST NATIONAL BANK,
Las Vegas, N. Mex., October 2, 1913.

Hon. T. B. CATRON,
United States Senate, Washington, D. C.

DEAR MR. CATRON: Thanks for a copy of the currency bill (H. R. 7837), and for your request for my opinion as to its merits.

Well, my dear friend, in all seriousness, I do not believe our friends of the Democratic Party are capable of handling this country's business. While everyone feels that the so-called "interests," as generally expressed under the head of Wall Street, should be curbed in some way, it does not appeal to me that the whole business of the country should be upset in doing so.

As to the currency bill, it seems to me that to make the regional reserve banks a success, all of the national banks should come into it in a friendly way rather than be forced to do so, which may cause the whole thing to fall flat of its own weight. One central reserve bank, rightly constructed, could do the business between the Government and the people, in my opinion. The present bill makes it illegal to issue clearing-house certificates. This seems wrong to me as, in event the change does cause financial troubles, a provision granting this privilege for at least one year should be included in the present bill.

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It must be recognized that every crossroads, village, town, and city from Maine to California and from Duluth to New Orleans is obliged to keep a New York City account for the accommodation of its business. This naturaly makes a large accumulation of funds in New York that grows in proportion to the increasing development of the country's business, and to attempt to legislate these conditions out of existence is fundamentally wrong and impossible.

Yours, very truly,

JEFFERSON REYNOLDS.

SAN MIGUEL NATIONAL BANK,
Las Vegas, N. Mex., October 1, 1913.

Hon. T. B. CATRON, *Washington, D. C.*

MY DEAR SENATOR: I received from you an act to provide for the establishment of Federal reserve banks, etc., which I have carefully read.

In my opinion State banks, before being allowed to join and take stock in a Federal reserve bank, should be examined by a national-bank examiner with the same care that national banks are examined. State-bank examiners are frequently incompetent for the position that they hold, often being appointed on account of their political pull. It would hardly be fair to force a national bank to take stock in a Federal reserve bank, as this bill does, with a State bank which has been improperly examined and allowed to come in at their own discretion without any danger of losing their charter unless they do so. This possibly may be covered by the section on State banks as members, but I hardly think it is explicit enough. It might be a very unfair and unjust partnership. Furthermore, the western banks are forced to join in the organization of the Federal reserve banks and are to receive no more than 5 per cent on the stock unless—in a very remote contingency provided for in the bill—when it is a well-known fact that they can get a higher rate of interest for all the money they have to loan in their own locality. In all fairness this should be 6 per cent instead of 5 per cent. Why should a national bank, operating under a charter from the Government, be forced to do this; and being forced to do so, should they not have more say in the management of this Federal reserve bank than this law gives them? The powers and duties of a Federal reserve bank should be more restricted, else national banks in the vicinity of the Federal reserve bank will be handicapped in the community in which they are doing business by the prestige that the Federal reserve bank may have. If allowed to do even a limited amount of general business they should pay taxes as a national bank does. The board should be composed of bankers and business men of the highest character and ability. The Secretary of the Treasury and the Comptroller of the Currency may be good selections, but why the Secretary of Agriculture, who may know nothing of finance? All other large business is, as a rule, managed by men selected for their knowledge of the duties required in their special line. If managed by men selected on account of their political pull, this power at times might be used to further the interests of some of the political bosses. In the final analysis, what the country needs is an elastic currency, something that will legally do what, in the panic of 1907, was illegally done but acquiesced in on account of the great urgency to prevent nation-wide disaster, viz, the issuing of clearing-house certificates. No matter what kind of a currency bill is passed it will meet the objection of a great many people, and whether it is good, bad, or indifferent, until the business community has become accustomed to its workings the careful and conservative banker will feel his way and be more careful in his loans. This probably in the end will result in great good. In the meantime we must all go slow.

Thanking you for sending me this bill, and with kindest regards, I am,

Very truly, yours. J. M. CUNNINGHAM.

MCKINLEY COUNTY BANK,
Gallup, N. Mex., October 8, 1913.

Hon. T. B. CATRON, *Washington, D. C.*

DEAR SIR: We wish to thank you for sending us copy of the currency bill as it passed the House.

While the bill is not the best bill possible, still we can get along under it and think it much better than our present system.

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It appears to us that the greatest hardship imposed on the banks of New Mexico will be the elimination of exchange charges. In a small bank the size of ours—and our bank is a fair average—the exchange account is an important source of income. We would appreciate your efforts to try to have our present exchange arrangements undisturbed by the currency bill when passed. I am also quite sure that the other New Mexico bankers feel the same on this subject.

Very truly, yours,

T. M. QUEBEDEAUX,
Vice President.

FIRST NATIONAL BANK,
Santa Fe, N. Mex., September 24, 1913.

Hon. T. B. CATRON,
United States Senate, Washington, D. C.

MY DEAR SENATOR: I have the copy of the currency bill, and in accordance with the request contained in your note I submit the following:

As to the organization of the Federal reserve banks and the Federal reserve board, I hardly feel equal to offering any suggestions on those sections beyond noting the possibility of political control of the latter under the provisions of the bill, which might cause an improper exercise of its extensive functions.

I think the existing national banks should be permitted to join the Federal reserve district organizations, and not be compelled to do so. Their action should be voluntary, not compulsory.

It occurs to me that the authority to the Federal reserve banks to establish branches within their districts to the possible number of 10 might be inimical to the interests of the member banks in the district, inasmuch as the powers of such branches do not appear to be defined in the act, unless it be held that they can not have any greater powers than the parent bank.

It seems to me that inasmuch as the member banks contribute the entire capital of the Federal reserve banks that instead of being limited to a 5 per cent cumulative dividend on their stock and 40 per cent of the net profits after the accumulation of a 20 per cent surplus they should be entitled to the entire net profits thought advisable to distribute instead of having 60 per cent of such net profits go to the Government to be used in the extinction of its bonded debt. This seems to me to be calling on the member banks for too large a contribution to the payment of the Government debt proportionately.

The Federal advisory council does not appear to me to have such powers or functions as to make it desirable for bankers of great ability and experience to serve thereon. Its powers should be enlarged or the provision cut out. The class of paper discountable by the Federal reserve banks for the member banks is not found to any large extent in this State, and in order for the banks here to be in position to avail themselves of this rediscount privilege they would have to buy this kind of paper from note brokers or from correspondents. This would pro tanto lessen their loanable funds for local borrowers, and the funds derived from such rediscounts would be practically offset by such purchases. In this connection it seems to me that "commercial paper" as defined in the act can hardly be considered such. The commercial paper largely purchased by the banks at present is, in fact, the direct borrowings of individuals, firms, and corporations, whereas genuine commercial paper is the notes or acceptances taken by manufacturers and dealers for sales of goods and materials, running 30, 60, or 90 days, to be paid off on the turning of such materials and goods by sale and payment. The funds of the Government are to be deposited in the Federal reserve banks apparently without other security than their general capital and credit.

The note issues, in my opinion, should be the obligations of the issuing Federal reserve banks and not of the United States, and their redemption should be in gold and not in "gold or lawful money," and the reserve for their redemption should also be in gold alone.

The provision that "no two successive examinations should be made by the same examiner" if interpreted to have a change of examiners at every examination would be a mistake, in my opinion, as an examiner making repeated examinations of a bank becomes much more familiar with the character and strength or weakness of its assets than from a single examination at long intervals. There seems to me to be possible under this bill altogether too frequent examinations.

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The shareholders' liability "at the par value thereof in addition to the amount invested in such stock"—section 25. This seems to me somewhat ambiguous. Does it mean by the amount invested the price paid by a shareholder? If so, in many cases this might create a quadruple liability instead of what is now a double liability.

I do not approve of the proposed loans on farm lands by national banking associations. I believe another distinct and separate bank organization should be intrusted with this class of loans.

I do not approve of savings departments for these banks. A national bank could hardly set a period of notice for the withdrawal of savings deposits without exciting the apprehension of its regular demand depositors.

I have given a few suggestions herein. It is quite a profound subject and I hardly feel that my own experience is quite equal to throwing much light on just what would be the most desirable substitute for the bill. I must acquiesce in large measure in the recommendations of the bankers' conference, held at Chicago last month, and formulated in a pamphlet and widely distributed.

It seems to me that the measure should be made acceptable to the reasonable requirements of the banks, as without their acceptance of the bill and organization under it the act will be merely a shell without any body, a skeleton without any flesh.

Yours, very truly, R. J. PALEN, *President.*

(The chairman of the committee presented the following, with the request that they be placed in the record:)

THE NATIONAL SHAWMUT BANK,
Boston, October 23, 1913.

Hon. ROBERT L. OWEN,
Boston City Club, Boston, Mass.

DEAR SENATOR OWEN: Confirming our verbal conversation to-day, I beg to give you the following figures regarding the Boston Clearing House as reported to me by Mr. Ruggles, the manager:

The annual total cost of operation is $60,000, and the number of employees 18. The foreign department handles $600,000,000 of business a year, and the city department $8,800,000,000. The foreign department is charged out of the total of $60,000 with two-thirds, or $40,000, which makes the cost something under 7 cents a thousand. The city being charged with the balance of $20,000, making the city items cost 2¼ mills a thousand.

You will see from the above that the cost of handling the foreign or out-of-the-city business is 30 times the cost of handling the usual clearing-house exchanges. Of course, these figures are, as I understand it, an approximate average, but they form a very fair estimate of the cost of our doing business under the Boston system.

Yours, very truly, BENJAMIN JOY, *Cashier.*

TREASURY DEPARTMENT,
OFFICE OF COMPTROLLER OF THE CURRENCY,
Washington, October 25, 1913.

Hon. ROBERT L. OWEN,
United States Senate, Washington, D. C.

DEAR SIR: In compliance with your request of September 26, transmitted through the clerk of the Committee on Banking and Currency, there are enclosed a computation by the Government actuary relating to the probable gain or loss in earning power of banks, as indicated, under the proposed currency bill compared with existing law, and a table indicating probable changes in reserves, including the additional information requested in letter of September 26.

Respectfully,

T. P. KANE,
Acting Comptroller.

(Inclosures.)

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[Inclosure.]

Comparison of a typical central reserve city bank as to earning capacity under the present law and under the provisions of H. R. 7837 after these provisions are in full effect.

[Items that will differ alone are here shown.]

Item.	Under present law.	Under proposed law.
Net deposits	$28,110,000	$23,770,000
Reserve, in own vaults	7,027,500	2,139,300
Reserve, with Federal reserve bank	.....	2,139,300
National bank notes outstanding	120,000	.....
United States deposits	37,500	.....
Bonds deposited with United States	470,000	.....
Capital stock of Federal reserve bank	.....	100,000

The above changes would have the following effect:

	Decrease.	Increase.
Upon loanable funds:		
Decrease in net deposits	$4,340,000	.....
Decrease in reserves	.....	$2,748,900
Retirement of circulation	120,000	.....
Withdrawal of deposits	37,500	.....
Sale of bonds	.....	470,000
Purchase of stock of Federal reserve banks	100,000	.....
Total	4,597,500	3,218,900
Net decrease	1,378,600	.....
Upon income:		
Loss of profit upon circulation and deposits, about 1.2 per cent	1,890	.....
Profit on balance with Federal reserve bank, about 3 per cent	.....	64,179
Dividend on stock of Federal reserve bank	.....	5,000
Total	1,890	69,179
Net gain in income	.....	67,289

Net change in earning power: In 4 per cent locality, $12,145 gain; in 6 per cent locality, $15,427 loss; in 8 per cent locality, $42,999 loss.

The cause of the loss in earning power is the large decrease in deposits by the withdrawal of the reserves deposited by other national banks with this bank.

The total amount of reserve deposited, as required by law, which will be withdrawn from all the central reserve city banks will be about $243,000,000. These banks now have net deposits of about $1,568,000,000. This bank has net deposits of about $28,000,000; therefore its proportionate loss in deposits caused by the withdrawal of this reserve will be something over $4,000,000. The probabilities are, although not provided for in the bill, that this bank will be able to obtain all the funds that it can profitably use from its Federal reserve bank in the shape of Federal reserve notes at no greater interest charge than it now pays for its deposits of reserve.

The amount of these notes to be issued will be measured by the amount that can be profitably used as modified by the opinion of the Federal reserve board. Thus a bank could obtain these notes from its Federal reserve bank when needed upon the deposit of collateral security and upon the payment of interest, the rate of which should depend upon the rate paid by the reserve bank to the Government, and which probably would have to be fixed by the Federal reserve board. When the use of these notes ceased to be profitable they could readily be retired.

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Comparison of a typical reserve city bank as to earning capacity under the present law and under the provisions of H. R. 7837 after these provisions are in full force.

[Items of differences alone shown.]

Items.	Under present law.	Under proposed law.
Net deposits	$23,088,000	$19,247,000
Reserves in own vaults	2,886,000	1,732,000
Reserves with reserve agents	2,886,000	.....
Reserves with Federal reserve bank	.....	1,732,000
National-bank notes outstanding	600,000	.....
Bonds deposited with the United States	835,000	.....
Capital stock of Federal reserve bank	.....	100,000

The above changes will have the following effect:

	Decrease.	Increase.
Upon loanable funds:		
Decrease in net deposits	$3,841,000	.....
Decrease in reserves	.....	$2,308,000
Retirement of circulation	600,000	.....
Sale of bonds	.....	835,000
Purchase of Federal reserve stock	100,000	.....
Total	4,541,000	3,143,000
Net decrease in free funds	1,398,000	.....
Upon income:		
Loss of profit on circulation, about 1.2 per cent	7,200	.....
Profit on balance with Federal reserve bank, about 3 per cent on $1,732,000	.....	51,960
Loss on deposits withdrawn from reserve agents, about 2 per cent on $2,886,000	57,720	.....
Dividends on stock of Federal reserve bank, 5 per cent	.....	5,000
Total	64,920	56,960
Net loss in income	7,960	.....

Net change in earning power: In a 4 per cent locality, $63,880 loss; in a 6 per cent locality, $91,840 loss; in an 8 per cent locality, $119,800 loss.

The net deposits of all the reserve city banks is now about $1,946,000,000; the deposit of reserves with them by other national banks is about $325,000,000. This bank's deposits are about $23,000,000; therefore it is probable that its proportionate part of the reserves withdrawn will be about $3,840,000.

The remarks made in connection with the Federal reserve notes and the central reserve city banks and the Federal reserve banks apply also to these banks.

Comparison of the earning capacity of a country bank under the present law and under the provisions of H. R. 7837 after these provisions are in full effect.

[Items of differences alone are noted.]

Items.	Present law.	Proposed law.
Net deposits, ordinary	$1,154,000	$1,154,000
Net deposits, savings	110,000	110,000
Reserve in own vaults	75,800	63,200
Reserve with reserve agents	113,800	.....
Reserve with Federal reserve bank	.....	80,780
National-bank notes outstanding	200,000	.....
United States deposits	20,000	.....
Bonds deposited with United States	232,000	.....
Capital stock of Federal reserve bank	.....	25,000

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The above changes would have the following effect:

	Decrease.	Increase.
Upon loanable funds:		
Decrease in reserves		$45,620
Retirement of circulation	$200,000	
Withdrawal of United States deposits	20,000	
Sale of bonds		234,500
Purchase of stock of Federal reserve bank	25,000	
Total	245,000	280,120
Net increase		35,120
Upon income:		
Loss of profit on circulation, about 1.2 per cent	2,400	
Profit on balance with Federal reserve bank, about 3 per cent		2,423
Loss on deposits with reserve agents, about 2 per cent	2,276	
Dividends on stock of Federal reserve bank, 5 per cent		1,250
Total	4,676	3,673
Net loss in income	1,003	

Net gain in earning power: In a 4 per cent locality, $402 gain; in a 6 per cent locality, $1,104 gain; in an 8 per cent locality, $1,807 gain.

The above would be increased by the use of Federal reserve notes, as shown above.

Estimated effect of the provisions of H. R. 7837 upon the banking interests of the United States.

On June 4, 1913, the condition of the national banks was as follows:

[All dollars in millions.]

Banks.	Net deposits.	Capital stock.	Reserve required.		Free net deposits.
			Cash in own vaults.	Credit balance with reserve agent.	
52 central reserve city banks	$1,568	$183	$392		$1,176
315 reserve city banks	1,946	264	243	$243	1,460
6,806 country banks	3,611	610	217	325	3,069
7,173 national banks	7,125	1,057	852	568	5,705
13,381 State banks	2,860	459	242		2,618
1,410 loan and trust companies	3,630	419	282		3,348
Total, 21,964 banks	13,615	1,935	1,376	568	11,671

NOTE.—The above data for State banks and for loan and trust companies is as of June 14, 1912, the latest available.

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Under the provisions of the proposed law, the conditions will be, upon a percentage basis, as follows:

Banks.	Reserve required.			Free net deposits.
	In own vaults.	With reserve agent.	With federal reserve bank.	
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*
Last 60 days:				
Central reserve city banks	20	.....	.....	80
Reserve city banks	10	10	.....	80
Country banks	5	4	3	88
After 60 days to 1 year:				
Central reserve city banks	9	.....	9	82
Reserve city banks	9	6	3	82
Country banks	5	4	3	88
After 14 months to 36 months:				
Central reserve city banks	9	.....	9	82
Reserve city banks	9	4	5	82
Country banks	5	2	5	88
After 36 months:				
Central reserve city banks	9	.....	9	82
Reserve city banks	9	.....	9	82
Country banks	5	.....	7	88

Upon million-dollar basis (first 60 days): The country banks would withdraw from the reserve city banks $181 during this period, their required reserve being that much reduced. This would reduce the net deposits of the reserve city banks to $1,765. These banks would in turn withdraw $67 from the central reserve city banks, leaving only 10 per cent of their net deposit there. This would leave only $1,501 for the net deposits of these banks, as shown below:

Banks.	Reserve in own vaults, cash.	Required reserve agents, credit.	Federal reserve bank cash.	Free net deposits.	Federal reserve bank.	
					Reserve.	Free.
Central reserve city banks	$300	.....	.....	$1,201	.....	.....
Reserve city banks	176.5	$176.5	.....	1,412	.....	.....
Country banks	181	144	$108	3,178	.....	.....
Total national banks	657.5	320.5	108	5,791	$36	$72

Total reserves in vaults:	
Cash	$693.5
Credits	320.5
Total	1,014
Total free	5,863

After 60 days to 1 year: The reserve city banks would during this period reduce their deposits with the central reserve city banks to 6 per cent, thus reducing the deposits of the latter banks by $71 to $1,430.

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Banks.	Reserve required.			Free net deposits.	Federal reserve bank.	
	Own vaults.	Reserve agents.	Federal reserve bank.		Reserve.	Free.
Central reserve city banks	$129	.....	$129	$1,172	.....	.....
Reserve city banks	159	$106	53	1,447	.....	.....
Country banks	181	144	108	3,178	.....	.....
Total national banks	469	250	290	5,797	$97	$193

Total reserve in vaults:

Cash	$566
Credits	250
Total	816
Total free	5,990

After 14 and to 36 months: The country banks reduce their reserve with the reserve city banks to 2 per cent. This reduces the deposits of those banks $72 or to $1,693. These banks in turn reduce their reserve with the central reserve city banks to 4 per cent. This results in a reduction of the deposits of these banks $38 or to $1,392.

Banks.	Reserve required.			Free net deposits.	Federal reserve banks.	
	In own vaults.	With reserve agents.	With Federal reserve banks.		Reserve.	Free.
Central reserve city banks	$125	.....	$125	$1,142	.....	.....
Reserve city banks	152	$68	85	1,388	.....	.....
Country banks	181	72	181	3,177	.....	.....
Total national banks	458	140	391	5,707	$130	$261

Total reserve in vaults:

Cash	$590
Credits	140
Total	730
Total free	5,968

After 36 months: The country banks withdraw the remainder of their deposits from the reserve city banks, $72, reducing the deposits of these banks to $1,621. The reserve city banks in turn withdraw their balance of reserve from the central reserve city banks, $68, reducing the deposits of these latter banks to $1,324.

Banks.	Reserve required.			Free net deposits.	Federal reserve banks.	
	In own vaults.	With reserve agents.	With Federal reserve banks.		Reserve.	Free.
Central reserve city banks	$119	.....	$119	$1,086	.....	.....
Reserve city banks	146	.....	146	1,329	.....	.....
Country banks	181	.....	253	3,177	.....	.....
Total national banks	446	.....	518	5,592	$173	$345

Total reserve in vaults (cash)	$619
Total free	5,937

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The State banks had $657, and the loan and trust companies $911 in savings deposits included in their total deposits as shown above. Against these deposits the new law requires only 5 per cent reserve. Treating these institutions as country banks, the following would be the result:

For the first 60 days, and afterwards:

Banks.	Reserve required.		Free net deposits.	Federal reserve.	Reserve banks, free.
	Own vaults.	With Federal reserve banks.			
State banks	$110	$154	$2,563	.....	.....
Savings	33	.....	.....	.....	.....
Loan and trust	136	190	3,258	.....	.....
Savings	46	.....	.....	.....	.....
Total	325	344	5,821	$115	$229

Total reserve in vaults (cash) $440
Total free 6,000

For the first 60 days (treated as a reserve city bank):

Banks.	Reserve required.		Free net deposits.	Federal reserve banks.	
	Own vaults.	With Federal reserve bank.		Reserve.	Free.
State banks	$440	.....	$2,387	.....	.....
(Savings)	33	.....	.....	.....	.....
Loan and trust	544	.....	3,040	.....	.....
(Savings)	46	.....	.....	.....	.....
Total	1,063	.....	5,427	.....	.....

Tota lreserve in vaults (cash) $1,063
Total free 5 427

After 60 days:

Banks.	Reserve required.		Free net deposits.	Federal reserve banks.	
	Own vaults.	With Federal reserve banks.		Reserve.	Free.
State banks	$198	$198	$2,431	.....	.....
Savings	33	.....	.....	.....	.....
Loan and trust	245	245	3,094	.....	.....
Savings	46	.....	.....	.....	.....
Total	522	443	5,525	$148	$295

Total reserve (cash) $670
Total free 5,820

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Taking the average of the above—that is, by treating one-half of these institutions as country banks and the other half as reserve city banks—the following will be the result:

First 60 days: Total reserve in vaults, cash, $752; total free, $5,738. After 60 days: Total reserve in vaults, cash, $555; total free, $5,935. After 60 days: Reserve in own vaults, $424; with Federal reserve bank, $393; free, $5,673. Federal reserve banks: Reserve in vaults, $131; free, $262.

By summarizing all the above, we have the table below, which shows at a glance the total reserves and free net deposits as required by the present law and by H. R. 7837 for all the national banks and State banks and loan and trust companies of the United States:

Period.	Reserve required.		Free net deposits.	
	Present.	Proposed.	Present.	Proposed.
First 60 days	$1,944	$1,766	$11,671	$11,601
After 60 days to 1 year	1,944	1,371	11,671	11,925
After 14 months to 36 months	1,944	1,283	11,671	11,903
After 36 months	1,944	1,174	11,671	11,872

The deposit of the currency carried in the general fund of the United States with the Federal reserve banks will increase the deposits held by these banks by about $125. The savings deposits held by the national banks as of June 4, 1913, were $829. Making allowances for these items, after the first 36 months, the above table would be modified so as to show the following results:

Present total reserve required in banks	$1,944
Proposed total reserve required in banks	1,158
Reduction in required reserve	786
Present allowable free net deposits	11,671
Proposed allowable free net deposits	12,013
Increase in allowable free net deposits	342

Cash reserve required.

	Reserve cash.	Free cash.
First 60 days:		
Under present law	$1,376	.....
Under proposed law	1,445.5	.....
Contraction	.....	$69.5
After 60 days to 1 year:		
Under present law	1,376	.....
Under proposed law	1,121	.....
Expansion	.....	255
After 14 to 36 months:		
Under present law	1,376	.....
Under proposed law	1,143	.....
Expansion	.....	232
After 36 months:		
Under present law	1,376	.....
Under proposed law	1,174	.....
Expansion	.....	202

The only contraction shown in the above table is for the first 60 days. This is caused by the fact that the State banks and the loan and trust companies will be required to add materially to their cash reserves. This contraction, however, is more than met by the $83 of free cash deposited with the Federal reserve banks by the United States and by the $58 reduction of reserves required because of the savings deposits of the national banks. From this it

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is evident that there can be no contraction of currency even in the transition period when the new law is going into force and while the member banks are purchasing the capital stock of the Federal reserve banks. After the first 36 months the net expansion in currency, because of the cash reserve released under the provisions of the new law, will be about $343.

GENERAL DISCUSSION.

The capital stock of the Federal reserve banks that is to be purchased by the member banks is as follows: An amount equal to 5 per cent of the capital stock of said member bank, payable in cash at once, and another 5 per cent, payable in cash within 60 days. This stock should not be purchased with the deposits of the banks, but with their surplus or other funds. The Federal reserve bank can loan these amounts immediately upon their receipt. From this fact it is evident that this provision of the new law will not affect the net reserves nor the loanable funds. It will, however, modify the location of these funds. The purchase of this 10 per cent in value of their own capital stock is in the nature of a reserve deposit of cash with the Federal reserve banks, for this stock can not be transferred nor hypothecated and is to be refunded at the withdrawal of the member bank, for any cause, from the national-banking system.

The amount of these de facto deposits is as follows:

Central reserve city banks	$18	
Reserve city banks	26	
Country banks	61	
Total national banks		$105
State banks	46	
Loan and trust companies	42	
Total other banks		88
Total of all banks		193

This means a total reserve for the banks, after 36 months, of $871 in their own vaults, $911 with the Federal reserve banks, and $193 of capital stock reserve with said Federal reserve banks, a total reserve of $1,974. Of this reserve the Federal reserve banks can use $800, holding $304 in its vaults. This shows a total reserve in vaults, as shown before, of $1,174, as against $1,944 as now required.

The location of the savings deposits with the national banks is not known to me, so they are treated as being with country banks, thus freeing 7 per cent of the required reserve. If they were with reserve city banks, 13 per cent of their required deposits would be released; that is, of the reserve required for their savings deposits. Making allowance for this reduction in reserve required, $58, and for the free United States deposits, $83, we will have, as shown above, a total net decrease in reserve of $786 and a total net increase in free deposits of $342.

In all the above computations no allowance has been made for the withdrawal of the national-bank notes from circulation nor of the probable issue of the Federal reserve notes. The proposed law provides for the annual retirement of the 2 per cent bonds of the United States deposited with the Government by any national-banking corporation, by refunding them with 3 per cent bonds without the circulation privilege. This is, however, optional upon the part of these associations. At the end of 20 years all the 2 per cent bonds outstanding, of the present issues, will be retired at par. All the national-bank notes then still outstanding will also be retired.

The amount of Federal reserve notes to be issued will depend upon the demand for currency, as modified by the opinion of the Federal reserve board. With the consent of this board, the Federal reserve banks can have as much or as little of these notes as they will find profitable to use. This they can have by depositing with the Federal reserve agent collateral security, as determined and defined by the Federal reserve board, equal in value to the notes issued to them, and by paying interest to the Government upon said notes as fixed by the Federal reserve board, but not less than one-half per cent per annum.

As soon as the profitable demand for these notes shall have passed, any Federal reserve bank can reduce its liability for said notes then in circulation

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at pleasure. This is the feature that makes for the element of elasticity in the proposed law and why no allowance was made in the foregoing computations for the retirement of the present national-bank notes.

——— ———,
Government Actuary.

TREASURY DEPARTMENT, *October 17, 1913.*

(The following additional statement of Edmund D. Fisher, of New York, was filed with the committee for insertion in the record:)

In response to the request of the committee to frame a section covering refunding bonds and their conversion into short-term obligations of the United States, I herewith submit my suggestions, which are premised upon the following general principles:

(1) That so far as practicable section 19 of the Owen-Glass bill remain as it stands.

(2) That the Federal reserve banks buy gradually a sufficient number of 2 per cent bonds for conversion later into 3 per cent bonds to provide the desired element of flexibility in the present inert volume of circulation of the national banks; to make additional purchases of 2 per cent bonds now held to secure Government deposits or held by the pubilc, all such purchases in the aggregate, however, not to be of so great a volume as to weaken the banking power of the Federal reserve banks.

(3) That such purchases will maintain the 2 per cent bonds at par, which should be done as a matter of good faith to the banks and the public on the part of the Government.

(4) That all of the 2 per cent bonds purchased be converted into 3 per cent bonds.

(5) That the 2 per cent bonds thus purchased and converted be in an amount equal to 15 per cent of the bonds now held for circulation, and, with those exchanged through other purchases, be interchangeable with 3 per cent notes of the United States. All of these will approximate $150,000,000. Notes are more salable, for banking purposes, than bonds, having shorter maturities, and may be used to protect the position of Federal reserve banks in the open money market and in international relations.

(6) That the purchases by Federal reserve banks provided for in No. 5 hereof be compulsory during a 3-year period on the part of the Federal reserve bank if offered. That any further purchases by Federal reserve banks be optional, and if purchased, be convertible into 3 per cent bonds or notes.

(7) That purchases under the provisions of No. 5 hereof bear the privilege of being used to secure Federal reserve notes for a period of 10 years, with a gradual reduction after the tenth year of 10 per cent annually. That use as such security should be secondary to the use of commercial paper, which means, in effect, that it is not likely to be used at all, but may be used in emergencies. That any additional purchases should not have the circulation privilege.

(8) That the Government should make some progressive attempt to redeem short-term notes and Government bonds, as from the surplus earnings of Federal reserve banks, to be paid into the Treasury, or from the action of sinking funds.

SUGGESTED AMENDMENTS TO H. R. 7837, MAINLY COVERING QUESTION OF UNITED STATES 2 PER CENT BONDS.

Amend section 7 (p. 13, line 13): Insert, after the words "United States," the words "or notes into which bonds may have been converted as provided in section 19a of this act," and eliminating, in lines 13 and 14, the following phrase: "Said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury."

Amend section 12: The following should be incorporated among the powers of the Federal reserve board: "To supervise and regulate the purchase, sale, and conversion of the obligations of the United States as provided in sections 15 and 19a of this act."

Amend section 17, page 30, line 10, by inserting after the word "act" the following: "or obligations of the United States bearing the circulation privilege, as provided by section 19a of this act." By inserting on page 31, lines 3 and 4, in

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place of the words "notes so paid out" the following: "all Federal reserve notes." By inserting on the same page, line 10, after the word "notes," the words: "except such as may be secured by the obligations of the United States, as provided in section 19a of this act."

Amend section 19 by inserting on page 35, line 5, after the word "purposes," the words: "such 5 per cent to include such bonds previously deposited by such bank as may have been purchased by a Federal reserve bank under the provisions of section 19a of this act."

Insert a new section to be known as "19a" or "20," if renumbered, worded as follows:

SEC. 19a. INVESTMENTS IN OBLIGATIONS OF THE UNITED STATES.—In consideration of the privileges granted to them under this act all Federal reserve banks under direction of the Federal reserve board and in proportion to their capital shall offer to purchase from national banks 2 per cent bonds of the United States, except as may have been funded, as provided in section 19 of this act, as follows:

"During the first year following the establishment of any Federal reserve bank any of the Federal reserve banks that may have been organized under this act shall offer to purchase under direction of the Federal reserve board from national banks at par an amount of 2 per cent bonds of the United States deposited by said national banks as security for circulating notes equal to 5 per cent of the total amount of bonds on deposit with the Treasurer of the United States by said banks for circulation purposes. Such Federal reserve banks shall in like manner offer to purchase an equal amount of said bonds, successively, during the second and third years following until an amount equal to 15 per cent shall have been purchased: *Provided, however*, That to the extent that the total volume of bonds provided to be purchased shall not have been offered, and to the extent that national banks, because of the conversion of 2 per cent bonds into 3 per cent bonds, shall be unable to supply the full 5 per cent each year the said purchases shall be extended from year to year until the full 15 per cent shall have been purchased.

"After the full 15 per cent of 2 per cent bonds of the United States shall have been purchased, as hereinbefore provided, the Federal reserve banks may purchase, from time to time, under the direction and with the consent of the Federal reserve board, such 2 per cent bonds as may seem desirable at a price not exceeding par, but national banks shall not be compelled in any event to sell bonds unless they shall so desire. Such additional bonds as may be purchased in such manner shall in no event be used as security for circulating notes, but may be exchanged for 3 per cent obligations of the United States, as hereinafter provided.

"It shall also be the duty of all Federal reserve banks, under the direction of the Federal reserve board, to purchase in proportion to their capital, at such times and in such amounts as said board may direct, 2 per cent bonds of the United States not deposited by any national bank to secure circulating notes upon tenders and at a price not to exceed par. The total amount of such purchases, however, shall in no event exceed the aggregate amount of bonds not deposited to secure circulating notes at the time of the passage of this act.

"All 2 per cent bonds of the United States, purchased by any Federal reserve bank from any national bank under the 15 per cent limitation, or from other holders without regard to said limit, as hereinbefore provided, or notes of the United States into which said bonds may have been exchanged, as hereinafter provided, shall be received at par as security for the issue of Federal reserve notes when presented by a Federal reserve bank for a period of 10 years after the establishment of any Federal reserve bank. After the expiration of such period such bonds or notes of the United States shall be received as security for Federal reserve notes on a basis of 10 per cent less each year until the 20th year, after which they shall no longer be accepted as such security: *Provided, however*, That for a period not to exceed 90 days and upon a three-quarter vote of the Federal reserve board on the application of any Federal reserve bank, the obligations of the United States shall be taken to secure the issue of Federal reserve notes; and further provided that when issued and secured in such manner the amount of such notes in circulation shall bear an interest charge of 6 per cent per annum, to be paid into the Treasury of the United States.

"The foregoing provisions under which the obligations of the United States shall be accepted from any Federal reserve bank as collateral security for the issue of Federal reserve notes shall be limited to the extent that, so long as

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they may be available, preference shall be given to notes and bills accepted for rediscount under the provisions of section 14 of this act.

"The Treasurer of the United States, upon application of any Federal reserve bank and under the direction of the Federal reserve board, shall exchange all 2 per cent bonds purchased, as hereinbefore provided, for 3 per cent bonds or notes of the United States of such maturities not exceeding one year, as may be determined upon by the Federal reserve board. The Treasurer shall also exchange 3 per cent notes for 3 per cent bonds, and 3 per cent bonds for 3 per cent notes, upon the application of any Federal reserve bank, and by and with the consent of the Federal reserve board. Any surplus earnings of Federal reserve banks, payable into the Treasury of the United States, as provided in section 7 of this act, shall be used, as available, to retire notes or bonds of the United States, or both, as may be determined by the Federal reserve board. Any or all of the 3 per cent notes of the United States, created by the conversion of bonds, as hereinbefore provided, shall be renewed by Federal reserve banks at their respective maturities for a period of 20 years after the organization of any Federal reserve bank. All such notes which may be outstanding at the expiration of said 20-year period, and which shall thereafter mature, shall be paid by the United States, when due, at par and accrued interest.

"All Federal reserve banks shall, under direction of the Federal reserve board, buy or sell from or to each other, as may from time to time be necessary, obligations of the United States for the purpose of equalizing their holdings of such obligations in proportion to their capital."

In addition to the foregoing, and pursuant to the request of the committee, the following suggestions covering State and municipal investments are submitted:

Amend section 15, page 27, lines 14 and 15, by eliminating the phrase "and bonds issued by any State, county, district, or municipality" and substituting therefor the following: "and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, or municipality of the United States; such purchases to be made in accordance with the rules and regulations prescribed by the Federal reserve board."

It is important that the power of Federal reserve banks under subdivision B to invest in United States bonds and other securities be subject to the supervision and regulation of the Federal reserve board. It is important to have a check on the aggregate volume of such investments and a plan for their correlation with the provisions of section 19a.

(The following additional statement of Mr. T. Cushing Daniel, of Virginia, was filed with the committee for insertion in the record:)

Mr. Chairman, before giving a digest of the testimony presented to your committee upon the pending bill I deem it only proper to state my qualifications for so doing.

I am the author of Daniel on Real Money, published in 1911, and The High Cost of Living—Cause; Remedy, published in 1913. The author brings to the solution of this important economic subject years of experience in commercial life, the study of law, familiarity with all the financial legislation of Congress on money, the debates and records of all international conferences on money since 1867, and the study of the leading economists on the subject, supplementing these advantages in recent years by a personal investigation of the monetary systems of foreign countries.

The question of money is approached in two ways—by the banker on the one side as the loaner of money and creator of debts earning interest and by the much larger class of borrowers and users of money as a circulating medium with which they transact business. The latter class are the real workers and producers, that build up the national wealth of the country. Money to circulate and not money to loan is what the industrial well-being of the world needs.

The people are always at a great disadvantage when legislation on money is being considered and testimony being taken before the Banking and Currency Committee of Congress, as they are entirely unorganized and therefore not properly represented.

On the other hand, the banking interests of the country are thoroughly organized, having back of them the power of money and all that that means as an

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intelligent force to influence legislation. It will be readily seen from the records of the Banking and Currency Committee of the Senate that 95 per cent of the testimony has been presented from the standpoint, directly or indirectly, of the banking interests. It will also be seen from a careful review of all legislation on money in this country that the banking interests have successfully opposed the issuing of real money by the Government in order that they could loan a substitute created by themselves.

They all want the gold basis, for this will always restrict real money to gold only and enables banking corporations to loan their credit substitutes for money to the people and thereby manufacture debts upon the borrowers upon which they draw interest, and require the principal paid back in money.

I will now take up the testimony of the committee appointed by the American Bankers' Association in Chicago, August 22 and 23, 1913, to represent said association before the Banking and Currency Committee of the United States Senate. I will first refer to the statement made by Mr. James B. Forgan, president of the First National Bank of Chicago, Ill., page 26:

"Hence, as the chosen representatives of the banks, we claim that in a very real sense we represent the interests of all whose patronage the banks rely on for success, and especially the interests of the innumerable hosts of thrifty and desirable citizens who manifest their confidence in the banks by trusting them with deposits aggregating more than $20,000,000,000. Individually bankers do not experience the much-talked-of distrust of the banks. Rather they duly appreciate the confidence evinced by the public by placing such an enormous line of deposits with the banks under their management, and they are keenly impressed with the responsibility such a trust imposes upon them."

This statement is altogether misleading, as most of this amount is made up of debts created by the loaning of the banks' credit to the borrowers, the amount being put to their credit as if it was actual cash deposited in the banks, when as a matter of fact they are debts owed by the borrowers to the banks. In other words, over $15,000,000,000 of these bank deposits were created by loans, without the deposit of any cash. The total amount of cash held by the 25,195 banks June 14, 1912, was only $1,572,953,479.

It is therefore plain that while the people have a comparatively small amount of money deposited in the banks, they are really hopelessly in debt to the banks for over $15,000,000,000.

Mr. FORGAN. Mr. Wexler and Mr. Wade were the main spokesmen, and represented the 114 clearing-house associations and the 50 State bankers' associations at the conference of the currency commission, American Bankers' Association. As Mr. Wexler was designated to give most of the testimony, as is shown by the following statement:

"Mr. REYNOLDS. Mr. Wexler, who is going to remain here, can answer these questions as well or better than any of the rest of us."

It is therefore only necessary to give a digest of the testimony of Mr. Wexler, as the rest would only be a repetition, he having covered all the points and stated in detail the position of the banking interests. I quote as follows from the statements of Mr. Wexler:

"Mr. FORGAN. All I desired to do was to make the suggestion on behalf of ourselves that you ask the men who have prepared themselves to answer on these special topics, because we do not wish to give our own individual opinions. I want you to understand that we are here, appointed by the conference held in Chicago and under the resolutions adopted by that conference.

"Mr. WEXLER. Might I be permitted to say a word? There are a number of gentlemen who have been designated to study and speak upon the points which Senator Reed and others are asking me about, and I feel that I am monopolizing the opportunity, and I feel very much as if I might be excused. There are others present who can answer these questions as well or better than I can, and who have written and studied a great deal upon the very point you are raising now.

"Senator HITCHCOCK. One trouble is that we do not know in advance what the subjects are—if they could be given to us we would know.

"Senator POMERENE. Mr. Chairman, I want to suggest that it is possible there may be a difference of opinion among these gentlemen on the different subjects.

"Mr. WEXLER. I am glad to say we are a unit."

It will be seen that the main object of the banking interests is to restrict the issue of Government money to gold. This enables them to issue and loan to the people their cheap credit substitutes for money. And as they can control the gold through the credit substitutes for money issued by the Govern-

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ment, redeemable in gold, the official management of the proposed banking and currency system when established will be merely nominal.

Those familiar with the working of any banking system know that the men who own and control the money eventually manage the system. This has been well known by all lenders of money, even before the House of Rothschild reduced it to the broad maxim, "Let us control the money of a country and we care not who makes the laws."

"Senator NELSON. I notice in the bill that provision is made for the redemption of these notes in gold or lawful money. That would mean, under our present system of currency, silver and greenbacks as well as gold, would it not?

"Mr. WEXLER. Yes.

"Senator NELSON. Do you think they ought to be redeemable in anything but gold?

"Mr. WEXLER. I do not. I think that we should maintain religiously the gold standard that has been established in this country.

"Senator NELSON. And then you would have these reserve banks provide for a gold redemption?

"Mr. WEXLER. Gold reserve.

"Senator NELSON. Gold reserve. Well, do you think 33 per cent is sufficient?

"Mr. WEXLER. I think 33 per cent would be sufficient; yes. We have suggested that there should be 40 per cent.

"Senator NELSON. Yes.

"Mr. WEXLER. We have raised it, because we believe that it would be better to make the notes so absolutely good and impregnable that we would rather err on the side of too much reserve than too little reserve."

"Mr. WEXLER (interposing). Well, Senator, there have been some accurate calculations made on that particular subject by some of the gentlemen who are going to follow me, from which you may be astonished to see that there will not be any expansion at all; in fact, we are in considerable doubt, and we rather lean to the belief that it is going to bring about contraction if we do not have considerable amendment to this bill. In other words, we have not been able to find where we are going to get gold enough to carry the reserves that are necessary."

"Mr. WEXLER. You can have all the power granted to you by law that you want, but when it comes to the exercise of that power the man you put the exercising of it upon has got something to say. Suppose that you had been required to sell $100,000,000 of bonds in the last six months for the purpose of bringing gold into this country. You could not have sold them in any civilized country in the world, except at a tremendous discount, because all of the commercial nations of the world were begging each other for gold."

"Senator REED. Yes; I understand that.

"Mr. WEXLER. You could not take a silver note, for instance, and do it.

"Senator REED. I want to know how you can get that gold into the central bank; that is what I want to find out; how it gets there.

"Mr. WEXLER. I will tell you how it gets there: The circulating medium that would be carried around in the pockets of the people, and so on, would be these bank notes; and the gold would gradually find its way into the vault of the central bank, because it would never pay out any gold. Nobody would ever pay out a gold note. We would never pay out any, nor would any bank anywhere, nor would the Federal reserve bank ever pay it out, except in the circumstance where a note holder came and said, "I want this note paid in gold.' He might have some particular reason for wanting gold in that case."

"Senator REED. Now, if the faith and credit of this big institution ever became seriously impaird, it might have to get up gold very quickly, might it not?

"Mr. WEXLER. Well, of course, if the people lost confidence in the note issue and everybody came to the window and demanded the amount in gold, it would require a general liquidation of credit of all the notes of everybody which the bank had, and the system would break down."

"Senator HITCHCOCK. I am asking for enlightenment on a different line. You propose to inject perhaps $100,000,000 of credit currency into the money of the country. Is there any danger that the injection of that debased currency would tend to drive gold abroad?

"Mr. WEXLER. Just the contrary."

"Senator HITCHCOCK. You propose using these bank notes which you want to issue for the purpose of withdrawing the gold from the people and getting that gold into the banks?"

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"Mr. WEXLER. Exactly. I think that with this system in vogue you would not see any more gold certificates and very few greenbacks. They would be the basis upon which the credit would rest."

"Mr. WEXLER. Senator, can you suggest a single individual outside of the Halls of Congress and the Senate—I ask you, is there one in Europe or America—who believes that a Government note is better for the purposes of the people than a bank note?

"Senator REED. A single individual?

"Mr. WEXLER. Yes.

"Senator REED. My dear friend, I would like to make a wager, if we could test it, that if you submitted it to a vote of the American people to-morrow, that 90 per cent of them would vote for the Government note.

"Mr. SHAFROTH. 99 per cent.

"Senator REED. And take it every time."

Mr. WEXLER. "It is fundamentally unsound for the Government to issue a circulating medium."

Restricting money to gold is the only hope of the banks to continue to loan their credit substitutes for money—hence their firm and unalterable belief in gold.

As further evidence of the opposition of the banking interest to the Government issuing the currency of the country, I quote the following:

"Senator NELSON. This Government in paying out money—the only way the Government pays out any of its money it pays out for running expenses, its liabilities, and its interest, whether in greenbacks or anything else. In no other way can the Government put its money into circulation, can it?

"Mr. WEXLER. None that I know of.

"Senator NELSON. If the Government wants to issue its money and get its money out into circuation, beyond what is necessary to pay its current expenses, it can only be done by allowing borrowers to deposit their commercial paper with the Government.

"Mr. WEXLER. Yes; and get currency for it.

"Senator NELSON. And the moment they do that has the Government not gone into the banking business?

"Mr. WEXLER. Absolutely.

"Senator NELSON. And you can not get the Government's money into circulation any other way?

"Mr. WEXLER. No, sir; none in the world.

"Senator NELSON. Is it not also true that the Government can issue any amount of legal paper money, but the question will always arise, How are you going to get that money into circulation?

"Mr. WEXLER. Yes, sir.

"Senator NELSON. And the only way the Government can legitimately put its money into circulation is by the payment of its current expenses, of its running expenses and obligations; if anything more is paid out by the Government it has to be done by a system of credits, by banking. I can go to the Government and get my salary paid every month—that money goes into circulation—so can every other employee of the Government; so does the bondholder get his interest. But if any more Government money is wanted in circulation it can only come by application of the borrower to get that currency, and he must put up some security for it.

"Mr. WEXLER. It can be done in no other way.

"Senator NELSON. Because it stands to reason that the Government would not issue its currency without some consideration; and the moment it does that—the moment the Government does that—it would perform one of the functions that is implied in this regional reserve bill.

"Mr. WEXLER. Absolutely."

"Mr. WEXLER. You have put out $700,000,000 of this 'fiat' money and taken back your bonds and retired $700,000,000 of bank-note circulation. The next questions are: What kind of a note have you given me, how are you going to meet it, when are you going to meet it, are you going to pay it in gold, will we get it when we want it?

"If you will say what you are to pay for it, can you pay it? You have to provide all that kind of machinery."

"Senator HITCHCOCK. Well, it impresses me that there is some powerful reason why the banks of the country want to own this bank.

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"Mr. WEXLER. The only reason is because they believe that they are the proper people to own it. They believe they are the proper people to manage it.

"Senator HITCHCOCK. Certainly they can not be attracted by the 5 or 6 per cent interest.

"Mr. WEXLER. No. The only thing that attracts them is the sense of safety in having a central reservoir of credit.

"The CHAIRMAN. You mean giving stability to the banking system?

"Mr. WEXLER. Yes.

"I want to say this to you: That the banking business of to-day is one of the hardest, most trying businesses that a man can be engaged in, for the reason that the banker has a tremendous demand liability with absolutely nothing to meet it with except 25 cents on the dollar. All that the banker wants is the opportunity, the privilege of being able to go somewhere with these time obligations he has and rediscount them so that he can meet the demand obligations when the public wants their money.

"Senator NELSON. He wants a reservoir of credit to go to?

"Mr. WEXLER. That is all we ask.

"Senator HITCHCOCK. But he does not want to go to the Treasury?

"Mr. WEXLER. We do not care; but why don't you go into the meat-packing business or the farming business? It would be just as legitimate as going into the banking business.

"Senator NELSON. Allow me to make another suggestion to you right there. You bankers are nothing but middlemen; you do not add anything to the capital of the country. All additions to the capital of the country come from the farmers, who produce the crops, and from the manufacturers, who take the raw products, the material, and increase its value. That is the only way in which capital is increased, and you are simply the instrument to place that capital.

"Mr. WEXLER. We are merchants; dealers in credit.

"Senator NELSON. It is the farmers and manufacturers who make the capital of the country, who add to it, and increase it. The bankers themselves do not add a single dollar to the capital."

"Mr. WEXLER. Senator, let us see if we can not get this thought directly in the minds of the committee: It is recognized that the gold is the standard of ultimate redemption and the yardstick of measurement for the whole world. It is recognized that that is the best money.

"Senator REED. Yes.

"Mr. WEXLER. And it is the basis of credit.

"Senator REED. Yes.

"Mr. WEXLER. If it is the basis of credit, then credit can exist only so far as that gold rests in a certain mass in a certain place, sustaining that credit.

"Senator REED. Is that correct?

"Mr. WEXLER. Yes, sir.

"Silver ought to be a subsidiary coin. If you have this bank note your silver certificates would not be necessary at all. This bank note can supply the place of the silver certificate and of the greenback, and then you have nothing but gold, the ultimate money of redemption, and that would be ideal."

Under the operation of section 29, the parity clause, this condition would be brought about: The banks, by controlling the gold money and creating artificial currency—"bank credits"—would not only control the so-called Government banks, but by controlling the credits of the country would have control of all its affairs.

J. P. Morgan stated the whole case in a few words. He said, "Credit is an evidence of banking, but it is not the money itself; money is gold, and nothing else."

"Question. If a man controls the credit of a country, he would have control of all its affairs?"

"Mr. MORGAN. He might have that, but he would not have the money. If he had the credit and I had the money—the gold—his customers would be badly off."

Under operation of the bill that passed the House of Representatives and now being considered by the committee, the banks would control both the gold and the credits. The people would be the customers, and, as Morgan admits, would be badly off. The bankers would control not only the foundation—gold—but the superstructure of credit and own the system.

Banks desire all Government notes retired in order that they may be replaced by the cheap substitutes of bank credits which the people are compelled to borrow.

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"Mr. WEXLER. If the bill is so amended that it will strike favorably that great number of banks throughout the country, it may never become necessary to call for more than the original 5 per cent, which would be a distinct advantage, as it would enable the bank to accumulate much more rapidly the 20 per cent surplus required under the bill; it would enable them to make a distribution of the surplus earnings of the various contributing banks over and above the dividends which you have named to be paid upon the stock, which in itself is not deemed to be adequate, but it would enable a larger distribution to the Government as its share of the profits to be applied to the retirement of the greenbacks."

"Senator REED. I am speaking about fixing that part of it, assuming that it can be fixed.

"Mr. WEXLER. A number of experienced bankers might be able to set down a figure exactly by which some system could be evolved of that kind, but it is so contrary, in our opinion, to sound finance, that we never conceived the idea of having the Government in any way mixed up in the banking business. We have no other machinery for helping ourselves. I will state our case right now. We borrowed such money as the law allows us, and we are using it to move our cotton crops, our rice and our corn and the various business that comes through our port. I can not get any more; I have not the right.

"Senator REED. Suppose you were given the right. I do not want you, in answering my questions, to answer whether you think that the present system just as it stands would be adequate, but whether, since you gentlemen all, thus far, seem to want a central bank—one power—how would you like to have the Government of the United States, under a plan similar to the one now existing, simply to furnish money when it was needed to the groups of banks?

"Mr. WEXLER. I would be very much opposed to it, Senator."

* * * * * * *

"Senator REED. You want to issue the money?

"Mr. WEXLER. Surely. We want to issue the paper, the circulating medium; we do not want to issue money.

"Senator REED. You want to issue paper. Commercially we call it money and it goes as money.

"Mr. WEXLER. Certainly. It is highly advantageous."

* * * * * * *

"Mr. WEXLER. Absolutely. The Government has absolutely no money except what it takes away from the people; and under the principles of our party they ought not to take one cent more than they actually need. That is the principle of the Democratic Party, with which I am affiliated. Consequently the Government has no business with a lot of money to be scattered around. If it takes any more by taxation than is just and proper for running the Government, it is a wrong principle. But we have gone along many years without any trouble. You can have a war any time that will cost this country a thousand million dollars. Where will you get the money? You would have to go around and get the bankers to buy your bonds. Do you want to be behind another thousand million of notes, with the possibility of having to sell a thousand million of bonds? Would you bring the whole structure down at one time? You must look to the future?

"Senator REED. But I think that is aside. If you had this great central bank and the Government was liable to go down, do you think that bank would stand?

"Mr. WEXLER. Absolutely, like a rock.

"Senator REED. But you think now, if the banks were to put this money into the hands of the Government, that both banks and the Government would go down together?

"Mr. WEXLER. I do, emphatically; just as certain as that the sun rises.

"Senator REED. What do you think about the creation of these enormous financial powers outside of the Government, in times of peace?

"Mr. WEXLER. That is all right. We should dominate the financial business of the world.

"Senator REED. Would not they fix the discount and the rates of interest for the entire country?

"Mr. WEXLER. Yes, sir.

"Senator REED. Would not that be a powerful factor?

"Mr. WEXLER. Yes; to that extent.

"Senator REED. And you think that ought to be the case in the Republic?

"Mr. WEXLER. Yes, sir.

"Senator REED. If it put its power in behind a great railroad——

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"Mr. WEXLER (interrupting). If the business of the country was going too fast, and everybody was expending too much, and buying too many automobiles, and every man wanted to buy his neighbor's land and build houses, then, they raise the discount rate and cause a slowing up. On the other hand, if business got dormant and dull and needed stimulation put the rate down and stimulate business.

"Senator REED. In other words, they would be the great regulator of all the commerce of the country?

"Mr. WEXLER. Absolutely.

"Senator REED. They could make business prosperous, or they could shut down on it?

"Mr. WEXLER. They could, yes, to some extent they could do that.

"Senator HITCHCOCK. You came here to-day practically with the banking interests of the United States united, represented by a small body?

"Mr. WEXLER. Precisely."

As these gentlemen, when asked by members of the committee for reasons to substantiate the banking system that they advocated, would invariably refer to the European banking systems as a precedent, in order that the committee may fairly weigh these statements, I will refer to page 103 of the hearings, where Mr. Wexler stated: "However, I have not made a study of the European systems lately, and I am hardly in a position to make any definite statements in regard to them." Also the statement of Mr. Reynolds, on page 314: "We gentlemen who have appeared here before you appear more in the attitude of bankers than we do in the attitude of experts from the standpoint of currency or of money."

BANKS WILL CONTROL ADMITTED.

"Senator REED. Do you mean to tell me that you or any other man, not more selfish than the average man, but just using the ordinary business sense, will not get three men that are going to side with the banks rather than with the Government in these matters?

"Mr. WEXLER. I certainly do not, unless the Government were endeavoring to impose something that we did not believe was right.

"Senator REED. I do not mean that they are going to be bad men, but I am talking about who is going to control in that board of directors. Who is going to control?

"Mr. WEXLER. The people that have put the money in the bank, who have invested their money, are going to control, and they ought to control.

"Senator REED. The banks are going to control?

"Mr. WEXLER. Yes, sir; there is no question about that."

GOVERNMENT NOTE NOT AS GOOD AS A BANK NOTE.

Showing the mental attitude of these men and their want of a proper appreciation of the sovereign power of this Government, not realizing that money is a creation of law——

"Senator SHAFROTH. Oh, yes; you had an enormous amount issued, and they had been issued during war times, and the stability of the Government was then questioned—a good many reasons.

"Mr. WEXLER. Senator, that can happen again. What has happened can happen; and, Senator, a Government note, however strong the Government may be, and however confident the public may be that the note will ultimately be paid, it is not as good as a bank note. Why? Because the holder of the note wants to know, not that the man is good and can ultimately pay, but that he can pay upon demand; that is the fundamental thing."

Mr. Chairman, if a digest of the hundreds of pages of testimony presented by those directly or indirectly representing the bankers of this country before your committee were made, no more correct summing up of their position could be had than here given by the men representing practically every bank of any size in the United States.

Most of the time of your committee has been occupied and the attention of its members diverted by the discussion of the relative merits of a regional or a central bank and who shall control them. This does not really concern them. They know full well by owning and controlling the money they will eventually control the management and consolidate these regional banks into a central bank by bringing about conditions that will make it necessary. I therefore consider 90 per cent of this testimony a cloak of concealment of their real purpose and plan to control the money system.

First of all, they demand the so-called gold standard shall be maintained.

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Second, the issuing of an asset currency redeemable in gold.

Upon this basis the bankers can force their credit substitutes for money on the people and control the currency system. They will have little trouble in getting the officials of these so-called Government banks to fall in line with their policies.

It is therefore useless to discuss the relative merits of a regional or a central bank, or who shall appoint their officers.

The issue now joined is whether the Government will exercise its sovereign power and issue real money or a credit currency redeemable in gold.

If it issues full legal-tender money, it can regulate the quantity thereof in the interest of all the people and absolutely control the money system of this country.

If it issues debts redeemable in gold as a currency to be loaned banks at one rate of interest in order that banks may charge a higher rate to the people, it becomes an indefensible outrage, and the voters will soon repudiate the whole system.

In the name of the people I desire to enter a protest against an asset currency of any kind. Under this system a bank can create a debt against a borrower by simply loaning the bank's credit. It can then take this debt and rediscount it for another credit substitute for money issued by the Government; and there has not been one real dollar created in which the debts can be paid.

Under the operation of this so-called gold standard and the loaning of bank credits as a substitute for money 90 per cent of the people are now in debt, and as soon as they realize a system has been established still further pyramiding debt upon them by the loaning of another credit substitute for money furnished by themselves—the Government—it will become a political issue, and the people will soon settle it.

The following section of the bill turns dollars into debts, restricts real money to gold, and puts the money system of the United States absolutely in the power of the banks, money lenders, and manufacturers of debts.

This last section in the bill was offered as an amendment on the floor of the House of Representatives and a large majority voted for it and attempted thereby to pledge the 96,000,000 people of this country to a pernicious economic fallacy and a thing that does not exist—the so-called gold standard of value. I quote section 29 (H. R. 7837), passed the House of Representatives September 18, 1913:

"SEC. 29. That all provisions of law inconsistent with or superseded by any of the provisions of this act be, and the same are hereby, repealed: *Provided*, That nothing in this act contained shall be construed to repeal the parity provision or provisions contained in an act approved March fourteenth, nineteen hundred, entitled 'An act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes.'"

PARITY FRAUD THE LAST ATTEMPT TO FOOL THE PEOPLE.

In the careful investigation I have made for 30 years of the money question I find that the people have been imposed upon by those constructing and developing the money system by assuming false premises and clothing them in technical words and sophistry, and then having them indorsed by men in high official positions and with the prestige of so-called financial authorities. There is no more conspicuous example of this than is found in the injection of the metal gold into our money unit or dollar, trying to make the people believe that gold, the metal, is the unit of value instead of the dollar. The 25.8 grains of gold is not the money unit of the United States, nor is it in any sense the standard of value of the purchasing power of our money unit, the dollar. This false assumption is based upon the exploded theory that there is intrinsic value in gold, and denies the universally recognized fact that the value of the dollar, like everything else, is regulated by the law of demand and supply. Therefore it is the number of dollars or money units in the monetary system that fixes the value or purchasing power of each unit and constitutes the standard of value.

The United States mint was established by the act of Congress April 2, 1792, and it provides in section 9 "That there shall be from time to time struck and coined at the said mint coins of gold, silver, and copper of the following denominations, values, and descriptions, viz, eagle, each to be of the value of 10 dollars or units and to contain 247 4/8 grains of pure standard gold.

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"Dollars or units each to be of the value of a Spanish mill dollar as the same as now current.

"SEC. 20. *And be it further enacted*, That the money of account of the United States shall be expressed in dollars or units, dimes or tenths, cents or hundredths, and mills or thousandths."

The dollar or money unit is the creation of the sovereign power of the people and binds them and their property to protect its value and to redeem it at par.

In other words, it is a legal tender for all things on sale, all services for hire, and all debts, public and private. This means that 94,000,000 people in the United States stand ready to receive it and redeem it at 100 cents on the dollar. In fact, its money value, which is its purchasing and debt-paying power, would be the same if it did not have one grain of gold in it.

To say that the equality, validity, or purchasing power of the full legal-tender dollar of the United States redeemable all alike in $134,000,000,000 of the national wealth, including all the gold and silver that we now have in the United States or will ever have, and the service of 94,000,000 of the most enterprising and productive people in the world, depends for its equality or parity upon the gold in the dollar is an absurdity only surpassed by the miserable subterfuge that $150,000,000 held as a reserve in the United States Treasury maintains the parity or equality of all our dollars. So long as it is a money unit or dollar the value (purchasing power) must necessarily be the same. It is equivalent to saying if these $150,000,000 set aside in the Treasury were to go into circulation and take the place of bank notes there would be a different purchasing power in our money units or dollars.

Is the 25.8 grains of gold or the dollar the unit of value?

A simple answer uncovers and exposes their sophistry and deceit.

In order to annihilate this parity fraud, which has exploited the people of this country out of untold millions and is now being used by the promoters of the Money Trust to fasten upon the United States the most infamous money system ever conceived to ruin this Republic, and to expose this damnable heresy, it is only necessary to ask, "What constitutes the standard?" Is it the 25.8 grains of gold that constitutes the dollar, or money unit, or the act of sovereignty which creates the money, and says $1 is the unit of value? If our mints were closed to the coining of gold you could weigh out 25.8 grains of gold and six months later it would not be worth 50 cents; yet the purchasing power or value of the dollar, or money unit, would be unchanged. But when the sovereign power of the United States says this is $1, the money unit of the United States, and pledges $134,000,000,000 of national wealth and the resources of 94,000,000 people for its redemption at par, or 100 cents in the dollar, you have the best and soundest money unit in the world without one grain of gold in it.

These money schemers would make this country continue to believe that the 25.8 grains of gold was the money unit and standard of value in order to make permanent their gold-basis scheme and use their credit substitutes for money.

To make it more explicit and so plain that no man can refute it:

The lawful money of the United States is created by the sovereign power of its people, each dollar, or unit, is complete in itself, each has the same value, the same purchasing and debt-paying power—their equality or parity is necessarily the same, as each has its redemption in all the property and service of the people without discrimination.

The parity or equality is cemented together by an unlimited and universal demand for dollars, because they do the work of dollars.

How can there be any difference between the lawful dollars of the United States, all doing the same work, and having the same purchasing and debt-paying power?

The demand for the dollar of the United States is the greatest ever known in the world, bringing a premium over gold in Europe.

Ninety-four million people in this country place an incessant and unending demand upon them for their services and support. Over 60,000,000,000 of debts demand them for payment. The perpetual call for interest demands them without end. Twenty-five billions of internal commerce demands their services. Europe demands hundreds of millions of our dollars to settle her balance of trade with the United States.

I would ask these jugglers of words, "Is not this demand sufficient to preserve the parity or equality of our dollars?"

For men of average intelligence, claiming to be the representatives of the people, to deal in such unmeaning nonsense and transparent sophistry upon this vital question, hoping that their high official positions will induce the

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honest credulity of the people to accept it, is nothing short of criminal. There is no such thing as intrinsic value of gold, and the value of gold, like everything else, depends upon its quality and the demand for it, which, under economic laws and conditions, should be a legitimate demand. There is to-day nothing which is so supported in its artificial and unjustifiable value as gold.

There is a legitimate demand in the arts for only one-third of the supply of gold. This leaves an annual surplus of two-thirds, the value of which, when demonetized, would shrink 50 per cent of its present value. In addition to this, there is an accumulated stock of over $7,000,000,000 of gold held stored awey in the vaults and banking institutions of the world, a dead and useless economic waste and burden upon the people. It is about time for the people of the United States to have a lucid interval and close the mints of this country, forever destroying the metallic basis of redemption for credit money—the economic curse of this Republic.

Section 29 is the most consummate fraud in the bill. It is an attempt on the part of this incorporated Money Trust to perpetuate in its own interest the attempt to establish the so-called gold standard in the act of February 12, 1873, to which this act of March 14, 1900, referred.

Since the words "intrinsic value of gold" and the "ratio of gold and silver" can no longer be used to divert and mislead the people; the advocates of "banks of issue" have made their last play to protect the false basis of gold redemption by the misuse of the work "parity." I therefore hope the reader will see the vital importance of exposing this attempted fraud upon the people.

It should be first impressed upon the mind that a dollar is not a debt, but a redeemer of debt, or that one dollar should not be redeemed in another dollar. This idea is an invention of the money lender—a reversal of all sound ideas of finance that ever existed. It is based upon the absurdity that a dollar is a debt.

"A dollar has never been a debt. It is not made for redemption, but is made to be a redeemer." It has been well said, "If the paper dollar is treated as a debt, then also the gold dollar must be treated as a debt, else the one dollar is not at a parity of function with the other dollars, then one has a quality that the other does not possess, and the two dollars are not treated on equal terms.

Then, there is no sound and stable money unless every unit is legally equivalent to every other unit.

A perfect money unit or dollar can be created only by an act of sovereignty impressing upon it the great law of a legal tender.

Gold bullion, when denied the right of coinage and legal tender, will be mere useless property unless used in the arts. I ask the people of the United States how much longer will they allow themselves to be fooled and impoverished by this money power making them believe that dollars are debts, redeemable and convertible into each other?

When the money power is herein spoken of, it means the European moneyed interests as led by the Bank of England, the Rothschilds and their American agents, August Belmont & Co., J. P. Morgan & Co., et al., and their Hebrew associates in the United States, the Clearing House Association of New York, established in 1853, and the American Bankers' Association, an organization of practically every bank of any size in the United States.

This is the money power that controls the circulating medium and money system of this country and the business future of the American people.

This money power dominates the United States Treasury, influences the appointment of its most important officials, and those who are efficient rarely fail to receive more lucrative appointments in banking corporations.

Senator John T. Morgan, of Alabama, after many years of honorable service in the United States Senate, made the following statement: "Never in the history of any government has such treatment of laws been found as in the despotism of the Secretaries of the Treasury, in conjunction with the national banks to trample out every law that stood in the way of their peculiar and pet theories and their peculiar monopolistic advantage. * * *" They pay no regard to the statutes. Construction will do anything with the rights of any man who will submit to it.

The worst tyrannies that have ever been in this world were the results of false construction, eating, like a cancer, from point to point and step by step, sapping nerve after nerve of vitality, until it finally attacks the citadel and destroys the victim. Let us have the truth, the honest truth. If constructions are to be made, let them be made in favor of the people and not against them; in favor of right and life and liberty, and not in the direction of tyranny.

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TURNING DOLLARS INTO DEBTS.

Up to this time all legislation on money had been dominated by the banking interest, but the money interest realized that there was a large majority in Congress which was opposed to discontinuing entirely the further use of silver by the Government as money; so they determined to make the Democratic Party their scapegoat and tool in order to put over the next financial conspiracy upon the people of the United States and still further strengthen the hold and control of banks of issue over the circulating medium of the country. There never was a more comprehensive plan put in operation by the banking associations to coerce Congress to pass this bill.

In this fight for the unconditional repeal of the silver act the organized banking interests made a direct attack on the silver and silver certificates in order to discredit them, the object of the bankers being to stop any further addition of money issued by the Government in order that banks of issue might substitute their notes and strengthen their monopoly over the money system of the United States. Space will not permit me to describe the loss and suffering brought upon the people, which covered a period of about six years.

I will now come to the next step taken by this association of the banking interests to absolutely discredit and convert into debts $350,000,000 of money that had already been issued by the Government. In order to do this I would call attention to the law of 1890, which provides:

"SECTION 1. That the Secretary of the Treasury is hereby directed to purchase, from time to time, silver bullion to the aggregate amount of 4,500,000 ounces, at the market price thereof * * * and to issue, in payment for such purchases of silver bullion Treasury notes of the United States.

"SEC. 2. That the Treasury notes issued in accordance with the provisions of this act shall be redeemable on demand, in coin, at the Treasury of the United States, and when so redeemed may be reissued."

After forcing through Congress the act stopping the coinage of silver, they put into operation what has been aptly termed "the endless-chain process."

John G. Carlisle, who had been Speaker of the House of Representatives and a life-long opponent of the so-called gold standard, had stated (I quote him): "According to my views of the subject, the conspiracy which seems to have been formed here and in Europe to destroy by legislation and otherwise from three-sevenths to one-half the metallic money of the world is the most gigantic crime of this or any other age. The consummation of such a scheme would ultimately entail more misery upon the human race than all the wars, pestilences, and famines that ever occurred in the history of the world."

Cleveland appointed Carlisle Secretary of the Treasury, and the administration, through influence brought to bear by the money interest, determined to increase the public debt by the issue of bonds, and simultaneously to discredit and turn into debts $350,000,000 of United States Treasury notes and silver certificates, and use them to force a bond issue for the benefit of the banks as a basis for the increased issue of national-bank notes. The writer has in his possession conclusive evidence of the following statement: Although the law provided that Treasury notes should be redeemed in coin at the discretion of the Secretary of the Treasury, the whole object of the law being that the Secretary should use the option in the interest of the people and redeem the Treasury notes in either gold or silver, using that which was most convenient at the time, the Bank of France without exception has so exercised this option.

President Cleveland used his influence over Carlisle to get him to construe the law so that he should redeem these United States Treasury notes in gold. Carlisle was an able lawyer and familiar with all the statutes bearing on the subject of money, was also aware of the motives of those who were demanding such an illegal construction of this law; he was so much exercised and concerned in the importance of such action that he requested two United States Senators, his closest friends, to confer with him. One was Senator Blackburn, of Kentucky; the other Senator Daniel, of Virginia. The conference was held at Secretary Carlisle's K Street residence, he having an appointment to see President Cleveland at the White House that night. These two Senators urged Carlisle to adhere to the law that plainly stated that the Treasury notes issued in payment for silver bullion should be redeemed in coin, either silver or gold, at the option of the Secretary of the Treasury, and that for him to do otherwise would leave the United States Treasury, the fiduciary department intrusted with the people's money, at the mercy of the moneyed interest. Carlisle left

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the house, saying that he would not relinquish the option to redeem these Treasury notes as provided in the law and allow the holder of these notes to demand gold in payment for them, which would leave the Treasury of the United States in an absolutely defenseless condition and enable the holders of these notes to raid the gold reserve of the Treasury. Senators Blackburn and Daniel waited for him to return from his interview with Cleveland at the White House. He had evidently had a long and trying conference, and it was midnight before he returned. He met his friends, evidencing the greatest humiliation, and said that Cleveland had induced him against his own convictions to redeem these Treasury notes in gold. Carlisle looked as if he had sold his birthright.

The unthinking can not realize the far-reaching significance of this decision. It was the first time in the history of the money of the world that a dollar was decided to be a debt redeemable in another dollar. The direct result was the conversion of 350,000,000 Treasury notes, or dollars, into debts redeemable in gold. It opened the door of the United States Treasury to the planned attack on its gold reserve and forced an issue of 262,000,000 of bonds on the taxpayers in a time of profound peace.

I would impress upon this committee the vital importance of this action, as it is the absolutely false and indefensible premise upon which the banking interest of this country, in section 29 of this bill (H. R. 7837), that passed the House of Representatives September 18, 1913, predecates the baseless and fraudulent assumption that it is necessary, in order to maintain the equality, or, as they term it, the parity of our dollars, that we should construe all other dollars in our currency system to be debts redeemable in gold, and, in order to deceive the people, they have created a gold reserve of $150,000,000 in Treasury to be used in maintaining, as they claim, the equality or parity of our dollars.

Is there a sane, honest man who will contend for one moment that the integrity of our currency system and the equality, parity, or purchasing power of the American dollar are maintained in their value by $150,000,000 of gold (ostensibly held as a reserve, yet which can be raided and withdrawn by the money interest at any time), and not by the $134,000,000,000 of national wealth and the services of 96,000,000 people in the United States pledged for its redemption.

Apply the universal law of demand and supply to gold as a test and the so-called "gold standard" of value is destroyed. The tables of the Report of the Director of the Mint, 1912, show for the gold in the world an annual increase from 1900 to 1912 of only 6 per cent, while the demand created by the increase of population and wealth in the world has run far ahead of this percentage, that of the United States being 17 per cent for population and 42 per cent in wealth.

This demonstrates that although the demand has so greatly increased the value of gold itself, as measured by other things, has decreased 40 per cent to 50 per cent in value or purchasing power.

ISSUING OF CREDIT SUBSTITUTES FOR MONEY AND THE RISE IN PRICES.

Up to a very recent period the leading economists in the great endowed colleges of the country were holding that the increase of gold was the cause of the rise in prices. President Taft was misled by the statement, and said in his speech before the Republican club in New York, February, 1910: "The reason for the rise in the cost of necessities can easily be traced to the increase in our measure of value, the precious metal gold."

The advocates of the so-called gold standard of value can no longer conceal or deny the fact that the enormous inflation of bank credits has caused a much greater rise in the general level of prices.

This inflation is conclusively shown in the report of the Comptroller of the Currency, 1912. The so-called banking power of the United States, chiefly loans of bank credit, shows an inflation of $19,000,000,000 of bank credits since 1890, while the total increase of all kinds of money, including gold, in our monetary system has increased only $1,200,000,000. It is now estimated that the banking corporations of the world have issued about $60,000,000,000 of these bank credits as a substitute for money. With only $7,000,000,000 of gold in the monetary systems of the world, the absurdity of contending that gold is the standard of value is now too apparent to be concealed any longer from the people.

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"I would ask these gentlemen who say they believe that 25.8 grains of gold fixes the purchasing power of the dollar and constitutes the standard of value in the United States to answer the following questions:

"First. If the $750,523,267 of nonlegal-tender bank notes—credit money—were withdrawn from the money system of the United States, what would be the effect upon values? There is only one answer: Any man of average intelligence knows there would be a great contraction of the circulating medium, a consequent fall in prices, a tremendous increase in the purchasing power of the dollar, ending in a money panic.

"Second. If the $727,886,731 of silver currency now debts redeemable in gold, and the $344,221,741 of nonlegal-tender greenbacks were withdrawn, what would be the result? A money panic would follow sufficient to create financial ruin and repudiation throughout the country and the present standard of values would be absolutely destroyed.

"Is there a man who still believes that if the silver currency, greenbacks, national-bank notes, all nonlegal-tender currency, were taken out of the money system of the United States there would be no fall in prices of other things, and that 25.8 grains of gold would still fix the purchasing power of the dollar or money unit? If so, no other term would describe him than a 'gold monomaniac.'"

It is conclusively shown in Daniel on Real Money that gold is an extra burden and a handicap on international trade and is not necessary in the settlement of trade balances. Lord Goschen admits it, and states: "Trade balances and exports are not paid for in gold, but the money of the country adjusted to the currency of the debtor country, or settled by the interest-bearing securities of same."

Present condition of the gold supply (Report Director of Mint, 1912, p. 689):

"THE MOVEMENT TO INDIA.

"The persistent absorption of gold by India which began to occasion comment in the early part of 1911 has become decidedly the largest factor in the question of future banking reserves. The annual production in the world has increased since 1908 from approximately $442,500,000 in that year to perhaps $470,000,000 in 1912, or somewhat less than $30,000,000. The economists of the world have been busy tracing the effects of these increasing supplies upon prices and forecasting the influence of future supplies. Meanwhile the net imports of gold by India have risen from $56,346,699 during the British fiscal year ended March 30, 1908, to $134,409,087 during the fiscal year ended March 30, 1912. For five years they have been as follows:

1907–8	$56,346,699	1910–11	$90,270,816
1908–9	14,130,583	1911–12	134,409,087
1909–10	81,017,584		

* * * * * * *

"The importations of India last year plus the world's industrial consumption equaled fully one-half of the world's production, leaving perhaps $210,000,000 or $220,000,000 for monetary use. At that rate bank reserves would scarcely gain more than 50 per cent in the next 10 years."

The annual increase of gold during the last three years has been only $9,688,400 for the whole world.

Pyramiding more debts and currency issues redeemable in gold as the money of ultimate redemption is the monumental fraud and absurdity of the century.

(Thereupon, at 3 o'clock p. m., the committee adjourned its hearings sine die, and proceeded in executive session.)

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SUPPLEMENTAL HEARING.

MONDAY, OCTOBER 27, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 11.40 a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Nelson, Bristow, Crawford, McLean, and Weeks.

The CHAIRMAN. Prof. Jenks, the committee desire you to explain the principles of the proposals that you have concerning a banking and currency measure.

Senator NELSON. And you might give us a synopsis of each section of your proposed bill.

FURTHER STATEMENT OF PROF. JEREMIAH W. JENKS, OF NEW YORK UNIVERSITY.

Prof. JENKS. That is, the changes that I had suggested?

Senator NELSON. Yes; and you may go on in your own way.

The CHAIRMAN. Senator Bristow, you might suggest what you had in mind with reference to Prof. Jenks.

Senator BRISTOW. Yes. As I understood, Prof. Jenks, from the conversation I had with you this morning, you have, in compliance with our request to submit your suggestions as to a Federal reserve bank with branches, taken the pending bill and amended it so as to conform to your notion.

Prof. JENKS. Yes; that is it.

Senator BRISTOW. Instead of submitting a separate and independent bill.

Prof. JENKS. Yes.

Senator BRISTOW. And I think it would be well for you to first proceed to explain the changes you recommend, and then make whatever comment you think would be desirable upon them.

Senator NELSON. Would it not be better for Prof. Jenks to give an outline of his plan first, and then go into the details?

Senator REED. By all means; that will give it to us in plainer form.

Senator NELSON. Yes; give us your plan in outline first.

Prof. JENKS. It seems to me that there are two or three principles that ought to be considered as fundamental in preparing legislation for any type of a monetary system of the United States. If we are going to have anything like a system, it is essential that there should

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be a unified interest of the different banks that make up the system, in order that there should not be competitive bidding for business, one against the other, and competitive bidding for reserves in times of emergency, such as we have had under our present system.

It has ordinarily been supposed that the chief weakness of our present system is the fact that there is no unified interest, but that there is this continual bidding against one another. On that account I have thought it wise to provide for a central bank.

Furthermore, if we are going to have this central interest, we need some unified management of the reserves; at any rate, these two provisions—a unified interest and unified management of the reserves.

Then, on the other hand, if the system is to do its work well throughout the country, there ought to be as wide a distribution as possible of loans and of credits, and in order that those credits may be granted wisely and that the loans may be issued to those that really need them and at the same time can give good security, the persons that have the immediate oversight of those loans ought to be persons who have lived and have done business in the different localities.

So that, on the whole, it has seemed wise that there should be one central bank, or, at any rate, one central power, with sufficient control to handle the reserves practically as one, and also that the different Federal reserve banks, if we are going to follow the system of the bill [indicating], should have their interests unified, so that there would not be any competitive bidding; furthermore, that the Federal reserve banks situated in different parts of the country should have full control of the making of the loans, subject to the general rules that would be laid down by a central Federal bank or by a Federal reserve board.

One should take into consideration also the fact that any bill of this kind must of necessity before it becomes a law be a matter of considerable compromise of different opinions. Inasmuch as this bill as it has been passed by the House forms a basis, I have tried to make just as few changes in it as I could and at the same time give to the central bank that was suggested the other day, especially by Senator Bristow, but by others also, sufficient control.

With this preliminary statement I may call attention to the main changes.

The first change, and the one that really involves practically all of the others, is in the second section of the bill, where, instead of providing for the Federal reserve districts, I have made a provision for a somewhat changed Federal reserve board and for the organization under that Federal reserve board of a Federal reserve bank—one central bank.

Perhaps I had better read this change.

Senator NELSON. Yes; we will be glad to hear that.

Prof. JENKS (reading):

SEC. 2. That within 30 days after the passage of this act, or as soon——

Senator CRAWFORD (interposing). Are you now reading the section as you have changed it?

Prof. JENKS. Yes; as amended. Perhaps I should also say as preliminary that, in accord with the statement made the other day, I have provided in this bill that the Federal reserve board drop off

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from its membership the ex-officio members; that it should consist of nine members, six to be appointed without any restriction whatever by the President, subject to the confirmation of the Senate, and the other three to be appointed by the President, subject to the confirmation of the Senate, from a list furnished, one from each one of the various Federal reserve districts, by the people that choose the directors of the Federal reserve banks. That I speak of now, because that will come out in this section.

Senator CRAWFORD. Before you commence to read your proposed amendment, would you prefer at this time to give a reason for this last suggestion?

Prof. JENKS. It would be just as well; yes.

Senator O'GORMAN. In other words, that gives a method by which there may be some banking representation upon the reserve board?

Prof. JENKS. There are two things to be said, the first with reference to the dropping of the ex-officio members. It does not seem to me that either the Secretary of the Treasury or the Secretary of Agriculture have any time which they could give, in any efficient way, to the management of a monetary system such as this.

In the second place, there is no reason to think that the Secretary of Agriculture, anyway, and quite possibly also the Secretary of the Treasury, would be experts in banking; but the essential point is that they could not possibly have time to devote to it.

As regards the Comptroller of the Currency, he also has a great deal to do in his present position; his work would not be lessened by this bill—I mean his present functions—and there might be conflict between his new duties and his present duties. If he still remains as the Comptroller of the Currency and then becomes also a member of this board, he is in quite a different position from any other member of this board, and his relations to the national banks are such that it seems to me it would not be wise to have him a member.

Senator O'GORMAN. Suppose you provide, Prof. Jenks, in this connection, that the knowledge that the Secretary of the Treasury may possess regarding the financial conditions, or the knowledge that may be possessed by the Comptroller of the Currency will always be available to the board?

Prof. JENKS. Surely.

Senator O'GORMAN (continuing). Because they will both be public bodies working in coordination and cooperation?

Prof. JENKS. Surely. And I should expect that the Federal reserve board would need to call upon both of them frequently for information; and, of course, it would be given by them.

Senator O'Gorman. Yes. I did not intend, really, to invite your views with respect to that particular suggestion, but rather with respect to the other one, which seemed to contemplate a modified representation by the bankers, or the banking interests, in the Federal reserve board.

Prof. JENKS. Yes. The special reason for that is this: It has seemed to me, on the whole, wise that the capital for this Federal reserve bank should be furnished, as under this bill, by the national banks and the other banks that would be admitted to the system.

Senator O'GORMAN. Why would that be preferable to having the public furnish the money?

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Prof. JENKS. Because I do not believe at the present time it is desirable to have this Federal reserve bank go into competition in the banking business with the national banks throughout the country. If this is to be a bank for banks, instead of a bank competing with the other banks for service to the corporations and to the individuals throughout the country—to be a bank for banks and in their interest—I think they should put up the capital.

Senator O'GORMAN. Well, if the public subscribes $50,000,000 or $100,000,000, as might be required, for this central institution, would it necessarily follow that the people contributing that money would put this Federal institution in competition with the national banks?

Prof. JENKS. Not necessarily. But it might well be expected that, if the capital is to be provided by private individuals, the banks should do as does the Bank of Germany, the Reichsbank, or the Bank of France—i. e., it should do business directly with individuals and corporations, and not solely with banks. Situated as we are, it seems preferable that this be a bank for banks, and for banks alone. Now, I have made provision in this bill that, in case the banks do not subscribe a sufficient amount, then subscriptions should be opened to private individuals to supply what is necessary.

Senator CRAWFORD. Prof. Jenks, right there may I ask you a question——

Senator REED (interposing). I will make the suggestion here——

Senator CRAWFORD (interposing). Just let me finish this, will you please, Senator Reed? I want to get this in the record here, because, to my mind, it is a very vital point.

Prof. JENKS. Yes.

Senator CRAWFORD. Is it your theory that this is to be a reserve bank exclusively for the member banks and in their interests, as you put it?

Prof. JENKS. Well, no——

Senator CRAWFORD (interposing). Because I think there is a very great question before the American public as to whether this really should not be a system to promote the general welfare of the American people, rather than a system for the benefit of the banks and, as you put it, in their interests.

Prof. JENKS. Well, I would like to say——

Senator CRAWFORD (interposing). Now, if we are simply creating a law here for the banks and in their interests, and on that grounds alone, we are coming far short of extending the scope of this bill as I think the public mind believes it ought to be extended.

Prof. JENKS. I should not like to be understood as advocating any bill in the interests of the banks regardless of the public interests; and I probably misspoke myself or spoke hastily in using that expression. I think that the bill should guard very particularly against the measure being used, or this central bank being used, against the interests of the people. It should be so organized that it will be used in the interests of the people. Notwithstanding, I think that can be secured better by having this bank do its business with the banks of the country, and with the banks only.

Senator REED. Now, Mr. Chairman, I would like to get into my mind Prof. Jenks's theory, and I think I will get it much better if he is allowed to proceed without interruption; and as he has full memoranda there I suggest that he take that up first and give us his

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suggestions, and we can ask him questions afterwards. That is not said in the way of criticism of anybody. I have been guilty of this thing as much as anybody else.

Senator WEEKS. Mr. Chairman, what time will the committee adjourn to? I want to be over in the Senate at the opening to-day, and I will have to leave the committee very soon.

Senator HITCHCOCK. I move that at noon we take a recess until 2 o'clock. Will that be time enough?

Senator BRISTOW. I think so.

Senator WEEKS. Yes; I think so.

Senator HITCHCOCK. At 2 o'clock, I think that would be the best time.

The CHAIRMAN. Then it is so ordered.

Prof. JENKS. I think I can probably give the substantial changes which I suggest, Mr. Chairman, in 15 or 20 minutes.

The CHAIRMAN. Shall the Professor proceed without interruption?

Senator BRISTOW. I think he should.

Senator HITCHCOCK. I think we ought to have him start with his suggestions when we reassemble at 2 o'clock.

Senator SHAFROTH. I move that Prof. Jenks be permitted to proceed at 2 o'clock without interruption.

The CHAIRMAN. Is that the wish of the committee?

Senator HITCHCOCK. Yes.

Senator BRISTOW. I think that would be well.

The CHAIRMAN. Then it is so ordered.

(Thereupon, at 11.55 a. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Prof. Jenks, will you resume your statement?

Prof. JENKS. Perhaps it would be best if I simply read the main provisions, wherein this bill differs from the bill as it passed the House. Section 2 I have headed "The Federal reserve board." It includes the powers also to organize the Federal reserve bank instead of the Federal reserve districts, and the section as amended would read in this way:

> That within 30 days after the passage of this act, or as soon thereafter as may be practicable, the President of the United States shall appoint, by and with the advice and consent of the Senate, six persons who, with three additional persons to be appointed later by the President from a list of names submitted by member banks in the manner hereinafter provided, shall constitute the Federal reserve board. Until these three members last named shall have been duly appointed and shall have taken the constitutional oath of office the six members first appointed by the President shall constitute the Federal reserve board and shall have all the rights and powers conferred upon the Federal reserve board by this act.

It had seemed to me that it was wise to have this system organized and incorporated by the same people that are going to administer it, and I see no reason why there should be a separate organization committee, because if the board is to be constituted and appointed by the president, he can appoint, at any rate, a quorum and a sufficient number to organize at the beginning.

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Now, with reference to the bank [reading]:

The Federal reserve board within 30 days after its appointment shall proceed to organize the Federal reserve bank, with head offices in Washington, by offering to the national banking associations and to such banks and trust companies as shall be eligible for membership under the regulations hereinafter specified, to the amount of 10 per cent of their paid-up and unimpaired capital, shares of stock in the Federal bank, at par, payable in gold or gold certificates. If at the expiration of 60 days after the offer by the Federal reserve board $100,000,000 of stock has not been subscribed by the above-named banks and trust companies——

Senator CRAWFORD. How many days?

Prof. JENKS. Sixty days after the offer. [Continues reading:]

$100,000,000 of stock has not been subscribed by the above-named banks and trust companies, the Federal reserve board shall extend the offer to the public to an amount equal to the difference between the amount actually subscribed by the banks and $100,000,000. No individual shall be allotted more than $10,000. Twenty-five per cent of the subscriptions, par value, shall be paid in gold or gold certificates by the subscriber within 10 days after the allotment has been made, and thereafter not less than 10 per cent per month until the entire subscription shall have been paid.

On completion of the subscription of $100,000,000 the said Federal reserve bank shall be duly incorporated under Federal law, in accordance with the usual legal procedure. As soon as incorporated the Federal reserve bank shall have power to perform such acts, to enjoy such privileges, and to exercise all those powers prescribed in section 5136 of the Revised Statutes, save in so far as the same shall be limited by the provisions of this act.

It is authorized to commence business when there shall have been paid in $25,000,000 in gold on its stock subscription.

The Federal reserve bank so incorporated shall have succession for a period of 20 years from its organization, and for further periods of 20 years, unless sooner dissolved by act of Congress.

Just a word of comment on this. It is desirable, if we are going to admit State banks and trust companies to this system, that they should be allowed to come in at the beginning, and so they are authorized to subscribe, under the rules that are laid down here and that may be prepared by the Federal reserve board when it offers the stock.

It may be worth while to say also that I think it politically inexpedient to have the charter of the corporation automatically expire at the end of 20 years and require affirmative action by Congress to carry it on. Any bank that is established now, or any system that is established now, ought to be established on the assumption that it is to be permanent, and that provision should be made for its charter to be renewed automatically at the end of 20 years, unless previously stopped by Congress. Of course, if anything should make it desirable to change the system or to repeal the charter, that can be done, naturally. But it should be necessary that affirmative action should be taken to stop the bank, rather than to continue it, because no matter how good the system may be, it is perfectly certain that if at the end of 20 years the question comes up of renewing its charter it will be made more or less a political issue, and that would be unfortunate.

Senator CRAWFORD. That was true of the First and Second United States Banks.

Prof. JENKS. Yes. We may expect that to be true in this case. We are in the position, if we make the provision here, to abrogate

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the charter of the bank if there is any need of doing so; but otherwise let it go on; I think it should be planned on the assumption that it is to go on.

All of the rest of the bill is practically shaped, so far as changes are made, with reference to this first change. There are only two or three other unrelated provisions.

I may pass over, perhaps, the sections that remain the same. The next important change is this regarding the stock issue:

The capital stock shall be divided into shares of $100 each, as now. It may be increased from time to time as member banks increase their capital stock or as additional banks become members, and shall be decreased as member banks reduce their stock or cease to be members.

I see no reason why we should not follow the plan of the present bill in that respect.

As regards the separate banks and their branch offices, I have stricken that provision out, because that power would be given to the central bank instead.

Section 4 is also largely rewritten, in this way:

The Federal reserve board shall divide the continental United States into not less than 12 districts, which shall be apportioned with due regard to the convenience and customary course of business of the community, and shall not necessarily coincide with the area of such State or States as may be wholly or in part included in any given district. The districts thus created may be readjusted, different districts may be consolidated, and new districts may from time to time be created by the Federal reserve board. The Federal reserve board shall establish a branch of the Federal reserve bank in the chief commercial center in each of the Federal reserve districts so created: *Provided,* That the total number of branches shall not exceed one for each $1,000,000 of capital stock of said reserve bank.

There is a material difference between that provision and the corresponding provision of the pending bill, and it is a difference that seemed to me might appeal to those who were inclined to emphasize the idea that the locality should have a good deal of control, and that there should be a large number of member banks.

The chief objection—and I consider it a vital objection to the bill as it stands—is that there are 12 of these Federal reserve banks. If we consolidate them into one, then I should say that it is perfectly practicable and on the whole rather desirable that instead of 12 districts the number be two or three times that from the beginning, because the banks are simply branches of the central bank, and it is desirable that the directors of the branches in the different localities be made up of local men who will understand local business conditions, local credit conditions, and things of that kind. Those who are opposed to a central bank may well feel that there is a fair equivalent offered them by providing, instead of 12 branches to begin with, 25 branches to begin with, and perhaps more.

Then, you will notice the provision that was made that the total branches could not exceed one for each $1,000,000 capital; that is, you can have a branch for every $1,000,000 stock instead of having each regional reserve bank have a capital of $5,000,000. So that we might begin with 100 branch banks, if that seemed desirable.

With reference to the boards of directors of these branch banks it seemed desirable to make as few changes as possible, and I have left the provision as to the boards of directors of the branch banks just

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as they are with reference to the local Federal reserve banks, with one exception, and that exception is this:

If the Federal reserve board, as the head of the Federal reserve bank, has really the absolute disposal of the reserves, it would be desirable in the different localities for the boards of directors of the local branches to be so constituted that they would be pretty sure to work harmoniously.

So I suggest that the chairman of the board of directors of the branch, instead of being appointed by the Federal reserve board, be elected by the board of directors of the Federal reserve branches from class C; that is, the Federal reserve board would have the right to appoint the three members of class C, as you will recall it is now, and from those three the board of directors should elect the chairman. The Federal reserve board would be sure that all of those three were thoroughly competent men, men whom they could trust, any one of whom they would be glad to have act as Federal reserve agent. There might be a considerable difference in the feeling of the local district board as to which man they wanted as the chairman and as the Federal reserve agent. That is the only change there.

The next change is with reference to the increase and decrease of the capital, and there is only one slight amendment. [Reading:]

That the shares of the capital stock of the Federal reserve bank shall not be transferred nor be hypothecated—

That is the way it reads now. And then I continue—

when such stock is registered in the name of a regularly incorporated banking association, bank, or trust company. Nothing herein contained shall prohibit shareholders other than banking associations, banks, and trust companies from transferring or hypothecating their shares; but when such shares shall become the property of banks they shall no longer be transferred or hypothecated.

If we are going to have the national banks, in the main, supply this stock; it is desirable that they hold their 10 per cent, and that the regulations be as provided in the House bill. But if an individual, who would have no say in the management of the banks, puts up his money for the stock with the idea of getting 5 or 6 per cent interest in return, and perhaps also for patriotic reasons, there is no reason why he should not transfer his stock to somebody else.

Senator NELSON. Would you not have a provision in connection with that containing a limitation as to the amount that anyone could own of that stock?

Prof. JENKS. I had a $10,000 limitation in it.

Senator NELSON. But that applied to the individual subscriptions?

Prof. JENKS. Yes; that applies to individual subscriptions.

Senator NELSON. Would you not have a similar provision there as to the banks?

Prof. JENKS. Yes; they are limited to 10 per cent of their capital stock.

Senator POMERENE. The individuals are without voting power?

Prof. JENKS. Yes; they are without voting power; there is no reason why they should vote under the bill as it is.

With reference to the division of earnings, I had left that the same as in the House bill, with the exception that the wording is changed a little. When it comes to the division of the surplus above 5 per cent,

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40 per cent shall be paid to the shareholders as extra dividends. Then some is stricken out, and then comes this:

All earnings derived by the United States from the Federal reserve bank shall constitute a sinking fund to be held for the redemption of the outstanding indebtedness of the United States.

I struck out the word "bonded." It seems to me to be desirable to leave some discretion there.

With reference to the national banking associations, also, I had suggested this change in the latter part of section 8:

That any national banking association now organized which shall not, within one year after the passage of this act, become a national banking association under the provisions hereinabove stated, or which shall fail to comply with any of the provisions of this act applicable thereto——

Now, the bill says: "Shall be dissolved," and so on. And I put it as follows:

shall be allowed to continue business as under present law, but shall not be allowed to enjoy any of the privileges conferred by this act upon member banks.

I am inclined to think that if there is a central bank created with the provisions that are incorporated in the proposed bill, the national banks will almost all of them want to join; but in case they should not—and there is a good deal of conscientious objection on the part of some of them, who claim that they have the right to hold their present bonds—I should let them do business under the present law, without making any fuss. This would take away, at any rate, every excuse that they have for attacking the bill. You can say to them: "You may either stay out or come in, just as you please." The more that stay out, the more private subscriptions will come in. I see no objection to it.

Senator CRAWFORD. That removes the coercion?

Prof. JENKS. That removes it entirely.

Now, as regards the Federal reserve board, and this applies particularly to the last three members, of course—

That there shall be created a Federal reserve board, which shall consist of nine members, appointed by the President of the United States, by and with the advice and consent of the Senate, of whom six shall be selected with due regard to a fair representation of different geographical divisions of the country. The other three members of the Federal reserve board shall be selected by the President from among the candidates chosen by the member banks, in the same manner as the members of boards of directors of class A are chosen. Each Federal reserve district shall name one candidate upon the list, and the President shall appoint three for terms of two, five, and eight years, respectively, not more than one of whom shall reside in any one Federal reserve district.

That is, I think, clear on the face of it. The banks have the choice of a list of anywhere from 12 to 50 or 100, from whom the President shall select 3 at his will. It seems to me that will give the banks all of the power that they ought to have under the circumstances. They can be perfectly sure, then, that three men put on the board will be bankers, and especially skilled men, and at the same time it does not give them control, as I think they should not have control.

And if I may add a word further with reference to that, objection is made very strongly to having any interference at all with the President in making these appointments—any further, at any rate, than that one shall be a banker. And the case of the Interstate Commerce Commission and other commissions is cited. But it seems to me

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that the situation is quite different. In the case of the Interstate Commerce Commission, until very lately, it had no real administrative functions at all. It was simply a supervisory board, though it did have power to declare that rates were unreasonable. Later, of course, it was given power to declare what rates were reasonable, and even to take the initiative. But this board is distinctly an administrative body, this Federal reserve board. It is really going to manage the banking business of the country; and it makes the situation quite different if you are appointing an administrative board from the case that you have when you appoint a merely supervisory board.

I think, also, that not merely the bankers but the people of the country at large would not object to that; in fact, I think they would be glad to be assured beforehand in the law that there was a minority that was sure to be trained men in the special field of business that is under consideration.

I should not favor their having any controlling voice.

With reference to the powers granted the Federal reserve board: Naturally, if the Federal reserve board is controlling a Federal reserve bank, as a matter of course it will examine the books and accounts of all of its branches. So that section is simply superfluous, and I have stricken it out.

So with reference to the permitting or requiring of a Federal reserve bank to rediscount paper. Of course, as they are all branches of a single bank, this discounting of paper in different sections of the country is absolutely under their control, and we do not need to say so.

So with reference to requiring one bank to rediscount the prime paper of another. That is understood. That goes out.

With reference to the suspension of the reserve requirement, I had provided for that in a different way, and that also goes out.

And with reference to the supervision and regulation of the issue and retirement of Federal reserve notes, and to prescribe the form and tenor of such notes, to add to or reclassify the reserve and central reserve cities, and performing the general duties and functions provided by the act, and making reports, all of that remains.

That is to say, I have stricken out only the provisions that would be understood, as a matter of course, from the Federal reserve board being in control of the central bank and of these other banks being simply branches. Everything else remains.

So, also, if this provision, or a similar one, with reference to the appointment of the Federal reserve board, is followed you do not need any Federal advisory council, and I have stricken that section out entirely.

With reference to the powers of the Federal reserve banks, with respect to the open-market operations, there is one amendment that seems to me important. The earlier parts of the section all remain, but paragraph d would read in this way:

> To establish each week, or as much oftener as required, subject to review and determination of the Federal reserve board, a rate of discount to be charged by such bank for each class of paper—

and so on. I have changed that to read in this way:

> The Federal reserve bank (the central one) has power to establish each week, or as much oftener as required, a rate of discount to be charged by the central bank and its branches for each class of paper, which shall be fixed with a view of aiding the commerce and business of the country.

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Then, I add this:

It may upon special request of the board of directors of any branch permit such branch, for special reasons, to fix a rate of discount different from the general rate.

The intention of that is, that under ordinary circumstances this central bank shall have a uniform rate of discount fixed for the country as a whole, but that in case of special need in certain localities, upon request of the local branch, it may change it temporarily for that local branch.

It is, on the whole, extremely desirable that there should be as nearly a uniform rate as the business of the country will permit, a uniform rate of discount throughout the country. I am inclined to think that any provision of this kind, without doing any damage in all ordinary times and under ordinary circumstances, would tend to lower rather decidedly the rate of interest through the West and South; and, on the other hand, it would tend, probably, to raise slightly the general rate of interest—I am not speaking of call loans, of course—but the general rate of interest and of discount in the East. I think that unless that rise were very considerable the uniformity would more than offset any danger that could come. And provision is made for exception in certain special cases.

As regards the section on note issues there are two rather important changes. One is that the notes shall be redeemed in gold or gold certificates, which I assume are equivalent to gold, and the provision regarding lawful money is stricken out.

That this redemption shall be at the main office of the Federal reserve bank, at any branch of the Federal reserve bank, or at other redemption agencies which the Federal reserve board may, at its discretion, establish.

I think it is extremely desirable that the redemption of notes be made pretty easy, and that every effort be made to have them redeemed. If you abolish the separate reserve banks and have only one bank, you almost of necessity have only one kind of notes, and on that account I think measures should be taken to make the redemption easy.

Now, the second important change is with reference to the reserve against these notes.

Whenever any Federal reserve branch shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall carry a reserve in gold or gold certificates equal in amount to 35 per cent of the reserve notes so paid out by it, such reserve to be used for the redemption of such reserve notes as are presented.

And then this is added:

If at any time the reserve of gold and gold certificates falls below 35 per cent face value of the notes issued, for each 1 per cent or fraction threof that the reserve falls below 35 per cent there shall be a 1 per cent tax levied until the reserve has reached 30 per cent of the amount of the notes issued; for each 1 per cent deficiency of reserve below 30 per cent a tax of 2 per cent shall be levied.

That means, of course, that it will not be necessary to say there shall be a reserve of 33⅓ per cent, and that the Federal reserve board may suspend that provision in case of need; but we put the amount of reserve at 35 per cent and then the bank will be able to accommodate people without any interference on the part of the Federal

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reserve board by paying the tax. The tax will amount, as you see, to 5 per cent when the reserves get down to 30 per cent; and when the reserve comes down to 29 per cent, the tax will be 7 per cent; and when the reserve is 28 per cent, the tax will be 9 per cent; at 27 per cent it will be 11 per cent; and the pressure would become so severe before there was any danger of the exhaustion of the reserve that there would be no doubt at all about the reserve always being sufficient to meet any demands.

Then another point in connection with that is this: That when the pressure was real, as it is likely to be from time to time, the local borrowers can afford to pay and ought to pay and would be willing to pay a good rate of interest for the notes that are issued to them. There is no question that in 1907 and other times of crisis borrowers, in order to save their business, could easily have afforded to pay even as high as 20 per cent rather than not get the money. It is a temporary matter for a short time, and this provision puts the pressure on, and at the same times does not require that there shall be any suspension of the law, which, I think, is in itself decidedly wrong in principle.

All the provisions with reference to changing collateral and matters of that kind to remain the same.

With reference to bank reserves, I had put in the same provision that there is with reference to the reserve against circulating notes, excepting that instead of the reserve of necessity be held in gold it may be held in gold or lawful money. But with reference to the percentage tax which should be levied the provision is the same.

The provision with reference to bank examinations is the same.

There is one slight change with reference to the loans on farm lands near the close of the section:

Any such bank may make such loans in an aggregate sum equal to 25 per cent of its capital and surplus—

And then I add this:

But in no case in excess of 50 per cent of its time deposits.

It seems to me that loans that are made on mortgage ought to be made solely with reference to time deposits and not with reference to call loans——

Senator BRISTOW. Call deposits you mean, do you not?

Prof. JENKS. Call deposits, I should say; yes.

So also with reference to the savings-bank provision. If that is to stay in at all, and I have no serious objection to it that I know of, I think that should remain practically as it is. The banks that are doing business of that kind, I see no particular objection to their continuing to do so; although, as I said the other day, with reference to many of these provisions, I think it would be better to confine this bill pretty largely to the one special topic and take care of those matters under separate bills.

That covers the main points, Mr. Chairman, and I should be glad to do what I can in the way of answering questions and explaining any particular provisions of the bill.

Senator REED. Prof. Jenks, you spoke about having banks nominate three members of the central board. Now, let us assume this case, that when we come to organize this bank the national banks or

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other banks all combine to take only a part of this stock, or after having taken it dispose of a large part of it to private parties.

Prof. JENKS. They are not allowed to do that under this bill.

Senator REED. Well, there would be no objection to permitting them to do it, in my opinion, if you allow private parties to hold the stock. But suppose when you went to organize the bank the banks took one-third of it and the outside people took two-thirds. Do you think, in that event, the banks ought to be allowed this same representation, or should there be a provision made to allow the holders of the stock outside of the banks some representation on the board?

Prof. JENKS. I should be entirely willing to have it changed in such a way that if the banks did not take, we will say, as much as half or more than half of the stock, their representation shall be in proportion cut down. I think that will be fair. Might I add just one word?

Senator REED. Yes.

Prof. JENKS. My impression is that under the provisions of the bill as it stands with the central bank, there would not be much question that the banks and the trust companies would subscribe all of this $100,000,000, and it was practically upon that assumption that I had made this provision.

Senator REED. You changed one of the clauses of one section. The substance of it was, as you changed it, that the rate of discount should be such as to accommodate "the commerce of the country." I think I am correct on that. It is back some distance in your manuscript.

Prof. JENKS. I will look for it in a moment. I will read the words in this bill as regards that.

Senator REED. Well, I want to suggest to you that if your plan was adopted here as the basis of legislation it would be well to put in something besides "to accommodate the commerce of the country." I think the business of the country, "the business and the commerce of the country," would be better. In other words, the bank ought not to exist alone for the commercial classes.

Prof. JENKS. Oh, I quite agree with that. Unless it is here in some general form, I quite agree with you.

Senator REED. With regard to your interest rate, where the reserve falls below a given point, you provide there for an interest rate of, first, 1 per cent——

Prof. JENKS (interposing). I said 1 per cent for each 1 per cent deficiency.

Senator REED. And, of course, it might get to be 20 per cent, and your suggestion was that the bank could recoup itself by charging its borrowers. Now, it might charge a borrowing bank, possibly, but the borrowing bank could not recoup itself from its borrowers, because of the usury laws of the various States. What would you do about that? For instance, in my State, if they took a note with more than 8 per cent it would be a void note; the whole note is void.

Prof. JENKS. I suppose, Senator Reed, that under present conditions in many of our States where there are usury laws, which I do not believe in, there is such a thing as charging a commission for the loan, which is different from the interest, is there not?

Senator NELSON. The courts have decided, of course, that with respect to national banks the usury laws of the States do not apply.

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It is the usury law that is contained in the national banking act which applies.

Senator REED. Have they held that if, for instance, I go to a bank in my State and want to borrow money and the bank charges me more than the legal rate there, that that is not usury?

Senator NELSON. Yes; a national bank is governed by the usury law contained in the national-bank act.

Senator REED. That settles the whole question, then, Senator Nelson, if you are correct.

Senator NELSON. Oh, yes; that has has been decided time and again.

Senator REED. Well, it entirely escaped me.

Senator NELSON. We have a usury law by which they forfeit the principal and interest; the national banking act, as I recall it, provides only for the forfeiture of three times the interest in certain cases; that is all. And the courts have decided that that law applies to a national bank, and not the State law; so that we would have a right to regulate that under this law.

Senator REED. I have never looked that up.

Senator O'GORMAN. Then, again, Senator Reed, I have always understood that it was always easy in all the States to circumvent the usury law with respect to banking transactions, because the usury law only applies to the persons immediately concerned with the transaction; as between the maker of the note and the person to whom it is delivered, there could be usury up to that point. A bank or any individual, however, can thereafter buy that paper at anything they can procure it for without usury.

Senator REED. That can be done, unless it is merely a subterfuge.

Senator O'GORMAN. They can buy it for 60 per cent, 90 per cent, or even 25 per cent of its par value.

Senator REED. That is a question of fact in my State. I think the decision Senator Nelson speaks of, if he is correct—and I have no doubt of his correctness—would end the matter.

Senator NELSON. Yes; it is true; there are a great many decisions as to that. I had occasion to look up the question while I was in practice, and I know it is true.

The CHAIRMAN. That is the law; and the banks get around it by simply buying paper.

Senator SHAFROTH. You can contract for $100 for 100 per cent a month, if you want to.

Senator BRISTOW. Now, Professor, this plan of yours is a modification of the present bill so as, in substance, to authorize this central board to administer a bank and regulate the operations and activities of the branch banks through a central bank instead of through executive orders. That is the substance of it?

Prof. JENKS. Yes; that is the substance.

Senator BRISTOW. While it seems to me that that would be an improvement from the administrative point of view, my objection is fundamental. First I should like to see, and I want to know what objections you see to it, a Federal bank, the stock of which is owned by the people of the United States and not by the banks; the subscription to the stock to be as widely disseminated as possible, so that when the invitation for subscriptions is issued, in the accepting of these bids those bidding for the smaller amounts would be first

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accepted, thereby guaranteeing a very wide distribution of the stock. Let that bank be administered by a Federal board appointed by the President; let its purpose be to fortify the present banking system of the country, not to change or demoralize or break up or take from the capital stock of the present banking system of the country, but to create this independent Federal reserve bank, which shall be a bank of reserve, a bank of discount, a bank of deposit, possibly, and a bank of issue.

Now, what objection have you to the organization of a bank with such a stockholding and such a control?

Prof. JENKS. May I ask also whether the bank, as you have it in mind, would engage in discounting or making loans to private parties?

Senator BRISTOW. Personally, I think, yes; but there is some objection to that from other people that believe in this general system, and I have left that open. I see no reason why it should not, for the purpose of establishing its rate, go into the open market, as this bill provides, but I do not think it is desirable or necessary in this country for it to go into the general banking business.

Senator CRAWFORD. I should like to have the professor state what objection there is to it. I understand the Bank of England and the Bank of France deal with the public, and the Reichsbank deals with the public; what is the objection to this bank doing the same? That is, Professor, when you get ready to discuss the proposition of Senator Bristow's, I should like to hear you on that line also.

Senator NELSON. I suppose one of the main objections would be that it would be a competitor of the other banks.

Senator CRAWFORD. So are those banks over there.

Senator BRISTOW. I should be glad for you to advise the committee what objection there is to such ownership of stock and such control of a bank; and, first, have it a bank for the purpose of fortifying the banking system, and not for the purpose of doing a general banking business, and then discuss the suggestion of Senator Crawford later.

Prof. JENKS. To be perfectly frank about the matter, the chief reason why this was put in as it is was really that it was considered a matter of expediency to make as few changes as possible in the present bill. But I think there are other good reasons. I do not think that at the present time there is any need of increasing the banking capital of the country along the line you have suggested and to the extent you suggest. I think that if the present national banks and State banks and trust companies are getting the advantages of the rediscount, of the management of the reserves, etc., that will be provided under this system, they can very well afford and will be very glad to furnish the capital, and we had better leave the capital of private individuals for other investments unless it is needed. I do not see that it is.

Then, in the second place, it is desirable that the banks as such be directly interested in the ownership and the management of this bank. The banks now, in my judgment, taking them as a whole, are doing their business to the great advantage of the people of the country; they are rendering them good service—a very great service,

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in fact—and it seems to me what we wish to do is to put them in a position to render a still greater service; and we do not need to fear as long as we have them under proper control. If they furnish the capital stock, and if they, by furnishing the capital stock, have the right to choose these local boards of directors, it will, after all, be giving us continually in this new system the skilled management that we should expect to get. Moreover, I think the people would be more certain they were getting skilled management and would therefore have greater confidence in the system.

Then, if we were to have the money subscribed by individuals, if we were to have a board appointed by the President, and that board to appoint all the local managers throughout the country, there would be a third objection, which, I think, is really a very serious one. If we were to have this central board, appointed by the President, given all that power of appointing individually all of the branch managers throughout the country, there would be a good deal more danger of politics in the bad sense of the word than if we leave the appointment under the present system where the local boards of control are practically chosen, to a very great extent, by the managers of the local banks. Does that cover the points you raised?

Senator BRISTOW. That covers the points.

Prof. JENKS. I do not mean to ask if you agree with me.

Senator BRISTOW. I disagree very much.

Senator REED. I want to challenge your thought and the thought of the Senator from Kansas and all the members of the committee on one proposition. It was suggested here the other day by Mr. Vanderlip that we organize a bank along the lines which have been designated by the Senator from Kansas; that is, a bank to have a gold reserve of 50 per cent back of all its issues, and to be charged practically with the business of maintaining the gold reserve. Now, no bank was necessarily to have any stock in it; it was to be an institution set up by the people of the United States and managed by the Government, charged with the duty of maintaining the gold reserve, $2 being out against each dollar of gold.

Now, it occurred to me, and I am suggesting it to you for your consideration, that it would be a very delightful situation for the banks to find themselves in. If, then, Mr. Vanderlip wanted $100,000,000 of gold or $50,000,000 or any other amount, he could gather up these notes of this bank and come over to Washington and say, "I want that much gold; I want to ship it to Europe." And it would be the business of that bank to furnish that gold, and in failing to do so it would be defaulting in the chief obligation it was created to fulfill. If, on the other hand, the bank itself and all other banks were the owners and themselves charged, as owners, with the maintenance of that gold reserve, a very different condition would be presented.

Now, I am not sure I am correct, but I should like to know what you think about it.

Prof. JENKS. That is rather a big question for an offhand answer, but I should say this: Barring completely the implication of any intention that might be an evil one on the part of the individual bank, I should be glad to agree in the main with your statement.

Senator REED. I expressly repudiate any thought of reflecting upon anyone. I am talking about the possibilities of the system.

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Prof. JENKS. I should be inclined to agree with your suggestion. Let me say, in the first place, I do not think the calling in of individual capital is necessary; and, in the second place, as I said before, I think if we have the responsibility of the banks in the system it would be better for the management of the system. I think your suggestion simply emphasizes my thought, that if they are interested and must take the responsibilities, they would take the responsibilities, and it would remove the danger of any one of them that might be in a critical position really threatening the stability of the system.

Senator REED. It occurred to me this way: If I were running a great bank, frequently finding that I was endangered in some way, as through a lack of gold, it would be a most desirable thing for me if the Government of the United States or the people of the United States had to give it to me every time I wanted it. I think I should be in a very different position if I had to go to myself and other men similarly situated and really injure myself when I asked for gold that could not be given.

Senator BRISTOW. But, Senator, what is to hinder the banks from doing that now?

Senator REED. Under the system that is proposed—answering you myself—the banks own—assume the banks own the central bank——

Senator BRISTOW. I mean the present banking system. Why can not you do it to-day?

Senator REED. Well, there is no way for them to do it, except by bringing in national-bank notes, and the minute they bring in the national-bank notes, of course they curtail the currency issued by the banks. I am not sure I am right.

Senator BRISTOW. They do the same in the other case, Senator, exactly. Professor, suppose that Mr. Vanderlip should get a million dollars' worth of national-bank notes and go to the Treasury and say, "I want the gold on this," he could do it.

Senator SHAFROTH. They do not usually do it unless they have a genuine order from Europe for gold.

Senator REED. Then comes the question of the bonds only drawing 2 per cent.

Prof. JENKS. There is this other point, I think, in Senator Reed's statement that is worthy of consideration. If the banks themselves are stockholders, charged to a large degree with the administration of the system, they will take a more direct daily interest in the success of the system all the way through, and that is quite worth while, I think.

Senator REED. Let me apply that. There is a regional reserve bank established at New York, or will be under this bill. All the banks of New York City will be members of it. They will be the people who contribute the capital. Their reserves will be in there. They have thereby given hostages for good behavior and not to make a run on their own bank; and any bank that tried it, if it did it for selfish or improper purposes, would meet with the condemnation of the other banks. Take Mr. Vanderlip—and I use his name respectfully. The moment his bank came in and made a demand of that kind he would raise a hornet's nest around his own ears; whereas if he came over to Washington to a wholly independent concern, it would present an entirely different situation.

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Senator O'GORMAN. Will you allow me to make an observation here bearing on that whole situation?

Senator REED. Yes.

Senator O'GORMAN. If an individual banker felt greater liberty in drawing out gold reserves from a bank operated with the people's money than he would from a bank operated in part by his own money and the money of other bankers, do you not think the consequences in the one case would be just as serious as in the other to the stability of the banking interests generally of the country? In other words, if, without any restraint, he availed himself up to the limit, or a number of bankers did, of the opportunity to deplete the Government Treasury or the reserve national bank of its gold reserve, and thereby menaced the stability of the banking interests of the country, would not he bring down upon his own head the same condemnation as if he had taken it from a bank in which he had a personal interest? In other words, to answer my own question, it seems to me that the same influences would restrain him in the one case as in the other.

Senator SHAFROTH. The banks have always been very loyal to the gold reserve. Denver gave to the United States Treasury more than $1,000,000 of gold coin in the panic of 1893.

Senator REED. Not impugning the motives of anybody, I have no patience with those who picture bankers as a selfish class and as a dishonest class any more than other men are selfish or dishonest, but it seems to me that a very different proposition would be presented to a man who wanted gold who could come over to an independent institution at Washington, for which the Government was entirely responsible, and get it, than would be if he had to go to a bank in the city of New York that was composed practically altogether of the banks of New York, that had to have its capital maintained by the banks of New York, and that if it fell would crush the banks of New York directly, including the man who brought about the disturbance; that that presents a different question to that man's mind than it would if he were going to get it from the Government at Washington, as if he might send to the Bank of England to get it. I agree there is great force in the suggestion of Senator O'Gorman, but is it not a different question?

Senator WEEKS. Let me make another suggestion about that. Why would the bank want the gold?

Senator MCLEAN. That is the point?

Senator WEEKS. What is it going to do? You suggest that gold is going to be withdrawn for purposes of export. Now, if you are going to export the gold there must be a demand for gold, or we must be owing the other side some gold, and it must be exported, or the debt has to be paid in some other way.

The CHAIRMAN. And pay freight on it.

Senator SHAFROTH. And the loss from abrasion.

Senator WEEKS. If you are going to withdraw the gold and ship it, it must be profitable to do it. But suppose it is; what are we going to do under this plan? We are presumably going to establish a bank or system which will at once take cognizance of the fact that gold is being shipped out and change the interest rate, or take some other means of replenishing its gold supply.

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Senator O'GORMAN. Let me ask you a question, Professor, to get your view. Suppose the general features of the pending bill were observed with regard to the creation of a system, namely, that you have a reserve board and five or more regional banks, and you provide, as the pending bill does provide, in part at least, that the national banks within the several regions will contribute the capital for that regional bank by a 10 or 5 per cent contribution of their capital stock, with a provision such as you now suggest that if within 60 days the national banks within those regions do not subscribe or contribute the requisite capital the public may be invited to subscribe the remainder. Would you confine the "public" to people residing within the territory covered by that regional bank, or would you invite the public of the country, giving preference to the residents of the particular region?

Prof. JENKS. I do not see any reason why there should be any restriction as regards residence at all, as long as the people are citizens of the United States, giving preference simply to those who come in first, or possibly, as the Senator suggested, the smallest subscribers first. I do not see any reason why, because these people would not have any particular voice—would have no voice, in accordance with the provision made here—in the management of the bank; they would simply be drawing their dividends. I do not see any reason why there should be a restriction.

Senator WEEKS. Let me ask you one more question——

Senator O'GORMAN (interposing). Pardon me; just one question more. Coupling with this last suggestion of mine a similar observation of your own, previously given, I see how one of the two objections tendered by the country banks may be obviated. In passing, I have been more concerned in this entire hearing about the attitude of the country banks than about the so-called large banks, because I look upon the two particular objections the country banks make as objections quite well founded.

The second objection they offer relates to the diminution of their return from exchange charges. Have you made any suggestion regarding the feature of the pending bill on that subject?

Prof. JENKS. I think this amendment that was made in the bill itself just before it came over from the House—that they may make charges covering their actual expenses—covers part of that. I think, however, there is still more that might be said. At the present time when collections are made by country banks there is very frequently a sending of the check and the collections through three or four or five different banks; it is a circular, irregular process. Under the plan proposed in this bill, so far as I can see, every national bank would have only two transfers. It would go direct to the regional bank and back again. It seems to me that that saving in the actual expense of collection is going to offset the objection to a considerable extent.

On the other hand, I think this should be said: Unless I am decidedly misinformed—I have made some inquiry, but I wanted to make more, from country bankers in whom I have confidence—a considerable part of the profits the banks make now in collecting checks on their own banks is a profit they ought not really to be allowed to make. Take, for example, an illustration that I think I used the other day. Suppose when I was living at Ithaca, in order to pay

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a bill in Wilkes Barre I sent my Ithaca check down to a dealer in Wilkes Barre. He would deposit that check in his bank and that bank would send it to Philadelphia. That Philadelphia bank possibly would send it direct to Ithaca, or perhaps to Ithaca through Syracuse.

Moreover, I understand that the custom is—I am not speaking of the Ithaca bank specially, but of any local bank—a common custom is to have an arrangement made with the Philadelphia bank, so that when the Philadelphia bank sent that check in for collection they would charge the Philadelphia bank with 2 or 3 cents of the 10 cents, we will say. They insist that if it comes in in that way they will make a charge, and they do get some part of their profits out of that. Moreover, I am told it is usual in a small town, where there are only two or three national banks and trust companies, for the banks to combine and agree that none of them will do that work short of a similar charge, and the charge is high enough to give them a profit. I think this bill should stop that kind of thing. I think it is perfectly proper, as provided in this bill, that the actual expenses of collection should be covered. Beyond that I do not think they ought to be allowed to make profits on the checks on their own banks.

Senator CRAWFORD. Let me break in there to say that in the Pujo committee they made a special investigation of the matter of charging on out-of-town checks, and it amounted to a great deal of money and became the subject of more or less abuse, and it is one of the things regarding which the Pujo committee makes a specific report. We ought to keep that in mind in dealing with the question here.

Senator O'GORMAN. I think it is said that $6,000,000 is charged on the commerce of the country.

The CHAIRMAN. That is not really true, however.

Prof. JENKS. May I make another suggestion? I think this bill as it is, providing that the regional reserve bank shall act as a clearing house under this law, will, to a very great extent, lessen the actual expenses, as I intimated before.

Senator O'GORMAN. I know; but it will diminish the opportunity of the small bank to increase its earnings.

Prof. JENKS. Exactly; but it seems to me that while that is true, so far as the small bank's profit is dependent upon collecting checks drawn upon itself, it ought not to have that profit. It does, however, under the present circumstances.

Senator HITCHCOCK. Let me put another suggestion to you right there. Suppose there are 1,500 towns in the United States, and I believe there are many more, where a bank of $10,000 capital could not exist by the simple process of loaning 80 or 85 per cent of its deposits to the borrowers in the community, and if it were compelled to confine itself to the interest on 85 per cent of its deposits it would go out of existence and the community would be thereby deprived of a place to deposit its little savings and would have to go back to stockings and hiding places under carpets, in bedticks, etc., and lose that little public utility. What will that bank do if it be not permitted to eke out an existence by this method of charging just enough, as the evidence shows it does, to pay the reasonable salaries of a couple of officers and a very moderate income on the capital invested?

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Prof. JENKS. I think I would answer that question by asking another. Is it not entirely possible, and in fact probable, that in those cases where a bank needs some extra advantage in order that it may carry on its business it can get it in some other way than by interfering with the course of commerce along those lines?

Senator HITCHCOCK. It is absolutely not——

Prof. JENKS (interposing). Just one moment. If we go back into commercial history a little, we shall find that there are a good many cases where the banks actually charged for the receipt of deposits. I may say, along that line, that if it became a case of necessity it might be better that that town should pay enough for the privilege of making deposits and the other work the bank did, and pay for the transmission of drafts and services of that kind than to interfere with the general commerce of the country by this roundabout system of collections you have now.

Senator HITCHCOCK. Of course, that is a very good theory, Prof. Jenks, but the fact is the people would not do it. The people of that community would not pay for that, and it is only by this indirect way that it is possible to build that bank up. Those little banks eke out an existence by doing a little collecting, by writing insurance, by one of the officers acting as notary, and in that way they furnish a very valuable little utility. The great difference between one of our western towns of a few thousand population and a town of Europe of a few thousand population is that ours is a little town and there it is a village, because they have not this facility which we have in the United States.

Prof. JENKS. May I make another observation? I happen to have had some experience in the small towns of the Middle West, towns of 1,000 and 2,000 population. My own observation is that the local banks by doing this notary business, and particularly by shaving notes and doing other local business that it has a chance to do along monetary lines, not merely ekes out an existence, but a very good existence. As a rule, they are making very high profits; hardly anybody else in the community is making so good profits. This collection business that you speak of is often done, and may just as well be done by some lawyer or other person who sets up a collection agency. I do not believe there are very many cases in the Middle West in these smaller towns of 1,000 or 1,500 inhabitants where the bank needs this special exchange charge in order to live. I think they will be able to get their living in other ways that are perfectly proper and much easier for the community and that will not interfere with the general course of business.

Senator SHAFROTH. Is not this charge very irksome to the people, and resented by them very largely?

Prof. JENKS. I think it is. Take, for example, my own case. When New York City is charging 10 cents for the collection of out-of-town checks, and I send down to New York for $10 or $15 worth of books and have to write a check for $15.10, I do not like it. It seems to me that the provision to allow them to make a reasonable charge covering their cost is reasonable.

Senator CRAWFORD. The New York Clearing House has a regulation that these banks must make this charge, and if they do not do it they are subject to discipline.

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Prof. JENKS. I know that is true, but when this bill is put into effect I think it will not be true.

Senator SHAFROTH. In the Pujo report there was a good deal of criticism on that, too.

Senator CRAWFORD. Oh, it was the subject of special inquiry. Mr. Untermyer claims that the agreement is in restraint of trade and in violation of the antitrust law.

Senator REED. I think Mr. Untermyer claimed a good many things in that hearing.

Senator CRAWFORD. That may be, but I wanted to call attention to it as one of the matters upon which they made a special report.

Senator SHAFROTH. The report, as I remember it, was to the effect that the compensation the bank got by holding the money in the meantime was sufficient to reimburse it for the expense of collection.

Senator O'GORMAN. I should like, Professor, to put another question to you.

Prof. JENKS. Will you pardon me a moment until I answer a question that was put earlier? That was the question raised by Senator Reed with reference to the personal ownership of the capital of the central bank. I agree with the general position that Senator O'Gorman took on that, because I do not see that there is any essential difference between the two, excepting this: I think, if the national banks in New York or any other locality are themselves putting in their capital, and—what is still more important—are themselves selecting the managers of the local Federal reserve banks, they will take an immediate interest in that work and will look after the workings of the Federal reserve bank in a way that will tend to increase very decidedly the security of the whole system as compared with what would be the case if the subscription, as has been suggested, were to come from private individuals all over the country with preference given to smaller contributors.

One word further. I think also that with this added confidence and the added skill we could get in that way, presumably, we should have the confidence of the people throughout the country a great deal more. Now, a good deal has been said—and, I think, with justice in part, but in part only—to the effect that this Federal reserve banking system and the Federal reserve bank ought to be run not simply for profit, but for patriotic reasons—the good of the country. I quite agree with that, and I think we ought to prevent their making too much money; but at the same time we all know, as a matter of fact, that any one of us takes a good deal more interest in any work if we do have some little financial interest there also. We do look after our own money affairs. I think, myself, that on that account it is desirable to have the skilled bankers, as long as they have not the power to harm, given enough interest in this system so they will be watching it carefully all the time.

And it is for that reason also that I favor the proposition that they should have a share in the profits above 5 per cent, because I do not think they can get any exorbitant profits and it will give them the opportunity and put upon them the necessity of watching and seeing how the work is done. I do not think there is any likelihood of abuse under the provisions of the bill, and their interest, I think, is very desirable.

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Moreover, I may say another thing with reference to the appointment of the boards of directors of the Federal reserve banks. It is a fact, speaking generally, that if you have a great institution that is a Government institution pure and simple, with the people appointed by the Government to run its business, it is likely to be more expensively run and not to be run so scientifically or carefully as a private institution. I think we ought to guard against any such abuses, and in the system before us, as I think is fully provided in this plan, so far as we can get skilled supervision of a private nature with a small amount of private interest in it we shall get a better system than if we depend entirely upon the Government.

Senator BRISTOW. Now, Professor, I suppose you and I have very different opinions as to the control of the banking system of the country by a few men in New York. I think they practically will control it under the system that is proposed in this bill much more than they do now, and I think they control it too much now. I am perfectly willing to say this: That I do not propose to favor any reserve bank system that permits the banks of the country to control it. If we are going to have an independent banking system and preserve it now is the time to do it. And if it is insisted that we are to have these regional banks instead of a bank of the people, which has been suggested, then I think the Government should appoint the officers that administer the reserve banks. There is no more reason for appointing the Federal board by the President than appointing the administration of the regional bank by the President, because that is actually the operating force that does the business.

Now, do you think it would be better to have the regional banks, or the branch banks—whichever system may be adopted—governed by appointees of the President, or the board, regardless of the stock—that is, would you prefer to have the banks own the stock and have nothing to do with its management, or to have the people own the stock and have the management. I will put that differently. Would you prefer that the banks own the stock and the Government manage it, the branches as well as the central bank; or would you prefer that the people own the stock and the Government manage it? Which would be the best?

Prof. JENKS. I should prefer in any case that the banks own the stock.

May I comment a little upon what you suggest? I do not believe that under this system as it stands the banks in New York are going to control the system. As a matter of fact, the Federal reserve board is entirely appointed by the President, so there is no question about that. So far as the Federal reserve banks are concerned, the regional banks or the branch banks under the system proposed here, two-thirds of the directors are really absolutely under the control of the Federal reserve bank; so that while, as I say, under the system that is proposed in this bill as it passed the House, we can be sure of skilled supervision, we can also be sure that the Government prevents any abuse by private bankers. Now, I do think that the bankers in New York and the other bankers throughout the country are going to have a good deal to say about the management of the system, not because they have any power, not because they will be permitted to exploit the system for their own ends, but because they are men of training, men of character, men of weight in the community, and men that people

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would be glad to consult with because they are persons of that type. But, in either case, I should prefer they own the stock.

Senator BRISTOW. Of course, I differ with you very radically as to that. Now, in connection with Senator Reed's question that he asked a while ago as to maintaining the gold reserve, I can not see why Mr. Vanderlip, and I simply carry on the illustration which he gives, could not now come down here and demand $10,000,000 in gold for national-bank notes, and the Government would have to give it, because we are pledged to maintain the gold standard. But it is not done. To my mind there is no more danger of it being done under the new system of notes than under the present system. We have no gold reserve at all now except against national-bank notes, and we have a reserve against the greenbacks. Now, they could deplete that gold reserve any day if they wanted to, but the banks do not do it. But to avoid the danger, as suggested by Senator Reed, should we not provide that the banks that were the beneficiaries of this system should maintain a gold reserve and replenish it whenever it is depleted?

Prof. JENKS. I do not quite see what you mean, Senator. We could make the provision now, of course, if we wanted to, that a certain proportion of this reserve that the banks are required to keep shall be held in gold. Is that what you mean?

Senator BRISTOW. Say we had a 50 per cent gold reserve behind the notes that are issued, and there should be a run on that gold reserve through these notes. Now, of course, if they could get enough notes together they could run the gold reserve out, but can we not make a provision that as these notes are redeemed the banks that are the beneficiaries of the system shall maintain a certain gold reserve in the Treasury and put the burden on the entire banking system of the country to maintain the gold reserve?

Prof. JENKS. As I understand the matter, that is done now under our present law, and it is provided in this bill. It is provided in this bill that each bank shall keep 5 per cent of its note issue in gold in the Treasury, and as fast as that is taken out it shall be renewed. The consequence is that under the present circumstances. supposing they present $100,000,000 of these new bank notes, as fast as they come in the Government would itself provide that the amount be supplied by the banks by calling upon them to make good the sums paid out.

Senator BRISTOW. Why could not the same provision be carried in here to protect the gold reserve of this Federal reserve bank?

Prof. JENKS. I understand it is carried.

Senator BRISTOW. That being the case, the suggestion of Senator Reed, it seems to me, falls to the ground.

Senator REED. I am talking about the Vanderlip plan, which was a central bank owned by the people, the gold reserve to be maintained in that bank, without any provision in the bill, as I recall it, that the banks of the United States should in any way contribute.

Senator BRISTOW. But we can put such a provision in the bill as will remedy that defect.

Senator REED. In other words, your idea would be that the banks should keep on deposit in this Federal bank a certain percentage of gold?

Senator BRISTOW. Yes.

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Senator REED. And when they drop below a certain amount they must replenish it? And if they do not replenish it, what then?

Senator BRISTOW. Then there would be penalties. I do not know what penalties we have now, but we could fix a penalty.

Prof. JENKS. You could put them into liquidation.

Senator BRISTOW. Yes.

Senator REED. It is perfectly clear to me that we have to impose upon the member banks the duty of helping to maintain this reserve.

Senator BRISTOW. I agree to that. Perhaps they are——

Senator O'GORMAN (interposing). I do not want to interrupt this conversation, but a good deal of this talk is naturally what will very often come up at our executive conferences, and perhaps if Prof. Jenks has concluded his observations we may resume the work we intended to take up.

Senator CRAWFORD. He has not answered this question I brought up in connection with these questions by Senator Bristow. Now, I want——

The CHAIRMAN (interposing). I think the questions ought to be put to the witness and he be allowed to answer them.

Senator CRAWFORD. The question I had in mind is, What objection is there to letting this bank, under the system provided in this bill, or any other that may be created, discount for individuals as well as for member banks?

Now, this whole propaganda has been put before the people as adopting banking practices of the old country, on the ground that our system is not up to date and is inefficient and all that, and every one of these banking systems after which we are copying, or from which we are expecting to take the best, contains a provision that this Government bank, or central bank, can do business with individuals, and it does. Now, I do not see why, in building up a system here, we should rest it alone upon the theory that it is to be an accommodation to the member banks. It may be a very great accommodation to an American citizen that has prime commercial paper of the class described here that he can go to this reserve bank or central bank and discount his paper; it may be a mighty wholesome check upon the banks of the country to give him that privilege as they have done it in the other countries. What objection is there to allowing him that privilege?

Prof. JENKS. I think there are two objections that can be made. In the first place, unless I am entirely misinformed, in none of these European countries where the central national bank does this work have they anything like so widely developed a system of local banks all through the country as we have here. We have built up a system of something like 25,000 small national banks all through the country, to say nothing of the private banks. At any rate, we have enough of them so that the business is pretty well looked after now. They are rendering a good service to the country as a whole, and there is not the need for it that there is there where they have not any such system as that developed. Our present local banks, in my judgment, are serving the people, and serving them fairly well. I think that with the control that is put in this bill, there is no danger of their abusing their powers, and it is a much wiser policy for the managers of these reserve banks to devote their energies strictly to seeing to it

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that the paper which comes in from these different banks is of the right type. As a matter of fact, if we gave that privilege of discounting for individuals to our reserve banks, it would mean that the only persons who would go to the reserve banks to get accommodations directly would be the large corporations that wanted large sums; and the other people would be more likely to go to their small banks, anyway, for the small banks are really the only ones that can look into the individual credit of the small borrower.

Senator CRAWFORD. I do not suppose if the reserve bank had that power it would, to any great extent, rediscount paper, and I do not think they have in the other case of which you speak, but it seems to me that it might be a wise thing to let them have that power for use in emergencies, as we are linking together all the banks of the country—that seems to be the purpose of this bill—practically bringing savings banks, and State banks, and trust companies, and national banks into one system, and tying them all together.

Prof. JENKS. That is right.

Senator CRAWFORD. And if this system becomes unified, they are practically going to be one big banking trust.

Prof. JENKS. That is right.

Senator CRAWFORD. It may be a good thing for the country, but it may also be a good thing for the country to allow this reserve bank to have the power, in emergencies, to discount the paper of individuals. How would it hurt them if this bank had such power?

Prof. JENKS. I think the being hurt would be in the public sentiment in connection with the matter.

Senator CRAWFORD. Would it not be better for the public?

Prof. JENKS. I question if it would. Under the system provided by this bill the public can get its accommodation directly from their local banks, and the rate it can charge can be practically controlled by the central bank anyway. I do not see that there would be any very special harm done, to be frank about the matter, but on the whole I think it would not help the system to turn public sentiment against it.

Senator CRAWFORD. It seems to me it is difficult to find a parallel.

Prof. JENKS. I think there is no exact parallel.

Senator CRAWFORD. Because when we created the first bank in Philadelphia, and the Bank of North America was created a State bank, and those two banks competed with each other, they got along very well together?

Prof. JENKS. Yes.

Senator CRAWFORD. We are creating this big combination of banks and giving them exclusive control over rediscounts in taking that power away.

Senator WEEKS. I think you will find that that statement is not quite justified, that they got along well together.

Senator CRAWFORD. The Bank of North America and the First Bank in Philadelphia got along well together, although there were disputes, political disputes. They got along well together.

Senator POMERENE. There was mismanagement.

Senator CRAWFORD. There was mismanagement, but I am speaking of the reciprocal relations.

Senator HITCHCOCK. Congress is very probably justified in going in and organizing a great concern for the purpose of caring for the re-

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serves of the banks it has created to distribute currency to the people, but Congress has no more business to go in and establish a bank any more than it has to start a railroad or start a bakery or undertake any other line of private enterprise.

Prof. JENKS. You are referring in your remarks to the fact that it is not politically expedient?

Senator HITCHCOCK. It is not desirable, but it is the function of Congress to provide a means of safeguarding the reserves of the banks it has authorized. It is legitimate for it to provide against panics and to provide a means of supplying currency to the banks which it has recognized.

Senator CRAWFORD. But we have a novel proposition here, not of the Government or Congress establishing a purely governmental bank; it is creating a bank through the capital stock of other banks. It is taking no stock in it itself; it is excluding the public from having any stock in it; it is securing its capital from member banks and limiting its business to the business it transacts with those banks. That is unique.

Senator HITCHCOCK. That is not the point I was referring to.

Senator CRAWFORD. No; I suggested that as distinguished from the statement made by Senator Hitchcock.

Senator MCLEAN. Did you, Prof. Jenks, retain in your amended bill the provision in the Glass-Owen bill that these notes shall be the obligation of the Government?

Prof. JENKS. Yes; the obligation of the Government. But, as I understand it, under the provisions of this bill the Government, after all, is so little likely to be called upon that it is only practically a guaranty that is certain never to be asked to meet.

Senator MCLEAN. In your opinion there is no objection to that?

Prof. JENKS. In my opinion there is no practical objection to that, though I would prefer to see bank notes. I think it is a good deal a matter of sentiment.

Senator MCLEAN. Do you look upon it as a matter of sentiment, purely?

Prof. JENKS. Practically so; yes.

Senator NELSON. I call your attention to a section of the bill on page 31, and I will read to you the paragraph upon which I want light. You have not touched upon it in your amended bill. [Reading:]

Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank to which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of 10 per cent upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided and returned as hereinbefore provided to the reserve bank through which they were originally issued, etc.

Now, the point that has been troubling me is this: After these notes have been returned to the bank that issues them and have been redeemed, after they are redeemed have they a right to put those

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notes into circulation again, and if they had such a right would it not lead to endless inflation? Ought not those notes to be canceled when they are redeemed?

Prof. JENKS. As I understand the bill, when the notes are brought in and redeemed they are legally canceled.

Now, if they are paid out again, they are paid out just as if a new note was issued, and it is simply a question as to whether you shall reprint the notes and put other numbers on them.

Senator NELSON. Have they not got to, based upon new security?

Prof. JENKS. They have to be based upon new security; that is why I say when they are redeemed I should consider them canceled. If, instead of tearing them up, the Federal reserve agent puts them aside into a separate pile, and when there comes in some more security he takes those same notes instead of asking for newly printed notes; it is really a new issue.

Senator NELSON. It is really a new issue. That is, after they have been returned and redeemed their function is ended. Unless you take that course it would lead to an endless inflation of currency?

Senator POMERENE. And the collateral was surrendered.

Senator NELSON. If they are issued, they must be issued as new notes, and the mere cost of printing would be a mere bagatelle in relation to the question of safety. Those notes ought to be destroyed and those new notes printed.

Prof. JENKS. May I add a word there? If the suggestion you make is carried out, it would also be practically an absolute bar against counterfeiting them.

Senator NELSON. And the mere cost of printing would be a bagatelle compared with the question of safety. We would be sure that there could not be any inflation of the currency. To get new currency they will have to put up new securities, and they will have to go through the process again. If you leave that the other way, there is great danger of inflation.

Now, another question, and then I will have finished.

Senator HITCHCOCK. I want to ask another question on that same line.

Senator NELSON. I would like to ask one more question, and then I will be through.

Senator HITCHCOCK. The question I would like to ask is in line with the very questions you have been asking, Senator Nelson.

Senator NELSON. Very well.

Senator HITCHCOCK. Suppose, Prof. Jenks, a bank in your town discounts paper with a reserve bank in New York and receives notes, currency, and these notes are put up as collateral security or segregated as collateral security for the other notes; I believe that is the process.

Prof. JENKS. Did I understand you to say that the bank in my town puts up personal notes?

Senator HITCHCOCK. We will say it rediscounts $100,000 of commercial paper with the reserve bank in New York City. It receives notes, currency of the Government, through the reserve bank?

Prof. JENKS. Yes.

Senator HITCHCOCK. The notes which it has discounted and which have been, as a matter of fact, due for 90 days, have been segregated

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and turned over to the Government. The bank in your town takes this currency home, and within 10 days they get back to the reserve bank in New York City. Must those notes be retired 80 days before the collateral security matures?

Senator NELSON. Your proposition involves this: You assume the notes come back to the reserve bank in New York City, and it is the duty of the reserve bank to present them for redemption; they must not hold them.

Senator HITCHCOCK. The collateral is there.

Senator NELSON. They would not hold those notes.

Senator HITCHCOCK. The reserve bank has invested its funds in these notes, which do not mature for 90 days, but the currency may come back in 10 days.

Senator NELSON. Come back where?

Senator HITCHCOCK. To the reserve bank.

Senator NELSON. The bank that issued them?

Senator HITCHCOCK. Yes.

Senator NELSON. That is all right.

Senator HITCHCOCK. The collateral security of $100,000 which the reserve bank has invested in the 90-day notes will not remain in those notes for 80 days.

Prof. JENKS. I should say, so far as that matter is concerned, that that example which you cite will never happen in actual practice. If it should happen, what you say will be true.

This would be the situation: These notes—that is, the personal notes that have been put up as collateral—represent loans to private individuals. They have had the use of the money, and those notes, when they are collected, would be collected by the Federal reserve bank through the local bank that took them to begin with.

The chances are 100 to 1 that before the 90-day notes are paid off finally, the local bank that has taken them and deposited them in the Federal reserve bank will have made a good many more loans, and have others it can substitute for these if it wishes. The process will thus go on indefinitely. But in case, we will say, at the end of the 90 days the local bank, instead of loaning $100,000 more, has loaned, we will say, $80,000, and then when the commercial paper is paid off the currency will be contracted by that $20,000.

If, however, it has been able to loan $120,000, when it substitutes the new commercial paper for the $100,000, it will probably ask for more circulating notes.

And in this continuous process of the substitution of these local personal notes the collateral, continuously, the Federal reserve bank will adjust itself and the currency to the needs of the country. Whenever the amount of circulating notes which come back to the Federal reserve bank from its district in the course of any 90 days is less than it issued 90 days before, it means there has been a slackening of business and the currency has been contracted as much as it ought to contract.

Senator HITCHCOCK. Suppose, instead of coming back in 90 days they do not come back for six months?

Prof. JENKS. That is all right. The implication would be that the business demands have been enough to keep those out, and,

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quite likely, still more. Under those circumstances there will be more commercial paper deposited, and there would have been a call for more notes.

As I understand it, that is one of the most valuable features in the entire bill—that by depositing securities in the form of commercial paper with the reserve bank we can expand the currency to meet the demand, whenever the business demand increases, and it will, of itself, normally contract as the demand lessens.

Just along that line, I would like to suggest——

Senator HITCHCOCK (interposing). The reserve bank has really no control over its outstanding currency?

Prof. JENKS. The only control the Federal reserve bank has is this: It has the right to determine whether the commercial paper offered is good or not. It has also the right to determine, subject to the review of the Federal reserve board, what rate it shall charge to the local bank. If it feels that the local bank, when it comes and asks for this $100,000, is trying to push out more than the demand warrants, it will put up its rate of discount.

Senator NELSON. Note this expression in the bill——

Senator POMERENE (interposing). I was going to offer this suggestion. Assume that there is $100,000 of new notes issued. That means, of course, that $100,000 of commercial paper has been hypothecated. Now, assume that that $100,000 of notes was sent to the reserve bank and canceled before any of the collateral was matured. Necessarily, it would seem to me, the collateral would all be returned, if part of it is——

Senator HITCHCOCK (interposing). The Senator from Ohio misunderstands the situation. That is the loan to the bank; that is the paper that is rediscounted, and those notes are now owned by the reserve bank absolutely, and the bank can not get the money on the notes until they mature.

Senator O'GORMAN. Then, what difference does it make whether they are redeemed in 10 days or not?

Senator NELSON. The bill says:

> Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided, and returned as hereinbefore provided to the reserve bank through which they were originally issued.

Why should they not be canceled? What right have they to issue them? Would that not be a most dangerous power?

Prof. JENKS. I think they are canceled under the law. Whether they should be reprinted or not is another matter. My own judgment is that——

Senator HITCHCOCK (interposing). I misunderstood Senator Pomerene's question. What he meant was that when the notes came in the reserve bank would then take down the notes which it had placed as collateral. I did not understand what he meant.

Senator NELSON. The country banks at the Boston meeting adopted some resolutions, and among others they recommended this substitute for the clearing-house provision of the bill—I call it the clearing-

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house provision. Here is what they recommend as a substitute for that provision:

It shall be the duty of every Federal reserve bank to receive the deposits at par and without charge for exchange or collection of checks and drafts drawn by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of such depositors in said reserve bank last mentioned.

That is what the country bankers want as a substitute for what is in the bill. Can you see any objection to that matter?

Prof. JENKS. My impression is they have left out of this the collection of the local checks of one bank upon the bank of another region. I think the clearing-house provision ought to be broader than it is put in here.

Senator NELSON. You do not favor this?

Prof. JENKS. No.

Senator HITCHCOCK. I wanted to ask you what provision you make in your substitute for the retirement of national-bank currency.

Prof. JENKS. I made no change beyond the provision that is made in here.

Senator HITCHCOCK. You have left the bill as it is?

Prof. JENKS. Yes.

Senator HITCHCOCK. Then, I want to ask you what you would think of the idea, in addition, of having a standard rate of discount charged from day to day, available to the banks of the country, equal in all parts of the country? What would you think of a provision providing that any bank, as a matter of right, should be entitled to discount paper up to the amount of its capital stock at the minimum rate of interest?

Prof. JENKS. What do you mean by the minimum rate of interest?

Senator HITCHCOCK. The lowest rate established. And also a provision that any bank requesting more than the amount of its capital stock should be subject to a higher rate of interest, in order to equalize, to some extent, at least, the volume of discount available to each bank?

Prof. JENKS. I think, as regards the discount rate, that that should be made dependent only upon the reserve. I think that by making it dependent upon the reserve only you would give the elasticity that the system would not have otherwise.

Senator HITCHCOCK. You mean the reserves of the reserve banks?

Prof. JENKS. Yes.

Senator HITCHCOCK. That is all right, so far as the total volume of discount is concerned, but it makes no provision for equalizing the discount among the various applying banks. The reserve bank might discriminate against one bank, and my object was to try to devise this as a means of equalizing the discount, to put the brake on against their getting an excessive amount.

Prof. JENKS. I had understood by the bill that the directors of the Federal reserve banks were to make a uniform rate of discount in their own district.

Senator HITCHCOCK. Exactly.

Prof. JENKS. And the Federal reserve board had a right to recognize the fact that it was different in different districts, but otherwise they had the right to change it under the bill. As I have seen it, the

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Federal reserve board would not make only one uniform rate of discount throughout the country unless the local Federal reserve board could give some valid reasons for so doing.

The CHAIRMAN. I think the Senator from Nebraska intends to make this suggestion, that in extending accommodations to member banks, that when a member bank has received a certain amount of accommodation at the lowest rate of interest, then if it desires additional accommodation a rule might be imposed to increase the rate of interest upon such paper, to keep one bank from being too greedily disposed to get accommodation at the expense of other banks.

Prof. JENKS. My opinion on that is that is not necessary. I think it is within the power of the board of this Federal reserve bank to say whether a bank shall have accommodation or not, and I think also it has the power to pass upon the quality of the paper. It seems to me that it might very well happen that, within one Federal district, there would be very large demands in some one region—say, perhaps, some farming region—while in another region 100 miles from there the demand would be less. It would be desirable, if the demand came in that way, that the loans be made in the region where the demand was greater, at just as low rates, or even lower rates than in the other place, and I do not think the amount of loans there should be fixed rigidly according to the amount of capital.

I think you had better leave that to the districts competing.

Senator HITCHCOCK. Take two men in the banking business on opposite sides of the street; they have the same amount of capital and practically the same volume of deposits. One man wishes to swell his business, and he makes loans with the idea that he can discount a large amount of paper with the reserve bank, and the other man across the street is more conservative in his disposition and more careful with his loans, and he may, when he applies for rediscounts, find that the reserve bank is not disposed to rediscount his paper. He may get none.

Prof. JENKS. I think, so far as that is concerned, we shall have to trust the board of directors of the Federal reserve bank. The chances are, I should say, that if one bank is enterprising enough so that it wants to discount more of its paper, as long as it can satisfy the board as to the quality of its security, it ought to be given the privilege. Why shall we say that one man shall be penalized for his enterprise?

Senator HITCHCOCK. Is that not going to tend to inflation?

Prof. JENKS No; I do not think so. It depends upon the quality of his paper. If the quality of the paper is right, there is no danger of issuing too much.

Senator HITCHCOCK. That is a matter of judgment?

Prof. JENKS. Yes.

Senator HITCHCOCK. It seems to me a bank should be guaranteed equal treatment.

Prof. JENKS. Surely, if we do not make any further provisions.

Senator HITCHCOCK. One bank may be refused discount. One bank may come in for rediscounts after another has discounted a large volume of paper and the rate may have been raised, and the conservative man is discriminated against because he has been conservative and careful.

Prof. JENKS. That is, I should think, a condition of affairs that we ought to encourage.

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If a man who is a business man chooses to be rather overconservative and go a little more slowly than his competitor, he ought to take a penalty for his conservatism. The other man, as long as he can keep up the quality of his paper—and that can be inspected by the Federal reserve bank—ought to have the benefit that comes from that enterprise. I do not think it is necessary to penalize him. It seems to me the principle is wrong.

If you say the more enterprising a man is, as long as he keeps up the quality of his paper, the more he shall be compelled to pay as he asks for more discount, I think the principle is wrong. I think the test ought to be the quality of the paper.

Senator HITCHCOCK. That is a mere matter of judgment, and there is no standard. I am thinking that something ought to be put in there to avoid favoritism. You propose a plan by which it is left to the judgment of the reserve board.

Prof. JENKS. That is the way it is in the bill.

Senator HITCHCOCK. What is the objection to having a provision in there guaranteeing equal treatment?

Prof. JENKS. The objection is this: I do not think it is equal treatment, because I think the people who could ask for the loans are people of the same type.

Senator HITCHCOCK. Do you not think it would be safe to say that any bank entering this system shall at all times be entitled to discount good paper to the extent of its stock?

Prof. JENKS. I should have no objection to putting that minimum. I should say I would have an objection to putting on a penalty.

Senator HITCHCOCK. What other brake are you going to put on the expansion of bank credits except by raising the interest rate?

Prof. JENKS. That is all, except the quality of the paper.

Senator REED. If you do not put any provision in there, he might get $100,000,000.

Prof. JENKS. If the board would let him.

Senator REED. I would allow him the amount he would get, and give everybody an equal chance, and if the demand is strong the rate of interest will rise.

Prof. JENKS. That is already provided for as regards the reserves.

Senator CRAWFORD. Do you think there will be always available in this banking system money enough to give to each member bank an amount equal to its capital stock?

Senator HITCHCOCK. No; that would be 1,000 million dollars if all the national banks came in, but it is unthinkable that all the banks would want it at the same time. The demands are seasonable and they are regionable, but I think a bank must be assured that if it goes into this system it is going to get something; that it has something definite, and that it is sure, in time, to get a certain amount, and there is no power to refuse it. I do not want to give discretionary power to a board of directors anywhere to say to a country bank that they can not have discounts.

Prof. JENKS. As regards the minimum rate, I am inclined to agree with that, but I do not think I would agree in regard to the maximum.

Senator CRAWFORD. Would you have a minimum as large as that suggested by the Senator?

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Prof. JENKS. His suggestion was that any bank making a demand would get loans equal to its capital at a minimum rate.

Senator CRAWFORD. Equal to its capital.

Senator HITCHCOCK. To discount paper equal to its capital.

Prof. JENKS. I do not see any objection to that. If the demand is too strong the rate of discount will have gone up.

Senator HITCHCOCK. What do you think about making the notes legal tender?

Prof. JENKS. I think they should not be legal tender.

Senator HITCHCOCK. Why?

Prof. JENKS. Because if they are made legal tender it is going to be a very strong influence toward preventing their rapid redemption. If you make them full legal tender it would be difficult to exclude them from the right to be held as reserves.

Senator HITCHCOCK. Suppose we did that arbitrarily and made them legal tender?

Prof. JENKS. I think it is better not to have them legal tender, because it is a very desirable thing that there be a prompt and ready redemption continually. Unless you can secure that promptly you are almost sure to get an expansion of your currency system, so that it will expel gold from the country. In fact, I should be inclined to make them poorer in desirability than they are now, in the provisions of this bill, by putting other penalties on them.

The principle of Gresham's law is one that always works. The poorer you keep the quality of the notes, as long as they are good enough so that people will take them, the more certain you are of getting a prompt and ready redemption, and that, I think, is a very desirable thing.

Senator REED. Now, about the matter of retirement; that is the main thing with you. The method now is that when the notes of one region get into the Federal reserve bank of another region they are retired. What is the matter with this proposition? I will ask you about this.

Prof. JENKS. I believe you questioned me in regard to this before, and I did not give you a very satisfactory answer in regard to that plan.

Senator REED. My plan was that when a bank came to a regional bank and rediscounted paper, that it had to pay within a certain time, and that it must then bring gold, greenbacks, national-bank notes, or its paper at the end of that time and absolutely wipe out its obligations.

Prof. JENKS. I should add this: "Unless it can substitute other commercial paper that is equally as good in the minds of the directors of the Federal reserve bank."

Senator REED. Would that work the retirement?

Prof. JENKS. That would make no difference as regards the retirement, I think.

Senator REED. That would be a new loan?

Prof. JENKS. That would be a new loan.

Senator REED. Then there is no use in using this substitute paper, because it has the right to rediscount again.

Prof. JENKS. If it substitutes other paper it amounts to the same thing. The objection I see to this—I should say it need not pay off its obligations as they come due in cash, as has been suggested, if it

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can substitute satisfactory paper or a substitute. Your proposition the other day, I think, was this: That the Federal reserve bank itself must turn over to the Federal reserve agent either the notes themselves or the lawful money to an equal amount.

Senator REED. That is the other end of it.

Prof. JENKS. The objection to that is this, that it is not going to be possible, if the business of that region is going on continuously in a normal way, with new loans made from day to day for the Federal reserve bank to turn back from day to day in cash or in those circulating notes all its obligations that are due, without calling loans; that would be a very undesirable thing to do. I should say here is the situation: You are loaning out through this regional reserve bank, an amount, possibly, three times the amount it is holding in a gold reserve. It holds a certain amount in gold in reserve, and it loans three times as much in notes. And when you do that, if there comes a day when there is rather more due than the usual amount it has to return either an equivalent amount of those notes or the gold, and it must contract the circulation, and it must contract credit by so doing.

Senator REED. That is the very thing you propose.

Let us assume that a Federal reserve bank gives to the First National Bank of Omaha, we will say, $100,000 of money it issues upon the securities of that bank. That money is applied for and issued for 90 days. Thereupon the First National Bank of Omaha deposits with the Federal reserve bank of that region $100,000 of promissory notes, due on or before 90 days. The president of the reserve bank goes across the aisle to the Federal reserve agent and secures from him $100,000 in currency and loans it to the First National Bank of Omaha. Ninety days come around. The money is due.

The First National Bank of Omaha must pay that money. I would make it its duty first to pay it. At the end of that 90 days the reserve bank pays the reserve agent $100,000. I would provide that they should pay it out of these notes, and if they did not have enough of these notes on hand I would provide that then they should pay it in lawful money, and further provide that as rapidly as possible it should substitute the circulation for lawful money. That makes an absolute retirement, I think.

Prof. JENKS. As a matter of practical business, it is impossible for them to do it. That is for this reason: When the regional reserve bank turns over this $100,000 in circulating notes it sets aside a part of that amount in lawful money as reserve so those notes are covered, in the first place, by the full amount of collateral and by the one-third reserve in gold. At the end of 90 days the bank has been doing business, and it has other commercial paper, and when this commercial paper becomes due, it ought to be allowed to substitute other paper and keep those first circulating notes out in circulation.

If it has to pay those circulating notes off, either in gold or by the full amount of notes, then it has got to stop its loaning process, because what it has is simply the $100,000 in commercial paper, and a third or a half in gold. It can not pay it all off without contracting loans, and if business is going on regularly, it must not contract loans.

Senator REED. Of course, if they wanted to substitute new paper, it would all be merely a matter of bookkeeping.

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Prof. JENKS. That is it exactly.

Senator REED. In that event the purpose is to keep $100,000 out——

Prof. JENKS (interposing). Yes.

Senator REED. In that event, the process would be this: At the end of 90 days they would send down $100,000 of new commercial paper, and thereupon the entry upon the books would be that this first $100,000 was paid. The entry upon the books would be also that the $100,000 had been paid through a reserve agent and paid in money of this character, and that another $100,000 had been issued, and you would simply keep your books, and in that event you do not want to retire that $100,000 of circulation at all?

Prof. JENKS. Of course, you do not.

Senator REED. And that provides a circulation, certain and absolute. This other method provides a currency which circulates from Omaha and finally gets to Kansas City. Ordinarily, that bank must not pay that, but send it for redemption. I do not see any reason for that. I confess I may be very dull, but I can not see the reason for that.

Prof. JENKS. The objection to your plan is this, that it is absolutely a business impossibility for the regional reserve bank to turn over to the Federal reserve agent at the end of that period either the notes or the cash, provided business is going on.

Senator REED. Provided the notes are renewed, and their obligations——

Prof. JENKS (interposing). Of course, if they renew their obligations, and do it by bookkeeping, then I agree with you; I agree with that fully. If, however, you say they have to pay in actual circulating notes, or else in gold, then I should say you can not do it without contracting the credits, and that would hurt——

Senator REED (interposing). Then suppose you said as often as any member bank shall pay to the regional bank the moneys it has obtained by way of discounts or advancement, the regional bank shall retire out of its own vaults an equal amount of the circulation?

Prof. JENKS. That, I understand, is provided in the bill now.

It will do that, as a matter of fact, in order to keep its books straight with the Federal reserve agent.

Now, the other point is with reference to their sending back the notes which come in from other regions. Under those circumstances, if you have one central bank, as I have provided in this bill, that would have to be eliminated, I should think.

Senator REED. What is the use of it, anyway?

Prof. JENKS. The use of it is this, I think: I do not think it is absolutely essential, but it would tend to encourage the different banks to call those notes in. The reason is this: Under the present bill there is a possibility of one regional reserve bank making more profit than another regional reserve bank, and it will be making those profits, to a considerable extent, by the circulation of its own notes.

Now, if it follows that it can make more profit by getting its rivals' notes out of the way and getting more of its own notes outstanding, it will, of course, do that.

Senator REED. And that will be not because you demand it, but because they want to do it?

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Prof. JENKS. Yes; because they want to do it. It is more desirable, so far as you can, to make the banks want to do what you want them to do. On the other hand, if you make a central bank like this I have suggested, it will not make the slightest difference to them what notes are out.

Then, I think, along that line it is more important that you leave the legal-tender feature out, and make these notes less desirable than lawful money—I should not allow the bank to hold them as reserves; and I think you should do everything that you can to encourage the State banks and the trust companies to come into this system, so that they will not be using these notes for their reserves, and make those notes relatively more undesirable than "lawful money." Then the bank will put these notes out, to be returned if it wants to contract its circulation, and it will hold in its own vaults always the gold and the lawful money and the greenbacks or the silver certificates, and things of that kind, and these will be sent back—and that is desirable.

Senator REED. You would not provide for some legal tender besides gold?

Prof. JENKS. We have now. The silver certificates are legal tender; the gold and the gold certificates and the silver and silver certificates.

Senator REED. Well, gold certificates are not legal tender.

Prof. JENKS. Oh, yes; that is true. I spoke carelessly. I could put in here [indicating] a provision allowing the gold certificates to stand for gold.

Senator NELSON. Gold certificates are not legal tender. The only legal-tender money we have now is the gold and greenbacks and national-bank notes.

Prof. JENKS. And silver dollars. Yes; I think you are quite right.

Senator HITCHCOCK. Is the silver dollar a legal tender to an unlimited amount?

Prof. JENKS. I believe it is at the present time.

Senator REED. Here is what it says on one of these gold certificates:

> This certifies that there has been deposited in the Treasury of the United States twenty dollars in gold coin, payable to the bearer on demand.

Prof. JENKS. Well, that is not legal tender. I would make them available for reserves in these banks.

Senator REED. You would?

Prof. JENKS. The gold certificates; I would accept them instead of gold, surely. I think that in drafting this bill I did not cut out, as I should have done, the provision with reference to the different banks, and I will do that to-night.

Senator WEEKS. There is every reason for doing that.

Senator REED. Yes. Now, suppose we set up a system; we are anxious to get all of the banks of the country into it. We provide a currency which is not receivable as reserves in our system of banks; but the States allow it to be used as reserves in the State banks. Now, is there not a reason for a bank not to come in?

Prof. JENKS. I do not think that is a material thing at all. I think that the additional safety and the additional excellence would

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far more than offset any disadvantage that might be in the minds of the good bankers that are expected to come into the system.

Senator REED. I want to ask if there would be anything done under this bill that would make it impossible or impracticable for this system to go to the aid of another system, thus forcing the banks that are not in—or preventing them from getting the aid of this system through a member bank?

Prof. JENKS. I do not know of any way by which that can be absolutely done; no. As a matter of fact, I think that the feeling that they had to do it secondhand and through a memebr bank—I think a member bank would hesitate a little, in many cases, to give the accommodation like that to those who are not in the system.

Senator REED. Perhaps the fact that there would be an additional "rake-off" to member banks would make a difference.

Prof. JENKS. Yes; I think so.

Senator NELSON. Prof. Jenks, you understand that the Bank of England intends to regulate the inflow and outflow of gold by its rate of discount, do you not?

Prof. JENKS. Yes.

Senator NELSON. Now, do you think we could do the same thing, in a measure, in this country?

Prof. JENKS. Yes; I think so.

Senator NELSON. But could we not do it better—could we not regulate the inflow and outflow of gold better if we had one central institution?

Prof. JENKS. I think so. I think we could do it much better.

Senator NELSON. By one central bank we could come nearer regulating the inflow and outflow of gold, could we not?

Prof. JENKS. Much better, I think.

Senator NELSON. That is the way it looks to me.

Senator HITCHCOCK. Prof. Jenks, under the plan you propose, what would be the size of the New York branch, say?

Senator NELSON. He proposes one bank only.

Senator HITCHCOCK. I know; but there are different branches. I want to get some idea of the relative size of these different branches.

Prof. JENKS. I think I have the figures made out in my portfolio that I could look up and give to you.

Senator NELSON. These branches would have no capital.

Prof. JENKS. No; not necessarily.

Senator NELSON. Not under your plan.

Prof. JENKS. Well, in the plan I propose it will be left to the Federal reserve board to determine how much of the reserves should be in every one of these regional banks, and of course none of those branches would have any separate capital.

Senator HITCHCOCK. Your Federal reserve board would order currency shipped from branch to branch or gold shipped from branch to branch, would it not?

Prof. JENKS. If necessary; or it would, in most cases, simply arrange by a matter of bookkeeping, giving credit and charging. But, whenever necessary, they would actually transfer the gold.

Senator HITCHCOCK. It would be necessary to make actual transfers from time to time, would it not?

Prof. JENKS. From time to time, it would; yes.

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Senator HITCHCOCK. For instance, the New York branch might be required to redeem many of these notes outstanding?

Prof. JENKS. Probably it would.

Senator HITCHCOCK. And when it made a redemption it would use the gold in its own vaults to do so, I suppose?

Prof. JENKS. Yes.

Senator HITCHCOCK. And then it would send those notes to Washington, would it not?

Prof. JENKS. It would send those notes to Washington, or wherever the Federal board directed it to send them, if those notes were redeemed the country over at the same time, so that it would not contract the currency. The probability is that, in most cases, it would depend upon whether they followed Senator Nelson's suggestion as to the absolute destruction of those notes. If so, those notes would be sent to Washington, to the Federal reserve board, and then be destroyed. Otherwise they would be required to report from day to day how many of the notes they had redeemed; and those would be set aside and they would be credited accordingly. If they used up their gold reserve to a certain extent in that way that would have to be replenished, either from Washington or from other banks that were not redeeming notes to so great an extent.

Senator HITCHCOCK. The Federal reserve board would have telegraphic reports each evening from all of the branches all over the country indicating the condition of the branch, would it not?

Prof. JENKS. Presumably it would.

Senator HITCHCOCK. And it would itself be advised of the ebb and flow of exchange in various parts of the country, would it not?

Prof. JENKS. Yes.

Senator HITCHCOCK. And it would know the amount of paper rediscounted at any branch?

Prof. JENKS. Absolutely.

Senator HITCHCOCK. And the number of notes redeemed at any branch?

Prof. JENKS. Yes.

Senator HITCHCOCK. And the amount of cash on hand at any branch, and the character of that?

Prof. JENKS. Yes.

Senator HITCHCOCK. So that it would have under its control the absolute disposition of the exchanges of the country and the money of redemption?

Prof. JENKS. Absolutely; yes.

Senator HITCHCOCK. I understand that you advocate the idea that the capital of this bank should be subscribed for by the various banks?

Prof. JENKS. That is, they should be given the first choice. If they did not take $100,000,000 of the stock I would open it up to private subscriptions.

Senator HITCHCOCK. Would it be of advantage to this country to prohibit banks from subscribing to this capital and having it subscribed outside of the banks, so that $100,000,000 would actually be added to the banking capital of the country?

Prof. JENKS. I have heard that suggested, but I do not think that is necessary or desirable.

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Senator HITCHCOCK. Would it not actually strengthen the banking situation of the United States and improve the security of every depositor if we added one-tenth to the banking capital of the United States?

Prof. JENKS. I do not think it would do so materially. I think there is plenty of capital now to secure those deposits. I think what secures deposits is not the amount of capital that might be subscribed that way, which would be money taken out of other banks, and money taken out of other business. What secures deposits is good management and the proper disposition and handling of the reserves.

Senator HITCHCOCK. Well, if you take, say, $5,000 in capital out of a small community, where it is earning perhaps 10 per cent, and send it to a center, where it would earn 5 per cent, have you not destroyed or impaired the efficiency of that $5,000 capital to that extent?

Prof. JENKS. I do not think so; because, in putting it into the central bank in this way you are giving that small locality certain advantages which it does not have—enough to offset any disadvantages that might result.

Senator HITCHCOCK. But suppose you give that small community those advantages by bringing that money from some other place where there is a surplus. The small community does not make the sacrifice and it gets just as much advantage as if the money came from there.

Prof. JENKS. But if that bank in that small community subscribes to the central bank, the presumption is that that bank is now large enough to do its business fairly well, and do it well enough, and there is no reason why you should ask people in that community or elsewhere to draw money out of that bank and send it in to subscribe to the capital of this central bank, or draw money out of other lines of business when you can give that bank advantages enough to make it afford that subscription. If you can not do that, the bank will not subscribe to the central bank.

Senator HITCHCOCK. Well, if you allowed the $100,000,000 to be subscribed outside of the banks, would it not follow that that $100,000,000 would come from other sources, where there is an excess of capital, and where the money is now earning a small rate of interest, and thus, instead of taking it from a place where it is earning a high rate of interest, you would draw it from those sources where it is earning only a small return? You would be getting it from comparatively poor people, who now have no good means of making a good investment, instead of taking it from people who have their capital all actively employed.

Prof. JENKS. It might come very well from that source. I think if you opened it to public subscription it would be to a considerable extent a matter of sentiment that would bring it into the subscription; and I do not believe that any great proportion of it would be taken from poor people who desired to invest small amounts. It might be that some persons would sell Government bonds and put the money into the capital of this bank.

Senator HITCHCOCK. Personally I know a good many people who have a little money to invest; and where a man has only $1,000 or

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$2,000 to invest he is afraid to invest in some securities; and he would be the one that would be likely to go into it.

Senator REED. I think it would be snapped up by people who were afraid of banks and by people who have no means of investing; and they have $1,000 that they put in a bank and get 2 or 3 or 4 per cent interest on it. That, of course, would come out of the banks. I believe that $100,000,000 would be subscribed in 30 days by the public.

Senator HITCHCOCK. I think so, too, from the very class of people that we want to get interested in the Government.

Prof. JENKS. My personal opinion of that I have already given. I think it would affect the efficiency of your system materially.

Senator NELSON. It would give a better rate of interest than railroad bonds, which do not pay 5 per cent sometimes.

Prof. JENKS. That is true.

Senator REED. I have not felt satisfied, Prof. Jenks, that anybody yet has answered the objection that I raised, that it is the creation of a bank charged with the duty of maintaining the reserves for the other banks in the vaults of that bank; and the Vanderlip plan was to permit the obligations of the United States to be thrown upon the market for the purpose of maintaining that reserve.

Now, I do not want that burden shifted onto the United States. I do not want the banks of New York to say, or the banks of Kansas City or any other place to say. "We need $10,000,000 of gold." If we do deplete this over there, the Government bonds are there, and under the law this board must put them upon the market. It would be a condition whereby a great bank—and I would like Senator Bristow particularly to listen to this—whereby a great bank that wanted to act in a selfish and mean way could force Government bonds on the market at any time that it wanted to do so.

Senator BRISTOW. Well, if that danger is in the bill, let us take it out.

Senator REED. I am talking this proposed Vanderlip plan.

Senator BRISTOW. I know. If that is there, let us provide against it.

Senator REED. I do not know how you will do it.

Senator BRISTOW. We will do that. We will require the banks to provide the reserves.

Senator REED. In one case you will compel them to tear down their own house if they do this unjust thing and to tear down a reserve which they themselves must help maintain. But in the Vanderlip plan, just as surely as the sun rises, there is this thought:

> The Government creates a bank out of the Government's money and the peoples' money, and they put into that bank Government bonds, and every time the gold gets low those bonds must be used to reinstate that reserve. Therefore any bank can go on and do business to suit itself, and a combination of banks, if they wanted to, could force the issuance of bonds at any minute.

Senator BRISTOW. Well, Senator Reed, of course I do not think there is any danger. But to remove any possibility of it we can put a provision in the bill requiring the banks to maintain the gold reserve under conditions similar to those you describe just the same as——

Senator NELSON (interposing). Mr. Chairman——

The CHAIRMAN. The Senator from Minnesota.

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Senator NELSON. I ask that the bill, with the amendments Prof. Jenks has suggested, be printed confidentially for the use of the committee.

Senator HITCHCOCK. It need not be in confidence, need it?

Senator REED. With the parts he has added and the changes he has made indicated in the printing by different type.

Senator NELSON. Yes; in different type. The provisions of the original text of the bill can be printed in roman, and his suggestions can be printed in italics, and what is eliminated can be stricken out.

The CHAIRMAN. Is it the pleasure of the committee that his amendments to the bill be printed in the hearings, or separately for the use of those who desire to have it as a separate bill? The latter would seem to be better.

Senator BRISTOW. That is all right.

Senator NELSON. And that the changes be shown by different type, as I have indicated.

Senator REED. Let us also have the Vanderlip draft printed in the same way.

Senator NELSON. Mr. Vanderlip has not submitted a form of bill.

Senator REED. That is true.

Prof. JENKS. Mr. Chairman, if I may keep this bill with my amendments indicated until to-morrow morning, I should like to put it in better shape.

The CHAIRMAN. Very well, the committee will have it printed when you have corrected it.

Senator NELSON. That bill is imperfect. It does not provide directly the steps by which the corporation is formed.

Prof. JENKS. Mr. Chairman, if there are no further questions by members of the committee, I should like to take five minutes more to suggest one other point that is a little different from this bill as I have read it here.

The CHAIRMAN. What is the pleasure of the committee? In the absence of objection, you may proceed, Prof. Jenks.

Prof. JENKS. What I was going to suggest was this: If, as a practical matter, it should not seem possible or desirable to establish a central bank, I think that many of the same results could be accomplished by increasing the powers of the Federal reserve board in simply two sections of the House bill, with here and there a few verbal changes in other places. There is often a great deal of difference shown in our own mental attitude, even by the use of the terms we use.

Now, I am not proposing to put on a central Federal reserve bank here and simply disguising the name; but we can really accomplish many of the results desired by making a few changes in the House bill.

I would suggest, for example, in section 7, where provision is made for the division of earnings, that this be inserted:

> In the calculation of surplus and profits the total capital and business of all the Federal reserve banks shall be reckoned by the Federal reserve board as united into one fund, and such surplus and profits shall be distributed among the Federal reserve banks in proportion to their capital stock.

We would then practically unite all of the interests of the different Federal reserve banks as regards their profit. Then in the section that provides the powers of the Federal reserve board, sec-

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tion 12, I would amend paragraph (b) so that it would read in this way. The powers of the Federal reserve would be:

To direct, at their discretion, the administration of the reserves of the Federal reserve banks, all such reserves to be considered as one fund, and to be distributed among the Federal reserve banks by the Federal reserve board so as best to promote the safety of the banking system and the interests of the whole country.

To this end, they may also require the Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks. The exercise of this compulsory rediscount power by the Federal reserve board shall be subject to such interest charge to the accommodated bank as the board determines.

Then I would add, at the end of section 12, as follows:

The Federal reserve board shall have no dealings with the public or with the member banks except through the supervision and control of Federal reserve banks.

Then add, at the end of section 13, the following:

4. The chairman of said advisory council, or, in his absence, the vice chairman, may attend any and all meetings of the Federal reserve board and take part in its proceedings, but without vote.

The first two amendments I have just suggested would give the Federal reserve board the two powers that seem to me most essential. It gives to them the absolute immediate control of the reserves, just as the central bank would have. And it would also unite the interests of all the different Federal reserve banks as regards the handling of the capital and as regards the profits.

Those two things would in themselves go a long way toward the central-bank idea. I should prefer the central-bank idea, other things being equal. But if that should be impracticable, I think these amendments would be desirable.

Senator REED. Will you, Prof. Jenks, add at the end of the amended bill which you have first suggested, these amendments?

Prof. JENKS. I will put these in also.

The CHAIRMAN. You can put that in as an alternative suggestion at the end of the bill you first suggested.

Prof. JENKS. Yes; as an alternative suggestion.

The CHAIRMAN. And when you have finished your copy showing your proposed amendment, we will have it printed.

Senator HITCHCOCK. I move that we adjourn until 10.30 o'clock to-morrow morning.

Senator BRISTOW. Mr. Chairman, Senator Shafroth, Senator Reed, and myself have a very important committee meeting to-morrow morning, which we have postponed for a month now, and it is necessary for that committee to meet in order to provide funds to run this committee. It is the Committee on Audit and Control of Contingent Expenses of the Senate.

Senator POMERENE. Prof. Jenks, we were discussing the question of a graduated discount rate, and in answer to a question by Senator Hitchcock you made a statement somewhat to the effect that you would make the discount rate dependent upon the reserves?

Prof. JENKS. Yes.

Senator POMERENE. What do you mean by that; by what rule?

Prof. JENKS. As the reserves grow lower—for example, suppose your reserves have been running at 50 per cent and there has been not so much call for money from these different banks.

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Senator POMERENE. Do you mean, now, the cash reserves?

Prof. JENKS. The reserves in the regional reserve bank, yes; and, of course, they know what the conditions of all of the other banks are—the member banks. Suppose now their reserves have been running at 50 per cent, there has not been much demand for money, and the banks that come in for rediscounts have not demanded much. So they let them have rediscounts for 3 per cent. Then business gets stimulated. The reserves drop to 40 per cent; they are getting toward 35 per cent; and the business demands of the country are such that the banks are eager to get accommodations and the regional bank has lower reserves; it would then push up the discount rate to 4 and 5 per cent and even more.

Senator POMERENE. That is, making your discount rate depend upon the amount of money you have on hand, rather than the demand there may be for money?

Prof. JENKS. No; it amounts to this: The amount of money you have on hand is dependent almost entirely on the demand outside for it. If a bank wants to strengthen its reserves, what does it do? It discourages people from taking loans, and it "salts" its reserves down in its vaults.

Senator POMERENE. Oh, yes; I think I catch your point on that now.

(The chairman of the committee presented the following documents for insertion in the record:)

A. T. BOWEN & CO., BANKERS,
New York, October 18, 1913.

Hon. ROBERT L. OWEN.

DEAR SIR: I attended the monetary conference at Earl Hall, Columbia College, October 15, and heard Mr. Joseph T. Talbert, vice president of the National City Bank, talk about the receipt and collection of bank checks. He said that it cost the New York City banks more than $2,000,000 a year to colcollect country bank checks, and that it was honest, just, and fair to make a charge to the holders of these checks—at least as much as it cost the banks; that these checks were generally sent out to avoid the premium charged by country banks for drafts on city banks; that if the drawers of said checks wanted to make remittances they should go to their country bank and buy drafts on city banks. That the charge for exchange on drafts and checks and for collecting country checks, was as just and fair as the charge for interest on money loaned. That there was just as much reason to say that banks should loan money without interest, as that they should collect country checks without charge.

Now, I don't doubt, but Mr. Talbert believes what he said. He has been trained that way, he has expressed his opinion that way so often that he really believes it is the truth. It is the same old song, but it is a very poor one. It seems to me that anyone who looks at the check business with an unbiased mind from all sides, will see that Mr. Talbert is wrong.

Delphi, Ind., is my native town, where my father had been transacting a banking and other business for 53 years prior to his death in 1890. I came to New York in 1892, but still continue the banking business at Delphi.

Soon after coming to New York I was in the Ninth National Bank and conversing with H. H. Nazro, the cashier. He said: "Why, people come in here with $10,000, $15,000, and $20,000 worth of country-bank checks and want us to give them credit for them; no bank can afford to run that way; why, we have $500,000 of our money in country-bank checks all the time." I said, "You just look at that from one side, Mr. Nazro; you have some $8,000,000 or $9,000,000 of the people's money on deposit all the time, perhaps one-half of it drawing no interest and the other half not to exceed 2 per cent; why is that money kept on deposit with you for so little interest when it could readily be loaned at 5 to 6 per cent? It is because the depositors can draw their checks against such deposits and send them all over the United States and pay

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their bills with them without cost or expense or friction, and these checks are taken up by the banks throughout the United States with their own money, usually at par, and sent back to New York and deposited. Now, if it were not for the bankers and the people receiving your checks, instead of demanding the money due them, and keeping the checks afloat, you would not have half the deposits you now have. Now, out in Indiana we have been taking checks on New York banks at par for more than 40 years and sending them back to New York for deposit, and the New York banks have never furnished us one dollar of money to help do such business." He replied, "Well, you find your New York exchange when you get it very available, don't you?" I answered, "Well, we find it about this available: We have sold New York exchange to our customers at par for more than 20 years. Whenever there is a large corn, wheat, oats, or hog crop to be sold it is largely paid for in New York exchange, for a large part of which the money is wanted by the holders of the New York exchange, and we soon run out of money and have to send New York exchange away and have money shipped in by express at not less than 40 cents per $1,000. Then, after losing our time, trouble, interest on our money, and express charges, we are just back where we started from. Then when our checks are presented (in volume less than one-fourth of the New York checks presented to us and handled by us without charge) to New York banks, instead of treating them in the same courteous manner, they tell the holders they can not afford to handle them without pay, although we are at all times willing to pay them in New York exchange at par on presentation." He made no reply.

Now, Mr. Talbert estimates that the banks in the United States having $17,000,000,000 on deposit would have $850,000,000 of checks constantly outstanding. He estimates it costs the banks $8,675,000 a year to handle these checks, which he thinks would be a great burden unless they got paid for it. Now, what does $850,000,000 of checks constantly outstanding mean? It means that the banks, at least, have constantly the use of $850,000,000 of the people's money (worth 5 per cent interest, or $42,000,000 per year) on which they pay little or no interest. It really means they have the use of a much larger amount at a very small rate of interest. Paying and collecting the checks and keeping account of same is the principal part of the work the banks do for the depositors. If it costs $8,675,000, or even twice that sum, to get the constant use of $850,000,000, worth even, say, 4 per cent, or $32,000,000 a year, is it not a good paying business? But it means much more profit than that; it means that the banks have $17,000,000,000 of deposits, on which (if I remember correctly the statement compiled by the Comptroller of the Currency a few years ago for the Monetary Commission, which report I have in Indiana, but not here) they pay interest to the depositors averaging less than 1½ per cent. Can not the banks well afford to do $8,675,000 worth of work for said depositors in handling their checks, or two or three times that amount of work if necessary?

I believe debts should be paid at 100 cents on the dollar and not at 99¾ cents, or any other fraction of a cent less than 100 cents. If debts are to be paid at 100 cents on the dollar, then the medium of exchange in which they are paid, whether it be currency and coin or checks, must be handled by the banks and the people without charge or immediate profit. Checks can be handled by the banks at par at less expense and with more profit in the way of increased deposits and interest on same than currency or coin. All checks can be paid by banks in New York exchange at par with less expense and less liability of making mistakes, and more chance of getting same corrected when made, and with more profit than with currency or coin.

I believe banks have a right to charge a premium for New York exchange if they so desire: I believe banks have a right to receive money on deposit and charge exchange or discount or a premium for paying checks drawn on same, providing there is a clear understanding to that effect when the deposit is made, but I do not believe it is an honorable business for a bank to receive money on deposit and inform the depositor that his checks are worth par or can be used any place, and then when presented by mail refuse to pay them at par in exchange which the holder can use at par. I believe that whenever the banker receives deposits and makes such representations to the depositor he is in honor bound to see that the party or parties receiving such checks lose nothing in so doing.

About 9 or 10 years ago we got all our certificates of deposits and checks for the bank at Delphi printed payable in New York exchange and a contract printed on the pass books that the deposit should be paid in New York exchange, giving

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no option to the depositor to demand payment in money. There were then two other banks in Delphi and they both refused to take New York exchange for the checks they received on our bank or to give New York exchange for the checks received by us on them. I tried various methods to try to give and receive New York exchange instead of money for several months. I had talked with several bankers before as to whether it would hurt the business to get obligations printed payable in New York exchange and then refuse to pay money for them; some thought it would, others that if we did we would lose a lot of deposits, and others didn't know. Well, after trying it for several months and making no headway, both the cashier and the assistant cashier of our bank said, "Well, you might as well give that up; you will never get either of those banks to either give or take New York exchange, as they are too stubborn." But I said, "Well, it don't look very encouraging, but I will try it a little longer." It was but a few months longer when they were both giving and receiving exchange with but little friction. That greatly reduced the amount of money necessary to be kept in our safe. We have kept up the practice ever since, and for the past 7 or 8 years have generally carried less than 1 per cent of our deposits in idle cash in our safe, instead of about 8 or 9 per cent carried by the average country national bank.

We have given our depositors what we have saved by the more economical use of idle money, in the way of increased interest on deposits. Our deposits have increased in the past 8 years as much as those of all the other 12 banks and trust companies in the county combined.

Our deposits now (in a town of a population of 2,161) are larger than those of any other private bank in Indiana, larger than any private, national, State, or savings bank or trust company in any town in Indiana with not more than twice the population of Delphi.

I believe the part of section 17 of the proposed new bank law requiring Federal reserve banks to receive checks on deposit at par will, if it becomes a law, do much good, And if it brings about the result of inducing all banks in the United States to receive at par all checks which can fairly be used at par and refuse to receive at any price those which can not be fairly used at par, in a few years those bankers who met in Boston a few days ago will have their deposits so increased that they will be well satisfied with the change.

If you read this letter and are interested in it, please let me know and, if you desire it, I can give you many more details in the same line, and if you think these ideas are of no value, please also let me know by return mail, and oblige,

Very truly, yours, ABNER T. BOWEN.

[Extracts from the Boston Journal, October, 1913.]

THE CURRENCY BILL.

To the Editor of the Boston Journal:

Senator Owen, at the City Club last evening, presented the spectacle of a magnificent, splendidly magnetic, and supremely skillful avoider of issues. His side-stepping was superb. When he was asked where the gold was to be found to secure the proposed currency he not only confused gold reserve with gold certificates and asserted that the existing gold reserve constitutes an idle and useless fund, but made the astonishing statement that there is on deposit in the banks of the United States 1,100 million dollars in gold.

When one of the most eminent, if not the most eminent, of New England financiers, a man whose advancing years only add to his already amazing record of public service and testimony to his great mental and moral equipment, asked the Senator from Oklahoma why it would not add to the admitted value of the currency measure to put the Federal reserve board on a plane similar to that of the Supreme Court, the members of which are appointed by the President for life, Mr. Owen replied with deplorable flippancy, "Men live too long." He elaborated this remark by a fatuous statement that age brings infirmity, and each failing that he mentioned in his enumeration was only saved from being an insult because it was ludicrous in contrast with the brilliancy of the venerable questioner. He did not specify which of the mature minds which do honor to the Supreme Bench is so afflicted. He admitted with be-

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coming humility the excellence of that body for its purpose, without calling attention to the interesting fact that the Supreme Court is composed of lawyers to interpret law, whereas the proposed reserve board is to present the edifying spectacle of supreme power in American finance administered by political appointees who may or may not have had, with one exception in seven, any previous experience in the intricate and delicate business.

Mr. Owen cogently deposed that although one bank may and does handle with reasonable efficiency the business of a Germany, a Great Britain, or a France, yet any of these nations could be set into the Empire State of Texas without causing a tightening of its boundaries. There was, of course, no mention of the comparative volume of business handled.

It is small wonder that the sober business minds of America are brought to a pause when matters of so great and vital importance are intrusted to men who bring to their stupendous task flippancy when they see, charged with the mission of defense and explanation, an artful dodger.

X. Y. Z.

BOSTON, *October 24, 1913.*

THE CURRENCY BILL.

TO THE EDITOR OF THE BOSTON JOURNAL:

Perhaps I may be permitted to illumine the subject of the currency discussion at the City Club and the issue raised by your correspondent in Saturday's paper who signs X. Y. Z.

While statements can not be made too strong in protest against political control of all our commercial credits and banking and currency issues, I think it is due to Senator Owen to say that the question I presented to him at the City Club as to where the gold was to come from to back up the proposed currency scheme was more embarrassing than would appear on the surface.

Gold discount markets are very little understood. England has maintained her financial supremacy and her gold base by an international discount market, in which between 2,000 and 3,000 millions in short-term bills are always in London as the financial center of the world, and these can command gold, or the cotton, coffee, and other merchandise behind them can be sold right out of the warehouse for gold, in any quarter of the world.

It is this gold base in the international bill market that gives London command of the gold without having it either in the Bank of England or even in the island of Great Britain. In the past few years Berlin, Paris, and Vienna have started to set up discount markets of their own to rival England, but altogether, outside of London, they can not get in Europe one-half, and possibly not one-third, the strength of England. Indeed, the Reichsbank of Germany is continually buying bills in London in the vain hope of being able to command the London supply. But she makes little progress in getting the gold into her own country, for the moment she calls for gold in payment of bills London demands the gold from South America or some other quarter doing business with Germany, and there is an immediate offset.

Now, the question I put at the City Club to Senator Owen was: "Where are you to get your gold upon which to bank your currency legislation? You do not command it of the banks. The United States Treasury has not more than $100,000,000 of free gold and the discount market from which you expect to get it is yet to be established. Whence, therefore, will come your gold basis?"

Senator Owen responded most eloquently that there was a billion of gold in the United States Treasury. Of course, everybody knew that this was warehouse gold, but most people do not know that $700,000,000 of the warehouse certificates are in the pockets of the people. In fact, anybody carrying $25 and $50 in his pocketbook will usually find a majority of it gold certificates. Not one person in a hundred ever notices that the majority of his pocket money is in reality gold, title to which he holds through a warehouse certificate instead of a banking certificate.

Senator Owen further claimed that the banks will put in gold and that the ability of the Government to command gold should not be questioned.

This is what your correspondent calls "side-stepping."

Senator Owen could not, of course, explain from that platform that he has in mind a plan for the issue of Treasury gold notes to take up both the greenbacks and the gold certificates, which he later explained to me and which, if it

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were inaugurated by the Congress of the United States in connection with its currency legislation, would put a back-log of gold under our banking discount and currency system that would make the United States invincible before all the world in any expansion that might be projected from such a gold base, for under Senator Owen's plan more than one-sixth of all the money gold in the world might find free lodgment in the United States Treasury to be used only in stress or necessity, when the Treasury might have to come, in the form of gold notes or gold metal, to the support of the national banking system.

In England the first thing the governor of the bank does in time of financial peril is to get the authority of the prime minister to suspend the bank act, which means power to issue unlimited Bank of England notes upon the existing reserve, to stay the hand of panic or financial fright.

I write this in justice to Senator Owen, to whom the members of the City Club should be doubly grateful for his acceptance of Mr. Winship's invitation to address them and discuss any problems in connection with the proposed currency legislation they might present.

Very truly, yours, CLARENCE W. BARRON.

BOSTON, *October 27, 1913.*

(Thereupon, at 4.35 p. m., the committee adjourned until to-morrow, Tuesday, October 28, 1913, at 10.30 o'clock a. m.)

(The further proceedings of the committee were had in executive session.)

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