AMENDING THE FEDERAL RESERVE ACT

SPEECH

OF

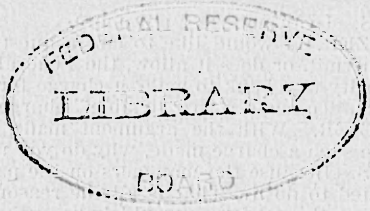
HON. CARTER GLASS

OF VIRGINIA

IN THE

HOUSE OF REPRESENTATIVES

JUNE 14, 1917



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The House had under consideration the conference report on the bill (H. R. 3673) to amend the act approved December 23, 1913, known as the Federal reserve act, as amended by the acts of August 4, 1914, August 15, 1914, March 3, 1915, and September 7, 1916.

Mr. GLASS. Mr. Speaker——

The SPEAKER. The gentleman from Virginia [Mr. GLASS] is recognized for 20 minutes.

Mr. GORDON. May I interrupt the gentleman before he starts? [Laughter.]

Mr. GLASS. I will be pleased to be interrupted by the gentleman before I start, because after I start I shall ask not to be interrupted at all.

Mr. GORDON. I wish to direct the attention of the gentleman to the remarks of the gentleman from Pennsylvania [Mr. MCFADDEN]. The whole burden of his plea was in behalf of these small country banks that are not in the Federal Reserve System. To what extent has this Congress power, in amending the Federal reserve law, to affect at all legally the banks not in the Federal Reserve System?

Mr. GLASS. The gentleman knows possibly better than I that the Congress has not one particle of power to regulate the banks that are not in the Federal Reserve System. Nonmember banks, which are State banks, are not directly affected by this legislation. They are concerned in this legislation only by reason of the competition incident to a collection system which the Federal Reserve Board has established. That is to say, if member banks refrain from making charges for paying and collecting checks, and State banks persist in exacting this toll, business men will prefer to keep their accounts with the banks that do not charge; hence nonmember banks would like to have member banks authorized by law to make these charges.

Mr. SWITZER. Will the gentleman yield for just one question?

Mr. GLASS. I can not yield any more.

Mr. SWITZER. I would like to ask a question. Does your amendment permit, or does it allow, the Federal Reserve Board to give authority to a bank to make a charge for this collection?

Mr. GLASS. To make a "reasonable" charge; yes.

Mr. SWITZER. With the argument made here that there should not be such a charge made, why do you recognize it?

Mr. GLASS. Because the managers on the part of the House were instructed to do it. That is all the reason for it; but for that instruction the conferees would have authorized no charge at all.

Mr. SWITZER. You do not intend to allow anybody to assert that privilege?

Mr. GLASS. I hope not and believe not. That is precisely why we propose these modifications of the so-called Hardwick amendment. We do not want the banks to determine whether the charge is "reasonable," if made at all, or what the amount shall be when made. We want the Federal Reserve Board to regulate these questions strictly—to say in what circumstances it is reasonable to charge and what amount shall be charged.

Mr. Speaker, as to the ethics involved in this legislative procedure, especially with reference to the appointment of the managers on the part of the House, I want to say that the chairman of the Committee on Banking and Currency followed the usual procedure. When the conference was asked he conferred with the senior Republican member of the House committee, the gentleman from California [Mr. HAYES]. That gentleman was ill at his home in Washington, and notified me over the 'phone that he would be unable to act and readily acquiesced in a suggestion that I designate Mr. PLATT, of New York, as a Republican manager on the part of the House. As a matter of fact, I momentarily assumed that Mr. PLATT was the next ranking member of the Banking and Currency Committee.

Mr. MONDELL. Will the gentleman yield?

Mr. GLASS. I will not.

I say I momentarily supposed that Mr. PLATT, of New York, was the next ranking member, and I handed his name to the Speaker as one of the conferees. This I explained in detail to the gentleman from Mississippi [Mr. HARRISON] some days ago and went in person and apologized to my colleague, the gentleman from Iowa [Mr. WOODS], who accepted the explanation. With that statement I will leave it to the House to determine just exactly how fair and precisely how frank the gentleman from Mississippi [Mr. HARRISON] was in his statement of the incident to the House to-day. [Applause.]

I prefer not to believe, and yet I candidly suspect, that my colleague from Pennsylvania [Mr. MCFADDEN] was fully aware of the fact I have just stated, and the House may thus judge of the frankness of his criticism also. I may add that had the senior Republican member of the Committee on Banking and Currency [Mr. HAYES] been in good health he would have been one of the conferees and would have stood unyieldingly with the chairman of the committee in resisting the attempt, by a Senate "rider," to impose this tax on the commerce of the country. [Applause.] Therefore, the effort to make it seem that some advantage was sought or obtained in the designation of the House managers is manifestly a quibble, designed to shift the issue from one of fact to one of resentment.

As to the talk about "the lobby that has beset this House" and the "round robins" that have disturbed the membership, the only lobby we have had was the committee of 25 bankers which settled down in Washington soon after Congress convened, with headquarters at the Willard Hotel. This bankers' committee, dining and wining the proponents of this proposition, sought to influence the action of the House by as thoroughly organized a propaganda as was ever known in legislative annals. [Applause.] This committee was in ceaseless communication with the banks of the country and had Congress flooded with letters and telegrams.

The only word of hearing upon this proposition to delegate the power of taxation to banks by a Federal statute was secured by a transparent trick. Letter after letter and wire after wire came to the chairman of the Committee on Banking and Currency from the business men of the United States asking to be heard against this proposition. My invariable answer was that the proposition was not germane to the amendments that were being considered and that, therefore, there would be no committee hearings on the bill (H. R. 3673). But under the pretense of wanting to be heard upon the major provisions of H. R. 3673, a subcommittee of this committee of 25 bankers was presented to the Committee on Banking and Currency. These bankers spent about two minutes talking about the real provisions of this bill and nearly two hours discussing this check paying and collection charge "rider" which had been proposed by their committee. Thus, the only hearing had on the subject was obtained in the way I have indicated by this famous "committee of 25." without opportunity to the business men of the United States to be heard in rebuttal.

There has been no lobby so far as the opponents of this measure are concerned. Naturally the whole business community of the United States, except a small group of bankers, is opposed to this proposition to authorize certain banks, by law, to tax commerce. It required no lobby; it required only a sense of justice and a comprehension of the injustice that was sought to be perpetrated by this Hardwick amendment.

It is pretended that only the mail-order houses and jobbers oppose the scheme. I hold in my hand a resolution adopted by the Farmers' Educational and Cooperative Union of America, which says:

> We, the National Convention of the Farmers' Educational and Cooperative Union of America, assembled in Palatka, Fla., earnestly and strongly protest against any change in the Federal reserve act with reference to charges on collections on checks and drafts.

I have here also the resolution of the National Grange of the United States, representing more than one million farmers, which says:

> Whereas it has come to the knowledge of the National Grange that a concerted effort will be made this winter to have Congress amend the Federal reserve act so as to restore to certain banks throughout the country the privilege of indiscriminate taxation taken from them by the system of check collection established by the Federal Reserve Board in pursuance of the act of December 23, 1913.
>
> Therefore be it resolved by the National Grange that we protest against the proposed change of the law and that Congress be, and hereby is, earnestly petitioned by this body in behalf of the farmers of the United States to disregard this organized attempt to so alter the Federal reserve act as to enable certain banks to exact unjust tolls from the commerce and industry of the country, 90 per cent of which business is transacted by drafts and checks rather than by the use of currency.

I have here a dispatch, dated at Peach Bottom, Pa., May 19, from J. A. McSparran, one of the most intelligent and patriotic farmers in the United States, chairman of the legislative committee of the National Grange, in which he says:

> BANKING AND CURRENCY COMMITTEE,
> *House of Representatives, Washington, D. C.*
>
> In the name of the National Grange we desire to protest against the adoption of the Hardwick amendment to the reserve act, which gives to the banks of the country the right to levy an unjust tax on the checks of the entire business community of the United States. The

National Grange, representing 1,000,000 organized farmers, passed resolutions protesting against this form of extortion.

"Oh," they say, "only the jobbing houses of the United States are opposed to the Hardwick amendment." That is not the fact, as I have already indicated, Mr. Speaker. But suppose it were true. Is there any reason why the men, who have millions of dollars invested in that branch of commerce, should not have their side of a controversy heard here? True, they have not given any dinners to anybody. They have not wined or dined anybody. But have they not a right to be heard? Suppose it were true that only the jobbers of the country were opposed to this form of special taxation. Let us see if, numerically, they do not overwhelmingly overtop the banks, even if all the banks were in favor of the proposition. There were in the United States, according to the census returns of 1909, 51,048 jobbing houses. There are but 7,500 member banks of the Federal reserve system, all told. The more progressive of these are opposed to this Hardwick amendment. But if all were in favor of it, and the jobbers only opposed, there are 51,048 jobbing houses against the 7,500 banks.

But, Mr. Speaker, I have here on the table resolutions from the retail merchants' associations in every line of activity in this country, from the National Association of Retail Hardware Merchants, from the National Association of Retail Grocery Merchants, from the National Association of Retail Dry Goods Merchants, from the national associations of nearly every line of commerce in the United States, opposing this tax. The National Association of Credit Men, representing a body with an actual membership of 25,000 in every line of trade conceivable, has gone on record time and time again in opposition to this unjust species of taxation. Nearly all the manufacturing associations of the United States have presented resolutions against this proposition.

There are more jobbing houses in the single State of Illinois opposed to this proposition than there are member banks in the United States in favor of it. There are as many jobbing houses in the State of Massachusetts opposed to the Hardwick amendment as there are member banks in the entire United States in favor of it. There are three times as many jobbers and retail merchants and manufacturing establishments—not to mention farmers—in the State of Mississippi opposed to this Hardwick amendment as there are member banks in the United States in favor of it.

Take the State of Pennsylvania, the State of the gentleman who proposes this recommittal [Mr. McFADDEN], and there are 4,783 jobbing houses—more jobbing houses in Pennsylvania opposed to this unjust tax than there are member banks in the United States in favor of it. There are in Pennsylvania 107,134 retail merchants, every one opposed to this form of taxation. The opposition to it is so overwhelming that I offered a colleague my entire year's salary as a Representative in Congress if he could produce a telegram or a letter from any living soul in favor of it unless from a banker. [Applause.]

Then they talk about an "anonymous propaganda." Perhaps I have a misconception of what an "anonymous" thing is. This circular, which is exhibited here presenting reasons why this form of delegated taxation should not be sanctioned, ex-

pressly states that the group issuing it included the official representatives of the Button Manufacturers' Association of the United States, the National Association of Clothiers, the National Association of Credit Men, the National Association of Hosiery and Underwear Manufacturers, the National Glass Distributers' Association, the National Hardware Association, the National Retail Dry Goods Association, the National Shoe Wholesalers' Association, the National Dry Goods Association, the National Wholesale Jewelers' Association, the St. Louis Chamber of Commerce, and the Southern Wholesale Grocers Association. It gives the names of the gentlemen who prepared and issued this "anonymous" circular. In addition to that, boards of trade and chambers of commerce from one end of this country to the other have passed resolutions against this rake-off. Nobody is for it except this group of bankers represented by this committee of lobbyists that took up its headquarters weeks ago at the Willard Hotel. [Applause.]

I present to the House for its discriminating judgment a tabulated statement of three classes of business concerns opposed to this legislation in contrast with the number of banks in the Federal Reserve System directly affected by this amendment. It will be noted that this statement does not take account of the millions of farmers and professional men who are in opposition, but merely enumerates three classes whose representative bodies have declared their antagonism to this check paying and collection charge scheme. It must also be considered that not one-third of these banks exact these charges from the business men of the country, and, therefore, that the fewest number of them would care to see the collection system established by the Federal Reserve Board wrecked, as inevitably it would be should this Senate "rider" prevail.

	Manufacturers.	Jobbers.	Retailers.	Member banks.
Alabama	3,242	475	15,383	90
Arizona	322	60	2,467	12
Arkansas	2,604	366	12,471	66
California	10,057	2,174	47,097	264
Colorado	2,126	509	12,163	121
Connecticut	4,104	395	16,824	70
Delaware	808	77	2,966	24
Florida	2,518	375	8,226	54
Georgia	4,639	829	20,640	102
Idaho	698	74	4,162	59
Illinois	18,388	3,420	80,508	469
Indiana	8,022	985	33,330	256
Iowa	5,614	834	29,337	349
Kansas	3,136	505	21,209	223
Kentucky	4,184	866	21,477	133
Louisiana	2,211	688	16,899	33
Maine	3,378	362	10,354	66
Maryland	4,797	1,013	20,244	95
Massachusetts	12,013	3,275	48,761	151
Michigan	8,724	1,308	35,448	196
Minnesota	5,974	990	25,099	287
Mississinpi	2,209	238	11,513	35
Missouri	8,386	1,647	43,413	131
Montana	939	129	4,697	82
Nebraska	2,492	447	15,527	191
Nevada	180	41	1,497	10
New Hampshire	1,736	177	5,367	56
New Jersey	9,742	2,635	44,189	203
New Mexico	368	86	2,944	37

	Manufacturers.	Jobbers.	Retailers.	Member banks.
New York	48,203	10,869	180,151	675
North Carolina	5,507	598	14,912	81
North Dakota	699	76	843	157
Ohio	15,658	2,666	64,806	371
Oklahoma	2,518	436	18,565	335
Oregon	2,320	381	10,433	80
Pennsylvania	27,521	4,783	107,131	834
Rhode Island	2,190	337	8,208	17
South Caro'ina	1,885	288	9,237	76
South Dakota	898	118	7,461	125
Tennessee	4,775	863	19,878	112
Texas	5,084	1,150	33,362	531
Utah	1,109	185	4,154	24
Vermont	1,772	119	4,208	48
Virginia	5,508	758	18,845	144
Washington	3,829	629	17,137	77
West Virginia	2,749	392	10,266	115
Wisconsin	9,104	985	26,321	140
Wyoming	337	24	1,530	36
District of Columbia	514	211	5,926	14
Grand total	275,791	51,048	1,169,592	7,571

Now, Mr. Speaker, I want the House to understand how it was sharply misled upon this question. There was not a word of debate. There was not one word of explanation of this Hardwick amendment prior to the adoption of the motion to instruct the House managers. The whole event was sudden and surprising.

Mr. THOMAS. I just want to know about that wining and dining. I have not seen any of it, and I should like to get there. [Laughter.]

Mr. GLASS. I am surprised that the gentleman was not invited. He should indicate his indignation by voting against this proposition.

Mr. THOMAS. I am going to look into this proposition.

Mr. GLASS. Mr. Speaker, I must decline to yield further.

Mr. THOMAS. The gentleman has got to yield——

The SPEAKER. The gentleman from Virginia declines to yield.

Mr. THOMAS. The gentleman has got to yield. I am with him on this. [Laughter.]

Mr. GLASS. No Member of the House should permit himself to be troubled by any consideration of consistency, because not a word of debate or explanation was had on this Hardwick amendment. A similar "rider" was proposed in the House and thrown out on a point of order as not germane; and it is not germane. It is a legislative thorn in the flesh. It is utterly incongruous, considered with respect to this great and momentous legislation proposed here for the advantage of commerce and industry and to help the banking business of the United States better to meet impending difficulties. Not only was there no explanation of this "rider," but, on the contrary, when the vote was being taken, gentlemen who now are very critical about the ethics of the case, affecting great concern for the proprieties, stood at the door and told Members as they came in, "Our vote is 'aye,'" as if there were some party division. More than a score of Members have come to me in person, or have told me over the telephone, that they were misled into voting for the amendment,

and that they were utterly opposed to it and that their constituents were utterly opposed to it. I do not want to be unpleasant. It is too easy, under provocation, to be unpleasant and too hard to be agreeable; but I do feel some degree of resentment, in the circumstances, at the criticism of the gentleman from Mississippi [Mr. HARRISON] and my colleague of the committee from Pennsylvania [Mr. MCFADDEN] about the ethics of this case, and their talk about a lobby.

Now, Mr. Speaker, a word as to the merits of this proposition. From what source does a bank, whether it is a country bank or a city bank, derive its revenue? From its capital? Why, in the rarest instances. A bank that is prosperous enough to pay a dividend merely by the use of its own capital would be a wonder. Then, how do banks manage to pay dividends? Why, by loaning out the money of their depositors at interest, and some of them at too high a rate of interest, particularly in the territory of the gentlemen who are advocating this check-paying amendment. [Applause.] They derive their profits from loaning out the deposits of their patrons; and anybody familiar with banking processes knows that banks ordinarily require their patrons to keep a certain "line" of deposits to pay for trouble and expense in handling their accounts. I have here a written statement of one of the leading bank examiners of the United States saying that both city and country banks, as a rule, insist that the borrower, who in nine cases out of ten is a depositor, shall maintain an average balance of 20 per cent. In other words, if you are a business man and want to borrow $10,000 from your bank with which to conduct your business, the bank does not actually let you have $10,000. On an average it lets you have $8,000, and requires you to leave the other $2,000 there to be loaned to some other business man at a profitable rate of interest. In this way and by other legitimate devices banks derive their revenue from interest on money loaned them by their patrons. There are few well-conducted banks, either country or city banks, that would care to have the business of any merchant who did not keep a line of deposit with it sufficient to far more than cover all costs and trouble of the account of that business house. The gentleman from New York [Mr. HUSTED], a banker himself, has stated that last year all the banks, country as well as city, made a greater profit than they had made in an average of 47 years before, and they do not need this form of graft. [Applause.]

The banks have the use of their patrons' money, and it is vastly less expensive to remit on balances than it would be to pay funds actually across the counter. Pending the dispatch and return of checks, the accounts on which they are drawn are available to the banks in the discount operations, and from these accounts the banks derive more profit than is involved in the proposed charge of one-tenth of 1 per cent on out-of-town checks. As for having to "ship funds," that is a myth largely—a figure of speech. The Federal reserve banks explicitly agree to pay all cost of shipping currency, so no charge for that can be assessed against any remitting bank.

It is idle to inter that the obligation of banks to business men is not as distinctive or as great as that of business men to banks. The accommodation is reciprocal; and, with the vast majority of banks, the deposits of their patrons are accepted with no other purpose than to pay checks at their face value. There

never was any statutory sanction for anything else; but under specious and illusive pleas of compensation for "constructive interest" loss, and for the expense of "shipping currency to distant points," and for "service rendered in transferring credits," the practice of deducting charges, varying from one-tenth of 1 per cent to 1 per cent in some cases, became firmly established in some sections. It got to be not only a burden, but an abuse—in many instances a scandal—which the more progressive business communities of the country long since refused to tolerate. None of the banks of the New England group exacts these charges; few of the Eastern group make the charge; the practice in the Middle West has been greatly abated; the abuse persists in its flagrant form chiefly in parts of the South and the far West. It should be stopped everywhere; and the par collection system instituted by the Federal Reserve Board will put an end to it ultimately, if not tampered with by vicious legislative interference, such as this Hardwick amendment in its original draft proposes.

Bank notes issued under authority of the national bank act signifying the indebtedness of the bank to the holder are required by law to be received everywhere at par. Why should not a merchant's check on his deposit account, duly indorsed by a responsible person or concern, be accepted by common consent of the banks at its face value? What is there extraordinary about the suggestion to standardize checks and drafts? They constitute 92 per cent of the currency of the country in paying accounts and adjusting balances. And the banks themselves adjust their own balances through this very medium.

The talk about the "great expense" of collecting and paying out-of-town checks is in great degree rubbish. The cost is negligible, as any frank banker will tell you. It is so inconsequential that the Federal Reserve Board has been unable to get an actuary with enough skill to figure it out. The collection costs of the Federal Reserve System itself have been less than one hundred and fiftieth of 1 per cent! I have here a letter from a Tennessee banker which furnishes a very definite illustration of the difference between the old system of check collection graft and the new system of inexpensive collections. This Tennessee banker writes:

> The thought has occurred to us that you would like to know how the new collection arrangement is working with member banks. We give you the following example:
>
> At ——, North Carolina, there are three banks—two national and one State. They were evidently in a combination prior to July 15, 1916, on the question of exchange. Most of the checks of their customers had stamped on them "Not collectible through the express office," or some such wording. This is out of our territory, but we could not collect the items through any of the ordinary channels, and were forced to send them direct, only taking the checks for collection and giving our customers all the money we received.
>
> For five days in June we sent them $5,956.85, on which we paid exchange at the rate of 25 cents per hundred, or a total of $15.16. We are handing you herewith one of their remittance letters, which shows they charged us $9.96 on items aggregating $3,985.76.
>
> Taking five days in July, or since the collection arrangement was entered into by the Federal Reserve Banks, we have sent on the same town, through the Federal Reserve Bank of Atlanta, a total of $7,176.63, at a total cost of 12 cents.
>
> The time the items were in transit was greater when sent direct than when sent through the Federal Reserve Bank of Atlanta.
>
> This is not so much a saving to us as it is to our customers, and more people will be benefited by this system of collection, 10 to 1,

than will be harmed by a loss of revenue to these banks who have been so outrageous in their charges.

This case is typical. It reveals the vice of the old system as clearly as it exhibits the efficiency of the new. Under the new collection system these Tennessee merchants had checks aggregating $7,176.63 quickly collected at a cost of 12 cents, while under the old system, with its roundabout routing, it cost these merchants $15.16 to collect $5,956.85—the difference between the obsolete stagecoach and the modern steam railroad facilities! But, it is contended, this transaction deprived three "struggling" country banks of the difference between about $18, which they would have received for paying the larger amount of checks under the old system, and 12 cents actual cost under the new system. Leaving out of question the moral obligation of these banks to pay their depositors' checks without deduction, the fact is that two of these "struggling" banks have accumulated a surplus almost equal to their capital; they pay an annual dividend of 10 per cent and their stock sells for nearly twice its par value! This illustration could be multiplied indefinitely in an even more aggravated form. However, I would repeat and accentuate the statement that bankers of vision, with a progressive spirit, do not engage in this practice. They long ago discarded it. The thing is pursued chiefly by those who fail to comprehend the advantages of modern methods and who, in their petty acquisitiveness, refuse to adapt their business to a system pregnant with larger success and a higher spirit. The case was tersely put the other day by Mr. Perre Jay, of the New York Federal reserve bank, when he said:

> The banks which are now endeavoring to have the deduction of exchange legalized do not seem to recognize that a new country-wide system to facilitate domestic settlements by both checks and transfers has been created and is in process of development. Instead of looking ahead and endeavoring to cooperate they stand squarely across the path of progress and seek to turn back the hands of the clock. With minds focused on the barrier which the law desires to remove they do not see the situation in its proper perspective. The fail to grasp the advantages to business of economical and scientific methods of making settlements; they fail to understand that every move toward making local checks more acceptible away from home enables the local bank to keep more local money at home.

There is the crux of the matter. That is a happy phrase: "More local money at home." Country bankers—which means all bankers outside 51 central reserve and reserve cities—in order to clear their own checks, "free of charge," as they vainly imagine, have for years shipped away the funds of their local depositors to the money centers at a 2 per cent interest rate, to be used for stock speculative purposes, instead of "keeping more local money at home," as Mr. Jay says, to loan to local merchants and industries at a reasonable yet profitable discount. There is no telling, Mr. Speaker, of how many hundreds of millions of dollars country communities have been drained nor computing the commercial distress and industrial deprivations they have endured by reason of this practice of country banks sending local funds away from home. There was little rational defense of it under the old system; there is absolutely no excuse for it since the passage of the Federal reserve act. When the required reserve of country banks was 15 per cent, the combined figures show that they actually carried 29 per cent. The average interest rate on these excess reserves carried largely for the purpose of securing the par collecting of their out-of-

town checks is 2 per cent. With money worth 5 and 6 per cent, and in many localities bringing 8 and 10 per cent, the cost of 3 or 4 per cent or 6 or 8 per cent on excess reserves of 14 per cent would very much reduce the income side of the exchange accounts. The establishing of the Federal reserve banks makes it in most cases unnecessary for the banks to carry excess reserves and thereby increases their earning capacity.

Moreover, the reserve requirements of country banks were lowered by the Federal reserve act for the express purpose of covering this paltry 2 per cent, which they received for local funds transferred, and which never should have been transferred, to money centers—a fact which they seem always to ignore. A trained banker of Minnesota states the case with great perspicacity in a letter from which I quote two paragraphs:

> It should be realized by all that any saving in the expense of collecting checks will be to the advantage of all the banks in the country. The Federal reserve bank, by providing a central agency in each district through which checks may be collected, has provided a method whereby checks may be collected with the least expense. This is due to the doing away with indirect routing, thus reducing the number of times checks are handled, and the saving of time in securing final payment. If the system is properly supported by the banks of the country, it will lessen the expense in remitting for checks, as the banks of New England have demonstrated through 17 years of experience that it is much cheaper to receive one remittance a day and remit in payment, than it is to receive remittance letters from a number of correspondents, as well as others, and account for them.
>
> One strong argument that occurs to us as to why that part of the Federal reserve act relating to charges on bank checks and drafts should not be amended at the present time, is that *the majority of the banks in this country transacting 85 per cent of the banking business of the country, are not charging for remitting for their checks*, and that the collection system of the Federal reserve banks should be given a fair and impartial trial before any amendment to the law is considered, and it would not be fair to the banks of the country to amend the law at the request of the smaller number of banks which have, for selfish reasons, always been opposed to a proper and economical system of collecting checks.

That sums up the case. Nearly 16,000 banks joined the collection system instituted by the Federal Reserve Board. These constitute two-thirds of the commercial banks of the country. They do 85 per cent of the commercial banking business. They do not charge for paying or collecting checks. This Senate "rider," drafted by a bank lobbyist and through organized propaganda grafted onto a bill here designed to help banking and facilitate commerce, is merely a statutory invitation to these 16,000 banks, as well as to the small group doing only 15 per cent of the country's business, to renew this tax on commerce and industry. It is a legislative sanction of an obsolete and vicious practice which has never had the countenance of law and should not have it now.

And I warn this group of bankers which assumes responsibility for this renewed attempt to erect this tollgate across the highway of commerce that it is sowing to the wind and will reap the whirlwind. The business men of the United States are thoroughly aroused over the situation, and if this legislation should be enacted, except in the modified form proposed by this conference report, they will systematically refuse to patronize banks which persist in this vice. Moreover, let the country banks take warning. Under the law they may no longer count balances with correspondent banks as reserve; hence there no

longer will be inducement to carry local funds in outside banks at 2 per cent. This will presently occur; and when it does the big banks will begin to charge for remitting funds also, should this Senate rider, unmodified, prevail. If the charge for remitting funds to cover checks becomes general and applies to central reserve and reserve city banks, as well as the country banks, it is evident that banks in general will not profit by the result. A bank in remitting to a Federal reserve bank wishes to be able to send offsetting items rather than cash, and the whole proposition of clearing checks depends upon this principle. Heretofore a charge has been made by the country bank for remitting, but no charge by the city bank, whereas under this Senate "rider" the city bank is authorized to charge as much as the country bank. If, therefore, a bank receives one-tenth of 1 per cent on all items drawn upon itself, but pays out one-tenth of 1 per cent for collecting all items it has received, the probability is that the large city banks will be the gainers.

An accomplished country banker in the State of New Jersey, a man who understands the philosophy of banking as well as the practical details, writes me that—

> If the Federal Reserve System was nonexistent, the facilities and economy which it so admirably affords would justify the organization of a system for the exclusive purpose of clearing and collecting out-of-town checks, but the organization of a proper system for this purpose under present circumstances would be a needless waste of labor and capital and in consequence an unnecessary drain upon the public. This may be regarded as an answer to those who contend that the Federal Reserve System should not undertake the matter of handling out-of-town checks. The condition of affairs was bettered at a stroke when the Federal Reserve Board undertook to collect out-of-town checks.

Mr. Speaker, there are a multitude of reasons why this check paying and collection charge should be abolished entirely and a fairer and more scientific system substituted, but the subject is technical and, therefore, difficult both to explain and understand, especially in the compass of limited time. But I very earnestly protest against this Senate rider which seeks to legalize, in the worst possible form, a banking practice that the best banking sentiment itself condemns.

The gentleman from Ohio [Mr. SWITZER] asked me awhile ago why the conference report does not omit the Senate amendment altogether, if the practice which it proposes to sanction is so indefensible. The only reason we did not discard the provision was the instruction given by the House. While we felt that the House did not act with full knowledge of the facts, and knew that scores of Members had voted under misapprehension, the conferees did not feel at liberty to "contemptuously" disregard the instructions of the House, as the gentleman from Wyoming [Mr. MONDELL] suggests we have done. In the circumstances the best we could do was to retain the phraseology of the Senate "rider" and apply an antidote, which, we feel confident, will correct its evil effects in large degree if not entirely. The gentleman from Ohio [Mr. SWITZER] also suggested that the modification of the Hardwick amendment proposed by the conference report is intended to prevent any check-collection charges being made by anybody. I frankly stated that I hope and believe the modifications proposed by the conferees will have the result of abolishing all charges beyond actual cost, which, in our view, would be the only "reasonable charge" that could be made. Inasmuch as the Federal

reserve act requires Federal reserve banks to accept at par all checks and drafts of member banks, the conferees unanimously agreed that member banks should be prohibited from exacting check-collection charges from the Federal reserve banks, as there should be reciprocal arrangements as well as community of interest. This modification itself will largely tend to draw the fangs of the Senate rider and circumscribe its utter viciousness. For these and other reasons, which I have not the time to present, I urge the House to vote down the motion to recommit the bill with instructions.

Without objection, Mr. Speaker, I shall append to my remarks the circular letter which has been several times alluded to here as an "anonymous" letter, but which, as will readily be seen, has a very definite and a very respectable paternity:

ANYWHERE, SOMEWHERE, OR NOWHERE?

WASHINGTON, D. C., *May 19, 1917.*

A group of gentlemen who happened to meet in Washington and who represent widespread business interests in various lines throughout the country have prepared this statement of reasons why Congress should reject the Hardwick amendment to the Federal reserve law, or any other measure designed to accomplish the same purpose, viz, the purpose of allowing bankers to charge for paying checks drawn by their own depositors upon funds in their keeping. Payment of such checks can not be classed as a service to the party presenting them for payment. It is only the discharge of an obligation which the bank is bound to discharge on demand.

The group included official representatives of the Button Manufacturers Association, National Association of Clothiers, National Association of Credit Men, National Association of Hosiery and Underwear Manufacturers, National Glass Distributors Association, National Hardware Association of the United States, National Retail Dry Goods Association, National Shoe Wholesalers Association, National Wholesale Dry Goods Association, National Wholesale Jewelers Association, St. Louis Chamber of Commerce, and Southern Wholesale Grocers Association.

The committee appointed to prepare and issue the following statement consisted of Messrs. S. W. Campbell, C. B. Carter, W. R. Corwine, Thomas A. Fernley, E. L. Howe, J. H. McLaurin, W. D. Simmons, and W. W. Orr.

The Federal reserve law and its development, under the able administration of the Federal Reserve Board, is gradually making a country merchant's check worth 100 cents on the dollar anywhere.

The creditors of these merchants are entitled to payment by check or some other credit instrument which is worth 100 cents on the dollar somewhere.

These country bankers are asking Congress to pass a law which will make a country merchant's check worth 100 cents on the dollar nowhere.

The Hardwick amendment would make it legal for a bank to charge for paying its own checks in any manner.

THE HARDWICK AMENDMENT—REASONS FOR ITS REJECTION.

In order that we may not give any wrong impression of our attitude toward the banking business or that we are in any way disposed to look at this problem only from a one-sided or selfish point of view, let us say right in the beginning that we appreciate thoroughly the difficult situation in which the small town bankers find themselves at present as the result of recent developments, and share the apprehension that they and their friends feel for their welfare in the future if the present course of development continues and if they persist in their opposition to making changes in their methods and to adjusting themselves to present conditions in order to take advantage of additional and new ways of making money offered by the new law and which may be made to act as an offset to the loss of that part of their former revenues which has come from practices which this Hardwick amendment is designed to sanction and perpetuate, but which, for the following reasons, we believe should no longer be authorized or permitted:

Let us say also in that same connection that we share thoroughly the conviction that bankers should have adequate compensation for all services which they render to their patrons and that their compensation should cover not only any direct outlay involved in rendering that service, but should cover also indirect or overhead costs—and a profit besides. However, that compensation should be charged to and paid by

the patron of the bank to whom the service is rendered, and no banker should be permitted—much less authorized—to conspire with his patron to put the burden of this expense upon a third party who has no voice in the arrangement. That would be *taxation without representation*, and, if we remember correctly, there was a popular prejudice against that principle in this country at one time—a prejudice against even the established government's taxing those under its jurisdiction without their consent. Certainly we of this generation have a right to object to our Government's conferring upon any very small percentage of the citizens of this country the right to put a tax—direct or indirect—upon the remainder.

As this is practically a Nation engaged in commerce, any plan which authorizes one small group of men to put a tax upon the commerce of the country, practically authorizes them to tax for their own benefit and profit the remaining large percentage of the people.

We appreciate the fact that the universal establishment of the par collection system in this country would put a considerable part of these small bankers in an embarrassing position, but since that is the direct result of their own action, and since they have gotten themselves into this position by juggling with facts and by attempting to get away from sound principles and fundamental laws, there does not seem to us to be any justification in allowing them to continue to abuse the rest of the business community for the purpose of their relief.

That they are responsible for the present situation is due to the fact that, beginning shortly after the close of our Civil War, but beginning more generally about 25 years ago, these bankers offered, as an inducement to persuade local merchants to carry accounts with them, to so handle their checks as to relieve them of having to pay exchange in remitting for their merchandise accounts to the various points at which they were due and payable. They evidently had two objects in mind in making this offer: (1) An increase of their deposits and the holding of all these funds all during the time checks in payment should be in circuit back to their point of origin, and (2) revenue which came to them through the deposit by these country merchants of exchange which they received direct, or from their farmer customers to whom it is paid by buyers of produce, cattle, etc., the payments usually being made in checks or drafts on New York City.

These checks and drafts the country banker accepted for collection, making a charge for that service and incidentally getting the exchange free as well.

Soon after that, however, he developed the idea that, in addition to getting this New York exchange for nothing and charging his depositor for the privilege of giving it to him, he might then draw on the credit thus established to meet his own demand obligations (his depositors' checks), and by doing so retain the further use of the money during the circuit of this second credit instrument. Then, still later he evolved the plan of making a charge for paying this demand obligation in that way, calling it in some instances a collection charge; in other instances he called it exchange.

The question naturally arises, How did he succeed in putting that over and why was he permitted to do so? That was simply because he took advantage of his position and the dependence of the country merchant upon him to influence the country merchant to adopt this course, using the argument (1) that it would relieve the merchant of paying exchange and following that up with the still more pungent and effective argument that as the country merchant expected his bank to do him a favor occasionally, he would, in turn, be expected to cooperate with the banker by making his remittances in this way. It was the price of accommodation from the banker when the merchant might have occasion to need it.

Then when the country merchant received a letter from his creditor objecting to this method of payment as not adequately covering his obligation and took it, as he usually did, to his banker to ask how to answer it, the banker coached him to stand pat and reply that if his own checks were not accepted in payment of his account, he would close the account and buy his goods somewhere else—the banker's argument to the merchant being that no firm would be fool enough to throw away a good account for a 15-cent charge and that would be all that would be involved in any one instance under discussion.

Of course, as one manufacturer or jobber after another yielded to these tactics rather than lose their accounts, the banks began to coach each other with a view to making the proposition as general as possible, because the more general they made it, the more chance they had of holding on to the position permanently since there was practically no way for the victims to get together and fight them. This, in the light of a recent statement made in the official organ of the American Bankers Association, should be kept constantly in mind as evidence that these

banks have themselves never seriously contended that they were entitled to collect this charge for paying their checks or that it was right, or good business, or sound banking. They have contended for its maintenance on the principle that *might makes right*. Their arguments are very like those which the German Government has recently tendered to us in their answers to our insistence upon our rights to traverse the high seas. The German Government told us that if we did not stay away from those portions of the high seas which they proscribed, we would be responsible for the results; and if we got hurt, it would be our own fault. In like manner the American bankers, through their official organ, say:

"The seller of goods has a right to demand payment from the buyer in actual cash or exchange, that is worth 100 cents on the dollar at the point of sale, but if that merchant surrenders that right and accepts a check on the local bank in the home town of the buyer, it takes with that check the burden of its liquidation."

The similarity between this and the German sophistry speaks for itself. It is particularly interesting in view of the words which follow the above quotation from the report of the "Committee of Twenty-Five" of the American Bankers Association, which has been most industrious in lobbying this measure through Congress, viz—

"No law, rule, or regulation should permit this burden to be shouldered on to a third party, either the city or country bank. The buyer and seller are the beneficiaries and one or the other should bear the expense * * *. The letter of the Federal Reserve Board overlooks the principles involved, that is, that the purchase and sale of exchange is a legitimate function of banking."

The idea that the Federal Reserve Board does not recognize the principles involved, is interesting but not nearly so much so to us as the recognition of the principle that a "burden" of that kind should not be shouldered on to a third party, as that is exactly what this "Committee of Twenty-Five" bankers have asked Congress to authorize them to do. It should therefore only be necessary to show that to be the case, to bring about the voluntary withdrawal of the measure by those who have been, for several months, working so constantly for its adoption.

It is not that the Federal Reserve Board has failed to see the proposition in its true light; it is the "Committee of Twenty-Five" (bankers) who have failed to see that in an effort to present a plausible reason for being permitted to do a most unwarranted thing, they have overlooked the fact that the sale of merchandise is not the transaction to which this law would apply. The transaction to be effected by this law is one of those which, as they state, "is a legitimate function of banking," viz, the purchase and sale of exchange. This is evidenced by the fact that the law which they ask Congress to pass would apply without respect to the occasion for the payment in question or whether there had been anything bought or sold. The contractual relations of the buyer and seller of exchange are alone affected by this provision; and the proposition that "no law, rule, or regulation should permit or require that the burden be shouldered on to a third party," applies thoroughly.

The patron of the banker in question has occasion to make a payment in a distant point. The reason for having to make it is not a factor. Whatever arrangement is made between him and his banker with reference to the credit instrument which is used to make the payment, it does not involve the payee of that instrument, nor can the compensation for the service rendered be shouldered on to this third party—the payee.

That, however, is what is proposed by this amendment and what they rightfully, although unwittingly, show that "no law or rule should permit."

Now, instead of contending on the basis of principle or right or equity for the continuance of this practice, they fall back universally as a final argument upon the fact that so large a percentage of their revenues has come from this source that to stop them now would be a serious handicap and inread into their earnings and they therefore ask the United States Congress not only not to disturb them in this practice if they are able to continue it on the principle that might makes right; but as soon as the business interests of the country—by a proper, consistent, and logical law—provided for the gradual adjustment of the practice and conformity to sound principles, these bankers come then to the United States Congress and ask the passage of a law to enable them to retain the right to put this tax burden upon all third parties. They have gone still further in demanding the right to place this charge burden on a third party even when no exchange is asked for or furnished, and hence no basis for a claim that any service has been rendered to anybody.

Why do these bankers insist upon putting it unjustly upon a third party? Simply because they have taught their depositors that they need never pay exchange and have no faith in their ability to recover from that position.

As the result of a most active lobby, they introduce a measure which is designed to give them a special privilege of a most absolute character, designed also to relieve them of some of the most fundamental obligations of a banker to his patrons and to the public. The amendment is carefully and painstakingly worded to relieve the banker from his responsibility for meeting his demand obligations at 100 cents on the dollar and to permit him in practice to keep for himself a small part of every dollar deposited with him by sanctioning his refusal to pay in full any proper demand therefor.

We recognize that it will be very profitable to the bankers of this country to be permitted to do this instead of being responsible for and required to pay out 100 cents for every dollar deposited with them on demand; but it is certainly not commercial banking as that has been known up to this time and it seems to us a most astounding proposition to ask the Congress of the United States to put its sanction upon any such procedure.

When a bank issues its notes in the form of currency, it expects all other banks throughout the length and breadth of the land to accept these (its demand obligations) at 100 cents on the dollar, but this same banker desires Congress to relieve him from the responsibility of accepting his own demand obligations on the same terms.

This whole proposition is therefore not only unsound and unmoral in that it is designed to permit a banker to discharge his obligations by paying less than the amount of them, but in addition to that, it is thoroughly uneconomical in the way it will work out in actual practice. Under this system, a country merchant, in order to pay his account, will mail, let us say from Selma, Ala., to his jobber in Chicago, a check on his local bank, for the exact amount of his debt. That check will go around the circuit from the Federal reserve bank in Chicago, then to the Federal reserve bank in Atlanta, and then to the banker in Selma on whom it is drawn, and when it gets to its destination, it is, according to this plan, nothing more than an order for that banker to send out in exchange for it another check for a less amount to pay the same debt.

This second check then starts on its round, all during which time the banker in question still has the use of the funds, which in reality should have been in the hands of the creditor of the country merchant.

This first circuit, therefore, of the country merchant's own check is a perfectly useless procedure, requiring a lot of handling and consequently unnecessary expense, amounting to a great many millions of dollars of needless burden upon the commerce of the country, for which it gets absolutely nothing in return, and which would be entirely obviated by having the merchant do what, as stated in the American Bankers Association's official organ, he should do and what his creditor has a right to demand of him; viz, send, in the first place, a check which *will* pay the amount.

Just as the Federal Reserve Board is perfecting a thoroughly well developed system, which would eliminate all of this burden of useless expense, which has been gradually saddled upon the domestic commerce of the country by these bankers, and just as that board is establishing a system which these bankers acknowledge we are justly entitled to, the Congress of the United States proposes to enact a law designed to establish, permanently, the right of bankers to impose this injustice upon the remainder of the citizenship.

This is not a war measure; it is not claimed to be a war measure, but it is proposed to impose it at a time when the business of the country is being asked to shoulder the heaviest burden of taxation it has ever faced, a time when the thoroughly enthusiastic cooperation of the business interests and the ready acceptance of their unusual burdens are of particular importance. Certainly this is not a happily chosen time to add to those burdens by extending to a privileged few the right of taxation and the right to put it upon those with whom they have no business relations, giving those taxed no voice in the matter nor any alternative. Could there be anything more out of harmony with the spirit and attitude which the people of this country are asked to show toward Congress and the administration?

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